

Centralization vs. Decentralization: Measuring the Effectiveness of State Regulations in Accommodating the Potential of Community-Based Zakat and Waqf

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ABSTRACT

Indonesia, as the country with the largest Muslim population in the world, has enormous potential for zakat and waqf to support the social welfare and economic development of the people. However, there is a significant gap between this potential and the realization of its collection and utilization. One factor influencing this condition is state policy, which tends to implement centralized zakat and waqf management through Law Number 23 of 2011 and Law Number 41 of 2004. This study aims to analyze the impact of this centralized policy on the sustainability of community-based zakat and waqf management organizations, and to assess the extent to which the state regulatory framework is able to optimize the potential of Islamic philanthropy without eroding social capital and public participation. The method used in this study is a conceptual approach through a literature review by examining various scientific sources, theories, and relevant Qur'anic and Hadith arguments. The results of the study indicate that although centralized policies provide benefits in terms of accountability and administrative standardization, these policies also have the potential to suppress the role of community-based philanthropic institutions due to bureaucratic burdens and rigid legal-formal structures. Therefore, this study recommends the implementation of an adaptive and inclusive hybrid governance model, which balances the formal legality of the state with the social legitimacy of the community to optimize the sustainable management of zakat and waqf in Indonesia.

As an academic and policy implication, this study emphasizes that optimizing zakat and waqf cannot rely solely on legal approaches and administrative centralization, but must also consider the sociological dimensions of Indonesian Muslim society, which are based on community and faith. By synergistically integrating the roles of the state and community, zakat and waqf governance is expected to increase institutional effectiveness while maintaining public participation, the core spirit of Islamic philanthropy.

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1. INTRODUCTION

As the world's largest Muslim country, Indonesia offers numerous opportunities for Islamic philanthropy, particularly through waqf and zakat. In theory, these two instruments serve as crucial pillars for equitable economic development and the community's spiritual commitment. According to several studies, the country's zakat potential could reach hundreds of trillions of rupiah annually, as could waqf assets such as cash and land, which have significant economic value if properly managed.[1] However, the collection and use of officially recorded funds differ significantly from these statistical potentials. This phenomenon indicates structural problems within Indonesia's social and religious fund management ecosystem related to public awareness, governance, and relevant regulations.

The state has intervened significantly through legal instruments, such as Law Number 23 of 2011 concerning Zakat Management and Law Number 41 of 2004 concerning Waqf, in an effort to reform the management of social and religious funds and to realize the welfare of the community. (Scientific & Islamic, 2022) The role of the state, through official organizations such as the Indonesian Waqf Board (BWI) and the National Zakat Collection Agency (BAZNAS), is becoming increasingly important as regulatory policies move toward centralization. To prevent abuse, this centralized paradigm seeks to consolidate national data, increase accountability, and standardize administration. From the state's perspective, centralized management is seen as the best way to transform charitable activities from a disorganized practice to a more professional and measurable one.[3].

However, the sociological characteristics of Indonesian society present significant obstacles to this centralized strategy. In the past, Islamic boarding schools (pesantren), mosques, community groups, and local religious leaders (kyai/tuan guru) have contributed to the organic growth of zakat and waqf traditions in Indonesia. A key foundation for this decentralized culture is

"social capital," or the community's deep trust in the local government they know well. The scope of these community efforts is often considered limited by strict state regulations that require numerous permits and complex bureaucratic reporting. Many grassroots zakat and waqf management organizations that have operated for years face the threat of illegality or struggle to conform to centrally established compliance criteria.[4].

The effectiveness dilemma arises from the conflict between the state's centralized strategy and the reality of community decentralization. Centralization provides administrative order, but also risks suppressing local knowledge and public engagement, which have historically been the foundation of Islamic charitable giving. Whether current regulations are truly community-friendly or restrictive raises fundamental questions. There are signs that communities are choosing to channel their charitable funds directly (direct giving) or through unregistered local communities, suggesting that the state system is not fully realizing this enormous potential (a shadow economy of philanthropy). This suggests that, in the public eye, formal legality does not always translate into social legitimacy.[5].

Therefore, it is crucial to conduct a thorough analysis of how well state policies balance these two poles. This study is crucial to determine whether a more decentralized and cooperative strategy is needed or whether state control through centralized regulation has effectively maximized the potential of zakat and waqf. The extent to which the state is able to embrace and accommodate community-based opportunities without burdening them with rigid bureaucracy is another important metric for evaluating the effectiveness of these policies. It is hoped that this analysis will provide new insights for developing zakat and waqf governance that is more inclusive, flexible, and appropriate to the sociological and demographic characteristics of Indonesian Muslims.[6].

2. METHOD

This research is a conceptual paper. The strategy used in this research is a

literature review, which examines findings related to the research issue, including journal articles and theories from books. The goal is to present research findings that highlight them and ultimately lead to new findings. Answering theoretical and methodological questions is the goal of the literature review, which is an ongoing analytical process. Therefore, the literature review should offer a critical analysis of diverse literature and validate the unique features of the research being conducted.[7]. And also strengthened by other reference sources such as the verses of the Qur'an and the hadith.

3. RESULTS AND DISCUSSION

3.1 The Impact of Centralization of Zakat and Waqf Policies on Community-Based Management Organizations

The management of zakat and waqf in Indonesia has been going on since the early days of the Republic of Indonesia's independence, marked by the Minister of Religious Affairs Regulation No. 10 of 1968 concerning the establishment of Baitul Mal which functions as a collector of zakat which will be distributed to BAZ. Then, after going through various regulations, zakat management is now based on Law Number 23 of 2011 and waqf management is regulated in Law Number 41 of 2004. In this legislation, the state stipulates that the management of zakat and waqf is managed institutionally by paying attention to the principles of management, including Islamic law, trustworthiness, benefit, justice, legal certainty, integration, and accountability. Therefore, this can be a primary strategy to increase the effectiveness and efficiency of services in management, as well as increasing the benefits of zakat and waqf in order to realize the welfare of society.[8].

In this case, the party responsible for its management, the state, emphasizes that "everyone is prohibited from intentionally acting as amil zakat to collect, distribute, or utilize zakat without the permission of authorized officials." Therefore, the state appointed BAZNAS (National Zakat Agency) and BWI (Indonesian Waqf Agency) as

independent institutions authorized to coordinate, standardize, and supervise zakat and waqf management practices. From the state's perspective, this approach is important to prevent misuse of community funds, increase transparency, and ensure proper distribution. Meanwhile, the non-governmental LAZ (Zakat Amil Institution) plays a role in assisting BAZNAS in collecting zakat funds.[9].

However, in practice, regulatory centralization has structural consequences for grassroots community-based zakat and waqf management organizations. Many local institutions—such as mosque administrators, Islamic boarding schools (pesantren), religious study groups (Majelis Taklim), and informal social institutions—that have historically managed zakat and waqf based on social trust are experiencing administrative pressures due to formal and legal obligations, such as licensing, financial reporting, and relatively complex managerial standards. This situation has the potential to erode the social capital that has long been a key strength of community-based Islamic philanthropy.

Community preferences regarding zakat distribution or even waqf trust are heavily influenced by the level of social trust in the managing institution. In this context, social legitimacy is often more important than formal legality. When state regulations are insufficiently adaptive to local characteristics, community organizations tend to experience structural delegitimization, even if they retain social trust.

Centralization policies have direct implications for reducing the autonomy of local philanthropic communities. Required institutional legalization, tiered reporting, and administrative compliance often pose obstacles for community-based zakat and waqf institutions, which have limited human resources and managerial capacity. Consequently, some philanthropic practices shift to the informal sphere or even outside the state system (shadow philanthropy).[4].

The centralization of zakat and waqf management also impacts social relations between zakat payers and those who mustahik (recipients of zakat) at the

community level. When management is directed to a centralized institution, some zakat payers feel a loss of control and closeness to the distribution and use of funds. This reinforces the finding that zakat payers' preferences are not solely administratively rational, but also based on social capital and community identity. If centralized policies fail to accommodate these preferences, the potential risks include low compliance by zakat payers with the official system, increased informal zakat and waqf practices, and fragmentation of the national philanthropic system.

This situation creates a paradox: on the one hand, the state seeks to improve governance and promises accountability and national integration, while on the other hand, it has the potential to narrow the space for civil society participation, particularly for communities. Thus, while policy centralization brings administrative benefits, it also risks excluding local actors who are not fully prepared or able to meet state bureaucratic standards, ultimately potentially narrowing the space for public participation or traditional philanthropic communities that serve as the backbone of zakat and waqf distribution at the local level.

3.2 The Effectiveness of the State Regulatory Framework in Optimizing Zakat and Waqf and Public Participation

The effectiveness of the regulatory framework for zakat and waqf management can be measured by its ability to bridge the vast philanthropic potential with the realization of optimal fund collection and utilization. Normatively, state regulations have provided a strong legal foundation for zakat and waqf management, including in terms of professionalism, accountability, and national coordination. Several studies have noted that institutional integration through BAZNAS and BWI contributes to increased transparency and, to a certain extent, public trust (Afifah et al., 2023).

However, the gap between the potential and realization of zakat and waqf in Indonesia remains relatively large. One key

factor is limited public participation in the official state system. This suggests that regulatory effectiveness is determined not only by legal enforcement but also by social acceptance. (Scientific & Islamic, 2022)

A regulatory framework that is too focused on administrative control risks diminishing the voluntarism that is the core spirit of Islamic generosity. When people feel their philanthropic practices are constrained by rigid procedures, their religious and social motivations can weaken. Therefore, the effectiveness of state regulations should be measured not only by formal compliance but also by their ability to maintain and strengthen trust-based public participation.

In this regard, the state is required to shift its policy paradigm from state control to state facilitation. The state retains its role as regulator and coordinator, but does not monopolize philanthropic practices. This facilitative approach demonstrates that the state provides space for community innovation, including the use of digital technology and mosque-based fundraising models, Islamic boarding schools (pesantren), and local communities; simplifies licensing and reporting procedures to avoid burdening small-scale zakat and waqf institutions; and recognizes local practices that have proven effective, even if they have not yet been fully standardized bureaucratically. [10].

3.3 A Balanced Zakat and Waqf Governance Model Between Formal Legality and Social Legitimacy

Considering the tension between state centralization and community decentralization, the most relevant zakat and waqf governance model is a hybrid or collaborative one. This model implements adaptive and inclusive regulations, which refer to a policy framework that is responsive to social dynamics, technology, and evolving philanthropic practices at the community level. Furthermore, inclusive regulations position non-state institutions such as LAZ (Islamic Zakat Institutions), community nazhirs (Islamic nazhirs), and civil society organizations as legitimate components of the national zakat and waqf governance system.

In this case, the state does not act as a sole controller, but rather as an enabler, providing standards, coordination, and oversight.

An adaptive approach is also reflected in state policies supporting the digitalization of zakat and waqf. The state not only establishes regulations but also provides infrastructure, interoperability standards, and reporting systems that facilitate public participation. State regulations can significantly increase transparency, accountability, and public participation without diminishing the role of local communities.[11]

Formal legality should not be positioned as a limiting instrument, but rather as a framework for protecting and strengthening the capacity of community organizations. For example, a phased registration mechanism, administrative assistance, and differentiated reporting standards based on institutional scale can be solutions to reduce bureaucratic burdens. Thus, established social legitimacy is not lost but rather strengthened by state recognition.

Institutional synergy in managing Islamic economic instruments, including zakat and waqf, is crucial for addressing the challenges of modern social and economic complexity. In the context of zakat and waqf, this synergy can be realized through national data integration while still providing operational autonomy for local institutions. Furthermore, strengthening the role of forums or associations of zakat and waqf institutions can bridge the gap between state interests and community aspirations.[12].

By adopting a balanced governance model, optimization of zakat and waqf will not only be achieved quantitatively but also socially sustainable. This approach aligns with the characteristics of Indonesia's pluralistic, community-based Muslim society, which has a strong tradition of philanthropy. Therefore, the future of zakat and waqf management in Indonesia depends heavily on the state's ability to embrace, rather than replace, the strategic role of the community.

4. CONCLUSION

Based on the results of the conceptual study and literature analysis conducted, it can be concluded that the policy of centralizing zakat and waqf management in Indonesia through a state regulatory framework has two main implications. On the one hand, centralization makes a positive contribution to increasing accountability, transparency, and legal certainty in the management of Islamic philanthropic funds. The presence of official institutions such as BAZNAS and BWI strengthens national coordination and prevents potential misuse of community funds. However, on the other hand, policies that are too oriented towards administrative control have the potential to weaken the role of community-based zakat and waqf management organizations, which have traditionally relied on social capital, trust, and emotional closeness between muzaki and mustahik. The burden of licensing, reporting, and rigid bureaucratic standards push some philanthropic practices into the informal realm outside the state system, thus hindering the optimization of zakat and waqf potential nationally.

The effectiveness of state regulations in managing zakat and waqf is determined not only by legal force but also by the level of social acceptance. Therefore, a shift in policy paradigm is needed from a state-controlled approach to a state-facilitated approach. The most relevant governance model is a hybrid or collaborative model that integrates the roles of the state and the community in a balanced manner. Through adaptive, inclusive, and mentoring-based regulations, formal legality can serve as an instrument of empowerment, not a constraint, for community-based philanthropic institutions. Thus, the optimization of zakat and waqf in Indonesia can be achieved administratively and socially, in keeping with the characteristics of Indonesia's pluralistic and community-based Muslim society.

The policy of centralizing zakat and waqf management in Indonesia has ambivalent implications. On the one hand, centralization through official state institutions contributes to increased

accountability, transparency, and legal certainty in the management of Islamic philanthropy. However, on the other hand, an approach that is too oriented toward administrative control has the potential to weaken the role of community-based philanthropic institutions that rely on social capital and public trust. The effectiveness of

state regulation is determined not only by legal compliance but also by social acceptance and voluntary public participation. Therefore, a hybrid governance model that integrates formal state legality with community social legitimacy is the most relevant approach to optimizing sustainable zakat and waqf management in Indonesia.

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