



Optimizing ZIS Funds in Islamic Banks: A Case Study of the Islamic Rural Bank in Yogyakarta

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Abstract

Purpose – This study aims to examine the strategies for optimizing the management of zakat, infak, and sadaqah (ZIS) funds in Islamic Rural Banks (BPRS) in the Special Region of Yogyakarta.

Methodology – Using a qualitative approach and case study method, this research explores the practices of ZIS fundraising, distribution mechanisms, and empowerment program innovations implemented by the selected BPRS.

Findings – The study finds that optimizing ZIS fund management in BPRS relies on three key strategies: community-based distribution, digital fundraising innovation, and collaborative empowerment programs. The synergy between BPRS, zakat institutions, and local stakeholders enhances public trust, increases participation, and strengthens the role of BPRS in promoting inclusive economic development.

Implications – These findings provide actionable insights for BPRS and other Islamic financial institutions to design and implement more optimal and sustainable ZIS management strategies. The study also highlights the potential for BPRS to contribute more significantly to inclusive economic development through improved ZIS governance.

Originality – This research contributes to the limited literature on the role of Islamic Rural Banks in ZIS management. It offers a fresh perspective by examining the integration of technology and stakeholder collaboration in a localized Indonesian context, which has been relatively underexplored in prior studies.

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1. Introduction

Indonesia, as the country with the world's largest Muslim population, has significant potential in developing Islamic economics and finance. Since the establishment of Bank Muamalat Indonesia and Islamic Rural Banks (BPRS) in the early 1990s, the country has witnessed a steady growth in Islamic economic practices. This is reflected not only in the increasing number of Islamic financial institutions but also in the growing awareness and participation of the public in Islamic social finance instruments such as zakat, infak, and sedekah (ZIS). These instruments serve as



mechanisms for wealth redistribution, poverty alleviation, and social empowerment. Particularly in community-based institutions such as BPRS, there exists a unique opportunity to leverage localized trust networks and religious norms to manage ZIS funds more effectively and transparently.

Although they hold a relatively small market share, Islamic banks and BPRS have demonstrated steady growth. The Financial Services Authority (OJK) reported that Islamic banking assets rose by over 14% annually in 2020, driven by both financing activities and third-party funds. BPRS, with their micro-scale and localized operations, can play a vital role in promoting financial inclusion and Islamic philanthropy by linking donors (*muzakki*) with eligible recipients (*mustahik*). The Special Region of Yogyakarta (DIY), known for its high engagement in religious activities and social solidarity, offers an excellent setting to explore how ZIS management can be improved through BPRS. Their focus on community roots positions them to effectively carry out targeted ZIS initiatives that make a meaningful impact.

Previous research has thoroughly explored the role of national zakat agencies and Islamic commercial banks in managing ZIS funds. For instance, Beik (2019) discussed the importance of institutional collaboration between Islamic financial entities and zakat organizations to boost fundraising efforts. Ahmad (2020) emphasized the role of digital innovation and integrating financial products to enhance zakat collection and transparency. Similarly, A'yun (2018) examined zakat practices by Islamic commercial banks, with a focus on financial reporting and corporate zakat compliance. Other studies like Apsari et al. (2022) investigated the synergy between Bank Syariah Indonesia and BAZNAS to strengthen the national zakat system. Although these works offer valuable insights, they mostly concentrate on large, centralized institutions and tend to overlook the operational realities of smaller, community-based institutions such as BPRS.

Few studies have explored the specific strategies used by BPRS in managing ZIS funds, especially regarding empowerment-based distribution, digital innovation, and stakeholder collaboration at the local level. Research by Ascarya (2016) and Huda (2019) addressed governance and accountability issues in zakat institutions but did not detail how BPRS tackles these challenges. Additionally, Gustanto and Asmuni (2023) examined the *maqashid*-focused use of zakat for disaster relief, though not within the microfinance context. Most existing studies view zakat as a separate function, distinct from the core banking roles of financial institutions. There is a notable gap in research showing how micro-Islamic banks integrate ZIS into their social and financial missions in a sustainable, innovative, and measurable manner.

This study aims to address the gap by specifically examining how selected BPRS in Yogyakarta enhance ZIS funds using Islamic economic principles, technological advancements, and multi-stakeholder cooperation. Its originality lies in a thorough, field-based investigation of BPRS practices — not just as financial middlemen, but as promoters of Islamic social finance. Unlike earlier studies focusing on national institutions or regulations, this research highlights grassroots innovations such as mobile donation applications, QR code zakat payments, empowerment-driven distribution models, and partnerships with local mosques, MUI, youth organizations, and MSMEs. This holistic approach is an underrepresented aspect in current research.

Another unique contribution of this research is the use of five theoretical lenses—Islamic distribution theory, financial intermediation theory, empowerment theory, service innovation theory, and multi-stakeholder collaboration theory—to analyze the practical dimensions of ZIS optimization. These frameworks enable the study to move beyond normative recommendations and provide a grounded understanding of how BPRS can systematically manage ZIS programs that are transparent, accountable, and socially impactful. This multidimensional theoretical framework has not been applied holistically in previous empirical studies on ZIS management at the microfinance level.

Therefore, the primary objective of this study is to investigate how ZIS funds are optimized by BPRS in the Special Region of Yogyakarta, utilizing a qualitative case study method. It aims to document and analyze the institutional strategies, innovations, and collaborative mechanisms employed by BPRS in collecting, distributing, and empowering *mustahik*. The study aspires to provide new theoretical and practical insights for policymakers, Islamic financial institutions, and

zakat stakeholders on how to strengthen the integration of Islamic philanthropy and financial services. Ultimately, the research argues that BPRS can be a transformative force in building a just and inclusive Islamic economic ecosystem, particularly in regions where local institutions hold strong cultural and religious legitimacy.

2. Literature Review

2.1. Theory of Distribution in Islam

The management of zakat, infak, and sedekah (ZIS) can conceptually be explained through the Islamic welfare distribution theory, which emphasizes the necessity of equitable wealth distribution in society to reduce social inequality and strengthen communal solidarity. In this perspective, ZIS is positioned as a primary instrument for redistributing wealth from the affluent to the less fortunate, while also serving as a spiritual tool to foster social responsibility (Kahf, 1999). This mechanism suggests that economic balance is not only dependent on production but is also closely tied to a just and equitable distribution of wealth.

The theory of distribution in Islam asserts that property ownership is relative and encompasses the rights of others, thus mandating its discharge through ZIS instruments. This concept of relative ownership differs from the capitalist view, which emphasizes absolute individual ownership. Islam views wealth holders as trustees of Allah on earth, who are obligated to distribute a portion of their wealth to the underprivileged, thereby promoting justice and collective welfare (Chapra, 2000). Therefore, ZIS is not merely a voluntary charity but a mechanism of social distribution that holds legal legitimacy in Sharia.

In practice, the ZIS distribution aims to fulfill the needs of the *mustahik*, enabling them to escape poverty and empowering them to become productive. This aligns with the inclusive development approach, which emphasizes strengthening the competitiveness and economic capabilities of *mustahik*, rather than short-term consumption. This productive distribution model is highly relevant for Islamic financial institutions, including BPRS, to maximize the fundraising potential of ZIS as a lever for socio-economic development (Beik, 2019).

Optimizing the distribution of ZIS funds in Islamic microfinance institutions, such as BPRS, is also supported by the principles of justice (*al-adl*) and public benefit (*maslahah*), which are the foundations of *maqashid al-shari'ah*. By distributing ZIS through empowerment schemes, BPRS can function both as a social distributor and a financial intermediary. This is consistent with the concept of distributive justice in Islam, where every individual has the right to equal opportunity and economic access (Antonio, 2011).

Using this Islamic distribution theory framework, research on optimizing ZIS funds in BPRS within the Special Region of Yogyakarta is well-supported academically, helping to explore how collection, distribution, and service innovations can promote social welfare. The theory further allows an assessment of whether ZIS distribution patterns focus on long-term empowerment instead of just meeting immediate needs, thereby creating a multiplier effect for the ummah's economy (Huda, 2019).

2.2. Financial Intermediation Theory

The financial intermediation theory explains the crucial role of financial institutions in efficiently channeling surplus funds from those with excess resources to those in need. In the context of Islamic financial institutions, such as BPRS, this intermediation is not only conducted through commercial financing but also includes the management of productive social funds, including zakat, infak, and sadaqah (ZIS) (Antonio, 2001). Through its intermediation function, BPRS can bridge the interests of *muzaki* (donors) and *mustahik* (beneficiaries) within the framework of ummah economic development.

The intermediation role of BPRS also includes risk transformation and maturity transformation, i.e., managing the uncertainty of ZIS fund usage while aligning the time frames of fund collection and distribution. With this intermediation capability, BPRS can design more innovative ZIS distribution products, such as zakat-based productive microfinance or sustainable empowerment programs for *mustahik*. This model minimizes mismatches between the needs of

mustahik and the funding of muzaki, thus creating an efficient social fund distribution (Iqbal & Mirakhor, 2007).

Furthermore, the theory of financial intermediation emphasizes the importance of public trust in carrying out this role. In the practice of ZIS, transparency and accountability are key factors in ensuring that Islamic financial institutions remain trusted as intermediaries in fund collection and distribution. Failure to build trust may result in low public participation in channeling ZIS through BPRS, thereby hampering optimal intermediation (Chapra, 2000). Thus, the implementation of good governance is a fundamental requirement for BPRS as a social and financial intermediary.

This theory is highly relevant to research on ZIS fund optimization in BPRS in Yogyakarta. With the intermediation perspective, the study can analyze the extent to which BPRS utilizes its collection and distribution functions to support the Ummah's economic empowerment. It reinforces BPRS's role not only as a micro-Islamic financial institution distributing commercial financing but also as an agent of Islamic philanthropy channeling social funds with justice and sustainability principles (Karim, 2022).

2.3. Empowerment Theory

Empowerment theory emphasizes the importance of increasing the capacity, participation, and independence of individuals or groups of beneficiaries to sustainably improve their livelihoods. In the context of zakat, infak, and sedekah (ZIS), empowerment means not merely providing consumptive aid but also offering business opportunities, skill training, and assistance to enable *mustahik* to escape the poverty cycle (Perkins & Zimmerman, 1995). This approach views *mustahik* not as passive aid recipients but as development subjects whose potential must be optimized.

Moreover, the theory highlights the psychological and social dimensions of *mustahik*, who often become dependent due to charity-based aid models. Therefore, BPRS, as a Sharia microfinance institution, can play a key role in boosting self-confidence, a sense of agency, and the economic capability of *mustahik* through productive ZIS distribution programs. This approach does not merely address immediate needs but seeks to break the cycle of structural poverty affecting vulnerable communities (Kabeer, 1999).

ZIS optimization in BPRS can also be understood through the Service Innovation Theory framework. According to Den Hertog (2010), service innovation involves the development of products, the use of digital technology, and the restructuring of distribution models to be more efficient and accountable. BPRS must innovate in ZIS services, for example, by providing digital zakat collection apps or online-based distribution monitoring systems so that *muzaki* and *mustahik* gain better transparency. This innovation also responds to the preferences of millennial customers who demand fast, easy, and integrated services.

By combining empowerment and service innovation theories, this research analyzes how BPRS in Yogyakarta optimizes ZIS funds not only for effective distribution but also for significant impact on *mustahik* capacity-building. This approach positions BPRS as an adaptive and socially responsible socio-economic intermediary institution that contributes to the empowerment of the underprivileged. Ultimately, ZIS management transcends distribution and results in socio-economic transformation for its beneficiaries.

2.4. Service Innovation Theory

Service Innovation Theory is a conceptual framework that explains how organizations create, develop, and implement new or significantly improved services. Unlike product innovation, which is often based on technology and manufacturing processes, service innovation emphasizes value creation through interaction, experience, and customer engagement. Witel et al. (2016) define service innovation as a significant change in products, processes, or service delivery that introduces new elements to customers and service providers. In this framework, innovation is not solely technological—it also includes social, organizational, and experiential dimensions.

In the literature, three main approaches to service innovation have been identified, as described by Coombs and Miles (2000): the *assimilation approach*, which views service innovation as

an extension of product innovation; the *demarcation approach*, which emphasizes the unique characteristics of services such as intangibility, simultaneity, and interactivity; and the *synthesis approach*, which combines both to form a more comprehensive framework. Den Hertog (2000) also notes that knowledge-intensive business services (KIBS) play a vital role in innovation processes, where interaction between providers and users becomes the main source of value creation.

As the theory evolved, the *service-dominant logic* (SDL) approach gained traction. According to Ordanini and Parasuraman (2011), SDL sees customers not only as service recipients but also as partners in the co-creation process. Service innovation is understood as the result of resource integration among actors in the service ecosystem, including customers, providers, and stakeholders. This model highlights collaboration, dialogue, and interaction as essential for creating valuable service experiences.

In practice, service innovation is reflected in digital service platforms, ecosystem creation for inter-actor collaboration, and co-creation strategies that actively involve customers in the innovation process. Alam (2002) emphasizes the importance of user involvement in new service development to ensure relevance and benefit. Thus, service innovation encompasses technical, cognitive, emotional, and social aspects of the provider-user relationship.

Overall, Service Innovation Theory has evolved into a comprehensive framework that addresses social, organizational, and technological dynamics. Successful service innovation depends on an organization's ability to build collaborative ecosystems, adaptively manage resources, and create value through multi-stakeholder engagement. This understanding forms a solid foundation for designing innovative strategies in both the public and private sectors, particularly in response to digital transformation and increasingly complex customer expectations.

2.5. Multi-Stakeholder Collaboration Theory

The Multi-Stakeholder Collaboration Theory emphasizes the need for synergy among diverse actors to solve complex social problems and create shared value. In the context of managing zakat, infak, and sedekah (ZIS), this collaboration involves Islamic banks, zakat management organizations, local governments, religious leaders, and community groups to ensure that ZIS collection and distribution are effective, transparent, and sustainable (Bryson et al., 2006). The collaborative approach aims to create cross-sector networks that optimize the region's socio-religious potential.

This collaboration becomes increasingly important because no single party can solve poverty and inequality alone. Islamic banks such as BPRS can provide infrastructure and financial systems to collect ZIS funds, while zakat institutions ensure Sharia compliance, data validation, and distribution verification. Local governments can support regulations, program facilitation, and zakat literacy campaigns, while communities help build public trust and educate citizens on zakat obligations (Ansell & Gash, 2008). Furthermore, the theory highlights the significance of shared ownership among stakeholders. With collective ownership of ZIS programs, collaboration among multiple stakeholders can boost public participation and broaden the base of *muzaki*. This cross-sector model improves coordination, prevents program overlaps, and maximizes the effectiveness of ZIS distribution, ensuring it reaches the rightful *mustahik* (Emerson et al., 2012).

In practice, this theory is applicable to the Special Region of Yogyakarta, renowned for its strong tradition of *gotong royong* (cooperation) and social participation. Collaboration among BPRS, zakat institutions, local governments, and community groups can accelerate innovations in tech-based zakat fundraising, empowerment-focused distribution models, and transparent digital monitoring. Consequently, this theory offers a vital foundation to ensure that the optimization of ZIS by BPRS not only boosts the economy but also fosters long-term social capital and trust. Using this framework, the study aims to identify practical strategies for actor synergy and provide policy recommendations to prevent fragmented ZIS programs. A collaborative approach addresses each party's resource limitations while strengthening legitimacy and accountability in the inclusive local ZIS fund management.

3. Research Methods

This study employs a qualitative methodology with a case study design. The qualitative approach is ideal for investigating the intricacies of managing and optimizing zakat, infaq, and shadaqa (ZIS) funds within Islamic Rural Banks (BPRS). A case study was chosen to allow the researcher to thoroughly understand the strategies, processes, and innovations that BPRS employs in the Special Region of Yogyakarta (DIY). This approach facilitates capturing practical, real-world practices and the experiences of institutional actors involved in managing ZIS (Creswell, 2013). Incorporating various theoretical perspectives—such as Islamic distribution theory, financial intermediation, empowerment, service innovation, and multi-stakeholder collaboration—enhances the depth and relevance of the research.

Primary data were collected through in-depth interviews with key informants from three selected BPRS operating in DIY: BPRS Margi Rizki Bahagia, BPRS Barokah Dana Sejahtera, and BPRS Madina Mandiri Sejahtera. Informants included senior management, such as marketing heads and directors, who are directly involved in ZIS fund management and program implementation. Additional informants included community or religious leaders and *mustabik* (ZIS beneficiaries) who had participated in empowerment programs. Secondary data sources include institutional documents, such as ZIS program reports, distribution records, promotional materials, and digital content published by the BPRS, as well as observations of on-site activities related to ZIS programs.

The collected data were analyzed using the Miles and Huberman model of qualitative data analysis. This model consists of three stages: data reduction, data display, and conclusion drawing/verification (Miles et al., 2014). In the data reduction stage, the researcher selected, focused on, and simplified the raw data collected through interviews, documentation, and observations. The data display stage involved organizing the information into tables and thematic categories based on the five theoretical frameworks. In the final stage, the researcher interpreted the findings, identified patterns, and concluded how BPRS optimizes ZIS fund management. Triangulation was used to enhance the credibility of the data by cross-checking information from interviews, documents, and observations (Patton, 2002). The entire analysis process was guided by the research questions and aimed at producing rich, contextual insights into the role of BPRS in Islamic social finance at the local level.

4. Results and Discussion

4.1 Result

Based on the interviews we conducted with the three BPRS, the following are the results we present in table form:

Table 1. Interview Findings in Three BPRS (Islamic Rural Banks)

| No. | Theory | BPRS Marga Rizki Bahagia | BPRS Barokah Dana Sejahtera | BPRS Madina Mandiri Sejahtera |
|-----|---------------------------------|--|--|--|
| 1. | Theory of Distribution in Islam | We ensure the accurate distribution of ZIS funds through direct field assessments and verification of prospective <i>mustabik</i> data. Our team collaborates with community leaders and local mosques. In addition to consumptive aid such as basic food supplies | Our distribution is based on the principle of Islamic justice, guided by the approach that “the giving hand is better than the receiving hand.” Therefore, we combine basic needs assistance with empowerment programs, such as providing work tools | The distribution is carried out based on verified data, considering the zakat recipient categories (<i>asnaf</i>). We apply a long-term approach aimed at transforming <i>mustabik</i> into <i>muzakki</i> through Sharia-compliant entrepreneurship programs. |

| | | | | |
|----|---------------------------------|--|--|--|
| | | and educational assistance, we also provide micro-business capital as part of our empowerment efforts. | for small traders or farmers. | |
| 2. | Financial Intermediation Theory | As intermediaries, we manage funds from <i>muḥakki</i> with transparency, recording all inflows and distributions digitally. We provide regular reports through social media and printed reports available at our office. | To maintain public trust, we regularly share reports with customers and the public. In addition, each ZIS program is accompanied by documentation and beneficiary testimonials as a form of accountability. | Our role is not limited to distribution; we also educate <i>muḥakki</i> about the importance of zakat through seminars and Friday sermons. Trust is built by upholding integrity and establishing a Sharia Supervisory Board that actively oversees our operations. |
| 3. | Empowerment Theory | Our empowerment programs focus on micro-enterprises such as small retail shops and home-based services. <i>Mustahik</i> who receive business capital are accompanied for a minimum of three months to ensure sustainability and growth. | We provide skills training such as sewing and digital marketing. This program is conducted in collaboration with the local Office of Cooperatives and MSMEs to ensure integration within the local economic ecosystem. | We carry out economic empowerment through the "Mustahik Mandiri" program, which consists of three stages: capital assistance, training, and regular monitoring. Several <i>mustahik</i> have even become our financing clients after their businesses grew successfully. |
| 4. | Service Innovation Theory | We have developed digital donation features in our mobile banking app and QRIS to make zakat and charity contributions easier. The public response has been very positive due to the process being fast, transparent, and user-friendly. | We launched a WhatsApp channel and an interactive website that make it easier for the public to learn about our ZIS programs, register as <i>muḥakki</i> , and access distribution updates. | The technology we have implemented is an Android-based application called "ZIS Mandiri," which offers services for fundraising, zakat calculation, and reporting. This system has made the community feel more engaged and confident in the process. |
| 5. | Multi-Stakeholder | We collaborate with LAZISMU, the | Our collaboration involves Dompot | We have established synergy with |

| | | | |
|----------------------|---|---|--|
| Collaboration Theory | district-level BAZNAS, and local religious leaders. They assist in the selection of <i>mustahik</i> and in evaluating the impact of our programs. | Dhuafa, Islamic boarding schools (<i>pesantren</i>), youth organizations (<i>karang taruna</i>), and volunteer communities. This approach transforms the ZIS program into part of a collective social movement. | BAZNAS, mosque management (<i>takmir</i>), the local MUI, and forums of MSME players. Together, we organize zakat education sessions and bazaars showcasing <i>mustahik</i> products to keep the local economy active. |
|----------------------|---|---|--|

4.2 Discussion

Based on the results of in-depth interviews, observations, and document studies at several BPRS in the Special Region of Yogyakarta—namely BPRS Margi Rizki Bahagia (MRB), BPRS Barokah Dana Sejahtera (BDS), and BPRS Madina Mandiri Sejahtera (Madina)—this research aims to examine how zakat, infak, and sedekah (ZIS) funds are optimized by these three institutions. Key informants included: (1) Al-Hamidi, Head of Marketing at BPRS MRB; (2) Budi Nugroho, Director of BPRS BDS; and (3) Sabdo Nugroho, President Director of BPRS Madina. The analytical framework is grounded in five theoretical approaches: Islamic distribution theory (Kahf, 1999), financial intermediation theory (Antonio, 2001), empowerment theory (Perkins & Zimmerman, 1995), service innovation theory (Den Hertog, 2010), and multi-stakeholder collaboration theory (Bryson et al., 2006; Emerson et al., 2012).

Findings from the interviews demonstrate a consistent commitment across all three BPRS to ensure fair and targeted distribution of ZIS funds. BPRS MRB emphasizes field assessments and works closely with local community leaders and mosques to deliver both basic needs and micro-enterprise capital assistance. This practice embodies the core principles of Islamic distribution theory, where zakat serves as a means for equitable wealth redistribution and social justice (Kahf, 1999). BPRS BDS applies a blended model of consumptive and productive aid, guided by the principle that “the upper hand is better than the lower hand” (QS. Al-Baqarah: 273), in line with Yusuf al-Qaradawi’s view that zakat should foster dignity and independence. Meanwhile, BPRS Madina adopts a transformative zakat distribution model by gradually empowering *mustahik* to become future *muzakki* through entrepreneurship-based programs. This approach supports Kahf’s (1999) proposition that zakat should not merely serve as temporary relief but as a long-term instrument for economic development.

These findings build upon and extend previous research. While Beik (2019) and Apsari et al. (2022) emphasized the institutional synergy between banks and zakat organizations, they did not thoroughly explore the specific mechanisms of empowerment within ZIS distribution or the role of community-based institutions, such as BPRS. In contrast, this study reveals that BPRS is capable of customizing ZIS strategies according to local context, thereby enabling more impactful and personalized programs. Additionally, while studies such as Ahmad (2020) highlighted the importance of digital innovation in ZIS fundraising, this research documents how BPRS are already integrating technology not only in collection but also in reporting, transparency, and community engagement, often with limited infrastructure.

In terms of financial intermediation, all three BPRS showcase strong accountability practices. BPRS MRB records all transactions digitally and regularly publishes financial reports for *muzakki*. BPRS BDS complements its reporting system with visual documentation and testimonials from beneficiaries to build public trust. BPRS Madina goes a step further by incorporating religious education activities, such as zakat-themed sermons and workshops. She has established an active Sharia Supervisory Board to ensure religious compliance and institutional integrity. These practices align with Ascarya’s (2007) notion that Islamic financial institutions must function not only as funding channels but also as trusted social agents capable of promoting ethical financial conduct.

In the area of mustahik empowerment, all BPRS have adopted models that extend beyond consumptive aid. BPRS MRB provides a minimum of three months of mentorship to ZIS recipients engaged in micro-business ventures. BPRS BDS offers vocational training, such as tailoring and digital marketing, often in partnership with local government agencies. BPRS Madina stands out with its structured “Mustahik Mandiri” program, comprising capital assistance, training, and long-term monitoring. Several mustahik from this program have advanced to become formal financing clients. This confirms Fuad al-Omar and Abdel-Haq’s (1996) argument that zakat should be used as a tool to nurture self-sufficiency, rather than perpetuate dependency.

From the perspective of service innovation, the case of BPRS Madina is particularly noteworthy. The development of “ZIS Mandiri,” an Android-based application that offers zakat calculators, donation tracking, and digital reporting, illustrates the shift toward technology-enabled philanthropy. BPRS, MRB, and BDS have also adopted mobile banking and online communication channels such as WhatsApp and interactive websites. These innovations align with the evolving expectations of millennial donors, supporting Zainuddin’s (2017) claim that digital zakat systems can increase transparency, speed, and trust in Islamic charitable finance.

Finally, the importance of multi-stakeholder collaboration is clearly evident. BPRS MRB collaborates with LAZISMU and BAZNAS to identify beneficiaries and evaluate program outcomes. BPRS BDS collaborates with institutions like Dompot Dhuafa, Islamic boarding schools, and youth communities to broaden the impact of their ZIS activities. BPRS Madina creates local ecosystems that involve mosque boards, MUI chapters, MSME actors, and local government agencies. These findings validate the theoretical framework of Bryson et al. (2006), who argue that sustainable social change is more likely to occur when diverse stakeholders share ownership and co-produce public value.

In conclusion, the research demonstrates that ZIS optimization in BPRS across Yogyakarta is not merely a function of fund transfer but a multifaceted process that encompasses strategic distribution, education, empowerment, digital innovation, and collaborative governance. Among the three institutions, BPRS Madina appears to implement the most advanced and integrated model, with a clear vision for transforming beneficiaries into independent economic agents. These findings not only confirm theoretical assumptions but also offer practical insights for Islamic microfinance institutions seeking to enhance their philanthropic and developmental impact through ZIS.

5. Conclusion

This study aims to explore how Zakat, Infaq, and Shadaqa (ZIS) funds are utilized by Islamic Rural Banks (BPRS) in the Special Region of Yogyakarta. Specifically, it investigates the strategies, innovations, and collaborative mechanisms employed by three BPRS institutions—BPRS Margi Rizki Bahagia, BPRS Barokah Dana Sejahtera, and BPRS Madina Mandiri Sejahtera—in collecting, managing, and distributing ZIS funds to support community empowerment and sustainable development. The analysis is framed using five theoretical perspectives: Islamic distribution theory, financial intermediation theory, empowerment theory, service innovation theory, and multi-stakeholder collaboration theory.

The findings reveal that all three BPRS apply a comprehensive approach to ZIS management, combining fair distribution mechanisms, financial transparency, community-based empowerment, digital service innovation, and active collaboration with stakeholders. BPRS MRB emphasizes field validation and mosque-based distribution, while BPRS BDS integrates religious principles with productive assistance and skills training. BPRS Madina demonstrates the most transformative approach by developing structured entrepreneurship programs and digital tools, such as the “ZIS Mandiri” app. Each institution contributes not only to alleviating poverty but also to transforming mustahik into economically independent actors, aligning with the broader goals of Islamic social finance.

The study provides valuable insights into how grassroots Islamic financial institutions can play a significant role in advancing Islamic philanthropy. It affirms that BPRS—despite operating with limited resources—can effectively function as both financial intermediaries and agents of

social development. The integration of digital technology and local stakeholder networks is key to achieving efficient and impactful ZIS programs. This research also contributes to the academic discourse by bridging the gap between normative Islamic finance theory and empirical practices at the micro-institutional level.

While the study offers an in-depth case analysis, it is limited to three BPRS within the Yogyakarta region, which may not represent the diversity of practices across Indonesia. The study also focuses primarily on institutional perspectives, with limited input from mustahik themselves. Future research could expand the geographic scope and include a broader range of Islamic microfinance institutions. Additionally, a longitudinal approach involving impact measurement over time would be beneficial to assess the long-term effectiveness of ZIS-based empowerment programs. Further comparative studies between BPRS and other zakat management entities, such as LAZ, BAZNAS, and Islamic commercial banks, would also enrich the understanding of best practices and policy implications.

Author Contributions

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