Zakat and Poverty: An Indonesian Experience

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This study investigates the effect of Zakat collection and distribution on poverty in Indonesia. The hypothesis in this study was tested using linear regression equations with samples obtained using the purposive sampling method. It is derived from the collection of Zakat and the distribution of Zakat in 34 provinces in Indonesia, obtained from BAZNAS data. Based on empirical testing with a separate model, this study proves that the collection of Zakat has a significant positive effect on the distribution of Zakat, and the distribution of Zakat has a significant positive effect on poverty alleviation. Although the results of this study are consistent with the theory, the distribution of Zakat in Indonesia is still used to meet consumptive needs. Whereas, in the future, the distribution of Zakat is expected to turn into productive Zakat.

Keywords: *Zakat, collection of Zakat, distribution of Zakat, poverty.*

Introduction

The obligation to pay Zakat is in the third position in the pillars of Islam, after the five daily prayers, which must be done by every human who claims to be Muslim. Zakat is one of the pillars of Islam which has an important role in the Islamic social economy. Zakat serves as an instrument of income distribution to ensure inclusiveness of the whole community. Zakat also functions as an instrument to control the flow of individual assets productively.

Zakat distribution can be associated with various patterns, depending on the managerial policy of the relevant Zakat agency or institution. Sometimes, it is channelled directly to mustahik with a consumptive pattern and other times, it is manifested in a productive form, such as what happened at the time of the Prophet or by providing capital or Zakat developed with an investment pattern (Maguni, 2013).

The main problem of Zakat, which is often encountered, is the gap between the potential of Zakat and its realisation. This condition is usually triggered by Zakat institutional management issues and Zakat management systems that have not been integrated, coupled with a lack of public awareness. Therefore, a strategy is needed to overcome the problems faced by most Zakat management organisations (OPZ) (Indrijatiningrum, 2005).

Firmansyah (2013) states that in the present time in Indonesia, public awareness to pay Zakat tends to increase, but the potential of Zakat itself is so large that it cannot be optimally exploited or realised and coordinated. This is related to the public's trust in channelling their Zakat to the official Zakat management institutions. Many people prefer to channel their own Zakat to mustahik, so that it can be seen that the utilisation of Zakat has been achieved in a more consumptive than productive way. Therefore, it is assumed that poverty alleviation cannot be significantly reduced through the distribution of income through Zakat. Finally, Zakat only gives 'fish' to the poor, not hooks, and will only provide short-term effects.

Improving community welfare is the main goal of economic development in a region or country. Likewise, Indonesia, as a developing country, still has poverty problems in many areas (Hurearah, 2013). To achieve this main goal, it requires improving welfare marked by decreasing poverty. The level of prosperity can be used as a sign of the existence of a better spiritual dimension. Based on the explanation of the developing situation, this study tries to investigate the effect of Zakat collection on the accuracy of Zakat distribution, and how the influence of the distribution of Zakat impacts on poverty alleviation in Indonesia.

Literature Review

Zakat is developing, increasing, many, blessing and can be interpreted as "plants have tithe" if the plant grows larger, "the livelihood has been tithe". Sadaqah is also called Zakat, because sadaqah is a growing cause and blessed with wealth. However, this term is then confirmed, when referring to Zakat, as obligatory sadaqah.

Zakat is one of the important pillars of life and society in Islam (Beik, 2009; Hafidhuddin, 2002), because it is often referred to in the Al-Quran and is accompanied by the command of prayer. Not surprisingly, Zakat has a very extraordinary meaning. The word Zakat has the meaning of developing (an-namaa), purifying (at-thaharatu) and blessing (al-barakatu). Thus, the obligation to pay Zakat is an activity that makes people more prosperous, cleaner in wealth, and more blessed. Therefore, the definition of Zakat is to flow a portion of assets or pay based on the rules established in the Al-Quran to the recipient of Zakat (mustahik), which has also been regulated based on the Al-Quran.

In the Surah At-Taubah, verse (60), it is mentioned that the mustahik group consisting of eight ashnaf are among the indigent, poor, amil (Zakat administrators), the mu'allaf, slave servants or slaves (riqab), people who owed (gharimin), to the path of Allah (fi sabilillah) and traveller (ibn sabil).

Zakat as a pillar of society in Islam, is regulated in Zakat law, which is mandatory for every Muslim who has fulfilled the requirements, as purification as a human being or nafs (Zakat fitrah) or purification of wealth (zakat mal). The obligation of Zakat is always accompanied by the obligation of prayer (Qur'an 2:43, 110, 177, 277; 4:162; 9:103; 24:56; 73:20; 98:5). Thus, Zakat is part of the wealth of Muslims (muzakki) that has been counted as affected by Zakat, which needs to be placed or distributed to parties who are entitled to receive Zakat, according to the rules. Neglect or refusal or delay in carrying out the obligation of Zakat will be considered as violating the law and committing crimes against fellow human beings (Ethica Institute of Islamic Finance, 2013).

Because the obligation of Zakat has a social function in society, the obligation of Zakat can reduce various social problems (Qardhawi, 2002). Such as the wealth distribution system from those who are able, to those who need it, regardless of race, colour, ethnicity and other worldly attributes, and it can reduce poverty. Even in some cases, productive Zakat has begun to be developed.

Therefore, in line with the instructions in the Al-Quran, the collected Zakat is distributed to the recipient of Zakat according to the proper priority rules. So, this study develops a hypothesis, H1: The collection of Zakat influences the accuracy of the distribution of Zakat.

Meanwhile, the definition of poverty referred to by the world bank is: "the denial of choice and opportunities most basic for human development to lead a long healthy, creative life and enjoy a decent standard of living freedom, self-esteem and the respect of other". (www.worlbank.org).

Poverty means a condition where there are restrictions imposed by parties, which can be a person or group or family or a community or country, where the conditions of life, and/or enforcement of rights and justice, and/or the bargaining position in the world, and/or the tendency of generational growth is threatened, even to the condition of a nation and/or country, facing a bleak future (Wijayanti, 2010). Poverty can be measured as an economic inability to meet basic needs and other non-food needs, which are assessed based on the limited amount of expenditure. Poverty is seen as an economic inability to fulfill basic food and non-food needs measured from the expenditure side.

Indonesia, which is classified as a developing country, is inevitable in the problem of poverty. Poverty has always been a major problem faced by the government to date. The government always tries to carry out careful planning in national development, with the main agenda being to improve the success rate of poverty alleviation.

The success rate of poverty alleviation in the last quarter of 2017, to the early quarter of 2018, decreased as shown in Figure 1. However, the growth is considered to be very slow for the movement of the quarter end of 2017, until the end of the first quarter of 2018. This condition shows that the copping strategy implemented by the government is yet to be implemented optimally and evenly. The poverty rate in rural areas is around 6 per cent, far higher than the poverty rate in urban areas. The limited access to information on meeting the needs in rural areas makes people face various problems, not just economic problems. The Indonesian Central Statistics Agency in 2015 revealed that poverty is caused by multidimensional problems that cover various aspects of life, ranging from the economy to social and cultural issues.

Figure 1. Development of Poor Population by Region September 2017–March 2018
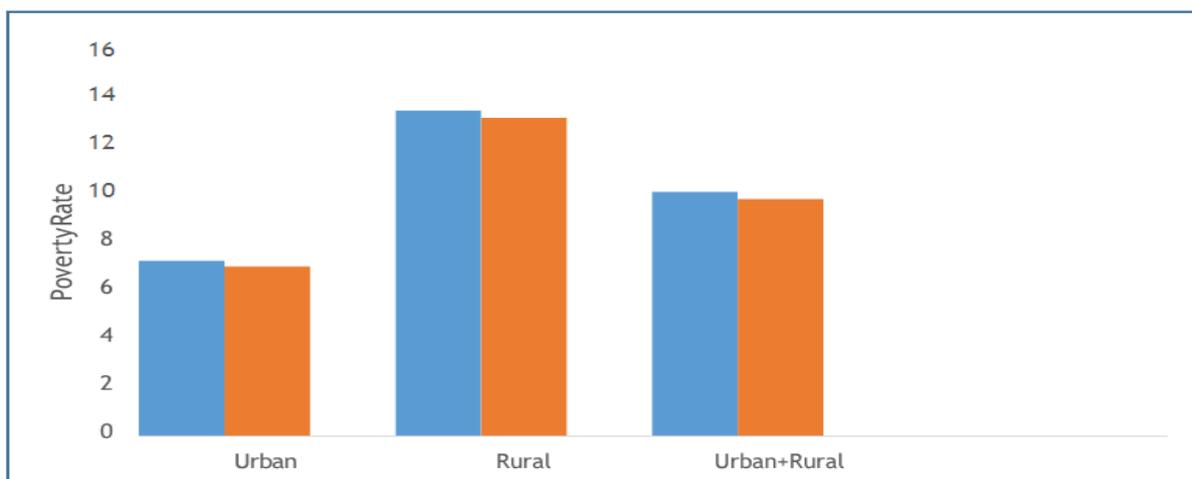
Based on the phenomena that have been described, there are allegations that the distribution of Zakat affects the reduction in poverty levels. In this regard, the following hypothesis is made:

H2: There is an influence of the distribution of Zakat on poverty reduction.

Research Method

The scope of this study is only on one of the eight welfare indicators used by BPS, namely the poverty level indicator. Based on the purpose of this study, in order to investigate empirically the causal relationship, a quantitative approach was applied utilising the

regression equation. Separate regression equations are used to test the two hypotheses developed. In the first test, the regression equation is used to investigate the effect of Zakat collection on the distribution of Zakat. Furthermore, the second regression equation is used to investigate the effect of Zakat distribution on poverty levels. The two simple linear regression models are used in order to test separately (1) the effect of Zakat collected with the distribution of Zakat, and (2) the effect of the distribution of Zakat on reducing poverty levels. The dependent variable in the first regression equation (Zakat distribution) will be the independent variable in the second regression equation.

The purposive sampling method used in this research is the sample selection method that deliberately chooses certain samples and ignores other samples. This sample selection method was chosen to obtain information used in meeting the data collection criteria with the following criteria:

• Data obtained from the Zakat report (data collection of Zakat and distribution of Zakat) issued by the official website of BAZNAZ at www.baznaz.go.id from 2015 to 2017 of 34 provinces in Indonesia.
• Report on Indonesian socio-economic development data related to poverty from 2016 to 2018 of 34 provinces in Indonesia.

In this study, poverty is calculated or measured by a headcount index that shows the percentage of people living below the poverty line. The headcount index simply measures the proportion categorised as poor. The headcount ratio is the tool most often used to measure poverty levels. This ratio is used to find out how many poor people are actually based on the state poverty line and calculate the percentage (Beik, 2009).

$$P_{0} = \frac{Np}{N}$$

With, P0 = percentage of poor people (headcount index); Np = Number of poor people below the poverty line; N = population.

BAZNAS releases data in March and September each year. Zakat collection data and Zakat distribution data have a different time series than poverty level data. Poverty rate data do not have an instant effect, where economic turnover will take time. Therefore, it is not suitable to use poverty data in the same year as the data collection and distribution of Zakat. Therefore, there is a one-year time lag between data collection. The poverty level data starts from March

2016 to September 2018. While the data collection of Zakat, is assumed to be directly distributed, so it occurs in the same year, from March 2015 to September 2017.

For the analytical method, this study used descriptive statistics, best linear unbiased estimated assumption test (normality test, heteroscedasticity test, and autocorrelation test), then analyses the result of the linear regression equation for the two hypotheses tested.

Result and Discussion

Based on data collected and ready to be sampled in this study, the average collection of Zakat in Indonesia is around Rp 236 million with a standard deviation of Rp 126 million. Meanwhile, the average distribution of Zakat is only IDR 171 million. This condition shows that only 72.46 per cent of Zakat collection has been successfully distributed. Therefore, it is not surprising that the average poverty rate is still relatively high, which is 56.79 per cent with the highest poverty value of 73 per cent.

Not optimally absorbing Zakat becomes a matter of concern. There are still around 27.5 per cent of Zakat that is not distributed, even though the average level of poverty is still high. After a review of the data, it was found that there are some regions that do have a Zakat fund that is greater than the distribution of Zakat. Those who receive Zakat have fulfilled their basic needs. However, this only happens in a few areas. While in other areas, the opposite condition occurs. There are many areas where the recipients of the Zakat have not been occupied because of the relatively low collection of Zakat.

On the other hand, there are problems with the BAZNAS data collection. There are some regions that have Zakat distribution data, but do not report Zakat collection data. This data results in a low average distribution of Zakat, which is thought to be less able to reduce poverty levels in Indonesia on average.

Table 1: First Equation Test Results

	Unstandardised Coefficients	t	sig
Constant	-23.089	-1.905	0.060
Collection of Zakat	0.819	18.135	0.000
R	0.880		
R-square	0.774		

Dependent variable: Distribution of Zakat

The results of hypothesis testing using the first regression equation in Table 1 show that the relationship between the collection of Zakat and the distribution of Zakat has a standardised beta coefficient of 0.880 with a significance level of 0.000. The results of this test support the first hypothesis (H1) because the Zakat collection variable has a significance value of less than 0.05. This means that the Zakat collection variable has positive effect on the distribution of Zakat.

Then, the test results shown in Table 2 highlight the influence of the distribution of Zakat with a poverty level having a standardised beta value of -0.271 with a t-significance value of 0.007. The results of this test support the second hypothesis (H2) because the significance value of the Zakat distribution is less than 0.05. This means that the distribution of Zakat influences poverty reduction. The results of this study are consistent with the findings of mujiatun (2018), Kasri (2017), and Mubarokah (2017).

Table 2: Second Equation Determination Coefficient Test Results

	Unstandardised Coefficients	t	sig
Constant	0.596	47.596	0.000
Distribution of Zakat	0.000	2.757	0.007
R	0.271		
R-square	0.073		

Dependent variable: Poverty Rate

Many studies have been carried out regarding the potential of Zakat in Indonesia, all of which state that Indonesia has a high potential for collecting Zakat funds. This is because, as we know, Indonesian people are mostly Muslims and it can be said that Indonesia is a Muslim country. With the potential for large collection, the distribution of Zakat will automatically be maximised, because the more funds collected, the more Zakat will be distributed automatically to the mustahik, such as the results of tests that have been conducted which are positive and significant.

The data collection of Zakat and distribution of Zakat in practice, according to BAZNAS, still has obstacles in its collection. BAZNAS, as the coordinator of Zakat management institutions in Indonesia, also acknowledged that there are still many Zakat institutions in various provinces that have not provided reports on the collection of Zakat and the distribution of Zakat. Thus, the potential for Zakat in Indonesia is still unknown and has not been explored if it has been absorbed optimally.

Of course, many things affect the collection of Zakat itself. Mubarok and Fanani, (2014) state that besides the quality of financial reporting, there are many factors which are thought to affect the low realisation of national Zakat collection. First, there are still people who do not fully trust the amil Zakat institution, who think amil Zakat institutions are affiliated with political parties or think that amil Zakat institutions still do not have a sufficient operational system. Second, there are still many people who do not understand the law from issuing Zakat itself, how to calculate it, and to whom Zakat is distributed. Third, the weak institutional Zakat regulatory framework, such as there are no sanctions for parties who are supposed to issue Zakat. Fourth, the low efficiency and efficiency of the utilisation of Zakat funds in Zakat institutions which are less innovative in their utilisation.

The depth of understanding of education and knowledge of Zakat are considered important to be understood by citizens or the community. With their understanding and awareness of the situation and social conditions around them, it will increasingly be able to encourage people to be more aware of the role of Zakat to maintain social balance and peace in this world. Understanding and knowledge of Zakat is not only for people who pay zakat, but it is also important for those who run zakat management so that distribution can be achieved optimally (Abdelmawla, 2015).

Awareness of the implementation of Zakat on the Indonesian people is not followed by a level of sufficient understanding, unlike other religious obligations, such as prayer and fasting for Ramadan. The low understanding of the obligations of the types of Zakat and the mechanism of Zakat payment, as explained by Islamic Institutions, results in many Islamic societies which only focus on individual worship (Haque et al., 2016).

The purpose of Zakat will be effective if Zakat can help reduce poverty in a country. The distribution of assets is considered to be able to help the poor in overcoming the difficulties of meeting their basic needs and will be more optimal if the distribution of these assets can produce productive activities. If this condition runs smoothly and can last in the long term, the results of the distribution of these assets will be more optimal in reducing poverty levels in a region or country.

According to Mr. Hanum, the BAZNAS research and development department stated that Zakat in Indonesia is still 80 per cent consumptive and 20 per cent productive. Therefore, it is the duty of Zakat management organisations in Indonesia to be able to maximise the distribution of Zakat from Zakat for consumptive purposes to productive Zakat. This method is considered to be able to maximise the function of Zakat as an instrument for poverty alleviation.

Research conducted by Nadzri et al. (2012) explains that institutions of Zakat in Malaysia have now advanced to become providers of capital for productive mustahik. This certainly can be exemplified, because with the utilisation of productive Zakat if the business developed is able to develop, it will open up employment opportunities, and not only Zakat as poverty alleviation. With productive use there will be many other social aspects that can also be improved, so that the purpose and function of Zakat can be realised (Hassan et al., 2007; Hassan et al., 2010).

Firmansyah (2013) stated in his research that Zakat in Indonesia still seems to be consumptive rather than productive, which is also influenced by several factors. These factors start from the muzaki itself, who chooses to distribute its Zakat directly to the mustahik because they lack trust in Zakat management institutions, to factors that originate from the Zakat management institution itself, which has not been able to optimise the distribution of Zakat by making it a channel that empowers the mustahik and productiveness (Suratno, 2017). Thus, the impact on poverty alleviation has not been significant; Zakat only gives 'fish' to the poor, not hooks, and only provides short-term effects (Shirazi, et al, 2006).

In Indonesia, Zakat is regulated in Law No. 23 of 2011 concerning Zakat management. This law is supported by the presence of BAZNAS as an independent institution in managing Zakat nationally, and is responsible to the President and the Ministry, which has been appointed. Some improvements to the law, relating to changes in the condition of objects affected by Zakat, are always reviewed for better things. One of which includes the regulation of productive Zakat. This shows that the government is paying great attention and contributing to the ongoing management of Zakat in Indonesia as a tool to reduce poverty.

Conclusion

This study shows that the collection of Zakat affects the distribution of Zakat and the distribution of Zakat also has an effect on reducing poverty in Indonesia. From the results of this study it was also obtained that the distribution and utilisation of Zakat in Indonesia is still far away from productive utilisation rates, reaching only around 20 per cent of total Zakat. Meanwhile, according to researchers, the optimal use of Zakat for it to be able to reduce poverty is to distribute it into productive, so Zakat funds can continue to rotate.

This study has several limitations related to data and does not consider other variables that can be determinants of reducing poverty by using Zakat. Therefore, future studies are expected to use additional proxies for poverty variables, such as using the Gini ratio to determine the level of income disparity for the poor. Then, investigations were made regarding the use of productive Zakat. This condition is based on Zakat given to fulfill basic needs which are short-term and are directly used up. While the flow of distribution of assets

is used for joint venture capital assistance and/or joint business development and is considered to be more able to produce a continuous level of prosperity. This condition will later make the function of Zakat more optimal.

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