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The Role of *Zakah* in Poverty Alleviation: Evidence from Indonesia

Rahmatina Awaliah Kasri

A Doctoral Thesis
Submitted in partial fulfilment of the requirements for the award of
the Degree of Doctor of Philosophy
at Durham University Business School
Durham University

December 2014

Dedication

My Dearest Parents

Dr (HC). H. Arwan Kasri MK. MS

&

Dra. Hj. Hasnawirda M.Ag

For giving all the love, support, trust, belief and encouragement throughout my life

My Beloved Husband

Farid Arif Wibowo

For the endless love, patience, sacrifices and supports while you were also struggling with your PhD

My Lovely Daughter

Farah Aisya Kinanti

For bringing a new colourful world with more love, joy and happiness for us

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Alhamdulillah, all praise to Allah, the Most Gracious and the Most Merciful, for the guidance and blessing for me to eventually finish the thesis and obtain a PhD degree.

The process of accomplishing this thesis has gone through numerous challenges in which many parties have been involved directly or indirectly in giving the needed assistance, support and encouragement. I therefore wish to express my utmost gratitude to all of them for their willingness to assist me in the process of completing this thesis.

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Declaration

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institutions of learning

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All information derived from this thesis must be acknowledged appropriately

Abstract

Zakah is believed to be the main Islamic institution for the alleviation of poverty. Nevertheless, despite an increase in global income levels during the last century as well as continuing implementation of *zakah* worldwide, poverty persists in Muslim developing countries such as Indonesia. The main objective of this study, therefore, is to comprehensively explore and systematically analyze the economic (monetary) and multidimensional (non-monetary) impacts of the *zakah* institution in alleviating poverty in the context of *zakah* implementation in Indonesia as the world's largest Muslim country. It also identifies the poor and assesses the determinants of poverty amongst the *zakah* recipients. Furthermore, it investigates the management model of *zakah* implementation in Indonesia, including its capacity, efficiency and effectiveness in delivering poverty-focused programs.

To achieve the objectives, the study has utilized a mixed-method research design. As part of this strategy, it has conducted a survey and collected primary data on the socio-economic conditions of 685 poor households receiving *zakah* assistance in nine cities of the Greater Jakarta Metropolitan area in Indonesia in 2011. In analyzing the survey results, a number of quantitative methods including descriptive statistics, inferential statistics (ANOVA and logistic regression) and poverty index analysis were employed. It has also conducted semi-structured interviews with the management personnel of *zakah* organizations to investigate the model of *zakah* implementation and assess the capacity and efficiency of *zakah* organizations in Indonesia. The qualitative data obtained were analysed by using thematic (coding) and content analyses. The rich analytical methods were expected to generate high-quality data and comprehensive analysis that would address the research questions satisfactorily.

The main result generally suggests that the *zakah* institution has contributed positively to reducing the hardship of the recipients, whose poverty is likely to be related to large household size, lack of assets and certain characteristics of heads of households. Specifically, the incidence, depth and severity of poverty amongst the households have decreased due to the contributions from *zakah* organizations. The impacts of *zakah* could be felt not only in the economic (monetary) dimension, but also in multiple dimensions of live particularly in terms of health awareness (health), school attendance (education), praying and fasting (religious/spiritual), business/technical skills (economic) and harmony amongst family member (social). Further analysis suggests that higher impacts seem to be enjoyed by the recipients associated with the non-government *zakah* organizations and those participating in the programs that integrate economic assistances with provision of basic needs. Based on these findings, a framework for an effective poverty-focused *zakah* management was proposed. Several policy implications and recommendations for various stakeholders of *zakah* in Indonesia are also highlighted. The overall results are ultimately expected to provide empirical evidence regarding the contributions of *zakah* in contemporary Muslim societies as well as to enrich the literature on *zakah* and Islamic economic implementation in the Muslim world.

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Chapter 1 Introduction

1.1. Background

Despite the increase in global income levels and prosperity during the last few decades, poverty remains persistent. In 1990, the number of people living with daily income less than USD 1.25 was 1.9 billion. Around three decades later, the number only decreased slightly and remained high at 1.2 billion populations. Most of the poor people lived in developing countries, most notably in East Asia and Pacific (20.7%), Sub-Saharan Africa (34.1%) and South Asia (41.7%) (World Bank, 2014b). The figure was worse for Muslim countries, which accounted for around 1.2 billion people worldwide and 35% of the world's poor (Ali & Hatta, 2014). A study by the Islamic Development Bank (IDB) even reported that five of its member countries, namely Indonesia, Bangladesh, Pakistan, Nigeria and Egypt, account for over half a billion of the world's poor (Obaidullah, 2008a). Furthermore, although four Muslim countries were categorized as having a very high human development index in 2011,[1] three of the five countries with the lowest human development index were also Muslim nations (UNDP, 2011).[2] Thus, except for a few countries in the Middle East and Southeast Asia, there are high and rising poverty levels in most Muslim countries.

In Indonesia, the world's largest Muslim country, the number of poor people was approximately 30.02 million (12.49% of the population) by the end of 2011. The number slightly decreased to 28.28 million (11.25% of the population) in March 2014. This figure was more than double the pre-crisis level of 11.34 million poor people in 1996 (Badan Pusat Statistik, 2014). Most of the poor were also deprived of access to public services. Around 57.5% and 44.4% respectively had no access to safe water and relied on traditional assistance when giving birth. Meanwhile, in education, almost a third of the population was unable to enroll their children in junior high school (Sumarto, *et al.*, 2008). Although the indicators have improved in the last few years, the poverty level is estimated to be rising due to large current account and budget deficit, exchange rate depreciation, structural rigidities and slow pace of political reform as the country enters a big political year in mid-2014 (Armstrong &

[1] The countries are United Arab Emirates (rank 30), Brunei Darussalam (rank 33), Qatar (rank 37) and Bahrain (rank 42). They make up 8.5% of the total of 47 countries with very high HDI in 2011.

[2] Out of 187 countries, the countries with the lowest HDI are Niger (rank 186), Mozambique (rank 184) and Chad (rank 183).

Rahardja, 2014; World Bank, 2014a). Accordingly, it is extremely important to implement effective poverty alleviation strategies that are compatible with the current conditions and the culture of Indonesia as the world's largest Muslim country.

From an Islamic perspective, a promising institution that might be utilized to overcome the problem of poverty is *zakah* institution (see, among others, Ahmad, 1991; Sirageldin, 2000). *Zakah*, one of the five pillars of Islam, is essentially a right of the poor from the wealth of the rich. Technically, it is an annual levy on an individual's wealth above a certain threshold whose proceeds must be distributed to the needy (Jehle, 1994). The obligation of *zakah* is specifically mentioned in the Qur'an (9:60) where it is prioritized to reduce poverty of the poor and needy and eventually contributing to ensure social welfare. The important role of *zakah* was also evident during the early history of Islam, a time when some of the rulers could not find any needy persons to receive the *zakah* proceeds. Thus, *zakah* is considered an effective poverty alleviation institution not only because it is an obligation and an act of worship but also because it has proved an effective tool for poverty reduction in Islamic history.

Recent observation, however, suggests that the performance of *zakah* institution has been relatively poor. Kahf estimated that the ratio of *zakah* revenue to national income (GDP) in three countries adopting the obligatory *zakah* system, including Saudi Arabia, Yemen and Pakistan, was only between 0.3% - 0.4%, which is a very small portion of the amount needed for poverty alleviation. Comparing the potential of *zakah* with the amount needed to alleviate poverty in 24 IDB member countries, Ahmed (2004)suggested that only two countries could move above the USD 2 international poverty line with a *zakah* rate of 1.8% of GDP. With the same rate, in countries like Niger and Mali, the revenues generated could only enable the transfer of USD 1 per day to less than 2% of the poor. Given these facts, the performance of the *zakah* institution seems to be poor and far from achieving its poverty reduction and social welfare objectives.

A relatively similar trend appears in Indonesia. According to the former Minister of Religious Affairs of Indonesia, the potential amount of *zakah* in the country reached IDR[3] 75 trillion (in PEBS-FEUI & CID, 2009). Furthermore, Ford Foundation reported that the potential amount of *zakah* in 2007 amounted to IDR 11.5 trillion (in Bamualim & Abubakar, 2005), while the

[3] IDR stands for Indonesian Rupiah. The official exchange rate in 2011 was: 1 USD = 9000 IDR. This abbreviation and exchange rate are used throughout the analysis of this study.

study by University of Indonesia estimated that the potential could be as much as IDR 15.3 trillion in 2010 (in PEBS-FEUI & CID, 2009). Earlier, Kahf (1999b) estimated that the potential of *zakah* in Indonesia was only between 1% - 2% of the GDP. However, a more recent and optimistic study which included the potential of *zakah* from industries and financial sector estimated that the potential could reach IDR 217 trillion or around 3.4% of the county's GDP (Firdaus, *et al.*, 2012). Thus, the potential was relatively small compared to the country's GDP.

Despite this, the institution's performance in terms of *zakah* collection has actually shown an improvement in the last few years following the favourable institutional development of the institution in Indonesia. Legally, implementation of *zakah* in Indonesia is guided by Law No. 38/1999. Following the Law's enactment in 1999, new government and private *zakah* agencies were established throughout the country. As of 2010, apart from the National *Zakah* Agency (BAZNAS), there were 33 provincial *zakah* organizations, 240 district/regional *zakah* organizations and around 300 non-government *zakah* organizations that are mostly affiliated with corporate and non-profit institutions (Beik, 2010). Given this positive development, *zakah* collection[4] has increased gradually from around IDR 68 billion in 2002 to IDR 2,200 billion in 2012, which implies an annual growth rate of 44.44% (Beik & Arsyianti, 2013). It is also notable that around two thirds of the proceeds were paid through the non-government agencies rather than their counterparts during the period 2002-2007(PEBS-FEUI & IMZ, 2010)**.**

In terms of *zakah* utilization, although the national data on *zakah* disbursements are not officially available, the performance and benefits provided by the institution seem promising. A relatively comprehensive study involving the nine largest *zakah* agencies in Indonesia reported that there had been a significant rise in *zakah* distributions from IDR 42 to IDR 226 billion, equivalent to an annual growth rate of 67.2%, during the period 2004-2008. Some of the disbursement programs dealt with the provision of health services, educational assistance and support for the victims of disasters. Other programs, involving capacity-building and financial support for micro entrepreneurs, were usually associated with and aimed at reducing poverty among the beneficiaries (PEBS-FEUI & IMZ, 2010).

[4] The amount also includes the proceeds from other Islamic charitable funds such as *infaq* and *sadaqah*, which are commonly collected and managed by *zakah* organizations in Indonesia.

Despite the attempts, the institution does not appear to have achieved the expected social welfare and poverty reduction objectives in Indonesia and in Muslim countries in general (Ali & Hatta, 2014; Bakar & Rahman, 2007; Kusuma & Sukmana, 2010; Muhtada, 2007). Moreover, although *zakah* collections have increased considerably in the last few years, the amount was far below the amount needed to alleviate poverty in Indonesia.[5] Therefore, the impacts on poverty were also minimal (Ali & Hatta, 2014; Bakar & Rahman, 2007; PEBS-FEUI & CID, 2009). The unsatisfactory performance potentially limits the poverty reduction and social welfare impacts expected from the *zakah* institution in Indonesia.

1.2. Statement of Problems

The relatively poor performance and disappointing effect of *zakah* in terms of poverty alleviation in modern Muslim societies, including Indonesia, are likely to rest on a number of explanations. First, at the macro level, most of the *zakah* laws are not comprehensive and the implementation is not strongly enforced by the state (Al-Omar, 1985). Consequently, the law seems to be inadequate in dealing with problems such as poor targeting of *zakah* beneficiaries and corruption by *zakah* administrators (Al-Abdin, 1997; Al-Sakran, 2001; Arif, 2006; Diabi, 1992; Kuran, 1993; Othman, 1990). Without supportive and strong enforcement of *zakah* regulations, development of the institution will be hindered in many aspects, which in turn limits its potentially positive contributions towards poverty alleviation.

Second, poor performances in the collection of *zakah* in most Muslim countries are presumably related to the limited types of *zakatable* assets based on the current *fiqh* (jurisprudential) interpretation (Kahf, 1989), low incomes (Ahmed, 2004), lack of knowledge and awareness of the requirement to pay *zakah* other than *zakah al-fitr* (Benthall, 1999), lack of communication from *zakah* administrators (Othman, 1990), and ineffective methods of *zakah* collection (Abdu, 2009; Faridi, 1993). It is also noticeable that the administration of *zakah* seems to influence its performance. Indeed, there is evidence that management of *zakah* by non-government agencies is more effective in collecting *zakah* and less prone to the aforementioned problems (Ahmed, 2004).

[5] As a comparison, the state's budget for poverty reduction in 2010 was around IDR 94 trillion whereas the *zakah* proceeds were only around IDR 1.5 trillion or less than 1.6% of the government allocation.

Third, in relation to distribution of *zakah*, the diversion and misuse of *zakah* disbursement from poverty-focused programs has been found in many countries. In Malaysia, for example, large shares of *zakah* revenue were used to finance causes other than poverty reduction (Anwar, 1991). In some other countries, the proceeds have been used excessively for 'secondary' purposes such as financing activities related to political and 'terrorism' agenda (Faridi, 1993; Pereire, 2007b; Wahab, *et al.*, 1995). Poor targeting of *zakah* recipients is also evident, as the assistance was given to undeserving recipients and those already receiving it from other *zakah* agencies (Abdullah, 2010; Arif, 2006; Helal, 2012). These tendencies will reduce the poverty reduction impacts expected from the Islamic institution.

Fourth, the high costs of managing *zakah* organizations were reported in many Muslim countries. This is presumably related to the high share of *zakah* proceeds going to *amil* (*zakah* organizations), as is evident in Sudan and Malaysia (Hasan, 1987; Salama, 1990), and the secondary purposes mentioned above. These conditions indicate inefficient management, which could decrease the poverty alleviation impacts expected from the institution. Additionally, and interestingly, the high costs were mostly experienced in countries where *zakah* is primarily administered by the state (Ahmed, 2004), which tends to suggest that the efficiency of the institution is related to the management model of the *zakah* organization.

Finally, the disappointing effect of *zakah* is likely to be related to the lack of evidence that the *zakah* proceeds have been used properly in effective poverty eradication programs that lead the beneficiaries out of poverty (Ali & Hatta, 2014; Farooq, 2008). In fact, it is believed that most of the *zakah* agencies take the view that their main tasks are simply to collect and distribute *zakah* proceeds (Kasri, 2013). Very rarely do they attempt to evaluate their programs and subsequently measure the impact of *zakah* assistance on poverty reduction and improvement of the beneficiaries' wellbeing (Osman, 2010).

While all of the above issues seem to be equally important and mutually related, the last issue can be highlighted for at least three reasons. Firstly, the claim that *zakah* is a primary Islamic institution for reducing poverty and ensuring social welfare needs to be empirically proved since most people doubt the proposition due to the contemporary practices and problems faced by the *zakah* institution in many Muslim countries (Ali & Hatta, 2014; Salih, 1999). Indeed, for the case of Indonesia, most of the empirical studies regarding the determinants of poverty ignore this important religious aspect in their studies (Alisjahbana & Yusuf, 2003; van Edig & Schwarze, 2012). Thus, a study measuring the impacts of *zakah* in reducing

poverty is urgently required so that "the role of *zakah* in poverty alleviation does not only represent our impression based on a romanticized reading of our history" (Farooq, 2008:43).

Secondly, literature generally suggests that support for charities depends on donors' confidence that their monies will be used appropriately and will have impacts on society (Anheier & Kendall, 2002; Sargeant, 2001; Tonkiss & Passey, 1999). Thus, knowing the real impacts of *zakah* could potentially increase the trust of *zakah* payers, which in turn would increase *zakah* collections and provide more opportunities to contribute in poverty alleviation agenda. This is especially important when the institution derives its legitimacy from sacred sources such as the divine knowledge (Rahman, 2006).

Finally, understanding the impacts of *zakah* on the beneficiaries will help *zakah* management to measure and subsequently enhance their performances. By knowing the strengths and weaknesses of their programs, voluntary organizations including *zakah* agencies could learn and improve their practices (Poister, 2003). These would eventually contribute to achieve the organization's objectives and long term mission. These three reasons highlight the importance of empirically investigating the impacts of *zakah* on poverty alleviation particularly in the context of Indonesia.

1.3. Research Aims and Objectives

The study aims to explore and systematically analyse the roles and contributions of *zakah* institution in reducing poverty in Indonesia. More specifically, from the demand side, it aims to investigate the characteristics and poverty/wellbeing changes of the *zakah* recipients (*mustahik*) associated with different types of *zakah* organizations in Indonesia (i.e. government, corporate and non-profit *zakah* organizations). Meanwhile, from the supply side, it aims to assess the capacity and efficiency of *zakah* management in different types of *zakah* organizations in delivering their programs and subsequently make recommendations on how they could enhance their contributions and implement programs effectively to alleviate poverty in Indonesia.

In relation to the aims, the study has several specific objectives. The first two objectives are related to the demand side analysis, while the others are mostly related to the supply side analysis.

1) To identify the characteristics and determinants of poverty of *zakah* recipients in different types of *zakah* organizations as well as explore problems associated with the receipt of *zakah* assistance.
2) To investigate the economic (monetary) and multidimensional (non-monetary) impacts of *zakah* on the poverty/wellbeing of the recipients and subsequently compare the results with the impacts of government poverty reduction policies.
3) To examine the organizational framework, capacity and efficiency of *zakah* management in different types of *zakah* organizations.
4) To examine the effectiveness of *zakah* management and subsequently suggest an organizational framework of *zakah* implementation that might improve the effectiveness of the *zakah* institution in alleviating poverty in Indonesia.

1.4. Research Questions

In line with the above objectives, the study addresses several more specific research questions as follows:

1. Understanding the *zakah* recipients
   1.1. What are the characteristics of *zakah* recipients? Is there any significant difference in the characteristics of the recipients across the three types of *zakah* organizations?
   1.2. What are the determinants of poverty amongst the *zakah* recipients? Is there any significant difference in the determinants of poverty amongst *zakah* recipients across the three types of *zakah* organizations? In other words, comparing the recipients of *zakah* from different types of *zakah* agencies, which recipients are more likely to be poorer than the others?
   1.3. What are the relationships between *zakah* recipients and *zakah* organizations? In particular, what kind of *zakah* assistance and how much assistance/transfer have been received by the recipients? Given the relationships, how satisfied are the recipients with the overall interaction with the *zakah* agencies?
   1.4. What are the concerns raised by *zakah* recipients in relation to the households' conditions and the *zakah* assistance received?
2. Impacts of the *zakah* institution
   2.1. To what extent has the *zakah* institution impacted the economic (monetary) poverty/wellbeing of the recipients? Is there any significant difference in the impacts

across the three types of *zakah* organizations? How different are the impacts with the impacts of the government's poverty reduction programs?

2.2. To what extent has the institution impacted on the multidimensional (non-monetary) poverty/wellbeing of the recipients? Is there any significant difference in the impacts across the three types of *zakah* organizations?

3. Model of *zakah* management in Indonesia

3.1. What are the current organizational frameworks that exist among the *zakah* organizations in the context of *zakah* implementation in Indonesia? In particular, what are the approaches implemented in various aspects of strategic and organizational/operational management of the *zakah* agencies?

3.2. How capable and efficient are the various types of *zakah* organizations?

3.3. What are the issues in managing *zakah* organizations? Do the main issues found in other countries (such as poor targeting and high management costs) also exist in Indonesia?

4. Effective model of *zakah* management for poverty alleviation

4.1. Concluding from all the above results and analyses, what is the most effective model of *zakah* management for poverty alleviation in Indonesia? In other words, which management model has the most impacts on poverty alleviation?

4.2. What needs to be done to enhance the role of *zakah* institution in reducing poverty in Indonesia?

1.5. Research Methodology

In responding to the outlined research questions, this study was framed within quantitative and qualitative research methodology. Both methodologies, including deductive and inductive research approaches often associated with the quantitative and qualitative methodologies, were utilized in order to address different research aims. In this respect, the quantitative research and deductive approach were deemed suitable to answer the first research aim related to the identification, measurement and assessment of the poverty/wellbeing of *zakah* recipients associated with different types of *zakah* organizations in Indonesia. Meanwhile, the qualitative research and inductive approach were mainly used to address the second research aim intended to explore the management model of *zakah* implementation in the world's largest Muslim country. Furthermore, due to the nature of

inquiries addressed in this study, it also employed explorative, descriptive and explanative research designs in different parts of the study.

Consistent with the research methodology and designs above, the study also selected the survey and case-study research methods under the mixed methods strategy to reach the aforementioned objectives. The strategy allowed the use of various research methods suitable for answering the research questions and achieving the research objectives satisfactorily (Saunders, *et al.*, 2009). The mixed-method was also selected because it enables the use of a triangulation strategy, which is increasingly considered the best approach to ensure the validity of the research findings in social sciences (Bryman, 2008). Additionally, the approach has been widely applied in most moderate-budget research in poverty and impact evaluation studies (Bamberger, 2006; Hulme, 2000; Ramalingam, 2011).

More specifically, the survey method was particularly employed to collect primary data addressing the research questions related to the identification of the poor and the investigation of the impacts of *zakah* on the recipients. Primarily based on the existing literature (see, among others, Beik, 2010; Cameron, 2009; Frankenberg & Thomas, 2000; Ibrahim, 2006; Jehle, 1994), with some modifications (whenever necessary), a survey questionnaire was designed and the impacts of *zakah* on poverty were examined by using a number of poverty index and multidimensional poverty measures. Thus, the method is also in line with the deductive and explanatory research approaches. Prior to the fieldwork, a pilot project was also conducted to test and improve the questionnaire designs, which in turn contributes to increasing the quality and reliability of the data.

Furthermore, the case-study method was used to obtain information on the implementation and management practices of *zakah* organizations in Indonesia. In relation to this, a semi-structured interview guideline was developed based on the current literature on the management of *zakah* institution (see, for instance, Ahmed, 2004) and voluntary organizations in general (see, among others, Anheier, 2005; Moore, 2003) while considering the current context of *zakah* implementation in Indonesia. The issues and areas of concern in the implementation of *zakah* were also investigated to provide further insights into the *zakah* implementation in the world's largest Muslim countries. Thus, the method essentially adopts the inductive and exploratory research approaches.

In operationalizing the research instruments and collecting the primary data, the study employed multi-stage cluster random sampling and purposive sampling methods. The former

was utilized to collect the primary data from around 685 households receiving *zakah* assistance from 2010 to 2011 in nine cities in Greater Jakarta Metropolitan Area of Indonesia. Meanwhile, the latter was adopted to collect primary data from 22 management personnel of seven largest *zakah* organizations in the country.

The primary data collected were subsequently analysed by utilizing quantitative and qualitative data analysis methods. The quantitative data analysis methods employed include descriptive statistics, inferential statistics (i.e. analysis of variance and logistic regression analysis), income-based poverty index, multidimensional poverty measures and financial ratio analyses. Meanwhile, the qualitative data analysis methods employed were thematic (coding) and content analyses. Finally, taking into account all the analyses outlined above, a triangulation strategy was conducted to reflect and contextualize the overall findings in order that all the research questions might be answered satisfactorily and the research objectives be achieved.

1.6. Significance of Research

This study is expected to contribute to Islamic economics literature in at least three ways. First, it provides empirical evidence on the contributions of the *zakah* institution in reducing poverty in Indonesia as the world's largest Muslim country. To the best of our knowledge, empirical studies on the economic (monetary) and multidimensional (non-monetary) impacts of *zakah*, particularly those that link such impacts to the model of *zakah* administration, are very limited. Thus, this study tries to fill this gap and offers a relatively new dimension by empirically investigating more comprehensive impacts of *zakah* under different types of *zakah* organizations. Furthermore, it compares the impacts of *zakah* in reducing poverty with the Indonesian government's progress in achieving the same objective.

The second significant contribution of the study will be to provide more insights into the development and management of *zakah* institution in Indonesia, most notably in relation to poverty alleviation in the country. Policy recommendations for relevant *zakah* stakeholders, particularly the management of *zakah* organizations and related government bodies, are also expected from the results.

Finally, overall findings of the research are expected to enrich the Islamic economics literature and contribute to designing a conceptual framework that enhances the effectiveness

of the *zakah* institution in poverty eradication strategies in the Muslim world in general and in Indonesia in particular. The results should also provide further insights into how the institution of *zakah* can be revived and reformed as a tool of poverty alleviation in contemporary Muslim societies such that "the role of *zakah* in poverty alleviation does not only represent [an] impression based on a romanticized reading of [Islamic] history".

1.7. Thesis Structure

The thesis consists of 10 chapters covering an introduction, literature review, empirical analyses and conclusion/recommendation chapters. Following this introductory chapter, the thesis continues with four literature review chapters including one chapter discussing the research methods adopted by the study (chapter 5). The next four chapters (chapter 6-9) systematically present the empirical findings and analyses correspond with four research questions addressed in the study. The last chapter concludes the overall analyses and provides some relevant recommendations for *zakah* stakeholders in Indonesia. The overview of the chapters is follow.

Chapter 1 – 'Introduction' briefly explains the background and motivation of the study, research aim and objectives, research questions, research methods and significance of the study. It also provides a brief overview of the thesis.

Chapter 2 – 'Understanding Poverty: Concepts, Theories and Alleviation Strategies' is the first chapter that reviews the literature related to the concepts and theories of poverty as well as strategies for poverty alleviation. It begins by explaining the definitions and measures of poverty from both conventional and Islamic perspectives. It also discusses the theories and determinants of poverty, particularly from the structural/institutional perspective. Lastly, it reviews the worldwide strategies for poverty alleviation including from Islamic perspectives. It is notable that the literature generally suggests that *zakah* institution is the main Islamic instrument for poverty alleviation.

Chapter 3 – 'Understanding Concepts, Implementations and Roles of *Zakah* Institution in Society' discusses a number of important concepts and issues related to *zakah* institution. The concepts include, among others, definition of *zakah*, payers and recipients of *zakah* as well as types and rates of *zakah.* It also briefly reviews the historical and contemporary implementations of *zakah* across the globe. Importantly, the chapter discusses the impacts of

zakah institution from macro and micro perspective including in relation to poverty alleviation. Based on the overall discussions, it identifies several issues and challenges in the implementation of *zakah* in contemporary Muslim societies.

Chapter 4 – 'Understanding Profiles of Poverty and Development of *Zakah* Institution in Indonesia' essentially links the poverty conditions in Indonesia with the development of *zakah* institution in the world's largest Muslim country. It starts with a brief explanation regarding general background of Indonesia and Greater Jakarta Metropolitan area as the specific research area. It also presents the profiles and determinants of poverty in Indonesia, and concisely discusses strategies for poverty eradication that have been implemented in the country. It then proceeds to explain the historical and current development of *zakah* institution in Indonesia. Given the background, it critically elaborates the potential and empirical role of *zakah* in reducing poverty in the country. While the impacts of *zakah* institution seem to be positive, it is notable that the impacts are rarely linked with the types of *zakah* administration which is the focus of the present study.

Chapter 5 – 'Research Methodology' chapter extensively discusses the research strategies and research methods implemented by the study in order to answer all the research aims and objectives satisfactorily. In selecting the most appropriate procedures for achieving the objectives, it begins by comprehensively reviewing the strategies and methods recommended in various research methodology textbooks and analyzing some relevant empirical studies before proceeding to choose the most suitable strategies and methods for the study. Furthermore, since this study relies on primary data collection, more specific discussions regarding construction of the research instruments (i.e. survey questionnaire and semi-structured interview guideline), pilot testing, administration of the instruments and relevant data analysis methods are also presented. The concluding section also notes some limitation and difficulties of the study.

Chapter 6 – 'Understanding the Characteristics and Nature of *Zakah* Recipients' is the first empirical chapter which is mainly associated with the first research aim of the study. It provides a descriptive and inferential analysis of the survey outcomes. It also describes the main characteristics of the *zakah* recipients, including their socio-demographic and economic profiles, determinants of poverty and relationships with the *zakah* organization supporting them. Furthermore, it tests the significance of the relationships between the aforementioned characteristics and the types of *zakah* organizations and subsequently provides brief

justifications for each of the results. It also examines the determinants of poverty amongst the beneficiaries. Finally, based on the additional qualitative data obtained from the field survey, it identifies some areas of concerns in relation to the household's poverty conditions and their interactions with the *zakah* agencies.

Chapter 7 – 'Impacts of *Zakah* on Household Poverty and Wellbeing' presents further descriptive and inferential analyses of the survey results with the purpose to examine the economic (monetary) and multidimensional (non-monetary) impacts of *zakah* on poverty/wellbeing of the recipients. The impacts are systematically and comprehensively investigated by employing a number of statistical tools, including descriptive statistics, ANOVA (t-test, F-test and Kruskal-Wallis test) and logistic regression models (including their associated marginal effect models). The analyses and discussions are expected to answer the second research question and provide robust empirical evidence on the contributions of the *zakah* institution to eradicate poverty in Greater Jakarta Indonesia.

Chapter 8 – 'Management Practices and Performance of *Zakah* Organization' is the third empirical chapter intended to explore and analyze results of the semi-structured interviews with the management personnel of *zakah* organizations. In searching the organizational framework of *zakah* implementation in Indonesia and exploring the issues in managing the organizations, it mainly utilizes thematic (coding) analysis for the qualitative data obtained. The areas scrutinizes are strategic management (vision/mission, governance and strategic planning), operational management (human resources, collection of *zakah*, distribution of *zakah* and communication/marketing), financial management and monitoring/evaluation aspects of *zakah* administration. It also measures and discusses the organizational capacity and efficiency in managing the Islamic social funds. The overall findings and analyses of this chapter respond to the third research question of the study.

Chapter 9 – 'Contextualization of the Findings: Towards a Framework for an Effective *Zakah* Administration in Indonesia' presents an overall discussion and critical interpretative analysis of the empirical findings explained in the previous three chapters. It also provides rationalizations of the findings and makes cross-references with the theories and the results of previous relevant studies in order to link all the pertinent main findings of this study. The implications of the results are also briefly discussed. Based on the overall analysis, a framework for an effective poverty-focused *zakah* management –which is also the fourth research question of the study – is subsequently proposed. Further reflections of the

results are also presented and contextualized with the current state of *zakah* implementation in Indonesia. The critical analysis is ultimately aimed to enrich the discussions and provides more insights for deriving the overall conclusions of the study.

Chapter 10 – 'Conclusions and Recommendations' is the last chapter aimed to summarize the overall findings and analyses discussed in the previous chapters. It also establishes the implications and recommendations of the study for various *zakah* stakeholders, which also directly responds to the final research question. Towards the end, it offers brief directions for future research and contemplates on the overall research work.

Chapter 2 Understanding Poverty: Concepts, Theories and Alleviation Strategies

Poverty is a complex phenomenon that has persisted to varying degrees in different countries and societies around the world since the beginning of recorded history, regardless of their resources, culture and stage of development. In such a situation, it follows that the conceptualizations of poverty are also varied and must be understood in relation to social, cultural and historical contexts of the society under study (Lister, 2004; Pramanik, 1993; Sen, 2005). However, it is also well understood that the development of effective poverty alleviation policies and the monitoring of their efficacy may not be feasible without a clear concept of poverty that can be consistently measured (Haughton & Khandker, 2009; Sirageldin, 2000; World Bank, 2001).

With this perspective, this chapter reviews the literature related to the concepts of poverty, thus providing the theoretical foundation for this study. It starts by highlighting the literature on the definitions and measurement of poverty based on conventional and Islamic perspectives. It then elaborates the theories of poverty and discusses the empirical determinants of poverty. It also highlights global poverty alleviation strategies. The last section summarizes the discussions.

2.1. Definition of Poverty

2.1.1. Conventional Perspective

Broadly speaking, there are two major approaches to the definition of poverty as understood and practised by most policy-makers around the world. They include the narrow approach, which considers poverty simply in material (monetary) terms, and the broad approach, which covers monetary and non-monetary needs. More recently, discussions have been extended into the capability approach which analyzes people's capability to live and function in a given society. It considers a wider spectrum of human necessities related to, among others, the concepts of justice and freedom within particular societies. All these approaches are strongly related to the measurement of poverty, which is elaborated in the next section, and have been widely used in numerous poverty studies.

Specifically, under the narrow approach, poverty is often defined as the lack of sufficient income for minimum subsistence. One of the earliest systematic studies associated with this concept is probably the 1899 work by Seebohm Rowntree on York, which considered a household to be poor if its income did not allow it to access the "minimum necessities for the maintenance of physical efficiency" (in Chimhowu, 2009:408). Thus, as agreed by many scholars (see, for instance, Hagenaars, 1989; Todaro, 1989), poverty is understood simply as the lack of sufficient income to meet the basic needs. Under this welfarist/monetarist approach, poverty is typically measured by comparing individuals' income/consumption with some defined thresholds (poverty line) below which they are considered to be poor. In relation to this, the aggregate poverty index is often used to represent the poverty conditions (Ravallion, 1994). This narrow perspective is probably the most conventional view of poverty; yet it is often used as a starting point in any poverty analysis due to its ability to 'objectively' distinguish the poor and the non-poor (Haughton & Khandker, 2009).

The second approach goes beyond the traditional monetary measure and includes possession of specific types of consumption goods/services such as shelter, healthcare and education as the basic needs. The approach emerged as a criticism of the narrow view, which failed to consider the fact that raising income does not necessarily increase household welfare if the income cannot meet the multidimensional aspect of needs (Chimhowu, 2009). In this respect, poverty is often understood as a general form of relative deprivation due to the mal-distribution of resources (Townsend, 1970). This non-monetary approach implies that a household without access to basic entitlements such as decent shelter, nutritious food, clean drinking water, health and education indeed lives in poverty (see, among others, Piven & Cloward, 1993; Townsend, 1985; Yunus, 2007). The Human Development Index is often seen as a representative measure of poverty under this approach (Anand & Sen, 1997).

More recently, discussion within the second approach has been extended into the so-called capability approach. Pioneered by the works of Nobel Laureate Amartya Sen, this approach argues that wellbeing comes from the capability to function in a society. Thus, poverty arises when people lack key capabilities which leave them with 'deficiencies' and inadequate resources to exist in a society (See, for instance, Alkire, 2005; Allardt, 1993; Anand & Sen, 1997). Poverty is also seen as deprivation of capabilities and lack of multiple freedoms that people value or have reasons to value (Alkire, 2007). Such deficiencies include, among others, low incomes, low education, poor health, insecurity, low self-confidence, a sense of powerlessness and the absence of rights such as freedom of speech (Robeyns, 2005).

Furthermore, compared to the other perspectives on poverty, this approach argues that the definition of poverty should focus on the welfare benefits of income instead of the utility derived from it. For example, being well-educated, well-fed and free to exercise choices gives an individual a better standard of living than being wealthy but in poor health (Chimhowu, 2009). Viewed in this way, capability poverty is a multidimensional phenomenon that largely depends on people's values. Accordingly, it opens up multiple and 'alternative' solutions to poverty problems. In this respect, the Multidimensional Poverty Index recently launched by United Nations is often referred to as the measure of capability poverty.[6]

In practice, international institutions usually try to define poverty in a simple way. The World Bank, for instance, maintains that "poverty is a pronounced deprivation in wellbeing" (World Bank, 2001:2). The United Nations defines poverty as *"*A sustained or chronic deprivation of resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights" (in Chimhowu, 2009:408). Relatively similar definitions are also proposed by other international agencies.[7] Despite that, the main approaches to poverty are mostly seen as complementary in the sense that they coexist and are used in many contemporary poverty studies (Gordon, 2004).

In addition to the above concepts, policy-makers often make a distinction between *absolute poverty* and *relative poverty*. Absolute poverty refers to a situation where an individual/household lives below an official poverty line that is usually determined based on a national survey or international benchmark. The household absolute poverty line, therefore, varies according to the household size. Meanwhile, relative poverty is usually understood as the extent to which individual/household income is below the average income in a given area. As such, it is often seen as an indicator of inequality in a society (Ravallion, 1998).

A distinction is also frequently drawn between *chronic poverty* and *non-chronic (transitory) poverty*. Chronic poverty is commonly defined in relation to the conditions experienced by those living in long-term poverty. In contrast, non-chronic (transitory) poverty refers to the experience of those who are vulnerable or occasionally poor due to, for example, a bad

[6] Multidimensional poverty and its associated multidimensional poverty index are relatively 'new' concepts introduced by the United Nations Development Program (UNDP). In 2005, UNDP organized an international conference on "The Many Dimensions of Poverty" focused on the conceptual issues relating to the multidimensional nature of poverty. Following this conference, UNDP launched the so-called Multidimensional Poverty Index and officially published it in its 2010 Human Development Report. It was after this publication that studies on multidimensional poverty were increasingly undertaken by researchers.

[7] For a survey of current poverty definitions as understood by international institutions, see Gordon (2004).

agricultural season and economic recession. In many cases, they also suffer from disabilities, lack of social networks, social exclusion and/or social discrimination (Hulme, 2003). *Vulnerability* itself often refers to the fact that people are exposed to risks and the threat of failing to achieve minimum standards of income or any particular dimension of wellbeing (Calvo & Dercon, 2007). Vulnerability, therefore, could be regarded as the threat of future poverty (Dercon, 2006) and should thereby be considered an important part of any poverty study.

2.1.2. Islamic Perspective

In classical Islamic literature, a clear definition of poverty is rarely discussed. However, although the Qur'an and the *hadith* of the Prophet (pbuh) do not provide a clear-cut definition of poverty, other Islamic sources provide some guidelines that enable scholars to determine and distinguish the poor from those who do not share this status. They also provide clues on how to measure and implement effective poverty alleviation policies (Al-Qardawi, 2000; Bonner, 1996, 2005; Guner, 2005; Mattson, 2003; Sabra, 2000; Sadeq, 1997). [8]

Bravmann (in Bonner, 1996) identifies three concepts related to poverty that occur constantly and are articulated in terms of each other in the basic and early Islamic texts. The concepts are the poor (*faqr*, *maskana*), rights/claims (*haqq/huquq*) and surplus (*fadl*, *ghina*). In this context, from a historical perspective, poverty mainly occurred between the pre-Islamic Arabia period and the early Islamic period when the existence of surplus (of wealth) immediately gives rise to rights/duties/claims for it to be distributed to the poor. However, the study did not go further to conceptualize and precisely define poverty.

From that analysis, however, Bonner (1996) derives the so-called 'radical' and 'conservative' views of poverty. Both views discuss the rights/claims and surplus of wealth with different emphasis. The radical perspective mainly sees poverty in relation to entitlement. The true poor are therefore those who must be brought into society and who have a claim/right to receive benefits from society's rich. This arrangement appears to have characterized the life of early Islamic communities in Medina. The claims/rights, however, are not clearly specified, and the definition is thus left to society. Viewed in this way, this approach has some similarities with the broad view of poverty in the conventional perspective.

[8] Note that the analysis in this dissertation excludes the so-called 'voluntary' poverty that, according to some medieval scholars such as Abu Nasr al-Sarraj and Abu Talib al-Makki, might exist amongst the *Sufis*, who believe that it is better to be *zuhud* (live in pious poverty) than to be rich. For more discussion, see Sabra (1984).

In contrast, the conservative group emphasizes the existence of surplus of wealth in relation to poverty. This group was mostly observed in Kufa, an important centre in early Islamic Iraq. In economic terms, this perspective defines a poor person as one who has no surplus of wealth, with fifty *dirhams* of money often referred as the 'poverty line' in the society. In this respect, this approach resembles the mainstream narrow (conservative) view of poverty that emphasizes the material dimensions of poverty.

Despite that, the majority of the classical Islamic scholars, particularly those from the Sunni schools of thought,[9] prefer to define poverty in relation to the concept of 'need' (*haja*) and do not impose monetary limits in determining poverty status (Al-Qardawi, 2000). Abu 'Ubayd, in his famous book *Kitab Al-Amwal*, surveys most of the well-known Prophetic *hadith* regarding poverty, surplus and need. He suggests that the surplus of property includes the possessions for which an individual and his/her dependents do not have a need. Surplus, therefore, varies between individuals and societies. Ahmad ibn Hanbal, the eponym of the Hanbali School, appears to take a similar position. He suggests that a poor person should be given the amount which would remove his need without excess *(ghayr ziyada).* This implies that no one should be given more than that required to remove his/her need (in Mattson, 2003).

Similar opinions are shared by al-Shafi'i and al-Maliki. Al-Shafi'i provides a subtle and carefully argued definition of need in his prominent work *Kitab al-Umm.* However, he does not explicitly address the issue of limit on the property to be excluded from one's surplus. He further argues that *zakah* administrators must calculate "how much will take [the poor and the indigent] from poverty or indigence to the closest [state] called wealth" (in Mattson, 2003:41). This indicates that poverty cannot be defined in absolute material terms alone. Rather, poverty is what is acknowledged to be such by people in a community. Therefore, the definition of poverty is left to the local community based on their common 'wisdom'. This wisdom is signified by the term *ma'ruf,* which literally means 'what is known'. Technically, it is a term that signifies "customary standards of fairness" or custom (*'urf*) that distinguish the poor people from the others (Mannan, 1988; Mattson, 2003; Sadeq, 1997).

Studies by contemporary scholars generally agree with the above opinions related to the needs-based approach. It is also generally believed that the concept of poverty in Islam represents not only deprivation of goods and services, but also the lack of richness in non-

[9] The Sunni schools of thought refer to the Malikis, the Shafii's and the Hanbalis School of thoughts.

material aspects (see, for example, Ahmed, 2004; Chapra, 2006; Pramanik, 1993). This is in line with a *hadith* reported by Abu Hurairah mentioning that "Richness does not lie in the abundance of worldly goods, but richness is the richness of heart itself" (in Mannan, 1988: 303). This implies that poverty could also be seen in the lack of spirit reflected in, among other things, a sense of powerlessness, a feeling of insecurity and the absence of freedom of speech. Despite that, Rahman (1974) asserts that individuals can improve their spiritual (non-material) aspects by improving their material life. As such, in Islam, deprivation in the economic sense is also acknowledged by contemporary scholars.

The overall discussions and comparison between the conventional and Islamic views suggest that they share relatively the same perspectives on the definition of poverty. This is clearly reflected in the similarities of the narrow and broad view of poverty under the conventional perspective of poverty with the conservative and radical view of poverty under the Islamic perspective of poverty. Likewise, both views also believe that poverty is a multidimensional phenomenon. Nevertheless, in relation to the multiple dimensions of poverty, one exception may perhaps be related to spiritual dimension. While the Islamic perspective clearly acknowledges that poverty has a spiritual dimension, the conventional view generally ignores religious issues. This is presumably related to the secular and 'objective' positions trying to be maintained by the proponents of the conventional theorist. Despite that, it is notable that the latter often uses general terms such as 'culture' and 'value' to capture religious aspects of human poverty/wellbeing.

It is also evident that, long before the broadest concepts of poverty became known in the conventional literature, Islam had been suggesting that poverty and wellbeing is a multidimensional problem that goes beyond human income poverty. Accordingly, it is very likely that the concepts related to poverty, such as the measurement of poverty, will also have similarities under the conventional and Islamic perspectives. At the moment, for many reasons, the literature related to the conceptual measurement of poverty in Islamic view is relatively underdeveloped. The measurement of poverty will be discussed in the next sub-section.

2.2. Measurement of Poverty

Measuring poverty is important for a number of reasons. First, credible measures of poverty could be powerful instruments for focusing the attention of policy-makers on the living

conditions of the poor. Without clear measures of poverty, it will be difficult to correctly identify, analyze and target appropriate 'interventions' on the poor (Ravallion, 1998). Second, successful poverty alleviation programs require an understanding of why people are poor as an integral process to find the most workable and effective solutions to the problems. Finally, measuring poverty is also important for predicting the impacts and evaluating the effectiveness of existing poverty alleviation policies. Policies that look good on paper, such as microfinance, may not work as well as expected in practice. As such, measuring poverty will enable policy-makers to monitor the effects of such policies and evaluate the policy outcomes (Haughton & Khandker, 2009).

With this perspective, this subsection reviews the measurement of poverty from conventional and Islamic perspectives. The discussion includes various aspects related to the measurements, such as the theoretical framework and methods to calculate the poverty/welfare measures. More technical discussions, however, are presented in the appendix sections.

2.2.1. Conventional Perspective

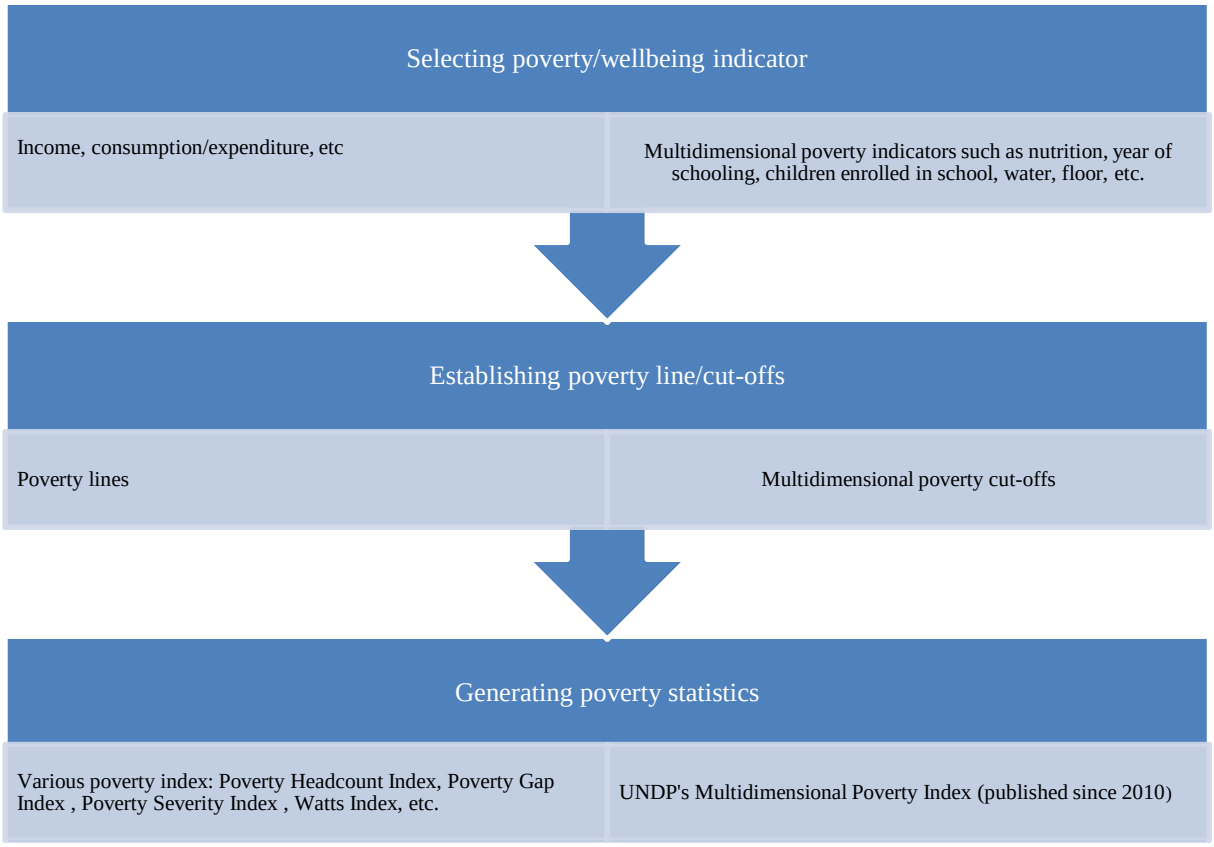
In general, there are three steps commonly taken to measure poverty from the monetary (income/expenditure) and the non-monetary (multidimensional) perspectives of poverty. They include (i) selecting and defining an appropriate indicator of poverty/wellbeing, (ii) establishing a minimum acceptable standard of the indicator that separates the poor from the non-poor, and (iii) generating a summary statistic to aggregate the information from the indicator relative to the benchmark (see Figure 2.1). Although this framework is more commonly applied to the former (Alkire, 2007), it is increasingly being utilized to develop the multidimensional poverty measures under the capability approach (Comim, *et al.*, 2008). However, as multidimensional poverty is a relatively new concept in economic and poverty studies, the framework does not seem to be strictly applied in the discipline (Alkire & Foster, 2011; Ravallion, 2011).

In defining the appropriate indicator of poverty under the monetary perspective of poverty, the choice is normally between the income and consumption/expenditure indicator.[10] Given the limited number of income sources, it is normally easier to measure income than consumption. Nevertheless, it is also likely to be underreported. In contrast, while some

[10] There are a number of other indicators such as calories consumed per person per day, food consumption as a fraction of total expenditure, nutritional status and observer assessment. However, they are rarely used in calculating the (monetary) poverty measure.

expenditures are not incurred regularly, expenditure as a whole is usually easier to recall and less understated than income (Haughton & Khandker, 2009). Given the strengths and weaknesses of each welfare indicator,[11] the choice of an appropriate welfare indicator must eventually be adjusted to the research objectives.

Figure 2-1: Major Steps in Measuring Poverty



Source: Author's Own

As for the multidimensional poverty, theoretically there are unlimited options for the poverty/wellbeing indicators (Alkire, 2002). In fact, the choices of such indicators have been a subject of on-going debate amongst the proponents (Alkire, 2007). On one hand, some scholars, including Amartya Sen the pioneer of this approach, believe that there is no 'fixed list' of capabilities to go with the general capability approach. This is primarily due to the impossibility of compiling a list that could be used for every purpose and that is unaffected by the importance of different capabilities. As a result, the capabilities should be selected in light of the values of the referent population and the purpose of the study (Cassell & Symon,

[11] The strengths and weaknesses of each welfare indicator are summarized in *Appendix 2A*.

2004).[12] However, other scholars, such as Martha Nussbaum (2003), argue that such a condition has created problems for policy-makers trying to focus their attention on fighting poverty. She also contended that the specification of one 'list' of domains or central capabilities is necessary to ensure that the content of the capability approach carries a critical force and therefore the possibility of the 'wrong' freedoms being prioritized and expanded could be minimized. [13]

Despite the on-going debate, literature generally suggests that there are a number of indicators commonly used in empirical and multidisciplinary studies[14] related to multidimensional poverty (see Table 2-1). Some notable dimensions and indicators frequently used in the studies are indicators related to life and/or health (food, nutrition, housing, clothing, access to healthcare services, water, sanitation, etc.), education (literacy, basic education, years of schooling, children enrolled in school, etc.), economic aspects (work/employment, working conditions, economic security, etc.), cultural/spiritual/religion aspects (transcendence-creativity, transcendence peace with God, morality, religious observance, etc.) and other social/family indicators (marriage, children, peace, harmony, participation in/attachment to local community, personal liberty and freedom, etc.).

[12] Despite that, Sen (2004:80) also said that "I have nothing against the listing of capabilities but must stand up against a grand mausoleum to one fixed and final list of capabilities".

[13] Nussbaum (2003:33) strongly argued that "capabilities can help us to construct a normative conception of social justice…only if we specify a definite set of capabilities as the most important ones to protect. Sen's 'perspective of freedom' is too vague. Some freedoms limit others; some freedoms are important, some trivial, some good, and some positively bad. Before the approach can offer a valuable normative gender perspective, we must make commitments about the substance"

[14] The studies include those in sociology, anthropology, psychology/psychometric, philosophy, culture/behaviour as well as happiness, quality of life and wellbeing studies.

Table 2-1: Multidimensional Poverty/Wellbeing Indicators

No	Dimensions/Indicators	References
1	Nutrition, shelter, health, mortality rate, education, political freedom, economic facilities, social opportunities, transparency guarantees, protective security	Sen (1996; 1993; 1999)
2	Life; bodily health; bodily integrity; senses, imagination and thought; emotions; practical reason (education); affiliation; other species; play; control over one's environment	Nussbaum (2003)
3	Relatedness, transcendence-creativity, rootedness, sense of identity and individuality, the need for a frame of orientation and devotion	Fromm (1955)
4	Input-output (nutrition, water, air); climate balance with nature (clothing, shelter); health; community; symbolic interaction and reflection (education)	Galtung (1980)
5	Life (survival, health, and reproduction); knowledge (understanding, education, and aesthetic experience); meaningful work and play; friendship and other valued kinds of human relationships; self-integration (inner peace); authentic self-direction (participation, self-determination, practical reason); and transcendence 'peace with God' or some non-theistic but more-than-human source of meaning and value	Finnis (1980)
6	Nutritional food/water, protective housing, work, physical environment, healthcare, security in childhood, significant primary relationships (marriage), physical security, economic security, safe birth control/childbearing, basic education	Doyal and Gough (1991)
7	Having economic resources, housing, employment, working conditions, health, education; attachments/contacts with local community, family and friends, associations, colleagues, etc.; self-determination, leisure-time (social) activities, meaningful work and opportunities to enjoy nature	Allardt (1993)
8	Longevity, infant/child mortality, preventable morbidity, literacy, nourishment, personal liberty and freedom	Anand and Sen (1994)
9	Health/nutrition/sanitation/rest/shelter/security; literacy/basic intellectual and physical capacities; self-respect and aspiration; positive freedom, autonomy or self-determination; negative freedom or liberty; enjoyment; understanding or knowledge; significant relationships with others and some participation in social life; accomplishment	Qizilbash (1996)
10	Material wellbeing (having enough food, assets and work); bodily wellbeing (being and appearing well, health, appearances, physical environment); social wellbeing (being able to care for, bring up, marry and settle children, self-respect and dignity, peace, harmony, good relations in the family/community); security (civil peace, a physically safe and secure environment, personal physical security, lawfulness and access to justice, security in old age, confidence in the future); psychological wellbeing (peace of mind, happiness, harmony, spiritual life and religious observance, freedom of choice and action)	Narayan *et al*. (2000)
11	Morality, food, family, friendship, material resources, intelligence, romantic, relationship, physical appearance, self, income, housing, social life	Biswas-Diener and Diener (2001)
12	Health (nutrition/food, child mortality); education (years of schooling, children enrolled); Living standard (cooking fuel, toilet, water, electricity, floor and assets).	Alkire and Santos, in UNDP (2010)
13	Dignity, self-respect, brotherhood, justice, spiritual and moral uplift, security of life, property and honour, freedom, education, good governance, removal of poverty and need fulfilment, employment and self-employment opportunities, marriage and stable family life, social solidarity, minimization of crime and anomie, mental peace and happiness.	Chapra (2008)

Source: Author's summary from the listed references

Furthermore, in establishing a poverty standard, a poverty line is commonly used as a benchmark in monetary poverty analysis. Technically, a poverty line is often defined as the minimum income/expenditure required for meeting the basic food and non-food needs (Ravallion, 1998). [15] It is usually determined by government or international institutions using specific methods.[16] As such, there is known to be a distinction between national and international poverty lines. While the former is usually set up to follow the living standards of people in a particular country, the latter is 'fixed' at an individual income of USD 1.25/day and commonly used to compare poverty levels across nations (Chen & Ravallion, 2008).[17] The current literature also recognizes the so-called 'subjective' poverty line constructed by directly asking people the minimum amount of income/expenditure which makes them sufficient i.e. their poverty line. However, in practice, the self-rated measure is often regarded merely as a complement to the more traditional 'objective' poverty lines (Haughton & Khandker, 2009).

With respect to multidimensional poverty analysis, there are two general approaches to determine the cut-off (threshold) that distinguishes the poor from the non-poor. One approach is to use a particular (yet somewhat ad-hoc) poverty cut-off point based on the researcher's judgement. This approach is used by Mack and Lansley (1985), who identified people as poor if they were poor in three or more out of 26 deprivations. It is also utilized in UNICEF's Child Poverty Report 2003, as mentioned by Gordon *et al*. (2003), in which a child is called deprived if he/she suffers in two or more dimensions of poverty. Quite recently, a more general (yet somewhat normative) "dual cut-off" method of identification has been introduced and employed in the construction of the UNDP's Multidimensional Poverty Index (Alkire & Foster, 2011). With this approach, a person is defined as poor if he/she is deprived

[15] A poverty line is usually (and officially) defined for an individual. However, since poverty studies are mostly conducted on the household level, the common approach is to construct one per capita line for all individuals and adjust the line with household composition or size. This implies that a household poverty line could be generated by multiplying the per capita line with the household size. For more discussion, see Ravallion (1998).

[16] There are three methods commonly used to construct a poverty line. First, *the Cost of Basic Need* approach estimates the cost of acquiring food for adequate nutrition—for example the 2,100 daily calories per person according to the Food and Agricultural Organization (FAO) standard —and then adds the cost of other non-food necessities such as clothing and shelter. Here, the poverty line is the minimum expenditure required by an individual to fulfil his/her basic food and non-food needs. Second, *the Food Energy Intake* method plots income/expenditure per capita against food consumption to determine the poverty line at which a household acquires enough food. Finally, *Subjective Poverty Lines* are constructed by asking people the minimum income level needed just to make ends meet.

[17] More recently, due to increasing price levels worldwide, some studies also use a higher standard, i.e. individual daily income of USD 2/day, as an alternative international poverty line. However, the 1.25 USD/day standards is still utilized and considered the most widely used international poverty line standard.

in 2 to 6 out of 10 of the Multidimensional Poverty Index's indicators (UNDP, 2010).[18] Another approach is to directly ask the poor whether they are deprived in a particular dimension of wellbeing or not. Therefore, it is similar to the self-rated poverty line under the monetarist/welfarist perspective. This method is mostly used in psychological/psychometric, happiness and behavioural studies such as the studies on identification of multidimensional poverty in Germany (Van Praag & Ferrer-i-Carbonell, 2008) and Luxemburg (Fusco & Dickes, 2008).

Table 2-2: Aggregate Measures for Monetary Poverty/Wellbeing

No	Poverty Measure	Definition/Use	Main Features
1	The Headcount Index (H or P_0)	Measure the proportion of population with income/consumption below the poverty line	Measure the incidence of poverty; easy to calculate and interpret; can be monitored over time to show the progress made by poverty alleviation policies
2	The Poverty Gap Index (P_1)	Measure how far the poor are below the poverty line	Measure the depth of poverty; relatively easy to measure and interpret; the nominal poverty gap figure can be used as a guidance to set the minimum cost of eliminating poverty relative to the poverty line; can be used to compare results of poverty reduction strategies overtime
3	The Poverty Severity Index (P_2)	Measure how far the poor are below the poverty line, while giving higher weight to the poorest of the poor	Measure the severity of poverty; gives more weight to the poorest of the poor; indicate inequality amongst the poor; relatively easy to measure and interpret; can be used to compare results of poverty alleviation strategies aiming to reach the poorest over time
4	The Sen Index (P_s)	Measure the proportion of poor people, while at the same time estimating how far they are below the poverty line	Measure the magnitude (incidence), depth and severity of poverty at the same time; relatively difficult to interpret; almost never used outside academic literature, most notably due to the lack of intuitive appeal compared to simpler poverty measures; cannot be used to decompose poverty from different subgroups like the FGT indices
5	The Sen-Shorrocks-Thon Index (P_{SST})	Measure the proportion of poor people, while at the same time estimating the sources of poverty overtime	Similar features to the Sen Index above, except that it can be used to decompose poverty; provide information on the sources of change in poverty over time; rarely used outside academic literature because it lacks the intuitive appeal if compared to the FGT index of poverty
6	The Watts Index (W)	Distribution-sensitive poverty measure that explains poverty intensity and inequality	Distribution-sensitive measure of poverty and inequality; satisfy all theoretical properties essential to constructing a good poverty index; decomposable by population subgroups
7	The Time Taken to Exit Poverty (t_g)	Indicate the average time needed to escape poverty	Show how long it would take for an average poor person to 'exit' poverty (i.e. to reach the poverty line), given different economic growth rates; decomposable by population subgroups

Source: Author's summary from Houghton and Khandker (2009)

[18] In a recent publication, Alkire and Foster, who developed the Multidimensional Poverty Index, admit that "The choice of *k* could therefore be a *normative one* [emphasis added], with *k* reflecting the minimum deprivation count required to be considered poor in a specific context under consideration" (Alkire and Foster, 2011:483).

Once the poverty/welfare measure and the poverty benchmark are determined, aggregate poverty measures can be constructed. Under the monetary approach, the commonly discussed aggregate statistics include the Poverty Headcount Index, the Poverty Gap index, the Poverty Severity Index, the Sen Index, the Sen-Shorrocks-Thon Index, the Watt Index, and the Time Taken to Exit Poverty measure. The first three indices, also known as the Foster-Greer-Thorbecke (FGT) index of poverty, are calculated in relation to the poverty line and indicate the incidence, depth and severity of poverty respectively. Relatively similar abilities can also be performed by the Sen and the Sen-Shorrocks-Thon Index, albeit their interpretations are relatively complicated. The Watts index measures poverty and inequality in a society, while the Time Taken to Exit indicates the time needed to escape poverty given the growth rate of income/consumption of the poor (Haughton & Khandker, 2009). Table 2-2 summarizes the definitions and main features of the poverty measures, while more technical discussions regarding the measures are presented in *Appendix 2B.*

As for multidimensional poverty, there have been recent attempts to aggregate various poverty/wellbeing dimensions of poverty into a single composite index such as the Multidimensional Poverty Index (MPI), although the outcomes have been somewhat 'unsettled'.[19] Developed from the 'counting' method initially proposed by Atkinson (2003) and Bourguignon and Chakravarty (2003), the MPI is basically the product of the multidimensional poverty headcount (i.e. the proportion of people who are multidimensionally poor) and the average number of deprivations each multidimensionally poor household experienced (the intensity of their poverty) in three dimensions and 10 indicators with equal weights (Alkire & Foster, 2011). Thus, although calculated by a different method, it is regarded to be equivalent to the poverty headcount index and the poverty gap index under the income-based poverty approach.[20]

[19] Some studies consider the Human Development Index (HDI) and the Human Poverty Index (HPI) introduced by the United Nations Development Program (UNDP) in 1990 and 1997 respectively as multidimensional poverty indices. However, when the indices were launched, they were never meant to represent the multidimensional poverty concept. Rather, the HDI is "a composite index that takes into account three types of deprivations" (UNDP, 1990:5), which is closer to the non-welfarist approach to poverty. Meanwhile, the HPI is a composite index based on several parameters known to influence human capabilities (UNDP, 2006). Only recently have the indices been re-categorized as multidimensional poverty indices. Despite that, as emphasized in the UNDP's 2010 Human Development Report, the HPI has recently been replaced by the Multidimensional Poverty Index (MPI) (UNDP, 2010:95).

[20] Specifically, the adjusted headcount ratio M_0= HA=$\mu(g^0(k))$; the adjusted poverty gap M_1=HAG= $\mu(g^1(k))$; and the average severity of deprivations S=$|g^2(k)|/|g^0(k)|$. Note that H is the headcount ratio (H=q/n) identified with the dual cut-off approach, A is the average deprivation share across the poor, G is the average poverty gap and c *(k)* is the censored vector of deprivation counts. For further discussion of this index, see Technical Note 4 in Human Development Report 2010 (UNDP, 2010) and Alkire and Foster (2011).

More recently, however, it has been argued that a single aggregate index is not appropriate and can never be a sufficient statistic of poverty under the multidimensional nature of the approach. Furthermore, to be more contributive, it is suggested that a credible set of multiple indices such as 'health poverty' or 'education poverty' be developed rather than a single-composite multidimensional poverty index (Ravallion, 2011). Given the on-going debates, it is anticipated that the method(s) for aggregating the multidimensional poverty measure will continue to be refined in the future (Alkire, *et al.*, 2011).

2.2.2. Islamic Perspective

Similar to the conceptualizations above, the measurement of poverty in Islam is arguably followed the definition of poverty. As such, the conservative (narrow) and radical (broad) perspectives on poverty suggested earlier may have relatively the same poverty/welfare indicators, thresholds and aggregate measures as the mainstream views. Additionally, the concept of an 'Islamic poverty line' has been traditionally related to the question of identifying and determining the poor as the beneficiaries of *zakah* (Islamic almsgiving).[21] However, with respect to the technical issue of poverty measurement, it appears that the common practice is to follow the international practices.

Specifically, under the conservative perspective of poverty, fifty *dirhams* of money is often cited in the historical Islamic literature discussed earlier as the minimum income required for satisfying the basic necessities of eating and living for a day and a night. This view is primarily attributed to Sufyan al-Thauri and Ishak ibn al-Rahuyah, who based their opinion on the *hadith* narrated by Ibn Mas'ud suggesting that one is considered rich -and hence prohibited from taking *zakah*- if one owns fifty *dirhams* of money or its equivalent value in gold (Al-Qardawi, 2000).[22] However, in other societies and more contemporary period of time, the amount of money could change according to their condition. As such, a certain amount of money equivalent to the minimum sustenance amount could be considered a 'poverty line'.

In contrast, the radical perspective believes that poverty is primarily related to entitlement. The true poor are therefore those who have a claim/right from society's rich to an amount determined by the society (Bonner, 1996). Thus, determination of the 'claims' -which is

[21] Further discussion on *zakah* will be provided in the next chapter.

[22] Ibn Mas'ud narrates (in al-Qardawi, 2000), "The Messenger of God (pbuh) said 'A person who asks while he has what makes him rich, whatever he gets appears on the Day of Judgment as cuts on his face.' The Prophet (pbuh) was asked, 'What is richness?' He answered, 'Fifty *dirhams* or its equivalent in gold."

similar to the determination of poverty/welfare indicators- and the minimum amount of such claims (or the 'poverty line' that distinguishes the poor from the non-poor) is left to society based on the *urf* (custom) applied in the communities.

In this respect, after reviewing many literature including the opinions of prominent classical scholars, al-Qardawi (2000) suggests two methods of determining the 'Islamic' poverty line: (i) based on the *nisab* (minimum exemption limit) of *zakah;* and (ii) based on (individual) basic needs. More recently, based on the reinterpretation of the *maqasid al-shariah* concept, the poverty line analysis has been extended into the construction of a threshold based on sufficient possession of household income (*Had al-Kifayah*) which enable a household to live decently and achieve the local standard of living (Beik & Baga, 2011; Harun, *et al.*, 2011; JAWHAR, 2007).

In particular, the determination of a poverty line based on the *nisab* of *zakah* is attributed to Abu Hanifah's school of thought. According to Abu Hanifah, a poor person (*faqir*) who is eligible to receive *zakah* is someone whose income is insufficient to satisfy basic needs whereas a needy person (*masakin*) is someone who owns nothing.[23] Thus, a rich person is someone prohibited from accepting *zakah* funds due to the absence of the above characteristics.[24] The Hambali's and Shafii's, however, identify the poor and needy from the satisfaction of essential needs in terms of income and property (non-income) instead of the *nisab* of *zakah*. While a poor person is one whose wealth is far from satisfying essential needs, a needy person is one whose wealth falls not far short of meeting the basic needs.[25] As such, the poor and needy recipients of *zakah* are those (i) who have no property/income at all, (ii) whose wealth/income constitutes a small part of their essential needs, and (iii) whose wealth/income satisfy more than half of their needs but are insufficient to live decently.[26] A

[23] The poor and needy are particularly defined as those (i) who own nothing, (ii) who have property but cannot satisfy their basic needs, (iii) whose income is less than the *nisab* of money, and (iv) whose wealth is less than the *nisab* of other *zakatable* assets/wealth (the value of which is less than 200 *dirhams).*

[24] Specifically, Hanafites describe a rich person as one who owns *nisab* of any *zakatable* item or one who owns non-*zakatable* items in excess of essential needs in the amount of 200 *dirhams*. The argument is based on the point that a person who owns *nisab* is *zakatable*, and a *zakatable* person is considered rich because *zakah* is taken from the rich. Thus, anyone who owns *nisab* cannot be described as poor. It is also based on the following *hadith,* "He who begs while having what makes him rich is asking people in excess." The Prophet was asked, "What makes him rich?" and replied, "200 *dirhams*." (Majma' al Anhur, in al-Qardawi 2000)

[25] Not all jurists are in agreement as to whose state is worse. Shafi'ites and Hanbalities believe the status of the poor is worse, while Malikites and Hanafites believe the needy are in more dire circumstances. Both provide semantic arguments in support of their views. Because of this, the 'poor and needy' is often seen as an inseparable category in most *zakah* analysis. For more discussion, see al-Qardawi (2000, Volume 2: 6).

[26] It is worth noting that scholars have different opinions on the satisfaction of needs. While the Malikites and Hanbalites consider a one-year period sufficient for such satisfaction, the Shafi'ites regards the expected life of the person as the timeframe. For more discussion, see Chapter 1 in al-Qardawi (2010, Volume 2).

rich person is thus one whose essential needs are satisfied and has an obligation to pay *zakah* regardless of whether *nisab* of money/wealth is owned or not (in Al-Qardawi, 2000).[27]

More recently, a concept known as *Had al-Kifayah*, i.e. the minimum income needed to sustain the daily needs of a (Muslim) household, was introduced in Malaysia. According to the Malaysian Department of *Zakat, Waqaf* and *Hajj* (JAWHAR), the concept considered shelter, food, health, education and transportation as the main components of basic needs was developed based on the *maqasid al-shariah* concept (JAWHAR, 2007). The minimum household income is subsequently calculated based on the household size and is utilized by the Malaysian *zakah* agencies as an Islamic poverty line. Using this approach, it is estimated that the minimum monthly income needed by a household in Selangor to sustain its daily needs was around RM 1,650 in the year 2011 (in Harun, *et al.*, 2011).

It is worth noting that the *maqasid al-shariah* concept mentioned above is commonly found in Islamic law literature. Literally, *maqasid al-shariah* is defined as the objectives, purposes, intents, ends or principles behind the Islamic law/rulings (Ashur, 2006). Imam al-Shatibi classifies the *maqasid* into three levels (hierarchies) of needs including necessities (*daruriyyah*), needs (*hajiyyah*) and luxuries (*tahsiniyyah*).[28] Moreover, in line with the thinking of al-Juwayni and al-Ghazali, most contemporary scholars agree that the essential objectives can be observed in five dimensions, namely religion/spiritual, human life, progeny, material wealth and human reason (Chapra, 2000)[29], which should be preserved and protected from annihilation (Al-Raysuni, 2005; Chapra, 2008; Kamali, 2008).

In addition to the reinterpretation by JAWHAR above, the *maqasid* concept has been linked with contemporary poverty studies. At the outset, in the light of Islamic revivalism, scholars have extended the scope of the *maqasid* theory from the preservations of basic necessities to include human capabilities related values such as freedom, justice and human rights (Auda, 2008). With an emphasis on the promotion of human wellbeing, the principles of the

[27] In this respect, Al Khattabi, quoting al-Shafi'i says: "Judging by money alone is not fair, because a person may be considered rich, yet his/her wealth is below what is needed for his personal and family expenses."

[28] The necessities/essentials (*daruriyyah*) are the things vital to survival and human wellbeing, such that their 'destruction' will jeopardize a normal order in society. The complementaries (*hajiyyah*) are the benefits which seek to remove severity and hardship that do not pose serious threats to the survival of normal life. Meanwhile, the luxuries/embellishments (*tahsiniyyah*) are the things that seek to attain refinement and perfection in the conduct of people at all levels of achievement. For more discussion, see Ashur (2006) and Kamali (2008).

[29] Specifically, al-Ghazali, in his famous book *al-Mustasfa*, reformulated the concept and stated: "The objective of the *Shari'ah* (i.e. *maqasid al-shari'ah*) is to promote the wellbeing of all mankind, which lies in safeguarding their faith (*din*), their human self (*nafs*), their intellect (*`aql*), their posterity (*nasl*) and their wealth (*mal*). Whatever ensures the safeguard of these five serves public interest and is desirable" (in Chapra, 2000:118).

maqasid theory have also been used to study poverty and social exclusion in modern societies. Using the so-called '*maqasidic'* framework, Al-Sufi (2013) suggested that the determinants of poverty in the UK such as family breakdown, educational underachievement, economic dependency, addiction and debt are strongly related to the five dimensions of *maqasid al-shari'ah*. Accordingly, Islamic principles in each of the dimensions could be used as a guidance and 'pathway' out of poverty.

More recently, there have been some attempts to translate the principles of *maqasid* into workable developmental models and policies. Amiruddin (2014) explored the conception of *maqasid* as a measureable concept, identified the indicators relevant to the *maqasid* concept and proposed a multidimensional poverty index for Muslim countries. Larbanni and Nizam (2014) measured wellbeing of Muslim communities by utilizing fuzzy set theories, which allow linguistic variables to accommodate the imprecision in human judgement and evaluation of actions/situations in the societies. Meanwhile, Mili (2014) employed Partial Least Squares-Path model to examine the contribution of the *maqasid* principles in promoting human wellbeing in 30 Islamic countries. The study suggested that health (*nafs*) and religion (*din*) aspects have positively contributed to increase wellbeing in the countries.

Overall, the discussion suggests that the measurement of poverty from Islamic perspective tend to be theoretical in nature. Only recently that the measurement methods seem to be advanced due to some 'experiments' which incorporated Islamic values and utilized alternative ways to measure human poverty/wellbeing. As a result, most of the contemporary Muslim countries and societies are still adopting the measurements utilized by the mainstream perspective. This is reflected, among others, in the adoption of Poverty Reduction Strategy Papers (PRSPs) initiated by the International Monetary Fund (IMF) and the World Bank[30] in many Muslim countries such as Pakistan, Bangladesh, Nigeria and Indonesia. This has been done with or without modification according to Islamic values.[31] Poverty measurement in the Islamic perspective is therefore a subject open to future development and innovations.

[30] PRSPs are the documents required by IMF and World Bank before a country can receive international aid and assistance from them. PRSPs describe the country's macroeconomic, structural and social policies/programs over a three-year or longer horizon to promote broad-based growth and reduce poverty, as well as associated financing needs and major sources of financing. They must be prepared according to the required standard, which basically follow the mainstream conventional approach described earlier.

[31] In countries such as Pakistan, policies related to *zakah* are included as part of the fiscal policies in the PRSPs (Arif, 2006). However, in countries such as Indonesia, such policies are not mentioned in the papers (Perdana and Maxwell, 2004).

2.3. Determinants of Poverty

A satisfactory explanation of why some people or nations are poor is essential if effective poverty alleviation strategies are to be designed and the roots of poverty tackled. It is also believed that poverty alleviation programs are actually designed, selected and implemented in response to different perspectives on the causes of poverty that justify the interventions (Bradshaw, 2007; Schiller, 1989). Therefore, it is essential to discuss the theories and determinants of poverty in order to explain the determinants and subsequently offer solutions to poverty problems.

Current literature acknowledges different theories of poverty and classifies these theories in multiple ways.[32] However, in the socio-economic perspective, the literature generally identifies three major theories of poverty: the individual pathologies theory of poverty, the cultural theory of poverty, and the structural theory of poverty. The theories differ mainly in their explanations of the determinants of poverty. While the first and second theories focus on the determinants of poverty for individual and community, the third theory tends to see poverty in terms of structural and institutional problems related to modernization and dependency issues. Related to these theories, to a certain extent, are the so-called geographical theories of poverty that link the socio-economic explanation of poverty with spatial distribution or location as the determinant of poverty.[33]

The individual pathologies/deficiencies theory of poverty, also known as the conservative perspective of poverty, generally 'blames' those living in poverty for their conditions. This view states that there are a number of individual inadequacies (such as being lazy, 'addiction' to benefit/welfare systems, low intelligence and mental/physical disabilities) that predispose the poor to their situation and explain why individuals cannot take advantage of the opportunities that have allowed the non-poor to thrive. One example of such studies is the 'controversial' work of Herrnstein and Murray (1994), which claimed that intelligence, which was regarded as genetic in nature, could best predict individual income and, thereby, poverty

[32] For more discussion on this issue, please compare Blank, 2003; Goldsmith and Blakely, 1992; Jennings and Kushnick, 1999; Rodgers, 2000; Schiller, 1989; and Shaw, 1996, as pointed out in Bradshaw (2006).

[33] While this theory is not the main focus of this study, it can be generally divided into deterministic and possibilistic perspectives. The former focuses on the influence of physical landscape in causing poverty. For instance, polar/tropical regions were seen as predisposed to poor economic development while the mid-latitudes were considered as more stimulating for development. Contrary to this perspective, the latter focuses on the interaction between physical conditions and human processes to produce poverty outcomes. For example, rural areas are regarded as poverty traps because of the nature of development decisions that are taken and the role ascribed to the rural-space economy in the development processes (Bradshaw 2006, Chimhowu 2009). These lead to the division of the so-called 'North-South' (rich-poor) countries, rural-urban poverty and other poverty 'framings' (Shaw 1996:29, in Bradshaw 2006).

level. The results are derived from observations that highly intelligent people, i.e. the 'cognitive elite', were separated from and generally 'richer' than those of average and below-average intelligence. It was also suggested that racial differences in intelligence indeed exist such that some races will naturally be more intelligent than others. Accordingly, general policy responses should seek to 'correct' the individual deficiencies by pushing the individual poor to work and weaning them off welfare benefits by offering targeted assistance (Bradshaw, 2007; Herrnstein & Murray, 1994; Townsend, 1993).

The second theory, the culture of poverty theory or the liberal perspective of poverty, focuses on the family/community as the main cause of poverty. The theory's proponents, who are mostly anthropologists pioneered by Oscar Lewis, argue that poverty is created by the transmission of a set of beliefs, values and skills that 'sustain' poverty but are socially generated and individually held over generations. It is further proposed that persistent poverty has led to the formation of an autonomous subculture as children are socialized into behaviours and attitudes such as a strong feeling of marginality and dependency, which perpetuate their inability to escape the underclass family. As they are victims of their dysfunctional culture, they should not be blamed for the poverty condition (Lewis, 1975, 1998). In this context, policy prescriptions usually try to replace, shift or work within the culture to redefine culturally appropriate poverty alleviation strategies and improve the group's wellbeing. Accordingly, community development strategies such as the Grameen bank type of programs are often seen as a road out of poverty which offer culturally compatible strategies in building the strengths of the poor communities (Bradshaw, 2007; Chimhowu, 2009; Yunus, 2007).

The third theory of poverty is the structural perspective, which believes that poverty is mainly caused by social, economic and political structures of society, particularly structural barriers within the capitalist economic and global political system. There are two main contrasting perspectives within this framework, namely the modernization and the dependency theories. The modernization theorist uses cultural and technological differences among societies to explain underdevelopment and, ultimately, the poverty of nations. Technology is seen as the engine of productivity and economic development that requires 'modern' culture to be used properly. As the process of modernization spreads across the economy, the society's 'backwardness' can eventually be eliminated. Thus, according to this notion, poverty can only be solved by modernizing the traditional societies through capitalism (Landes, 1999) and enhancing the role of developed ('modern') countries in reducing poverty in the poor

nations (Sachs, 2011). In contemporary poverty discourses, analysis of initiatives such as the structural adjustment program and poverty reduction strategy papers linked to the highly indebted countries could be regarded as the variants of the modernization thinking (Chen & Ravallion, 2008; Sachs, 2011; Simon, *et al.*, 1995).

Specifically, in the macroeconomic dimension, it is argued that the extent of the structural poverty also depends on growth, distribution and changes in income distribution (Bourguignon, in Iqbal, 2002). Accordingly, poverty alleviation requires an appropriate mix of fiscal and monetary policies as well as proper incentives and regulations that promote higher growth and better distribution of income. Meanwhile, in the microeconomic dimension, Ahmed (2004) believes that the ownership relationships, which determined what Sen (2007) called the household entitlements, along with structural/institutional arrangements influence the household's income and poverty/wellbeing conditions. The entitlement consists of trade-based, production-based, own-labour, wealth/income transfer entitlements and non-entitlement transfer (through charities, etc.).[34] In relation to this, policies that attempt to increase income-generating capabilities, such as capacity-building, wealth creation and income support policies, will contribute positively to enhancing the poor's welfare (Ahmed, 2004).

The second theory, i.e. the dependency theory, emerged as a criticism of the modernity perspective. The proponents of this view contend that global poverty in less-developed nations can primarily be explained by the exploitation of poor countries by rich ones due to the structure of the world economy that privileges some countries at the expense of others. The poor countries remain in poverty as a consequence of having to produce raw materials exported cheaply and processed in the more developed countries, but then sold back to them as manufactured or high-value-added goods due to the 'comparative advantages' of the developed nations. Thus, this theory suggests that underdevelopment is an on-going process rooted in the 'dependent' relationships created by the structure of the global capitalist economy and political system (Amīn, 1990; Chimhowu, 2009; Mannan, 1988).

Initially, solutions to this 'structurally induced' poverty lay in delinking from the exploitative global economic system by substituting imports with locally produced goods, producing goods with more value added and forming mutually beneficial regional trading blocs (Amin & Wolfers, 1990). More recently, promotion of the 'trade dependency development pathway'

[34] These concepts will be elaborated in Chapter 3.

has been suggested, as reflected in the spirit of the Fair Trade Movement (Arnould, *et al.*, 2009; Raynolds, 2009; Stiglitz & Charlton, 2005)[35] and the 'cultural/faith-based microfinance' initiatives such as ethical and Islamic microfinance as solutions to the poverty problem (Ahmed, 2002; Hulme & Mosley, 1996; Sengupta & Aubuchon, 2008).

The contemporary discourses above show a plurality of perspectives regarding the main determinants of poverty. While this might be a reflection of the diverse nature of disciplines engaged in poverty studies, the differences also seem to be influenced by the changing natures of the societies from time to time. The individual deficiencies theory of poverty, for instance, has been challenged by new studies suggesting the shrinking of the Black-White income gap (Grodsky & Pager, 2001) and even the closing of the Black-White gap in school achievements of American children (Hedges & Nowell, 1999; Jencks & Phillips, 2011; Neisser, 1998). Similarly, recent studies started to reconsider the role of culture in causing persistent poverty (Small, *et al.*, 2010). New evidence lead to conclusion that poor people do not have weaker work ethics and/or lower motivations than wealthier people were also found (Iversen & Farber, 1996; Wilson, 2011). Indeed, contemporary studies suggest that low-income parent tend to hold the same attitudes about education compared to the rich ones, although they might have less access to school involvement due to their poverty conditions (Compton-Lilly, 2003; Lareau & Horvat, 1999). Accordingly, as there are many 'myths' of the 'culture of poverty' which are no longer found in contemporary societies, it is suggested that the main problem might be rooted from the 'structural' design of the societies. Therefore, solution of the problem must start from fulfilment of basic human rights such as adequate housing, healthcare and living-wage jobs (Gorski, 2008). These also imply, to some extent, that the structural theory of poverty is more relevant in contemporary societies.

Consistent with the above observation, in the empirical literature on the causes of poverty, most development studies focus on the determinants of poverty from the structural perspective. Broadly speaking, as summarized in Table 2-3, empirical studies suggest that socio-economic factors associated with a higher probability of being poor are demographic characteristics of the head of the household (old age, female-headed household, low education, informal occupation, etc.) and characteristics of the household (large size; lack of assets such as capital, land, house and water; location in rural area; etc.). Furthermore, a

[35] The Fair Trade Movement, whose foundation was established by NGOs and Christian charities in the United Kingdom, has the main mission of removing trade barriers and giving preferential access to lucrative markets for poor countries. It also campaigns for a more ethical value-chain structure that pays fair prices to the commodity producers in developing countries. For more discussion, please refer to the above literature.

number of qualitative studies maintain that social/cultural factors such as poor gender relations and alcohol abuse also contribute to a household's poverty. In the case of Uganda, both factors, including poor gender relations within a large (and/or polygamous) family, were seen as 'causing and perpetuating poverty'. Meanwhile, excessive consumption of alcoholic drink was considered a major problem not only in terms of the amount of money spent on it but also because of the domestic violence and disharmony it caused within families (Lawson, *et al.*, 2006). The negative influences of alcohol and drug addictions were also found by other studies, such as those amongst Hispanic and Black people in the USA (Jones-Webb, *et al.*, 1997) and local communities in Kenya (Kristjanson, *et al.*, 2010). Slightly related to this, the most significant finding of a more recent study following the life of 268 American students since 1938 – claimed to be the longest-running longitudinal study of human development in history by the author – suggests that alcoholism has the greatest destructive impact on human wellbeing (Vaillant, 2012).

In many cases, poor households are also vulnerable to poverty due to internal and external shocks. Internal shocks such as the death of household members, marriage and separation of family members were strongly linked to the poverty and vulnerability of households in Bangladesh (Davis & Baulch, 2011). In South Africa, 'idiosyncratic risks', including household-level shocks (i.e. shocks due to human illness, death, injury, unemployment, job loss, asset loss, crop pests and diseases), and covariate risks (i.e. community shocks due to natural disaster or epidemics) were also associated with high income volatility (Baiyegunhi & Fraser, 2010). In addition, external factors such as insecurity and theft of property (due to cattle rustling, tribal clashes, etc.) were perceived to be important factors that increase vulnerability to poverty in Kenya. Similarly, disasters such as drought and death of livestock were regarded responsible for such vulnerability (Kristjanson, *et al.*, 2010). These kinds of shocks - particularly insecurity, famine and price increases - were also found to influence the dynamics of poverty in Bangladesh (Davis & Baulch, 2011). However, money from friends/relatives (Kristjanson, *et al.*, 2010) and external institutions such as *zakah* agencies (Arif, 2006) were found to be positively related to improved welfare of the poor.

Before proceeding to the next section, it is worth noting that most of the causal relationships between poverty and the socio-economic variables above were mainly investigated through the use of quantitative methods, particularly the linear and logistic regression models (in all

their variations).[36] However, the social/cultural factors such as gender relations and alcohol abuse are mostly found by studies employing qualitative methods. Quite recently, a number of poverty studies such as those by Kristjanson *et al.* (2011) and Davis and Baulch (2011) started to use mixed methods (i.e. combining quantitative and qualitative research methods) to deepen and enrich poverty analysis. Thus, in terms of methodological approach, many options are available for analyzing the determinants of poverty.

[36] For example, the linear regression models used range from the standard ordinary least squares model to the log-linear model. Similarly, the logistic regression models employed could be in the form of the binary logistic/logit/probit model, multinomial logit model or ordered logit model. Additionally, the marginal effect (post-estimation) of the logistic models is often estimated to obtain the size effect (i.e. the changes in the dependent variable with respect to specific changes in the independent variable). These issues will be elaborated in the methodology chapter.

Table 2-3: Empirical Studies on the Determinants of Poverty

No	Variable	Relationships
1	Age	Older age is negatively related to higher household wellbeing in South Africa and Pakistan (Baiyegunhi & Fraser, 2010; Rahman, 2013).
2	Gender	Gender (female as head of household) is positively related to poverty (Baiyegunhi & Fraser, 2010; Rahman, 2013).
3	Marital status	Married status decreases probability of being poor (Dartanto & Nurkholis, 2013; Davis & Baulch, 2011)
4	Education	Lack of educational attainment of household's head increases the probability of being poor in China (Jalan & Ravallion, 1998), Kenya (Mango, *et al.*, 2004), Malawi (Mukherjee & Benson, 2003) and Mauritania (Coulombe & McKay, 1996). However, educational attainment is not enough to decrease household poverty in Tanzania (Wedgwood, 2007).
5	Occupation	• Self-employed farming households are more likely to be poor in Uganda (Deininger & Okidi, 2003) and Mauritania (Coulombe & McKay, 1996) • Households led by unemployed people tend to be poor households in Mauritania (Coulombe & McKay, 1996).
6	Household size	Larger household size has a positive relationship with improved household welfare, as found in Pakistan (Arif, 2006; McCulloch & Baulch, 2000; Rahman, 2013), Uganda (Lawson *et al*., 2006) and Kenya (Mango, *et al.*, 2004).
7	Household assets	Lack of physical assets (land, livestock, house, etc.) has a positive correlation with being poor in China and Pakistan (Jalan & Ravallion, 1998; McCulloch & Baulch, 2000)
8	Household health problem	Household health problems due to illness/disability of family members is positively related to higher poverty level (Emmett, 2006) particularly in Kenya and Pakistan (Kristjanson, *et al.*, 2010; Rahman, 2013).
9	Household access to credit	Lack of access to credits from both formal and informal financial institutions has a positive correlation with being poorer in South Africa (Baiyegunhi & Fraser, 2010)
10	Location	Location in rural area is related to higher poverty level in Mauritania and China (Coulombe & McKay, 1996; Jalan & Ravallion, 1998).
11	Socio/cultural issues	• Poor gender relationships and excessive consumption of alcoholic drink (often associated with domestic violence and disharmony within family) cause and perpetuate poverty in Uganda (Lawson, *et al.*, 2006). • Alcohol and drug addictions are associated with higher poverty amongst the Hispanic and Black people in the USA (Jones-Webb, *et al.*, 1997) and in Kenya (Kristjanson, *et al.*, 2010).
12	Internal shocks	• Internal shocks such as death of household members, marriage and separation of family members (family members got divorced, etc.) make households in Bangladesh more vulnerable to poverty (Davis & Baulch, 2011). • Health shocks are also critical for household vulnerability in Bangladesh (Davis & Baulch, 2011). • Household-level shocks (i.e. idiosyncratic risks due to human illness, death, injury, unemployment, job loss, asset loss, crop pest and diseases) and covariate risks (i.e. community shocks due to natural disaster or epidemics) increase income volatility in South Africa (Baiyegunhi & Fraser, 2010).
13	External shocks	• Insecurity and theft of property (such as due to cattle rustling and tribal clashes) as well as disasters (drought, famine, sudden death of livestock) make households in Kenya (Kristjanson, *et al.*, 2010) and Bangladesh (Davis & Baulch, 2011) more vulnerable to poverty • Increases in prices make households in Bangladesh more vulnerable to poverty (Davis & Baulch, 2011). • Help from friends/relatives (Kristjanson, *et al.*, 2010) and external institutions such as *zakah* organizations (Arif, 2006) make households less vulnerable to poverty.

Source: Author's summary from the listed reference

2.4. Strategies for Poverty Alleviation

In the history of poverty analysis, debates on appropriate policies and strategies to 'cure' poverty problem have been on-going from the moral approach of combating poverty in most cultures to the new poverty-focused developmental and governance approach (Salih, 1999). The public policies and strategies also change over time along with the changing understanding of the main causes of poverty in specific economic, political, social and cultural conditions around the globe (Bradshaw, 2007; Schiller, 1989). Nevertheless, there is a tendency to link most of the current global poverty alleviation strategies to the structural/institutional perspectives of poverty (Booth & Mosley, 2003). This is the main focus of this subsection.

Table 2-4: Summary of Global Approaches to Poverty Alleviation

Aspect	'Traditional' Approaches (1950s-early 1990s)	'New' Approaches (Late 1990s – Late 2000s)
Challenges/ Ideas	Main challenges: • Growth • Market • Infrastructure Other issues: • Sectoral emphasis • Trade promotion • Rural development • Population and family planning	Main challenges: • Good governance • Rule of law • Corruption Other issues: • Environment • Decentralization • Democracy and human rights • Corporate governance
Strategies/ Policies	• Investment in physical capital and infrastructure • Labour intensity (promotion of small-scale industry, farm agriculture, etc.) • Investment in human capital of the poor (promotion of health and education, especially for female; microfinance) • Social safety nets (food subsidies, social funds, etc.)	• Promoting opportunities (microfinance, land reform and other redistribution policies, 'pro-poor' public expenditure and fiscal measures, etc.) • Promoting security ('tailor-made' social protection, insurance, financial regulation, asset diversification, conflict prevention, etc.) • Promoting empowerment (Democratization, decentralization, building 'social capital', etc.)
Institutions	• State • Private sector	• State • Private sector • Civil society: community groups, Non-Government Organizations (NGOs), religious groups, etc.

Sources: Author's summary from Booth and Mosley (2003)

In relation to this, Table 2-4 summarizes the global approaches to poverty alleviation. In the 1950s and 1960s, economic growth through large investments in physical capital and infrastructure was considered the best growth strategy[37] which might have poverty reduction impacts. Influenced by the works of Kuznets and Lewis in the 1950s, the theorists argued that economic growth will increase the economy's overall size which in turn increases the economic share of different strata of the population.[38] As such, although poverty reduction might not be intended, such impact could happen following implementation of policies aimed to accelerate economic growth. Despite that, it was soon realized that the 'trickle down' scenario as an automatic mechanism for development and poverty alleviation could not work as desired, especially in the poor and developing countries (Iqbal, 2002).

As the result, in the 1970s attention shifted to direct provision of nutritional, health and educational needs of the poor as public policy. Improvements in these areas were arguably important not only in their own right, but also for promoting growth in the incomes of poor people. Following this policy prescription, many countries instituted social welfare policies for the provision of basic needs. Some countries, such as the United States, European and some East Asian countries were relatively successful in reducing poverty and increasing wealth with this strategy. However, many countries, particularly in Latin America and sub-Saharan Africa, failed to implement the strategy. They were also forced to tighten public spending following the negative impact of the debt crisis and global recession (Townsend, 1993).

Amidst these 'mixed' results, during the 1980s the emphasis was switched to improving macroeconomic management and allowing a greater role for market forces, which were believed to be the reasons behind the gradual reduction of poverty in East Asia and the prosperity of the developed nations (World Bank, 1990). In the early 1990s, the World Bank recommended a two-part strategy for poverty alleviation, including (i) promotion of labour-intensive growth through economic openness and investment in infrastructure and (ii) basic services for poor people in health and education (World Bank, 2001). However, the development experience of the 1990s showed that these strategies have many weaknesses.

[37] Growth of aggregate output through physical capital investment was explained extensively by the neoclassical theorist, such as by Harrod (1939), Domar (1946), Lewis (1954, 1955) and Solow (1959).

[38] The theory predicted that income inequality increases during the initial stage of development and subsequently, once a threshold level of per capita income is achieved, the economic growth will bring more equality in income distribution. While this prediction referred more to the situation in developed countries such as US and UK at that time, it has been used extensively by developing countries with different results.

Promoting labour-intensive growth was not easy, especially in the short and medium term. Provision of basic services also required large amounts of public spending and better public management (Sen, 1999). Overall, these results suggest the need for mixed and better-targeted strategies for poverty alleviation.

In the new millennium, novel strategies proposed for attacking poverty have included policies to promote opportunities, facilitate empowerment and enhance securities by all development stakeholders including state, private sector and community (World Bank, 2001:6-7). The "new strategies", (again) centred on growth-oriented policies to reduce poverty, have been adopted in many parts of the world. However, the overall success of the strategies is still questionable since cross-country evidence shows disappointingly few impacts of growth on the alleviation of poverty and, consequently, offer little guidance on what mixture of policies might benefit the poor (Dollar & Kraay, 2002). Indeed, a large cross-country study covering 80 countries during the period 1980-2000 concluded that economic growth tends to be distributionally neutral and thus does not necessarily reduce poverty and inequality problems (Chen & Ravallion, 2007). Pro-growth policies may also fail to reduce poverty if inequality problems are not corrected.[39] As such, it is recommended that policy-makers work with a range of policy instruments involving several institutions rather than specializing in one or two policies/institutions (Booth & Mosley, 2003). It was also suggested that specially 'tailored' and 'narrowly-targeted' policies, such as the microfinance policies in Bangladesh, be designed to reduce poverty, vulnerability and inequality in society (Dercon and Khrisnan, in Booth & Mosley, 2003).

Evolution of the poverty alleviation strategies above suggest that the strategies have changed from time to time, primarily due to the changing developmental challenges faced in different time and different parts of the world. Strategies successfully implemented in one country/region do not necessarily successful when implemented in other countries, even when they were implemented at relatively the same period of time and/or in relatively similar environment with the conditions in the successful countries. While there are many factors that might influence the achievement, it is argued that the results are strongly related to different socio-economic conditions[40] and culture (including religion) of the countries. It is also

[39] It is even suggested that the poor people in highly unequal countries "face a double handicap: not only is national income expected to increase less rapidly, but when it does rise, the reduction in poverty will be slower*"* (Ravallion, 2007:19).

[40] It could also be argued that global political economics constellation might also influence the results. For example, despite of the impressive poverty reduction impacts resulted from social welfare policies implemented

notable that the role of religion in enhancing development and reducing poverty seems to be overlooked and marginalized in most developing countries. Indeed, most social studies discipline and policy interventions appear to neglect the contribution of religion in development and poverty alleviation[41] albeit there seemed to be a growing interest on this particular subject since the new millennium (Clarke, 2006; Marshall, 2001).

Somewhat unsurprisingly, the recommendations to work with a range of policy instruments involving several institutions to eradicate poverty were actually mentioned in Islamic teachings and have been advocated by Muslim scholars. Generally speaking, Islam views poverty as a religious, social and 'ideological' problem for human beings (Guner, 2005; Sadeq, 1997).[42] It is also believed that the grand objectives of *shari'ah* in preserving faith, human soul, progeny, property and mind will be difficult to be fulfilled in the state of poverty (Salih, 1999) because they require the provision of basic human needs (Quthub, in Al-Qardawi, 2000). Accordingly, Islam as a comprehensive way of life provides many solutions to poverty ranging from encouraging individuals to work hard to earn income[43] to prohibiting malpractices such as *riba* (interest) in production/trading activities and commanding states to provide necessary support for the poor[44] to increase their wellbeing and tackle poverty problems (Ahmed, 2004; Ali, 2000; Chapra, 2006; El-Gamal, 2006; Sadeq, 1997; Thomas, 2004).[45]

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in a number of European and American countries in 1970s, the strategies were somewhat changed into improving macroeconomic management and increasing market openness in the 1980s and subsequently implemented in many Asian and African countries. In this respect, there were arguments that the 'new' strategies were basically adopted to structurally maintain the welfare of the developed nations. This was done by, among others, advocating the poorer nation to 'modernize' their institutions (particularly economic institutions) to follow the path of the wealthier nations (i.e. related to the modernization theory of poverty) and creating dependence of the former to the latter (i.e. related to the dependency theory of poverty). .

[41] For more discussions on this issue, see Barro and McLearry (2003), Guiso *et. al.* (2003) and Deneulin and Bano (2009).

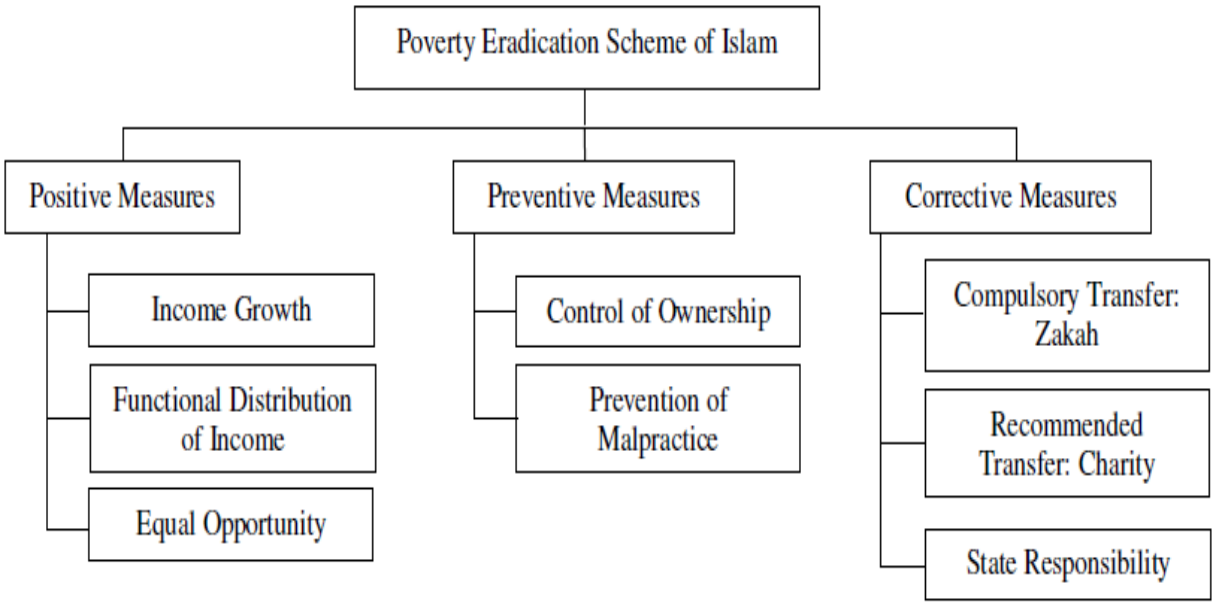
[42] It is reported that the Prophet (pbuh) mentioned "Poverty is almost like unbelief in God" (in Sadeq, 1997). As such, the Prophet (pbuh) sought refuge with Allah SWT by praying "O Allah, I seek your refuge from poverty, insufficiency and lowliness" (in Salih, 1999).

[43] This is reflected in many Qur'anic verses and *hadiths*. For example, it is mentioned in the Qur'an that, "…when the prayer is finished, then disperses in the land and seeks Allah's bounty" (62:10). Working hard to earn halal (permissible) living is even regarded as one of the most important religious obligations after praying: "Earning a halal living is *fard* (obligatory) after obligatory rituals" (*hadith* by Baihaqi and Thabrani, cited from Sadeq 1997). The means for living itself have been provided in the earth for all human beings, as clearly mentioned in the Qur'an, "And the earth have We spread out and placed therein firm hills and caused each seemingly thing to grow therein. And we have given unto you livelihood therein and unto those for whom you provide not" (15:19-20).

[44] This is reflected in many Qur'anic verses and *hadiths*. For example, Allah SWT has said that, "In their wealth and properties (there) is the right of the poor, he who asks, and he who is deprived" (Qur'an 51:19). This is further added to by the Prophet (pbuh), who mentioned that, "...*sadaqah* (charity) is taken from the rich among them and rendered to the poor among them" (reported by Abu Daud and al Tirmidzi, in al-Qardawi 2000).

[45] Note that all the citations from the Qur'an above are taken from the version translated by Ali (2000).

Figure 2-2: Poverty Alleviation Strategies in Islamic Perspective



Source: Sadeq (1997:121)

Furthermore, according to Sadeq (1997), poverty alleviation strategies in the Islamic perspective can be divided into three major schemes involving positive, preventive and corrective measures (Figure 2-2). The positive measures strongly recommended in Islam include policies related to promotion of income growth, factor pricing through just/fair functional distribution of income, and provision of equal opportunities for all. Inferred from the Qur'an and *hadith* (sayings of the Prophet (pbuh)), the promotion of income growth could be achieved substantially through positive work ethics to earn *halal* (legal and permissible) income, modest consumption behaviour, and savings.[46] Functional distribution of income, which refers to equitable distribution of income among all factors of production, is also in line with Islamic principles of justice and fairness.[47] In this regard, Islam recommends that workers be paid fairly according to their efforts and at least at a minimum wage to meet their basic needs.[48] Furthermore, production/trading should be conducted with profit-sharing and

[46] Earning *halal* income through hard work and positive work ethics is an obligation in Islam, as reflected in the following Islamic texts: (1) "A person gets what he or she strives for." (Quran 53:39) and (2) "Earning a *halal* living is *fard* (obligation) after obligatory rituals" (reported by Al Baihaqi and Al Thabrani, in Sadeq 1997). Modest consumption is also strongly recommended, as Muslims are commanded, "Eat and drink but do not waste, for Allah does not love wasters." (Quran 7:31). Additionally, mobilization of savings is encouraged, as implied by the Qur'an, "Do not make your hand tied to your neck, nor stretch it forth to its utmost reach, so that you become blameworthy and destitute." (17:29).

[47] The Quran teaches that: (1) "Allah commands justice and benevolence." (16:90), and (2) "Woe to those that deal in fraud; those when they receive from man take full measure, but when they give by measure or weight to others give less than due." (83:1-3).

[48] The Prophet (pbuh) is reported as saying, "Whosoever Allah has made under one he should give him such food what he eats and such clothes which he wears"(reported by Bukhari, in Sadeq 1997).

other Islamic finance (pricing) schemes.[49] Similarly, provision of equal opportunity is advocated to ensure social justice, particularly for disadvantaged people such as the disabled, the elderly and orphans. This can be achieved through, among other things, universal education[50] and policies that provide people with opportunities to work and enjoy supports which will enable them to live decently.

Measures should also be taken to prevent activities that may lead to the concentration of wealth. Such preventive measures would include control of ownership and prevention of malpractices. At the outset, it should be remembered that ownership of everything belongs to God and that men are considered trustees in utilizing the resources. As such, public resources (water, air, fire, salt, etc.) cannot be privately owned and must be managed by the state (public authority).[51] However, Islam allows private ownership in business and industry as long as such activities are conducted based on Islamic ethics and norms. In addition, it prohibits malpractices such as gambling, hoarding, cheating, bribery and taking interest (*riba*)[52], which lead to economic disparity. While it is possible that the malpractices take different forms in modern times, such as corporate fraud and other white-collar crimes, the main principles above could be used as guidance to prevent activities that eventually contribute to increased poverty.

Although the positive and preventive measures above are expected to alleviate poverty, it is natural that some degree of poverty and inequality will still exist in any society. Accordingly, Islam advocates some 'unique' corrective measures that involve distribution of wealth to the poor through compulsory transfer (*zakah*), recommended transfer (charity) and state responsibility. *Zakah* is a compulsory institution for redistribution of wealth from the rich to the poor and is considered a unique Islamic instrument for poverty alleviation. Islam also encourages charity and acts of benevolence through *infaq* (general charity) and *waqf* (Islamic

[49] There are many verses in the Qur'an and *hadith* explaining production in Islam, including the possible Islamic finance modes of financing. For more discussion on this issue, see Usmani (2002) and Hassan and Lewis (2007).

[50] There are many Islamic texts accentuating the importance of education for all. It is also emphasized by Muslim scholars that "Seeking knowledge is obligated for every Muslim" (reported by Ibnu Majah, in al-Qardawi 2000).

[51] Ibn Abbas reported that the Prophet (pbuh) said, "All Muslims are partners in three things: in water, herbage and fire"(reported by Abu Daud and Ibnu Majah, in al-Qardawi 2000).

[52] There are many verses in the Qur'an and *hadith* explaining prohibition of such malpractices, which is an essential principle of Islamic economy and finance. For more discussion on this issue, see Thomas (2004), el-Gamal (2006) and Hassan and Lewis (2007).

endowment), which potentially contribute to the reduction of poverty.[53] Finally, the state should be held responsible for enforcing and maintaining a favourable environment for business and economic activities. It should also protect its citizens from any forms of malpractices and provide them with equal opportunities to enjoy a decent life, including through the additional support from the *zakah* institution.

Comparing the conventional and Islamic strategies for eradicating poverty, it is obvious that both views shared many similar strategies. The positive measures recommended by the Muslim scholars, such as promotion of income growth and functional distribution of income, correspond with the growth oriented strategies advocated by the proponents of the conventional perspective. They are also strongly related to the macro determinants of poverty discussed earlier. Likewise, avoidance of malpractices (gambling, hoarding, cheating, bribery, etc.) as the preventive measures of poverty as well as encouragement of social welfare and/or charitable institutions is also recommended under the former perspective. However, although charities system might be established in many countries, the corrective measure of poverty through *zakah* institution is arguably unique to the Islamic view.

Nevertheless, there might be some differences with respect to the means for achieving the (relatively the same) development objectives. For example, the work ethics or consumption behaviors advocated in secular countries and adopted under the conventional view might not be entirely the same with those of the Muslim countries. The financial system might also be different, since Muslim nations believe that Islamic financial system marked by prohibition of interests in the banking practice (i.e. part of the preventive measures) is superior to the conventional system. These differences presumably influence the outcomes of the poverty alleviation strategies in different parts of the globe. As such, particularly in the context of Muslim countries, examinations of the development impacts need to consider and incorporate the peculiar characteristics and development policies implemented in the countries.

2.5. Summary and Conclusion

This chapter reviews literature related to the concepts of poverty, including the definitions, measures and determinants of poverty from conventional and Islamic perspectives. Conventionally, the definitions of poverty are often linked with the narrow

[53] The Quran says that: "And in your wealth there are obligations beyond *zakah*…and in their wealth there is a known right for those who ask for it and for the deprived." (70:24-25).

(monetary/welfarist), wide (non-monetary/non-welfarist) and capability approaches to poverty. These approaches mainly differ in the scope of (minimum) needs to live and function in a society. Consequently, the measures of poverty are also different under each approach. Furthermore, from an Islamic perspective, such definitions are often linked with the radical, conservative and basic needs views of poverty. Comparing the conventional and Islamic perspectives, similarities are found with respect to the definitions of poverty, in that the basic needs approach according to the *urf* (local custom) seems to dominate the thinking of Muslim scholars. However, in terms of poverty measurement, current practices suggest that Muslim countries tend to follow the international/mainstream practices.

The chapter also highlights three grand theories of poverty, namely the individual pathologies theory of poverty, the cultural theory of poverty and the structural theory of poverty. However, most of the empirical studies linked poverty with the structural perspective. Under this view, the determinants of poverty suggested by the existing literature include, among others, socio-demographic and economic conditions of household, socio/cultural issues and internal/external shocks. Along with an explanation of the causes of poverty, the evolution of global poverty alleviation strategies was also reviewed. Empirical studies on the success of these strategies were also briefly discussed, and it was also noted that the current strategies seem to increase poverty and inequality problems, particularly in the developing and poor countries.

Finally, Islamic strategies for alleviating poverty, including three major schemes involving positive, preventive and corrective measures, were explained. It was emphasized that Muslims, most notably the state, must be held responsible for enhancing the institution of *zakah*, which has been suggested as the main and uniquely Islamic instrument for poverty alleviation. The concepts and issues related to *zakah*, which is the main theme of this study, are elaborated in the next chapter.

Chapter 3 Understanding Concepts, Implementations and Roles of *Zakah* Institution in Society

This chapter reviews the classical and contemporary literature related to the concepts of *zakah* institution, its implementation and its roles in society. It begins by explaining the meaning of *zakah* and the Islamic legal (*fiqh*) concepts related to the institution. Following that, implementations of *zakah* in historical and modern times are briefly surveyed. The chapter also examines the roles and impacts of *zakah* institution in society in macro and micro perspective, particularly with respect to poverty alleviation. The last section summarizes the overall discussions.

3.1. Concepts of *Zakah*

A considerable amount of literature has been published on the concepts and rulings of *zakah*, including definition, subject (*zakah* payers and *zakah* recipients) and technical issues related to *zakah* (*zakatable* assets, rates of *zakah*, etc.). Some of the rulings referred by the literature appear in the Qur'an. Most of them, however, are obtained from the *hadith* or the sayings of the Prophet (pbuh) and inferred from the other primary sources of Islamic knowledge through *ijtihad* (legal reasoning). [54] This section, therefore, attempts to explain the concepts of *zakah* by referring to all available literature including the original Islamic sources.

3.1.1. Definition of *Zakah*

Literally, *zakah* means 'growth', 'increase', or 'purity' of wealth. When the context is a person, it means 'to improve' or 'to make better'. Thus, it is also interpreted as blessing, growth, cleanliness, praise and betterment (Al-Qardawi, 2000). All the meanings are used in the Qur'an and the *hadiths*, although in some parts of the Holy Book it is generally called *sadaqah* (charity). Furthermore, the word *zakah* is mentioned 30 times in the Qur'an, and on 27 occasions it is associated with prayers in the same verse. Similarly, there are many *hadiths* related to this word. In *Sahih al-Bukhari's hadith* collection alone, for instance, the chapter on *zakah* contains 172 *hadiths* attributed to the Prophet's sayings. It is also instituted as the

[54] *Ijtihad* is actually a technical term in Islamic law that describes the process of making a legal decision through independent interpretation of the Islamic legal sources, including the Qur'an and the *hadith.* It is also interpreted as a method of legal reasoning that does not rely on the traditional schools of jurisprudence *(madhabs).* For more discussion, see Kamali (1991).

fourth of the Five Pillars of Islam.[55] These signify the importance of *zakah* institution in Islam (Al-Qardawi, 2000)

In the *fiqh* (Islamic legal) perspective, the word *zakah* specifically refers to the predetermined share of wealth to be distributed among the deserving categories prescribed by God (Al-Qardawi, 2000). More technically, it is defined as an annual levy on wealth above certain thresholds (revenue) in which the proceeds are distributed to the needy (Jehle, 1994). According to *Fiqh* encyclopaedia, it could also be understood as a due right on specific items of assets/properties, in specific percentages, with consideration of the passage of a year and satisfaction of the condition of *nisab* (in Ahmed, 2004). These definitions are relatively unchanged overtime and have been referred by many studies. Therefore, it can be concluded that *zakah* is basically an Islamic institution that distributes income from the rich to the deserving groups of people as prescribed in the Qur'an and based on certain *fiqh* and technical considerations.

3.1.2. *Zakah* Payers (*Muzakki*)

The rulings regarding *zakah* payers (*muzakki*) are mainly found in the *hadith* and rationalized through *ijtihad*. In this respect, almost all scholars agree that *muzakki* must be Muslims (male and female) who are adults (have reached puberty), sane, free and have full ownership of properties that fulfil certain conditions. *Zakah* is thus not required from non-Muslims even if they are rich and living in a Muslim country (Al-Qardawi, 2000).

In addition to *zakah* on individual Muslims, most scholars agree that corporations could also be subject to *zakah.* Thus, *zakah* collection has been broadened to institutional payers like companies or corporations (Adnan & Bakar, 2009). Usually, *zakah* is imposed on their earnings. Nevertheless, *zakah* duplication (i.e. *zakah* paid by both the corporation and the individual shareholders of the corporations) is regarded as unlawful and must be avoided (Al-Qardawi, 2000).

In recent time, Islamic financial institutions such as Islamic banks have been growing rapidly and recorded unprecentedly successful financial performance.[56] However, it is also argued that the success has been at the expense of the socio-economic developmentalist aspirations

[55] The Five Pillars of Islam consist of *sahadah* (faith declaration), *salah* (ritual prayers), *shaum* (fasting during the month of *Ramadan*), *zakah* (compulsory Islamic charity) and *hajj* (the great pilgrimage).

[56] The Banker reported that global Islamic assets held by Islamic commercial banks stood at USD 1.3 billion in 2011 and expected to rise to USD 1.8 billion in 2013. The industry is also reported to enjoy an estimated 15% to 20% annual growth in recent years, which is considerably outstripping that of the conventional banking industry (in Hancock, 2013).

of Islamic moral economy and thereby carried 'social failure' in the society. It is further argued that the failure could be moderated by developing an 'Islamic third sector' in form of non-banking financial institution aimed to serve the social and developmental needs of Muslim societies. One example of such institution is *zakah* fund, which is relatively unknown in classical Islamic time (Asutay, 2012). Considering these recent development, imposing *zakah* on corporation earnings and subsequently distribute the funds to finance social and development activities for the benefits of Muslim societies is increasingly important not only in its own right but also in 'correcting' the social failure of Islamic finance and meeting the aspirations of Islamic moral economy.

3.1.3. Types and Rates of *Zakah*

Most of the assets or items that are subject to *zakah* are mentioned in the Qur'an and *hadith*. The *zakatable* assets include, among others, gold and silver,[57] livestock (camels, sheep, cows, etc.),[58] agricultural products,[59] (earnings from) trading goods, and assets drawn from beneath the earth (minerals such as coal, iron, etc.).[60] The assets could be further classified into (i) *amwal zahirah* or apparent (easily observed) assets, which include livestock and agricultural products, and (ii) *amwal bathinah* or non-apparent assets such as cash and trading inventory. Except for the items above, the Qur'an mentions the words *zakah* and *amwal* (assets/wealth) in a general form (Al-Qardawi, 2000).[61]

Zakah must be paid if the assets reach a certain threshold known as *nisab.* Technically, *nisab* is the minimum amount or value of *zakatable* assets, usually in excess of the basic needs of those subject to paying *zakah*.[62] For most of the assets, *zakah* is due annually or after the passage of *hawl* (lunar year).[63] Nevertheless, for agricultural products, *zakah* is due at the time of their harvest. Furthermore, the rates of *zakah* differ for different types of assets. For cash, gold, silver, debts (receivables) and traded goods, the rate is fixed at 2.5%. For agricultural products, however, the rates differ depending on the source of water. The rate of

[57] They were the two types of money during the Prophet's time. The basis for this is the Qur'an, which says, "...and there are those who hoard gold and silver and spend it not in the way of God..." (9:34).
[58] One of the bases of this is the *hadith* saying "...take payment in grains out of grain holdings, sheep out of sheep holdings, and camels out of camel holdings".
[59] The basis of this is the following verse: "…eat of their fruit in their season, but render the dues that are proper on the day that the harvest is gathered…" (Qur'an 6:141)
[60] The basis for this is the following verse, " O ye who believe! Spend of the good things which ye have (legally) earned...and of that which we have produced for ye from the earth ..." (Qur'an 2:267).
[61] See the Qur'an, "Out of their wealth take *sadaqah* (*zakah*) so by it you purify and sanctify them" (9:103).
[62] Most jurists agree that the *nisab* must be above what is required to satisfy one's basic needs that cover biological, social and religious requirements for normal living and immediate due debts (Al-Qardawi 2000).
[63] This is based on the *hadith* which mentioned that no *zakah* is obligatory on any property until one year passes.

zakah is 10% on the products that are rain-fed, including by river and springs. However, if the crops are irrigated by man-made wells, the rate becomes 5% (Ahmed, 2004).

It is worth noting that, in contemporary time, the types of *zakatable* assets have been extended through *ijtihad.* Currently, regular incomes or salaries are subject to pay *zakah.* New types of assets such as Islamic deposits, Islamic securities (Islamic bonds or *sukuk,* shares, etc.) and Islamic pension plans are also considered *zakatable* due to the growing ability and nature of the assets, which is one of the criteria of *zakatable* assets (Bakar & Rahman, 2007; Islahi & Obaidullah, 2004; Rahman, 2014; Zaim, 2012). However, partly due to their complexity, there are a number of issues in determining the amounts and timing to pay *zakah* for the new assets. By way of illustration, in estimating *zakah* liability for Islamic equities, the most appropriate method for valuating the Islamic equity shares remained unsettled. Although some arguments tend to favour the market-based valuation framework, it has not been backed by sound *shariah* opinions and evidence (Islahi & Obaidullah, 2004). The amount and time of paying *zakah* on pension plans is also problematic because the plans usually include several schemes (such as mandatory and non-mandatory schemes/plans) and/or several types of financial instruments with different risk profiles and maturity times (Rahman, 2014). Accordingly, although it is quite possible that in the future many other assets will be recognized as *zakatable* assets and hence the potential of *zakah* is very promising, it seems that there are many technical aspects that are far from settled and the solutions might require further *ijtihad.*

3.1.4. *Zakah* Beneficiaries *(Mustahik)*

Zakah beneficiaries *(mustahik)* are clearly specified in the Qur'an into eight groups of people known as the eight *ashnaf*. This is explained in the following Qur'anic verse: "The charities *(zakah)* are for the poor, needy, those employed to administer the funds, those whose hearts have reconciled to the truth, freeing slaves (those in bondage), those indebted, in the cause of God, and the wayfarer in need..." (9:60). The interpretation of each group is summarized in Table 3-1.[64] Other Qur'anic verses added destitute persons, orphans and prisoners of war to the head of *zakah*.[65] Various *hadiths* also suggest that *zakah* could be distributed to people

[64] It is worth noting that, while most of the groups are clearly defined by scholars, such as *fuqara* (poor), *masakin* (needy) and *amil* (*zakah* administrator), some of the groups such as *riqab* (those in slavery) and *gharimin* (those indebted) are open to contemporary interpretations (Kahf, 1989).

[65] It is mentioned in the Qur'an that, "And they give food in spite of love for it to the needy, the orphan, and the captive" (76:8) and "And those within whose wealth is a known right, for the petitioner and the deprived" (70:24-25).

close to the *muzakki* such as their poor relatives and orphans under their guardianship.[66] However, the eight *ashnaf* are more prevalent as the head of *zakah* than the latter.

Table 3-1: Types of *Zakah* Beneficiaries (*Mustahik*)

No	Group	Definition
1	The poor (*fuqara*)	Persons whose wealth/income fall short of satisfying basic needs.
2	The needy (*masakin)*	Persons whose wealth/income fall short of satisfying essential needs, but cannot obtain sufficient sustenance.
3	The administrators of *zakah* (*amil)*	Persons responsible for the management (collection and distribution) of *zakah* proceeds.
4	The converts *(muallaf)*	Persons who have recently been brought to Islam, those who need their commitment to be strengthened and /or can benefit and defend Muslims.
5	Those in bondage (*riqab*)	Persons free themselves from bondages/slavery, captives (war prisoners) and others in 'bondage situations' who cannot afford the cost of their freedom.
6	Those in debt *(gharimin)*	Persons who are in debt for personal or social reasons but do not have sufficient assets/income to pay off the debt.
7	Those in the cause of God *(fi sabilillah)*	Persons who conduct actions/deeds which are sincerely intended for the sake of God and Islam.
8	The wayfarer *(Ibnu sabil)*	Persons travelling (on missions that benefit the public) and need help because they have lost/consumed what they have.

Source: Summarized from Al-Qardawi (2000: 5-82)

Zakah proceeds are usually given in form of cash or goods directly distributed to the recipients, such as staple food and clothing (Al-Qardawi, 2000). This is so because the majority of Islamic legal scholars are of the opinion that *zakah* is primarily intended for meeting the consumption and basic needs of the poor (Kasri, 2013) . It is also notable that most scholars agree that the distribution of *zakah* is prioritized to the poor and needy as they are the most disadvantaged people in society (Zaim, 2012).

Quite recently, along with the call for a 'fresh' consideration on *fiqh* rulings related to *zakah,* Muslim scholars started to consider productive purposes of *zakah* distribution and subsequently the introduction of *zakah* as a *zakah* funds in contemporary Muslim societies. Some prominent scholars have suggested that it can be given as *qard-hasan* (al-Qardawi 2000:634, Maududi 1985: 56-57). Resolution No.3 of OIC *Fiqh* Academy, *Fatwa* No. 247 and 426 of Kuwait Finance House and *Fatwa* No. 81 of Kuwait *Zakah* House also hold the opinion that *zakah* can be used for investment/productive purposes (in Ahmed, 2004). As a

[66] It is reported by al-Tabarani that "The Prophet (pbuh) used to instruct the *zakah* workers while sending them that whatever they take as *sadaqah* should be distributed to the relatives of (the persons from) whom it is taken (if they are poor), the closer first then the farther, and if (the payer) has no relatives, then to the needy from the (same) clan, then to the needy in the neighbourhood and others" (in Ahmed 2004:27)

result, *zakah* proceeds could now be transferred to the poor as grants, given as *qard-hasan* or used for investment purposes (Ahmed, 2004). In modern Islamic economics, the *zakah* funds are also expected to serve the social and developmental needs of Muslim societies which in turn contribute to correct the social failure of contemporary Islamic finance (Asutay, 2012). These considerations encouraged and marked the introduction of *zakah* funds as a new institutional form in modern Muslim societies.

3.1.5. Administration of *Zakah*

Aside from the *fiqh* concepts above, another important concept is the implementation of *zakah*. In this respect, two important and relevant aspects considered in this study are the institution that should administer *zakah* and the management of *zakah* organization. Understanding these concepts is necessary prior to assessing poverty alleviation policies that incorporate *zakah* as part of their strategy.

In relation to the *zakah* administrator, the majority of jurists agree that, in principle, the state institution has the utmost right to collect and distribute *zakah* in a Muslim country. Furthermore, it could be performed by a separate treasury and administrative body supervised by the state. The rationales are derived from the Qur'an[67] and *hadith*[68] as well as from examples practised by the Prophet (pbuh) and his successors (Ahmed, 2004; Al-Qardawi, 2000; Pramanik, 1993).

In the present day, however, a government that takes Islam as its ideology, Islamic laws as the foundation of its constitution, and Islamic standards as the basis for its social, economic, and political structure rarely exists. Thus, it is argued that *zakah* does not have to be fully managed by government. Indeed, any government that rejects Islam as the state ideology should be prohibited from collecting *zakah* as it cannot be entrusted with its proper fulfilment (Al-Qardawi, 2000). Furthermore, even if a Muslim state collects and distributes *zakah*, it is contended that *muzakki* could pay and distribute *zakah* independently in order to give more

[67] According to al-Qardawi (2000), the state's role in administering *zakah* is supported by the Qur'an verse 9:60 which mentions that *amil* (the workers on *zakah*) is one of the *mustahik*, thereby explicitly suggesting that there should be a specialized organization with employees who earn incomes from the organization's budget. It is also stated that, "Out of their wealth, take a *sadaqah* (charity) so thou might purify and sanctify them" (Qur'an 9:103). Scholars recognize that the command "take" in the above verse is addressed to the Prophet (pbuh) and to whoever runs Muslim affairs after Him. For more discussion, see al-Qardawi (2000).

[68] In this respect, one of the famous *hadiths* reported that the Prophet (pbuh) has told Mu'adh when he sent him to Yemen to, "Inform them that God obligates *sadaqah* on their wealth, to be taken from the rich among them and rendered to the poor among them...", implying that government officer should manage *zakah* collection and distribution. Likewise, the actual practice of the Prophet (pbuh), who appointed many *zakah* officers to work in all Arab regions and provided them with various advice related to *zakah* collection/distribution, suggests that Islamic governments are responsible for managing *zakah* in their communities (al-Qardawi 2000).

benefits to society. *Zakah* administration could also be performed by civil societies and private institutions on behalf of Islamic society as long as they are able to effectively distribute the proceeds to the appropriate beneficiaries (Alfitri, 2006; Shehata, 2000; Zaim, 2012).

As for the structure of *zakah* management, literature generally suggests that the management of *zakah* institution seems to follow the organizational structure of the authority mandated to administer *zakah.* From the implementation of *zakah* during classical times, which will be elaborated in the next section, there are indications that the management should be adjusted to the conditions of society in a way that improves that society's welfare. This is reflected, among others, in the guidance of the Prophet Muhammad (pbuh) and the innovations made by Caliph Umar bin Khattab through the concept of *al-Ashirin,* all of which are intended to increase society's wellbeing.

In present day, Kahf (2000:11-12) identifies two institutional models of *zakah* management, namely the compulsory and voluntary models of *zakah* administration. Under the former, collection and disbursement of *zakah* are carried out by (the Muslim) government on a mandatory basis and enforced by law. In contrast, under the latter, individuals voluntarily pay *zakah* through government agencies or other legal agencies based on their self-assessment. Nevertheless, the fact that *zakah* is also managed by non-government institutions is not taken into account in the model. Another more recent study surveying the management of *zakah* in several Muslim communities, however, found that the operation of *zakah* organizations is comparable with the operation of non-profit organizations involved in welfare and charitable activities (Ahmed, 2004). As such, there is a scope to learn from the management of successful non-profit agencies.

According to Anheier (2005), management of a non-profit organization or charities is about creating value in accordance with the organization's missions. Therefore, unlike business organizations which are normally profit-seeking or profit-oriented, non-profit organizations usually have goals that are primarily non-commercial (Gordenker & Weiss, 1995). Moreover, their missions are usually geared towards improving the quality of life of disadvantaged people (Vakil, 1997).

In relation to this, several management functions are deemed critical for ensuring a successful non-profit organization. The functions include strategic management (strategic planning), operational management and financial management. Strategic planning refers to the process

of defining organizational strategy and making decisions on allocating its resources. Thus, it is basically an articulation of a vision that already exists (Anheier, 2005; David, 2013). In practice, the most commonly known models of strategic planning are probably the design school and the environmental school of planning. While the former relies on a relatively structured process to define strategies, the latter is usually more flexible and responsive towards internal and external (environmental) changes (Mintzberg, 1994). Operational management, the second function, is an area of management concerned with everyday functioning of an organization. It includes, among others, human resources and marketing management as well as management of aspects specific to the organization's main activities. Meanwhile, financial management is the management of financial conditions of an organization (Anheier, 2005; David, 2013).

The effectiveness of the aforementioned functions is usually judged according to the achievement of the planned operational and financial target (Anheier, 2005). However, the quality of financial management is often assessed by auditing the financial statements and publishing the audit opinions, which according to Arens, *et al*. (2012), range from 'standard unqualified' to 'qualified' and 'adverse/disclaimer' opinion.[69] Nevertheless, of these functions, operational management is usually considered the main focus of non-profit management (Oster, 1995).

A successful welfare-oriented non-profit organization is also believed to be characterized by a clear social mission, legitimacy/support from the donors, and organizational/operational capabilities. While the social mission portrays the (public) value objective of an organization, legitimacy and support focus on the relationship with donors. Meanwhile, operational capabilities reflect the ability of an organization to achieve the desired objective in terms of using the available resources efficiently and effectively (Moore, 2003).

Specifically, in the context of *zakah* organization, operational and organizational capabilities are primarily determined by governance structure and management procedures which enable the achievement of social objectives such as poverty alleviation. Important aspects of good

[69] In general, according to them, there are four categories of audit reports: (1) 'Standard unqualified' opinion where all financial statements are included and sufficient evidence has been accumulated to conclude that the existing accounting standards are met, (2) 'Unqualified with explanatory paragraph or modified wording' opinion where there is a lack of consistent application of generally accepted accounting principles, (3) 'Qualified' opinion shows a limitation on the scope of the audit or failure to follow generally accepted accounting principles, and (4) 'Adverse/disclaimer' opinion where the overall financial statements are so materially misstated or misleading that they do not present fairly the financial position or results of operations and cash flows in conformity with the general standard.

governance and management include, among others, an effective and supportive Board of Trustees who oversee the management in making and implementing the decisions made, flexibility to introduce innovation in the systems/processes, and good human resources. An effective management will also be reflected in the cost efficiency as well as the operational capacity in raising *zakah* funds and effectively disbursing them to achieve the targeted goals (Ahmed, 2004).

It is notable that there are currently no international standards for measuring the efficiency and capacity of *zakah* organizations. Thus, most *zakah* agencies follow the general conception of efficiency as the ability to generate maximum desired output from some given input and available technology (Wahab & Rahman, 2011). It is also common practice to utilize the financial indicators recommended by the regulators and/or used by the leading non-profit agencies. In the US, for example, the indicators used for measuring efficiencies of charities are program expenses, administrative expenses, fundraising expenses and fundraising efficiency. Meanwhile, organizational capacity might be measured by primary revenue growth, program expenses growth and working capital ratio (Charity Navigator, 2012).[70] The fundraising efficiency measure above has been utilized in a study on the efficiency of *zakah* organizations in Malaysia, which found that the organizations had a mean technical efficiency of 80.6% during the period 2003-2007 (Wahab & Rahman, 2012).[71] The Balanced Scorecard, which is a wider perspective for assessing an organizational performance (Kaplan, 2001), is also an alternative framework that has been extended to include efficiency of non-profit organizations by focusing on overheads or direct operating costs (Gomes & Liddle, 2009; Moore, 2003). [72]

Furthermore, given the dependence of non-profit organizations on donations, it is essential to have transparency and accountability to all stakeholders in place. Indeed, they are considered paramount for *zakah* organizations, whose main 'legality' is transcendentally derived from the divine command (Rahman, 2006; Yasmin, *et al.*, 2013). This can be done primarily by

[70] Program expenses, administrative expenses and fundraising expenses refer to the ratio between the aforementioned variables with total expenses; meanwhile, fundraising efficiency refers to the ratio between fundraising expenses (input) and total revenue (output). Primary revenue growth and program expenses growth refer to the growth of primary revenue and program expenses respectively.

[71] In defining the input/output, it uses the production approach where the *zakah* institution is defined as a producer that 'produces' (and persuades people to pay) *zakah* proceeds using various fundraising methods. Thus, fundraising efficiency is defined as the ratio of fundraising expenses (input) to total revenue (output).

[72] The Balanced Scorecard is a strategic planning and management system that could be used as a performance measurement framework that adds strategic non-financial performance measures to traditional financial metrics; thus providing a more 'balanced' view of organizational performance. For more discussion, see Kaplan and Norton (1996) and Kaplan (2001).

maintaining financial integrity and instituting internal control mechanisms to avoid misappropriation of funds, fraud, waste and abuse of resources (Ahmed, 2004). Proper reporting and disclosures as well as adequate evaluation of performance and impacts of welfare-oriented programs on the beneficiaries are also recommended as the main tools for ensuring such accountability (Ebrahim, 2003a).

There is also a view that implementation of accountability to God is made clear through accountability towards *zakah* beneficiaries. As such, to show that the *zakah* management is accountable to the Creator, accountability to *mustahik* must be performed by ensuring that the assistances provided have had the highest impacts on the wellbeing of the beneficiaries (Osman, 2010). These elements constitute the framework that could potentially be used to evaluate the implementation of *zakah* in contemporary Muslim societies.

3.2. Implementation of *Zakah*

There are two main periods of *zakah* implementation reviewed in this section. They cover the management of *zakah* institution during the early history of Islam and the management of *zakah* in the 21st century. Each period has a number of salient features, which are identified and briefly explained in the following sub-sections.

3.2.1. Historical Implementation of *Zakah*

The historical implementation of *zakah* refers to the administration of *zakah* during the time of the Prophet (pbuh) and his closest companions. The administration of *zakah* during the period is characterized by the Prophet's (pbuh) attempts to lay down the foundation of *zakah* administration, mainly through examples and actions accomplished by *zakah* officers. It is also evident that the companions have performed *ijtihad* to continue and modify/adjust the *zakah* administration system in ways that were expected to bring the greatest benefits to the Muslim societies.

Specifically, during the early history of Islam, *zakah* institution was managed by the Muslim state led by the Prophet (pbuh) (570-633 M). He used to send his companions such as Umar, Ali and Ibn Mas'ud as officers to collect and distribute *zakah* to various Arab tribes and provincial governments of the Arabian Peninsula.[73] Prior to sending the officers, he always provided them with advice and instructions on how to assess and collect the appropriate

[73] The other companions sent to collect/distribute *zakah* were Aba Jahm bin Hudhaifah and Utbah bin Amir (reported by Ahmad), Qais bin Sa'd and 'Ubadah bin al Samit (reported by Al Hakim) and al-Walid bin 'Uqbah as the collector of *zakah* from the tribe of Bani al-Mustaliq (in Al-Qardawi 2000).

amount of *zakah* as well as to treat the *zakah* payers properly. The officers were also asked to prioritize distribution in the area where the funds were collected. Usually, the distribution was done in kind (food, cloths, etc.) to fulfil the basic needs of the poor (Kahf, 2000). Moreover, when they returned from their duties, they were asked to report and evaluate what they had done during the *zakah* implementation. There was also evidence that the Prophet (pbuh) tried to educate *zakah* payers and encouraged them to report any injustices committed by the officers (Al-Qardawi, 2000:114-115).[74]

When Caliph Abu Bakr (573-634 M) ruled the Muslim state, he basically continued the Prophet's way of managing the *zakah* institution. He retained most of the *zakah* officers appointed by the Prophet (pbuh) and sent them to collect and distribute *zakah* to the regions under the Muslim state. He consistently reminded the Muslims to pay *zakah* and fought those who refused to pay it, to the extent that the 'rebels' were considered unbelievers.[75] He also started the system of deduction at source (i.e. deducting *zakah* from due payments to the government) on a self-assessment basis (Kahf, 2000).

Similar principles of *zakah* administration were initially carried out during the time of Caliph Umar bin Khattab (579-644 M). However, later in his leadership, Umar improved the method of *zakah* collection by introducing the concept of *al-Ashirin.*[76] With this system, a special officer called *al-Ashir* was specifically assigned to collect *zakah* from Muslim traders and import taxes from non-Muslim foreign traders at particular checkpoints. With the new system, the state was able to employ fewer *zakah* officers. Additionally, *muzakki* did not have to travel long distances to bring their due *zakah* to Madinah. Thus, *zakah* collection became more efficient and the proceeds collected increased significantly during this period (Abu Ubaid, in Al-Qardawi, 2000). As such, people's prosperity increased considerably. Indeed,

[74] As reported by Abu Daud, Jabir bin 'Atik narrates that the Prophet (pbuh) said, "People that you may not like [collectors] shall come to you. When they come, you should welcome them and let them do what they want. If they do justice, the result will be on their own souls, but if they do injustice, the punishment will also be on their own souls. It is necessary for completing your *zakah* that you please them, so they will pray for you"

[75] Bukhari, Muslim, Tirmidzi, Abu Dawud and Nasa'i reported that Abu Bakr said that, "If they [the group that reject to pay *zakah* to state upon the death of the Prophet] withhold giving (*zakah*) even a (little) rein of a camel or a small baby sheep [that is due on them], I will fight them for it...By God, I will fight whoever discriminate between prayers and *zakah*". When they were pressured on the battlefront, they told Abu Bakr they would pay the due *zakah* if he discontinued the fight, but his answer was, "No, I do not accept your due *zakah* until you testify that our martyrs are in heaven and those who were killed on your side are in the fire" implying that he considered the rebels as unbelievers.

[76] Literally, *al-Ashirin* means "collectors of the tenth". It is called so because one-tenth was collected from foreign merchants, half a tenth was collected from merchants of the people of the Pledge (according to the treaties Umar had signed with them) and one-fourth of a tenth was collected from Muslim merchants (as *zakah*).

there was evidence that the rulers could not find any needy persons to receive the *zakah* proceeds at that time.[77]

When the third Caliph, Uthman bin Affan (577-656 M), came to office, the existing *zakah* administration system had managed to collect huge amounts of proceeds from *zakah* and other incomes[78] for the state treasury. With approval from the companions, he decided to collect only the *zakah* on apparent wealth and leave the rest to be assessed and distributed by the owners under the state's supervision. Although the new system was highly dependent on people's awareness and honesty in paying *zakah*, he believed that assigning the distribution to the owners could result in higher efficiency and greater public benefits as they essentially became the 'agents' of the state (Al-Kasani, in Al-Qardawi, 2000). In this respect, some jurists interpret the 'appointment' as the basis of the management of *zakah* by private institutions (Kahf, 1999a).

Zakah administration after the above periods was essentially a continuation of the previous system. During the time of Umar bin Abdul Aziz of the Umayyah dynasty (682-720 M), for instance, *zakah* officials used to go to potential *zakah* payers to assess and collect their *zakah* dues. *Zakah* was also distributed by the same officials, and the disbursements were focused in the same areas of *zakah* collections (Abu Ubaid, in Ahmed, 2004). While there are no data on the exact amounts of *zakah* collected and distributed during the period, it is suggested that the *zakah* institution had appeared to have achieved one of its objectives, i.e. to eradicate poverty, such that there were no poor people eligible for *zakah* proceeds during the time of Umar bin Abdul Aziz (Ahmed, 2004).

3.2.2. Contemporary Implementation of *Zakah*

Implementation of *zakah* in recent times has experienced many ups and downs. There was a period of time when the institution suffered a serious setback due to colonization and internal problems such as corruption and unjust government within the Muslim world. More recently, however, there have been some improvements in the worldwide implementation of *zakah*. This is evident from, among others, the introduction of *zakah* regulations in many Muslim

[77] During the reign of the second Caliph, Umar Ibn Al-Khattab, it was reported that Mu'adh Ibn-Jabal (Governor of Yemen) could not find a poor person to whom he could give *Zakah* in the country. It was also reported that the Caliph had admonished Mu'adh after the latter had sent him one-third of the *zakah* proceeds, informing him that "I have not sent you as a tax-collector, but to take from the rich and give to the poor". Mu'adh replied that "I would not have done so, had I found somebody to take it from me". During the second year, Mua'dh sent half of the *zakah* proceeds to the Caliph, and on the third year he sent all the proceeds of Yemen to Medina telling the Caliph that he could not find any poor person to accept *zakah* (Abu 'Ubaid 1988). A similar story was reported later during the reign of Caliph Umar Ibn Abdul-Aziz (Salih, 1999)

[78] The other incomes include, among others, *fai*, *ghanimah*, *kharaj*, *jiziah* and *sadaqah* (Al-Qardawi, 2000).

countries and the emergence of various *zakah* organizations practising professional *zakah* management.

In general, as briefly discussed earlier, the administration of *zakah* in recent times could be classified under the compulsory and voluntary *zakah* systems (Kahf, 2000). Another perspective suggests that the models of *zakah* management could be derived from the organizational/operational structure. From this perspective, the collection and distribution of *zakah* could be performed not only by government but also through cooperation between government and non-government institutions, for example a cooperation in which the former specialized in the distribution side while the latter focused on the collection side (Ahmed, 2004:122). However, most *zakah*-related studies discuss specific aspects of *zakah* management in particular countries, such as regulatory, administrative, collection, distribution and financial control aspects (see, among others, Abdullah, 1985; Al-Omar, 1985; Al-Sawory, 1985; Faridi, 1993; Schäublin, 2009).

Table 3-2 summarizes the salient features of *zakah* management in contemporary Muslim societies, which include Muslim and Muslim minority countries in the world's five continents (see also Appendix 3A).[79] Based on the literature (see, among others, Abdullah, 2010; Ahmed, 2004; ILO, 2012; Majelis Ugama Singapura, 2013a), it is argued that there are at least three contemporary systems (institutional models) of *zakah* administration, namely obligatory system, voluntary system and pure-voluntary (unregulated) system. The main differences between each system, albeit not very strict ones, are related to the existence of *zakah* law, governance/organizational structure of *zakah* institution and operational (particularly collection and distribution) aspects of *zakah* management.

[79] Nineteen states/countries are surveyed in this study: Saudi Arabia, Yemen, Sudan, India, Kuwait, Jordan, Egypt, Kuala Lumpur State (Malaysia), Selangor State (Malaysia), Negeri Sembilan State (Malaysia), Pakistan, South Africa, Singapore, United Kingdom, Thailand, Brunei Darussalam, Palestine, Victoria State (Australia) and United States of America. See *Appendix 3A* for a detailed survey of the *zakah* implementation.

Table 3-2: Salient Features of *Zakah* Management in Modern Muslim Societies

Aspect	Obligatory *Zakah* system	Voluntary *Zakah* System	Pure-Voluntary *Zakah* System
Law/ Regulation	• *Zakah* is regulated by a specific *zakah* law. • The law makes *zakah* payment through the state obligatory for all Muslims (citizens). • Mostly applied in Islamic states and Muslim majority countries.	• *Zakah* is usually regulated by laws or government decrees. • Payment of *zakah* through government agencies is encouraged, yet it is voluntary in nature. • Mostly applied in Muslim majority countries, which may or may not adopt Islam as the official religion.	• *Zakah* is not regulated by government. Thus, there is no obligation to pay *zakah.* • There are other laws regulating *zakah* agencies, such as laws on NGOs/NPOs, foundations and charities. • Mostly applied in Muslim minority countries.
Governance /Organizational Structure	• *Zakah* is usually managed by Ministry of *Zakah*/*Awqaf* (religious affairs) and Ministry of Finance. • Governance/ organizational structures usually follow the relevant government structure.	• The structures follow the legal form of the organization authorized to administer *zakah.* • Semi-government organizations usually have government officers and management team. • NGOs/NPOs usually have Board of Trustees, Management Team and *shariah* scholar/expert.	• Governance/organizational structures usually follow the legal form of the organization. • NGOs/NPOs usually have Board of Trustees, Management Team, *shariah* scholar/expert and volunteers.
Collection	• *Zakah* must be paid through government agencies and/or other agencies appointed by the government. • Limited methods of *zakah* collections.	• *Zakah* could be voluntarily paid through various types of *zakah* organizations, such as government and NGOs. • Various methods of *zakah* collections.	• *Zakah* is mainly collected by NGOs/NPOs. • Various methods of *zakah* collections.
Distribution	• *Zakah* is usually distributed by government agencies. • Distribution is usually determined and planned ahead by government. • The head of *zakah* is determined by the government, which may or may not include the eight *ashnaf.*	• *Zakah* could be distributed by various types of *zakah* agency, including government or government-appointed agencies (such as corporations and NGOs) with the latter usually dominating the sector. • Distribution is usually planned ahead, yet flexibility exists. • *Zakah* is usually distributed to the eight *ashnaf.*	• *Zakah* is distributed mainly by NGOs or NPOs. • Distribution is usually planned ahead, yet some kind of flexibility exists to anticipate events such as natural disasters, crisis, etc. • Depending of funds availability, *zakah* are usually distributed to the eight *ashnaf* particularly the poor/needy.
Other Aspects	• Lack of publication/campaign to educate *zakah* payers. • Employees are mostly government officers. • Administration/ operational costs are paid by the government.	• Some attempts to educate and increase awareness of *muzakki*. • For semi-government agencies, administration/ operational costs are usually paid by the government.	• Extensive communication/marketing attempts to increase awareness of *muzakki* and fundraising results. • Relatively efficient financial management. • Emphasizes the impacts of *zakah* on beneficiaries.

Source: Author's Analysis from the references listed in Appendix 3A

Under the obligatory system, *zakah* management can only be legally performed by government institutions. The government also issues and enforces a specific *zakah* law[80] which makes *zakah* payment through government agencies obligatory for all Muslim citizens. Countries implementing this system are mostly Islamic states such as Saudi Arabia, Yemen, Sudan and Brunei Darussalam. In these countries, *zakah* is managed by a specific department/division under the Ministry of *Waqf/Zakah*, Ministry of Finance or other related government bodies.[81] As a result, the governance/organizational structures commonly follow the structure of agencies responsible for collecting and distributing *zakah.* It is also notable that the assessment of *zakah* is usually done by the government. Similarly, the distribution of *zakah* is usually at the government's discretion and may or may not include all eight *ashnaf* prescribed in the Qur'an. In fact, there is a tendency for the *zakah* heads to be determined based on the opinion of *shariah* scholars in the countries instead of the people's needs.

Under the voluntary system, some kind of *zakah* regulations in the form of either *zakah* law or government decree related to *zakah* usually exists. The regulations typically encourage *zakah* assessment and payments through the government or other institutions on a voluntary basis. The countries following this model include, among others, Kuwait, Egypt, Jordan, Pakistan, Malaysia and Palestine. In Kuwait, the government has issued a *zakah* law that encourages people to pay *zakah* through a semi-government organization known as Kuwait *Zakah* House. In Malaysia, the government has appointed corporations to perform collection of *zakah* while the distribution is managed by the government. Meanwhile, in Pakistan, the government has only managed the collection of *zakah* on savings, shares and agricultural produce. The payments of *zakah* on other assets have thus been left to the NGOs and private individuals. In terms of governance, the structure varies depending on the type of organization. NGOs-type organizations, for example, usually have Board of Trustees and a management team that includes *shariah* scholars. Additionally, *zakah* organizations commonly use various methods of *zakah* collection and involve volunteers in *zakah* distribution. They also attempt to educate *zakah* payers through various communication media such as brochures, encouragement during sermons and other media.

As for the pure-voluntary (unregulated) *zakah* system commonly adopted in Muslim minority nations, no law obligates Muslims to pay *zakah* in such countries. Indeed, *zakah* assessment

[80] Most of the laws consist of chapters/sections that outline rules of *zakah*, procedures for *zakah* assessment and collection as well as establishment of *zakah* organizations (including their terms of reference and power), infringements, penalties, procedures for submitting grievances and other general provisions.
[81] These include Ministry of Religious Affairs, Islamic Religious Council and Ministry of Social Affairs.

is purely at the discretion of the payers. However, charitable organizations could be established to manage *zakah* funds under regulations such as NPOs/Foundation/Charity laws, which provide a framework to ensure legal compliance, enhance trust and accountability and encourage the effectiveness and impact of the charities. In some cases, such regulations are more comprehensive than *zakah* law in terms of accountability and promotion of the public interest. Furthermore, *zakah* administration is usually managed professionally not only because the charities have to follow the law but also because they have to 'compete' in collecting the people's funds. Additionally, the agencies usually have a Board of Trustees and a management team who must report their performance periodically to specific government bodies. In terms of *zakah* distribution, careful planning and clear disbursement programs are commonly in place. However, large degrees of flexibility usually exist to anticipate events such as natural disasters and conflicts/crises. Furthermore, extensive attempts to increase awareness of *zakah* payers are prevalent. This is mostly done through appropriate communication/marketing strategies that eventually contribute to higher fundraising. This model typically exists in Muslim minority countries such as India, South Africa, Singapore, UK, Thailand, Australia and USA.

In addition to the features above, a number of interesting practices have been implemented by particular countries with different *zakah* systems. With regard to tax treatment, for example, a Muslim state such as Malaysia provides tax credits to *zakah* payers such that their income tax will be reduced by the amount of *zakah* paid. This method has not been adopted in other countries, particularly those that do not impose income tax on their citizens. However, in countries such as the UK and South Africa, tax exemption for charitable donations is enabled by the income tax law. As additional incentives to encourage the donations, gift-aid and gift-matching schemes are implemented in the UK and US, in which government and/or corporations match donations made by individuals up to a certain amount.[82]

Other examples are related to the planning of *zakah* disbursement. Common perceptions suggest that *zakah* organizations tend to work based on demand (particularly in distributing *zakah*). However, in current practice, it is found that strategic planning for *zakah* collection and distribution has been conducted by most of the organizations. Budget and financial conditions are also carefully managed, most notably by the voluntary *zakah* organizations, to ensure efficient financial management. The *Zakah* Foundation of America, for instance,

[82] In the UK, the maximum 'top-up' amount is 5 million pounds sterling.

reported that around 94.5 cent of every dollar donated went directly into program services in 2012. Thus, only around 2.4 cent and 3.1 cent went to fundraising and administrative costs respectively, which indicates highly efficient management practices. Monitoring and evaluation, including measurements of the impacts of *zakah* on the beneficiaries' lives, are also performed by some of the organizations. MUIS (*Majelis Ugama Islam Singapore* or Islamic Religious Council of Singapore), for example, calculated the number of *zakah* recipients and measured the changes in their conditions after receiving *zakah* assistance. It was reported that around 403 out of 610 families had successfully graduated from the Empowerment Partnership Scheme (EPS) by 2012 and no longer needed MUIS financial assistance. [83]

Overall, contemporary practices suggest that *zakah* organizations have attempted to implement proper and professional management practices that are generally in line with the existing law and the current conditions of society. The implementation of *zakah* in some countries has been relatively successful. Some have even managed to transform poor people into those who are independent and no longer require assistance from the organizations. Despite the high amount of *zakah* proceeds managed, some others have been less successful in improving the recipients' welfare. Improvement in management practices, therefore, is necessary to ensure the long-term sustainability of the organization and the highest impacts on society.

3.3. Impacts of *Zakah* Institution

The historical and contemporary implementations of *zakah* discussed above broadly suggest that the institution has contributed positively to individuals[84] and Muslim societies in many aspects of life. This section, however, focuses on the macro and micro impacts of *zakah* in the societies, particularly in relation to poverty alleviation as one of the institution's main objectives. The literature review complements discussions in the previous chapter on the

[83] EPS is a family-based program that helps poor families become self-reliant. It has been conducted by MUIS since 2004. For more discussion, see *Appendix 3A* and explanation in the MUIS website.

[84] In his study, al-Qardawi (2000) focuses on the historical impacts of *zakah* on psychological and social aspects of individuals. According to him, the impacts of *zakah* on *muzakki* are as follows: *zakah* cleanses the soul of miserliness and trains people to give and acquire divine characteristics; it is an expression of thanks to God and a cure for the love of worldly things; it stimulates personal growth and improves ties of mutual love, purifies wealth (excludes the wealth gained from unlawful sources) and brings growth to individual wealth. Meanwhile, from *mustahik's* point of view, *zakah* can liberate the recipients from material needs and cleanse jealousy and hatred of rich people. However, when discussing the impacts of *zakah* on society, he mentions only two points, namely *zakah* as a social insurance system and an 'ingredient' to maintain society's spiritual integrity.

socio-economic measures and determinants of poverty, which indirectly explain the socio-economic impacts of poverty alleviation policies including through *zakah* assistance.[85]

3.3.1. Macro Dimension

From the macroeconomic perspective, the effects of introducing the *zakah* institution into a contemporary economy can be seen in the relationship between various macroeconomic measures such as consumption, savings, investment, aggregate demand, economic growth and income distribution. It is generally argued that the institution could potentially decrease aggregate consumption, increase savings and investment as well as stimulate aggregate demand and economic growth (see, among others, Awad, 2000; Iqbal, 2002; Jehle, 1994; Kahf, 1999a; Kusuma & Sukmana, 2010; Mannan, 1988; Metwally, 1990; Zaim, 2000). *Zakah* could also be utilized as a fiscal policy to redistribute and reallocate the national income in favour of the poor under the structural poverty point of view (Al-Jarhi & Zarqa, 2005; Awad, 2000; Datta, 1939; Metwally, 1990; Shirazi, 2006; Yusoff, 2006).

The framework often used for analyzing consumption and savings behaviours in Muslim societies is the absolute income hypothesis developed by Keynes (see Khan, 1984; Metwally, 1981, 1986, 1991; Zaim, 2012). Khan (1984) proposes a macro consumption function in an Islamic framework, in which *zakah* is introduced as a determinant of consumption for Muslim societies. Assuming that the Muslims behave ideally and 'rationally' by consuming in moderation and avoiding extravagance consumption and hoarding of wealth, as guided by Islamic teaching, it is suggested that the injunction of *zakah* will initially lead to lower aggregate consumption due to lower consumption of the *zakah* payers. However, z*akah* transferred from the rich to the poor would also gradually enable the latter –who usually has a higher marginal propensity to consume (MPC) than the former- to increase their consumption,[86] increase income generating capabilities (for example, by finding new/better job or obtaining more capital to increase their business) and eventually enhance their economic status. As their economic condition improves, they would enter the group of savers and ultimately become *zakah* payers. Thus, in the long run, aggregate savings and aggregate demand will also increase.[87] This implies that the positive economic impact of *zakah* is strongly influenced by the income distribution effects of *zakah.* Similar conclusion is also

[85] The analysis is presented in Section 2.2.1.
[86] Higher consumption also implies a consumption relief, as the transfer would enable the poor to take care of his and his family consumption.
[87] Khan also believes that even if there is a short-run decline in savings due to *zakah*, the effect will eventually diminish such that the long-run savings and aggregate demand will be higher than that of a non-Islamic economy.

shared by Metwally (1986) and Zaim (2012). More recent study also noted that *zakah* could theoretically increase the capital-labor ratio (Ali & Myles, 2010) and thus contribute to higher income, consumption, savings, investment, aggregate demand and eventually higher economic growth.

In contrast, other studies believe that introducing *zakah* to an Islamic economy will not necessarily lead to lower consumption, higher savings and better economic growth. Although it may initially lead to economic expansion, the net effect of such intervention may be either neutral or inconclusive due to the contradictory effects on incomes of the poor and the rich. Thus, such results are actually very sensitive to certain parameters postulated by the Keynesian hypothesis. Once the assumptions are dropped, the results of incorporating *zakah* into the economy will be indeterminate (Derwish & Zain, 1985; Iqbal, 1985). Nevertheless, empirical evidence supporting this kind of argument is scarce and usually short-run in nature.[88]

Most studies also considered that the effect of *zakah* on investment is positive. This occurs when savings are intended for investment purposes, given that savings offer premium or positive returns above the real inflation rate. However, in an Islamic economy, this expansionary effect might also occur due to the implied disincentive on uninvested or 'hoarded' assets. In other words, if left uninvested, the assets are subject to payment of *zakah* and their values will decrease over time. Rationally, to avoid the *zakah* 'penalty', it is predicted that people will use their savings (idle assets) for investment and, consequently, investment will increase (Awad, 2000; Choudhury & Harahap, 2008; Mannan, 2000; Metwally, 1986; Pramanik, 1993; Sadeq, 1996; Zaim, 2000).

Similarly, in the literature that considers the introduction of *zakah* as analogous to introducing a new (wealth) tax into an economy, *zakah* is argued to be a stimulant for economic expansion. The new 'tax' will decrease disposable income and serve as an additional income for the state. Provided that it is not regressive and its proceeds are

[88] Studies by Metwally (1990, 1991) investigating the consumption function of 30 Muslim countries in 1986 found that the consumption functions do not follow the absolute income hypothesis and the life-cycle hypothesis normally applied in Western literature. Instead, the majority of the Muslim consumers in the sampled countries (especially those from the oil-producing Middle East and North Africa countries) seem to behave according to the Catch-Up Income hypothesis where sudden and sharp changes in living standards above the subsistence level increase the likelihood of consumption. This happens partly because they try to 'catch up' with what they have 'missed' during the 'hard' (poverty) time. Accordingly, it is suggested that the income redistribution that results from the application of *zakah* is not likely to affect the aggregate consumption function significantly. However, as the study only looked at consumption behaviour in one year, i.e. 1986, it is likely that the result will change if a longer period of observation is analyzed.

distributed to the poor, *zakah* will reach the grass-roots and eventually contribute to a more equitable income distribution (Awad, 2000). Overall, the literature suggests that *zakah* could contribute to higher economic growth through its positive influence on savings, investment and economic growth (Al-Jarhi, 1985; Al-Jarhi & Zarqa, 2005; Yusoff, 2006).

Zakah is also central to the fiscal structure, redistribution policy and economic stability of Muslim countries (Al-Jarhi & Zarqa, 2005; Mukherji, 1980; Zaim, 2012; Zarqa, 1997). In particular, when a fiscal system is based on *zakah*, it is argued that *zakah* could serve as an 'automatic stabilizer' to cushion of the negative impacts of business cycle and strengthen the economy. Furthermore, in time of prosperity, the supply of *zakah* (i.e. aggregate *zakah* revenue) usually increases whereas the demand of *zakah* typically decreases as less transfer payments are needed by the poor and needy. In contrast, when the economy slows down, it could be expected that *zakah* collection would decrease while its demand would increase. Accordingly, it has been suggested to accumulate the surplus of *zakah* during the good time and distribute it during recession (Al-Jarhi & Zarqa, 2005; Zaim, 2000, 2012). However, traditional *fiqh* perspective usually suggests that *zakah* proceeds should be immediately distributed –or at least distributed in the same year or within a year- to the poor and needy (Al-Qardawi, 2000). As such, additional 'safety measures' might be needed.

A possible safety measure is government assistance/benefits which are financed from taxes. The benefits could be given unconditionally in form of cash and in-kind assistance, such as through provision of basic consumption goods (food, house, etc.). They could also be given conditional to fulfilling or meeting certain activities, such as sending children to school or seeking works (Jenkins, *et al.*, 2012). The tax-benefit system, or the tax system in general, has been widely adopted in many Muslim countries with considerable degree of success (Miller & Oats, 2012). Another potential institution that could be used to 'complement' *zakah* is *waqf* institution. *Waqf* (Islamic charitable endowment) is a traditional Islamic institution which has been used to provide basic public infrastructure such as schools and hospitals at no cost to the state. It is believed that *waqf* has established, financed and maintained the most essential services needed by Muslim societies for centuries (Çizakça, 2013). There were also many evident that *waqf,* together with *zakah* and Islamic microfinance institutions, has contributed positively in alleviating poverty and increasing human capital in modern Muslim societies (Ahmed, 2004, 2011; Çizakça, 2013; Haneef, *et al.*, 2014).

Empirical studies, however, are not as promising as the theoretical discussions. Almost all of the studies above are based on the underlying assumption, albeit mostly 'hidden', that *zakah* is utilized as the main fiscal instrument and its proceeds are available in sufficient amounts for distribution. Indeed, most studies revealed that the *zakah* proceeds are actually very low and unlikely to have a significant impact on an economy. Kahf (1999), for instance, estimated that the ratio of *zakah* to GDP in Yemen and Pakistan was between 0.3-0.4%. These proportions were very small compared to the amount needed for poverty alleviation in those countries. Comparing the estimated potential of *zakah* with the amount needed to alleviate poverty in 24 IDB member countries, Ahmed (2004) found that only two countries could move above the USD 2 poverty line with a *zakah* rate of 1.8%.[89] In countries such as Niger and Mali, the same *zakah* rate would only generate revenue enabling a transfer of UDS 1 per day to less than 2% of the poor. This would be the case even though most of the *zakah* proceeds were directed towards the poor.[90] More recently, Arif (2006) expressed a serious concern on the sustainability of *zakah* collection in Pakistan as there was a trend of declining *zakah* revenues in the countries. Thus, it seems that the positive economic impacts discussed earlier could not be achieved due to low collection of *zakah* institution in most of Muslim countries.

It is further suggested that the poor performance were partly explained by the fact that virtually no Muslim country has adopted an Islamic economic system where *zakah* is integrated with the macroeconomic framework and regarded as part of the fiscal policy (Hasan, 1987). In response to that, some studies attempt to simulate the impacts of *zakah* when it is integrated into the fiscal policies. A study simulating the effect of introducing *zakah* on various macroeconomic policies in Bangladesh showed that poverty cannot be eliminated without combining *zakah* with macroeconomic policies. It is further concluded that the impact of *zakah* on poverty will only be significant when larger proportions of *zakah* proceeds are used for productive purposes (Ahmed, 2008). Another experiment argued that the *zakah* proceeds, if managed properly by the Bangladeshi government, could potentially replace around 21%-43% of the government budgetary expenditure in 2004/2005. Through its multiplier effect towards rising investment and productivity, *zakah* could also increase the government income, which in turn would contribute to financing development and other social expenditures (Hassan & Khan, 2007). Therefore, it is generally suggested that the

[89] A *zakah* rate of 1.8% implies that the government could collect *zakah* revenue of as much as 1.8% of GDP.
[90] In Pakistan, for instance, the *Zakah* Law gives 90% of the *zakah* proceeds to the poor. Meanwhile, the proportion intended for the poor is 45% in Sudan (Salih, 1999).

institution might have a more significant impact on the economy if it is integrated into the fiscal policies,

A noticeable exception is probably Pakistan, where *zakah* has been officially incorporated as a part of the government's fiscal policy particularly under the narrowly targeted social safety net program (Arif, 2006; Shirazi, 1996; Toor & Nasar, 2001). Investigating the impacts of *zakah* on income inequality in Pakistan with the Atkinson-Kolm-Sen indices of income inequality, Jehle (1994) suggested that *zakah* did redistribute income from the rich to the poor during the period 1987-1988. Therefore, there was evidence that *zakah* had led to some reductions in poverty and income inequality in the country. Moreover, by using the 1990/1991 national household survey data, a relatively similar result was obtained by Shirazi (1996). It was also notable that *zakah* proceeds could only be distributed to around 2.7% of the total number of poor households. On a more positive note, however, it was also discovered that the programs funded by the *zakah* proceeds have been correctly targeted to the appropriate beneficiaries.

Despite that, more recent studies suggest that high level of *zakah* collection in Pakistan are presumably not sustainable due to the adverse impacts of business cycle on *zakah* collection (Arif, 2006; Clark, 2014; M Akram & Afzal, 2014). While acknowledging that the *zakah* funding has been high from 1981 to 2003, Arif (2006) questioned the sustainability of *zakah* collection in the country. The concern is raised not only due to exhaustion of the current *zakah* reserves, but also because of the decline of *zakah* collection due to unfavourable business cycle (i.e. aggregate income and *zakah* collection declined during recession, whereas demand of *zakah* from the poor/needy increased; *vice versa*). Meanwhile, other studies added that corruptions and poor targeting of *zakah* recipients seem to be the reasons behind the failure of *zakah* to eradicate poverty in the Muslim country (Clark, 2014; Suhaib, 2009). In this respect, it is suggested that the government should seriously consider enhancing the resources to be distributed to the poor/needy. It is also possible to introduce other safety measures, such as targeted assistances (provision of staple food, health assistance, education assistance, etc.) and *waqf* (Islamic charitable endowment) to help the poor meeting their basic needs.

The case of Malaysia is also worth considering. According to Hasan (1987), administratively there was no synchronization between *zakah* and fiscal policy management in the country.[91] However, the tax system enabled individual *zakah* payers to obtain tax rebates for the *zakah* paid. As more *zakah* payers contributed to higher *zakah* proceeds, more allocations were also given to poverty-focused programs. A more recent empirical study found that *zakah* has contributed significantly to reducing poverty in the State of Selangor. Utilizing various poverty and inequality measures such as the Gini coefficient and Atkinson index, it was revealed that *zakah* distribution has reduced the incidence, extent and severity of poverty in the Muslim state of Malaysia (Ibrahim, 2006).

Quite recently, along with more concerns over efficient use of development and public funds, including *zakah* funds (Farooq, 2008; Hulme & Mosley, 1996), considerable attention has been paid to the effectiveness of *zakah* institution rather than the country-wide income redistribution impacts of such intervention. An empirical study by Toor and Nasar (2001) reported that the recipients of *zakah* in Pakistan were typically the households with incomes below the poverty line; they were also illiterate, with large families and virtually no durable household goods. Surprisingly, significant differences in important socioeconomic measures such as income between recipients and non-recipients were not evident. Thus, it was suggested that the effects of *zakah* on income redistribution are actually negligible. Another study revealed that the coverage of the 'public *zakah*'[92] in Pakistan was far smaller than the eligible population. In fact, only 2.8% of the needy actually received the funds. Consequently, the impacts of *zakah* in reducing poverty were not promising. In addition, there were serious concerns about the sustainability of *zakah* programs as they did not target the poorest segment adequately while, at the same time, the *zakah* revenues steadily declined (Arif, 2006).

The above discussions generally contend that there is mixed evidence on the role of *zakah* in poverty alleviation from the macro perspective. Theoretically, based on the macro models which assumed that *zakah* is a part of an Islamic fiscal policy, it is suggested that the institution could significantly contribute to reducing poverty. However, empirical studies have been able to offer very limited support for the proposition partly due to the fact that very few Muslim countries integrate *zakah* into their macroeconomic and fiscal policy

[91] This is so because, according to the constitution, the former is a state's religious matter while the latter is a federal matter.
[92] In the context of Pakistan, this refers to *zakah* managed by the government.

frameworks. As such, at this junction, it can be concluded that essentialising *zakah* as a major part of Islamic fiscal policy might not be necessary in the context of contemporary Islamic societies. Instead, it might be better to consider *zakah* as an alternative social welfare institution to alleviate poverty and subsequently complement it with additional 'safety measure' such as *waqf* institution. With this perspective, it is very relevant and even necessary to analyze the impacts of *zakah* institution on a smaller or micro dimension as it might better explain the contribution of *zakah* in the fight against poverty.

3.3.2. Micro Dimension

In line with the trade dependency development pathway and the faith-based microfinance solutions discussed in the previous chapter, one approach to evaluating the role of *zakah* in poverty alleviation from a microeconomic point of view is to analyze the impact and effectiveness of Islamic microfinance and similar initiatives financed by *zakah* proceeds on the beneficiaries. In this respect, most studies have documented positive impacts of *zakah* in enhancing the recipients' wellbeing (Choudhury, *et al.*, 2008; Ibrahim, 2006; Muhtada, 2007; Obaidullah, 2008a; Rahman & Ahmad, 2010; Saad, 1998). Another method is to extend the analysis of the entitlement approach developed by the Nobel Laureate Amartya Sen (1981, 1986), in which factors affecting household incomes are identified and the impacts of *zakah* on the household welfare can be subsequently investigated.

Utilizing *zakah*-based Islamic microfinance is often considered as a relatively new approach to poverty alleviation (Obaidullah, 2008b). This approach was adopted quite recently as *zakah* funds is introduced as new institutional forms following the *fatwa* that allow *zakah* proceeds to be used for productive/investment purposes. [93] As a result, *zakah* proceeds could now be transferred to the poor as grants, given as *qard-hasan* or used for investment purposes. The 'new' *fiqh* interpretations were presumably made alongside the intention to cut the 'vicious cycle' of poverty through *zakah* institution (Ahmed, 2002; Choudhury & Harahap, 2008; Sadeq, 2002). Furthermore, for the poorest of the poor, the proceeds could be given as allowances to prevent the diversion of funds for consumption purposes and to ensure that the productive funds are used exclusively for productive activities. Thus, integrating *zakah* with microfinance could significantly improve the economic conditions of the poor (Ahmed, 2002).

[93] Please see again discussion in Section 3.1.4.

The *potential* of *zakah* to mitigate some problems faced by Islamic microfinance institutions is also acknowledged in several studies. An investigation into three Islamic microfinance institutions in Bangladesh found that participation in microfinance has financially benefited the majority of the beneficiaries. Moreover, people have reported non-financial benefits in terms of better relationships with spouses and group members, increased solidarity within the family unit, and a better understanding of Islam after joining Islamic microfinance institution (Ahmed, 2002). Similar experiences were documented in the case of the Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited. In this case-study, involvement with microfinance has contributed not only to increasing household incomes but also to rising productivity of crops and livestock, as well as improving employment conditions of household members (Rahman & Ahmad, 2010).

From a slightly different perspective, it is suggested that poverty alleviation through Islamic microfinance requires a composite approach. Under this approach, integration of *zakah* with Islamic microfinance should be achieved through cooperation amongst several institutions that perform different functions and manage specific segments of the poor. For example, the poorest of the poor could be assisted by *zakah* funds to meet their basic needs while at the same time receiving financial and technical support from Islamic microfinance (Obaidullah, 2008a).

Such integration has been implemented in some Muslim countries including Bangladesh and Malaysia. In Bangladesh, a sewing project directed toward poor and unemployed village women in Chittagong has been financed by *zakah* funds since 2004. The funds have provided capital for the project as well as free training and stipends for the women. After two years, around two-third of the *mustahik* receiving the training had graduated and the garments produced had provided a relatively decent income which in turn reduced poverty amongst the women (Choudhury, *et al.*, 2008). Meanwhile, in Malaysia, a slightly different approach has been implemented through the establishment of a charitable fund called *Ikhtiar* Trust of Malaysia (AIM, or Amanah Ikhtiar Malaysia). The fund modifies the idea of the Grameen Bank developed by the Nobel Laureate Muhammad Yunus (Hassan, 2006; Kasim, 1999; Mahmud, 2006; Saad, 1998). However, instead of receiving funds *only* from donor institutions, it also received annual funding from the Government. Just like the Grameen bank practice, it used the funds to distribute small loans known as the *Ikhtiar* Loan Scheme to the poor in small-scale village projects. The program has successfully increased household incomes (Nawai & Bashir, 2007). Another empirical study on the performance of AIM found

that around 56% of the borrowers were able to cross the poverty line upon completion of their first loan, while another 25% crossed the line after the second year of the loan in 1991 (Kasim, 1999). An identical result was found in the case-study of Penang State, Malaysia, where the success rate reached 80% during the period 2001-2005 (Mahmud, 2006).

Another approach that could potentially be utilized is the (modified) entitlement approach proposed by Sen (2007) to explain the existence of famine as the 'ultimate result' of poverty. The main idea is that possession of food/commodities or income/wealth in general is basically a matter of the entitlement relationship between an individual and the commodity. This relationship typically includes entitlements based on trading, production, one's own labour and inheritance.[94]As such, the entitlement approach to poverty concentrates on the *capability* of people to command food/income through legal means available in society, including the use of production possibilities, trade opportunities, entitlements *vis-à-vis* the state and other methods. The approach also implies that poverty alleviation strategies will require mechanisms (legal means) or institutions through which the resources can be transferred to the poor in efficient ways. Islamic institutions such as *zakah* fit the framework and could therefore be fully utilized in the fight against poverty (Ahmed, 2004; Obaidullah, 2008b).

In line with the Sen's perspective, Ahmed (2004) developed a microeconomic model to identify the factors affecting the income and wealth of households while incorporating the Islamic institutions of *zakah* and *awqf.* The model contends that household income could be derived from primary entitlement (trade, production and one's own labour), income/wealth transfer and non-entitlement transfer. In this respect, *zakah* proceeds could be used to increase the entitlements in many ways. The proceeds could be used to increase the trade and production entitlements by, among other things, providing the financial capital needed to buy the goods/inputs and physical capital in the trading and production processes. They could also be utilized to support training/workshop programs aimed at leveraging human capital, which in turn would increase the own-labour entitlement. Meanwhile, for the non-productive poor

[94] Trade-based entitlement implies that one is entitled to own what one obtains by trading something one owns with a willing party (or, multilaterally, with a willing set of parties); production-based entitlement implies that one is entitled to own what one gets by arranging production using one's own resources, or resources hired from willing parties meeting the agreed conditions of trade; own-labour entitlement implies that one is entitled to one's own labour power, and thus to the trade-based and production-based entitlements related to one's labour power; whereas inheritance and transfer entitlement implies that one is entitled to own what is willingly given to one by another who legitimately owns it, possibly to take effect after the latter's death (if specified so) (Sen, 1981).

(the old, sick, handicapped, widows and other vulnerable groups), *zakah* and other charitable funds could contribute to increasing their welfare through the income transfer entitlement and non-entitlement transfer. The empirical research for the proposed model, however, has been left to future studies.

To sum up, the literature suggests that the *zakah* institution could and has been utilized to reduce poverty through micro channels. This particularly happens when the proceeds are used for developing small-scale communities and empowering micro entrepreneurs. Thus, there is evidence that *zakah* institutions have contributed positively in reducing poverty in contemporary Muslim societies.

3.4. Issues in Implementation of *Zakah*

In attempts to maximize the potential of *zakah* as an institution for poverty alleviation, its implementation must be conducted optimally. However, it is impossible to manage such an institution without facing challenges. Indeed, a number of issues are identified in the contemporary *zakah* administrations surveyed.

First, in the *fiqh* aspect, the *zakah* institution in most Muslim countries appears to be underdeveloped due to, among other things, a 'narrow' interpretation of *fiqh* such as in terms of *zakatable* assets and *mustahik* definition. For example, *zakah* was not imposed on financial assets in Sudan and Saudi Arabia because they were not considered *zakatable* assets (Salama, 1990). Meanwhile, *riqab* (for freeing captives) and *fi sabilillah* (for Allah's cause) groups were not included as the head of *zakah* in Brunei because scholars believed that they did not exist in that country (Abdullah, 2010). In this respect, *ijtihad* and the consensus of Muslim scholars on *zakah* matters is imperative since such interpretations could potentially limit the contributions of the *zakah* institution.[95]

Second, the reform of *zakah* laws needs to be considered due to the incomprehensive nature or narrow scope of most of the existing *zakah* law (Al-Omar, 1985). The tax issue, which is strongly related to *zakah*, is rarely discussed in most of the laws (Manjoo, 2008) although

[95] The majority of scholars agree that *ijtihad* on *zakah* matters is imperative, but the consensus on the scope of *ijtihad* is debatable. Abu Saud (in Sadeq, 2002) considers that almost all of the *fiqh* issues on *zakah* need to be reconsidered to meet contemporary challenges. Others believe that the principle of *zakah* should be fixed, while the details such as the type of *zakatable* assets and the rate of *zakah* could be changed (Shaik 1980, Kahf 1999). Yet there is also an opinion that all the rulings should be fixed (Osman 1983, in Sadeq 2002). In practice, however, many *zakah* organizations seem to be more 'bounded' to the 'scriptural-conservative' *fiqh* interpretation of concepts related to *zakah* (Muhtada, 2007).

some countries have provided tax credits for individual *muzakki* (Ahmed, 2004) and imposed a 2.5% tax deduction for corporate *muzakki* (Bakar & Rahman, 2007). The law also seems to be inadequate in dealing with the matters of *zakah* evasion (Diabi, 1992)[96] and/or *zakah* payment through 'non-official' channels.[97] Although *zakah* is obligatory in some jurisdictions, failure to pay the proceeds does not necessarily lead to a penalty mandated by the law, as found in Saudi Arabia (Al-Sakran, 2001) and Malaysia (Wahab, *et al.*, 1995). Indeed, some Muslim countries do not even have penalty mechanisms for *zakah* evasion and other breaches of *zakah* obligations (Othman, 1990). Apparently, in addition to the law reform, law enforcement needs to be significantly improved.

Some of the *fiqh* and legal issues noted above, such as the limited type of *zakatable* assets and *zakah* evasion, contribute to the third issue, namely poor collection rates of *zakah* in most Muslim countries (Kahf, 1989).[98] Another factor presumably responsible for the disappointing result is the ineffective methods of *zakah* collection. In India, *zakah* was often collected by sending *zakah* collectors directly to *muzakki* (Faridi, 1993).[99] Meanwhile, in Ethiopia, *zakah* was mainly submitted to *imams* (Muslim leaders) due to the belief that this practice would be less open to hypocrisy than a direct payment (Abdu, 2009). The poor result also appears to be related to the lack of communication that ought to increase awareness and educate *zakah* payers, as is evident in Malaysia (Othman, 1990) and Jordan (Benthall, 1999). Interestingly, political 'intervention' by government also seems to influence *zakah* campaigns. This was found in Egypt where *zakah* promotions on national television were halted by the government for no clear reason (Helal, 2012). Somewhat related to this is the objection to paying *zakah* proceeds through the state, as observed in Kuwait (Guermat, *et al.*, 2003) and Yemen (Holst & Gericke, 2012). There is also evidence that non-government

[96] *Zakah* evasion refers to attempts to reduce or eliminate the obligation to pay *zakah*. For example, as is evident in some Muslim countries, since *zakah* is only obligatory for eligible Muslims, some (irresponsible) Muslims have transferred their wealth/assets to non-Muslims before the due date of *zakah* payment and then reclaimed them for some kind of 'fee' in return. Another example is the payment of *zakah* to non-official channels in countries where *zakah* must be paid to the authority. The evasion is found in, among other countries, Saudi Arabia and Malaysia (Kuran 1986), Ethiopia (Diabi 1992) and Pakistan (Arif 2006).

[97] In Malaysia, for instance, prosecutions and penalties for violations of *zakah* laws vary from state to state. For example, the maximum penalty for *zakah* law violation is M$10 in Johor state without imprisonment, while it is M$500 in Kedah state with 6 months imprisonment (Othman, 1990:88-89).

[98] In the estimation of Kahf (1989), the average contribution of *zakah* towards GDP in eight Muslim countries (Egypt, Pakistan, Indonesia, Qatar, Saudi Arabia, Sudan, Turkey and Syria) ranges between 1.8% and 4.3% of GDP. With moderate assumptions, however, the average contribution was 3.9%, with the highest proportion of 6.3% found in Sudan and the largest proportion of 1.7% found in Indonesia.

[99] This practice is also influenced by the 'traditional' *fiqh* interpretation adopted by societies. In this case, Muslim society in India follows a strict Hanafi School tradition where *zakah* cannot be paid though institutions on account of its interpretation of *Tamlik.*

organizations, particularly corporations, are more effective in collecting *zakah* than their counterparts (Ahmed, 2004).

Fourth, in relation to *zakah* distribution, it has been found that large shares of the *zakah* revenue have been used to finance causes other than poverty reduction (Anwar, 1991). Faridi (1993) even noted that *zakah* money has been used excessively for the purpose of *fi-sabilillah,* interpreted as 'military *jihad*' by some Islamic movements in India. In Thailand, it is suspected that the funds have been misused to finance 'terrorism-related' activities instead of helping the poor (Pereire, 2007b). Similarly, in Sudan, there is evidence that the money has been spent on political agendas and disbursed in certain areas instead of being distributed to the poor (Sudan Tribune, 2012). As such, the misused of *zakah* proceeds was evidence in many Muslim countries. Another issue is the poor targeting of *zakah* beneficiaries, with the proceeds being given to undeserving recipients. The mistargeting also occurs when the *mustahik* receive *zakah* money/assistance from several organizations at the same time. This problem is presumably caused by the non-existence of *mustahik* data and the lack of coordination between agencies responsible for distributing the proceeds (Abdullah, 2010; Arif, 2006; Helal, 2012). The problem of 'locality' in distributing *zakah*[100] was also seen as an important issue in countries such as Sudan (Salama, 1990). However, in other jurisdictions, this is not such a big problem. Indeed, in countries such as the UK and US, there is a tendency for *zakah* proceeds to be distributed outside those countries. These distribution models will have different impacts on the local recipients.

Fifth, the main problems with respect to financial management are high cost and inefficiency of *zakah* management, which will potentially diminish the poverty reduction effects expected from the institution. Despite the common understanding that the maximum share for the *amil* (*zakah* administrator) is one-eighth of the revenues collected (Al-Qardawi, 2000), Salama (1990) found that the administration cost accounted for more than 18% of the *zakah* disbursed in Sudan in the 1405-1409 Hijri period, or more than half of the proceeds disbursed to the poor/needy. Similarly, in the state of Perlis in Malaysia, *zakah* employees received 34% of the total *zakah* disbursement as compared to a 14% share for the poor in 1985. The administrative cost was even higher in the state of Negeri Sembilan, Malaysia, accounting for 52% during 1978-1982 period (Hasan, 1987). Thus, in addition to inefficient practice, there is an indication that the high cost is mostly experienced in countries where *zakah* is mainly

[100] Locality means that *zakah* must be spent in areas where the proceeds are collected.

administered by the state. Moreover, some countries experience a surplus of *zakah* which is usually accumulated and spent on financing 'big' infrastructure projects such as hospitals and schools for the poor (Ahmed, 2004).

Another important issue is the lack of high-quality human resources employed by *zakah* organizations (Abdullah, 2010; Mohammad, 1995). This could be related to the fact that most of the employees are government officers or volunteers who have less 'incentive' to work to the best of their ability to ensure that the impacts of *zakah* on the beneficiaries are maximized (Helal, 2012). Better incentives, however, are usually more prevalent under the corporate *zakah* administration (Ahmed, 2004). Accordingly, the poverty reduction impacts of *zakah* tend to be unclear; thus, the 'claim' that *zakah* is an Islamic institution for poverty alleviation and social justice is still questionable (Farooq, 2008).

Finally, the disappointing effect of *zakah* is likely to be related to the lack of evidence that the proceeds have been used properly in effective poverty eradication programs that lead the beneficiaries out of poverty (Ali & Hatta, 2014; Farooq, 2008). In fact, it is believed that most of the agencies see their main tasks as merely collecting and distributing *zakah* proceeds (Kasri, 2013). Very rarely do they try to evaluate their programs and subsequently measure the impact of *zakah* assistance on poverty and the wellbeing of the beneficiaries (Osman, 2010).

3.5. Summary and Conclusion

This chapter discusses classical and contemporary literature related to the concepts, implementation and roles of *zakah* in society, particularly with respect to poverty alleviation. The *fiqh* concepts reviewed include, among others, definitions of *zakah*, *zakah* payers and *zakah* beneficiaries, as well as types and rates of *zakah*. The administration of *zakah*, particularly the most important management functions for a successful and sustainable *zakah* organization, was also discussed. Afterwards, the empirical implementations of *zakah* during the time of the prophet/companions and modern times were also briefly surveyed.

The impacts of *zakah* institution from macro and micro perspectives were subsequently discussed. On the macro side, there is mixed evidence on the role of *zakah* in improving growth and reducing poverty primarily due to the fact that very few Muslim countries integrate *zakah* into their macroeconomic and fiscal frameworks. Nevertheless, from the micro perspective, the institution can and has been utilized to reduce poverty quite

effectively, particularly when the proceeds are used for developing small-scale communities and empowering micro entrepreneurs. Thus, the discussions generally suggest that the *zakah* institution has contributed positively to reducing poverty and improving the welfare of society, not only in the past but also in contemporary Muslim societies. Despite that, certain challenges are experienced in attempts to achieve the social welfare and social justice objectives.

Chapter 4 Understanding Profiles of Poverty and Development of *Zakah* Institution in Indonesia

This chapter explains the profiles of poverty and the development of the *zakah* institution in Indonesia. It begins by explaining the general background of Indonesia and Greater Jakarta region, which is the research area. It also discusses poverty conditions and poverty alleviation strategies that have been implemented in the country. It elaborates the development of the *zakah* institution including its potential and empirical role in reducing poverty in the world's largest Muslim country. The last section summarizes the overall discussions.

4.1. General Background of Indonesia

Indonesia is a country in the Southeast Asia region. As a republic, it has an elected legislature and a president. Politically, it has a multi-party system under the 1945 Constitution.[101] Under the system, the president is both the head of state and the head of government. Accordingly, the governmental system is often described as 'presidential with parliamentary characteristics'. Furthermore, the Indonesian legal system is based on Roman-Dutch law modified by local custom and, to some extent, Islamic law. Formal and informal legal processes are strongly influenced by political pressure and interest groups, and this characterizes the law and policy-making in the country (Gray, 1991:2).

Administratively, Indonesia consists of 33 provinces with independent political legislatures and governors. Jakarta, the capital of Indonesia, is located in the Special Region of Jakarta Province (better known as Jakarta). Jakarta and its surrounding cities, including Bogor, Depok, Tangerang and Bekasi cities, are known as Jabodetabek[102] or Greater Jakarta area. Although the satellite cities are located in West Java and Banten provinces of Indonesia,[103] many of their residents work in Jakarta during the day. Likewise, many people who originally lived in Jakarta have moved to the nearby cities as Jakarta has become too crowded. Most of them, however, continue to work in Jakarta. Thus, in terms of socio-economic characteristics, the cities and their people have many similarities (Forbes, 2004).

[101] Based on this concept, executive power is exercised by the government. Legislative power is vested in both the government and the People's Representative Council. The judiciary is independent of the executive and the legislature. The 1945 constitution provided for a limited separation of executive, legislative, and judicial power.
[102] Jabodetabek is the abbreviation for Jakarta-Bogor-Depok-Tangerang-Bekasi.
[103] Specifically, Bogor, Depok and Bekasi cities are located in West Java province, while Tangerang city is located in Banten province.

Table 4-1: Key Statistics of Indonesia and Greater Jakarta Area

Indicators	Figure
Socio-Demographic Indicators	
Area (km2)	1,904,569
Area of Greater Jakarta (km2)[a]	6,392
Population[a]	251,160,124
Population growth rate (%)[a]	0.99
Population density (person/km2)[a]	124.66
Population of Greater Jakarta[a]	28,019,545
Population density of Greater Jakarta (person/km2)[a]	4,383
Age (median age, years)[a]	28.90
Religion (% Islam)[d]	87.18
Health: life expectancy at birth (years)[a]	71.90
Health: birth rate (birth/1000 population)[a]	17.38
Health: under-five mortality (death/1000 live-birth)[a]	26.06
Education: primary school dropout rate (% of primary school cohort)[c]	20.00
Education: expected years of schooling for children (years)[c]	12.90
Education: adult literacy rate (% aged 15 and above)[c]	92.80
Improved water sources (%)[d]	82.00
Economic Indicators	
GDP (PPP, trillion USD)[b]	1.24
GDP/capita (PPP, USD)[b]	5,100.00
Real growth rate (%)[b]	6.20
Shares of GDP[b]	
*Agriculture (%)	14.40
*Industry (%)	47.00
*Services (%)	38.60
Labour force (by occupation)[b]	
*Agriculture (%)	38.90
*Industry (%)	22.20
*Services (%)	47.90
Unemployment (%)[c]	6.60
Unemployment in Greater Jakarta (average %)[c]	11.23
Child labour (% child age 5-14)[e]	7.00
Unemployment (% youth aged 15-24 years)[e]	22.20
Inflation (%)[c]	3.72
Inflation in Greater Jakarta (average %)[c]	3.35
Exchange Rate (IDR/USD)[c]	8,770.43
Minimum regional wage in Greater Jakarta (average, thousand IDR)[c]	1,246.74
Gini Ratio [c]	38.14
Human Development Index (ranking among 187 countries) [b]	121

Source: Compiled from Statistics of Indonesia (Badan Pusat Statistik, various years), UNDP's Human Development Report (2012), CIA World Fact Book (2013);
Note: a = July 2013 estimates, b = 2012 figures, c = 2011 figures, d = 2010 figures, e = 2009 figures.

Table 4-1 summarizes the key socio-demographic and economic characteristics of Indonesia and Greater Jakarta area. The country comprises 17,508 islands, with Greater Jakarta constituting 0.3% of the area and 11.2% of its population. It acknowledges six religions, namely Islam, Protestantism, Catholicism, Hinduism, Buddhism and Confucianism. Compared to the other religions, Islam was initially adopted in the 13th century through the influence of Muslim traders from Arab/India and had become the country's dominant religion by the 16th century. It is also dominated by the Sunni tradition and Shafi'i school of thought. Moreover, although not an Islamic state, Indonesia has the world's largest Muslim population accounting for around 200 million (Badan Pusat Statistik, 2011).

The table also shows a number of social indicators including health, education and the country's public infrastructure. In the health dimension, life expectancy at birth has been estimated at around 71.9 years, with a ranking of 138 in the world. In July 213, the birth rate was relatively moderate at 17.38 births for every 1000 population. In the education aspect, although the adult literacy rate was relatively high (92.8%), the rate of primary school dropout was also relatively high (20%) in 2010. Meanwhile, in terms of water provision, it has been reported that the use of improved (protected) water sources in the country stood at around 82% (CIA, 2013).

In terms of the economy, the country's estimated nominal GDP in 2012 was US$1,237 trillion, which made it the 16th largest nation in the world. However, the GDP/per capita was only around USD 5,100, which put it as a lower-middle income country. In 2012, industry was the economy's largest sector contributing around 47% of the GDP. This was followed by the services (38.6%) and agriculture (14.4%) sectors. Nonetheless, most of the labour force (47.9%) was actually working in the service sector. In the labour market, although the general unemployment rate was relatively moderate at 6.6%, the corresponding rate reached 11.23% in the Greater Jakarta area. However, in 2011, inflation rates in Indonesia and Greater Jakarta were relatively similar at around 3.72% and 3.35% respectively (World Bank, 2013).

Indonesia is also considered a country with medium human development. In 2012, the country's Human Development Index (HDI) was 0.629 -which put it in 121st place out of 187 countries worldwide- which is slightly below the regional average of 0.683. Despite that, between 1980 and 2012 Indonesia's HDI actually rose from 0.422 to 0.629, or by 1.3% annually, suggesting that there has been a significant improvement in people's wellbeing in the country (UNDP, 2013).

4.2. Poverty in Indonesia

4.2.1. Profile of Poverty

Although Indonesia has experienced high economic growth and a promising economic performance in the last few years, as mentioned earlier, the poverty level in the country remains high. This is shown by a number of poverty measures summarized in Table 4-2.[104] In 2007, the number of poor people was approximately 37.2 million or 16.58% of the population. The number steadily decreased to 31.02 million (13.33%) and 30.02 million (12.49%) in 2010 and 2011 respectively. This implies a decrease in the poverty headcount index of 0.84%. A similar trend is indicated by the other two measures of poverty. Specifically, in the same period, the Poverty Gap index (P_1) eased from 2.21% to 2.08%, suggesting a drop of 13% in the depth of poverty. The Poverty Severity Index (P_2), however, only decreased by 3%, indicating that the severity of poverty and inequality in Indonesia did not really change during this period (Badan Pusat Statistik, 2013).

Table 4-2: Poverty Profile in Indonesia, 2007-2011

Year	Number of Poor People (thousand)	Percentage of Poor People (%)	P1 (%)	P2 (%)
2007	37,168.30	16.58	2.99	0.84
2008	34,963.30	15.42	2.77	0.76
2009	32,530.00	14.15	2.50	0.68
2010	31,023.40	13.33	2.21	0.58
2011	30,018.93	12.49	2.08	0.55
Average 2007-2011	*32,472.72*	*13.99*	*2.41*	*0.65*

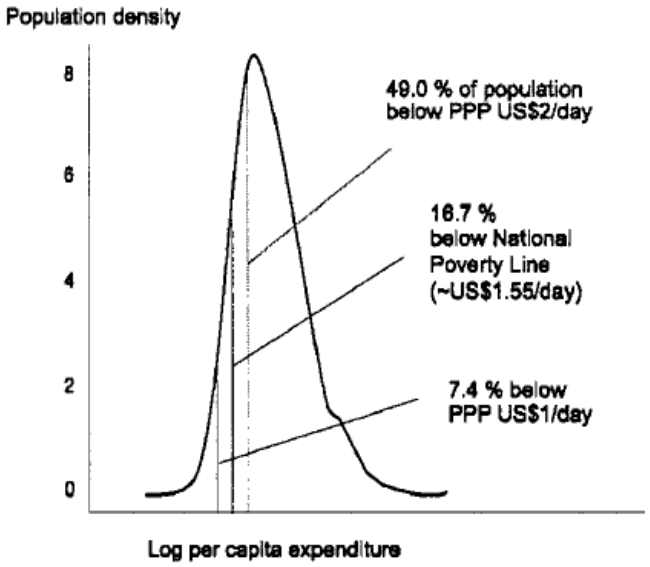
Source: Compiled from Badan Pusat Statistik Database (2013)

Although the figures above indicate positive trends over time, the poverty levels have not returned to the pre-crisis level of 11.34 million poor people in the year 1996. Furthermore, by using the international poverty line of USD 2/day, the World Bank pointed out that after the crisis the number of poor people living with less than the minimum amount was approximately 49% of the population (see Figure 1). Nevertheless, when the national poverty line was used, the number dropped to around 16.7% of the population (World Bank, 2006). A more recent study suggests that the figures above only slightly declined to 42.6% and 15.4% respectively in 2008. The occurrence of simultaneous movements between those who became poor and not-poor was also evident in Indonesia. This was obvious from the relatively the same proportions of people moved out of poverty and moved into poverty, i.e. 53.29% and 49.02% respectively, between 2008 and 2009 (Suryahadi, *et al.*, 2012b). These

[104] The poverty lines used to calculate the poverty index are the government's official poverty line.

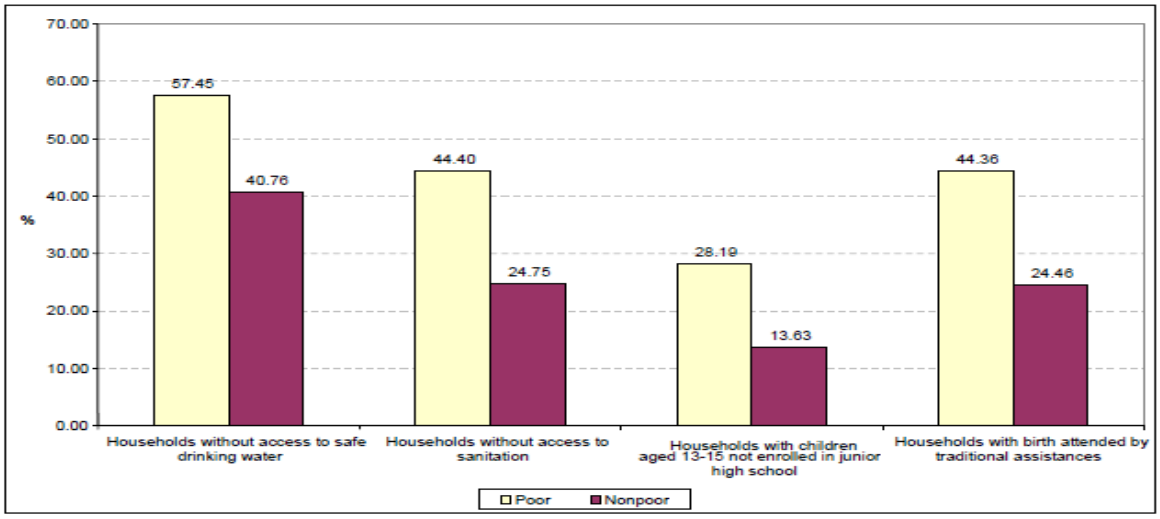
comparisons indicate the vulnerability of the poor people living around the poverty line in the world's fourth most populous country.

Figure 4-1: Proportions of Poor People in Indonesia



Source: World Bank (2006:xix)

Figure 4-2: Selected Non-Income Poverty Measures in Indonesia



Source: Sumarto, *et al.* (2008: 11)

The high poverty and vulnerability figures according to the income/consumption measure above are in line with the non-monetary poverty measures. Based on the 2004 national survey data illustrated in Figure 4-2, most of the poor households have a lack of access to public services. Around 57.5% and 44.4% of the poor had no access to safe water and sanitation respectively. In healthcare, around 44.4% had to rely on traditional assistance when giving

birth. Meanwhile, in education, almost a third of the poor could not enroll their children in junior high school (Sumarto, *et al.*, 2008). Thus, the poor were widely deprived of access to public services. However, it is also notable that provision of the basic social services has improved considerably in the last few years, as suggested by some of the indicators presented earlier in Table 4-1.

Table 4-3: Poverty Profile in Jakarta, West Java and Banten Provinces, 2007-2011

Year	Number of Poor People (Thousand)			Percentage of Poor People (P0, %)			Depth of Poverty (P1, %)			Severity of Poverty (P2, %)		
	Jakarta	W.Java	Banten	Jakarta	W.Java	Banten	Jakarta	W.Java	Banten	Jakarta	W.Java	Banten
2007	405.70	5457.90	886.20	4.61	13.55	9.07	0.59	2.26	1.40	0.12	0.57	0.34
2008	379.60	5322.40	816.70	4.29	13.01	8.15	0.72	2.17	1.12	0.19	0.58	0.28
2009	323.20	4983.60	788.10	3.62	11.96	7.64	0.57	1.95	1.32	0.14	0.50	0.33
2010	312.20	4773.70	758.20	3.48	11.27	7.16	0.45	1.93	1.00	0.11	0.52	0.24
2011	363.42	4648.63	690.49	3.75	10.65	6.32	0.60	1.72	0.90	0.15	0.43	0.20
Average 2007-2011	356.82	5037.25	787.94	3.95	12.09	7.67	0.59	2.01	1.15	0.14	0.52	0.28

Source: Compiled from Badan Pusat Statistik Database (2013)

Table 4-3 reports the estimation results for poverty indices in three provinces of Indonesia where the Greater Jakarta area is located. In general, the worst poverty conditions during the period 2007-2011 were experienced by those living in West Java province, as shown by the highest number and proportions of poor people in the province. Indeed, the 12.09% average percentage of poor people in West Java was around three times higher than that of the Jakarta province. Similarly, the largest depth and severity of poverty was prevalent amongst the residents of West Java province. Nevertheless, there was a trend indicating that poverty figures in West Java and Banten provinces have decreased gradually. In contrast, in the same time period, the poverty gap and poverty severity indices in Jakarta showed greater fluctuations. However, the indices tend to increase quite significantly in the last two years, as shown by the increased P_1 from 0.45 to 0.60 and P_2 from 0.11 to 0.15. These poverty profiles indicate the dynamics of poverty in Jakarta and its surrounding areas.

While there are no comprehensive data and literature on the non-income poverty measures for the poor and non-poor in the three provinces above, Table 4-4 provides some statistics on social welfare conditions in the region as compared to the national figures. Generally speaking, all of the indicators in the Greater Jakarta region were better than the national performance. The best conditions, however, appeared to be in Jakarta province. Health conditions in the area, as indicated by the prevalence of children with malnutrition, were significantly lower than the national average of 19.8%. Similarly, primary school dropout

rates were slightly lower in the three provinces compared to the national figure. Meanwhile, although improved (protected) water source conditions were relatively good in the regions, the difference between the conditions in Banten and the national condition was relatively marginal at 0.45%.

Table 4-4: Selected Social Welfare Indicators in Indonesia and Greater Jakarta Region

Characteristics	Indonesia	Jakarta	West Java	Banten
Prevalence of under-fives (toddlers) with malnutrition (%)[a]	19.8	11.3	13.0	18.5
Primary school dropout rate (% of primary school cohort)[b]	2.5	0.8	1.1	2.1
Improved water sources (%)[b]	53.4	87.9	55.6	53.9

Source: Compiled from various Indonesian statistical sources, including a = Indonesia Health Profile 2010 (Ministry of Health), b = National Socio-Economic Survey 2009 (Badan Pusat Statistik)

The poverty profiles explained above generally indicate that poverty levels remain high in the country, including in the Greater Jakarta Metropolitan area. This is shown by both the income poverty indices and the non-income poverty indicators. Nevertheless, the multidimensional poverty conditions in the region are just slightly better than the national circumstances. Therefore, the wellbeing conditions of the people in the area were relatively better than the rest of the Indonesian population. Overall, the observations suggest that multiple aspects of poverty remain a big problem in Greater Jakarta Indonesia.

4.2.2. Determinants of Poverty

Further examination of the poverty profiles in Indonesia reveals that poor households have several characteristics associated with a higher probability of being poor or being vulnerable to poverty. The determinants of poverty can be broadly classified into socio-demographic (age, gender, marital status, education, occupation, household size), economic (income, assets, etc.) and geographic (location) variables. The significance of these variables is confirmed by a number of empirical studies on the determinants of poverty in Indonesia (see, among others, Dartanto & Nurkholis, 2013; Suryahadi, *et al.*, 2012a; van Edig & Schwarze, 2012; Widyanti, *et al.*, 2009; World Bank, 2006). It is also notable that most of the studies used the Indonesian national socio-economic survey data, known as Susenas data, and utilized multivariate statistics/econometric methods in their analysis.

With respect to socio-demographic aspects, the empirical literature generally suggests that poor households tend to have a female head of household, suffer from a lack of education,

have a large household size (i.e. average 5.4 members),[105] have a high dependency ratio and have a lack of access to basic facilities and infrastructure such as water, electricity, roads and telecommunications. Specifically, a study using the national survey data for the period 2005-2007 revealed that health shocks (i.e. sudden health problems) increased vulnerability to poverty in Indonesia. The probability was higher if the shock was experienced by the household heads (Dartanto & Nurkholis, 2013). A similar study based on primary data in the Sulawesi province of Indonesia found that social capital has a negative impact on poverty in the area. The study concluded that the more active the households' members (i.e. higher social capital), the less likely they are to be poor and remain in such conditions (van Edig & Schwarze, 2012).

In the economic dimension, the variables significantly related to poverty are employment status, lack of asset holdings (land, house, cattle, source of water, etc.) and lack of access to formal/informal micro credit. Specifically, working in agricultural and informal sectors was found to be positively and strongly related to poverty. Employing longitudinal and nationwide data in 1999 and 2002, the World Bank estimated that agricultural households living primarily in rural areas were 2.6 times more likely to be poor than non-agricultural households. Meanwhile, the household heads working in the informal service sector, who mostly live in urban areas, were 21% less likely to be poor than the others. As for the financial capital variable, it was estimated that urban households with access to a bank have 5.5% higher expenditures than their counterparts (World Bank, 2006). The importance of the economic variables are also confirmed by other studies (Alisjahbana & Yusuf, 2003; Suryahadi, *et al.*, 2012a).

Another economic variable suggested as having a significant influence on poverty conditions is remittance or transfer from family members. In this context, a higher transfer from the family was found to be correlated with a lower probability of being poor (van Edig & Schwarze, 2012). Furthermore, an interesting relationship was found between consumption patterns and poverty in Indonesia. The World Bank's seminal study revealed that households with high proportions of rice and tobacco in their consumption basket appeared to be poorer than the others, suggesting that those commodities were central to the consumption pattern of the poor (World Bank, 2006). While sharing relatively similar results, more recent studies

[105] While the average size of poor households is 5.4 members, it is only 4.3 members for non-poor households (Badan Pusat Statistik, 2011).

noted that price fluctuation of the goods have adverse impacts on households income and expenditure (Dartanto & Nurkholis, 2013; Suryahadi, *et al.*, 2012a).

As for the geographic profile, most studies in the context of Indonesia found that the majority of poor households live in rural areas. Nonetheless, poverty amongst the urban poor was also high. Indeed, it is notable that the urban poverty problem is likely to increase in the future as the proportion of poor people living in urban areas is expected to reach 45% by 2023.[106] The urban poor typically live in the densely occupied settlements and in crowded/inadequate housing conditions. It is argued that those living in these environments will not have the same opportunities as those in better-endowed areas and will thus be more vulnerable to poverty (World Bank, 2006). Some studies also suggested that households located in Java/Bali islands -where Greater Jakarta Metropolitan area is located- were more vulnerable to poverty than others, despite the fact that the islands actually have relatively good infrastructure and better facilities than the others (Alisjahbana & Yusuf, 2003; Dartanto & Nurkholis, 2013; Suryahadi, *et al.*, 2012b).

While the empirical studies above provide a relatively comprehensive analysis regarding the determinants of poverty in Indonesia or in specific regions in the country, it is notable that they did not specifically address religion factor/issue which is intuitively a very important aspect of life in the world's largest Muslim country. The exclusion of this factor might be related to the fact that most of Indonesian population (i.e. more than 87%) are Muslims. As such, the overall development results would naturally and directly relate to them. While this might be true to some extents, it should be noted that some parts of Indonesia (such as Bali, Nusa Tenggara and Papua regions) are actually non-Muslim dominated areas. Accordingly, the presumption above could not be applied to them and any conclusions steamed from such assumptions would be misleading.

The exclusion might also due to the fact that mainstream economic approaches –which are mostly followed by the previously discussed studies- have traditionally neglected the role of religion in development. While there are many reasons for such neglect, from difficulties in quantifying religious indicators to data availability, it is evident that the existing poverty studies have excluded this important factor in their analysis. Arguably, this would limit their

[106] In 1976, the share of the poor living in urban areas was only 18.5%. However, this share reached 32% in 2004 and was predicted to increase over time. It is estimated that, by 2016, the share of urban poor will have reached 45% and will pass the halfway mark by 2023 (World Bank, 2006).

abilities to comprehensively explain the determinants of poverty in Indonesia particularly when multidimensional nature of poverty is considered. Furthermore, considering that a number of religious institutions –such as *zakah* and Islamic microfinance institutions- are actually directed to solve poverty problems exist in Muslim societies, such studies would lose important insights from elaborating the role of the critical factor. As a result, studies incorporating and analyzing religious variable in multidimensional poverty analysis are exceptionally important in the context of poverty analysis in Indonesia.

4.2.3. Poverty Alleviation Strategies

The profile and determinants of poverty over the recent past provide pointers for poverty reduction strategies in Indonesia (Table 4-5). Since 1974, the Indonesian government has designed and implemented various development and poverty alleviation programs aimed at advancing the agriculture sector, reducing unemployment and improving basic infrastructure, especially in the rural areas. The prioritized programs include, among others, agriculture development program and credit for small entrepreneurs (1974-1988) as well as village infrastructure development programs and community recovery programs (1988-1998).

Table 4-5: Poverty Alleviation Programs in Indonesia

Time/Period	Poverty Alleviation Programs
1974-1988	Agriculture development programs such as Mass Guidance (*Bimbingan Masal* or BIMAS)[a], Small-scale Credit (*Kredit Usaha Kecil* or KUK, particularly for farmers), and transmigration; industry development (labour-intensive industry such as textile and timber industries) and INPRES development policies (building roads, irrigation, etc at all regional levels)
1988-1998	Developing the Integrated Development Area (*Pengembangan Kawasan Terpadu* or PKT), Village Infrastructure Development Programs (*Inpres Desa Tertinggal* or IDT and *Pengembangan Prasarana Desa Tertinggal* or P3DT) and other *ad-hoc* post-crisis poverty reduction programs (PDMDKE, community recovery programs, etc.).
1998-2006	Social Safety Net (*Jaring Pengaman Sosial* or JPS) programs covering food security, health, education, employment creation and community empowerment. Sectoral community-based poverty alleviation programs (PPK, P2KP, P2MPD, WSSLIC, KPEL, P4K, etc.). Since 2004, these programs were integrated into the National Strategy for Poverty Reduction (*Strategi Nasional Pengentasan Kemiskinan*).
2007-now	Integration and harmonisation of poverty alleviation programs such as Education Grants (*Bantuan Operasional Pendidikan* or BOS), health insurance (*Jaminan Kesehatan Nasional* or Jamkesnas) and community empowerment program into National Program for Community Development (*Program Pemberdayaan Masyarakat Mandiri* or PNPM) program.

Note: [a]BIMAS is a program providing farmers with access to high-yielding rice varieties, fertilizers and pesticides; *Source:* Compiled from Sumarto, *et al.* (2008); Kasri and Wibowo (2010), Suryahadi, *et al*. (2010).

Most of the programs conducted during the period 1974-1998 were integrated into the national economic and development programs. In other words, they were not specifically targeted at the poor. Rather, the programs were part of the regular Five-year Development

Planning known as Repelita (*Rencana Pembangunan Lima Tahun*), implemented by the Indonesian government. Therefore, they were considered an integral part of development strategies rather than poverty alleviation strategies.

Poverty alleviation has become a major policy initiative in Indonesia since the advent of the 1998 economic crises. The crises started as currency and banking crises, in which rupiah or IDR (i.e. the Indonesian currency) depreciated dramatically and the banking sector suffered from negative balance sheets and credit crunch problems. Initial response of the Indonesian monetary authority to the currency crisis was widening the exchange rate band from 8 % to 12 %. However, as it remained depreciated and capital flowed outside the country, the exchange rate regime was floated on August 1997 and subsequently monetary policy was being contracted considerably. Moreover, the government tightened its fiscal policy by postponing a number of planned large infrastructure projects. It also released a plan to restructure the banking sector. However, the plan lacked of credibility and hence the currency continued to weaken. The government then turned to get international supports and entered a number of banking restructuring agreements with the International Monetary Fund (IMF). Despite the efforts, the Indonesian people witnessed their exchange rate collapsed to as low as 15% of its pre-crisis value, interest rates hiked to double digit and hyperinflation occurred during the crisis (Kasri, 2011). [107]

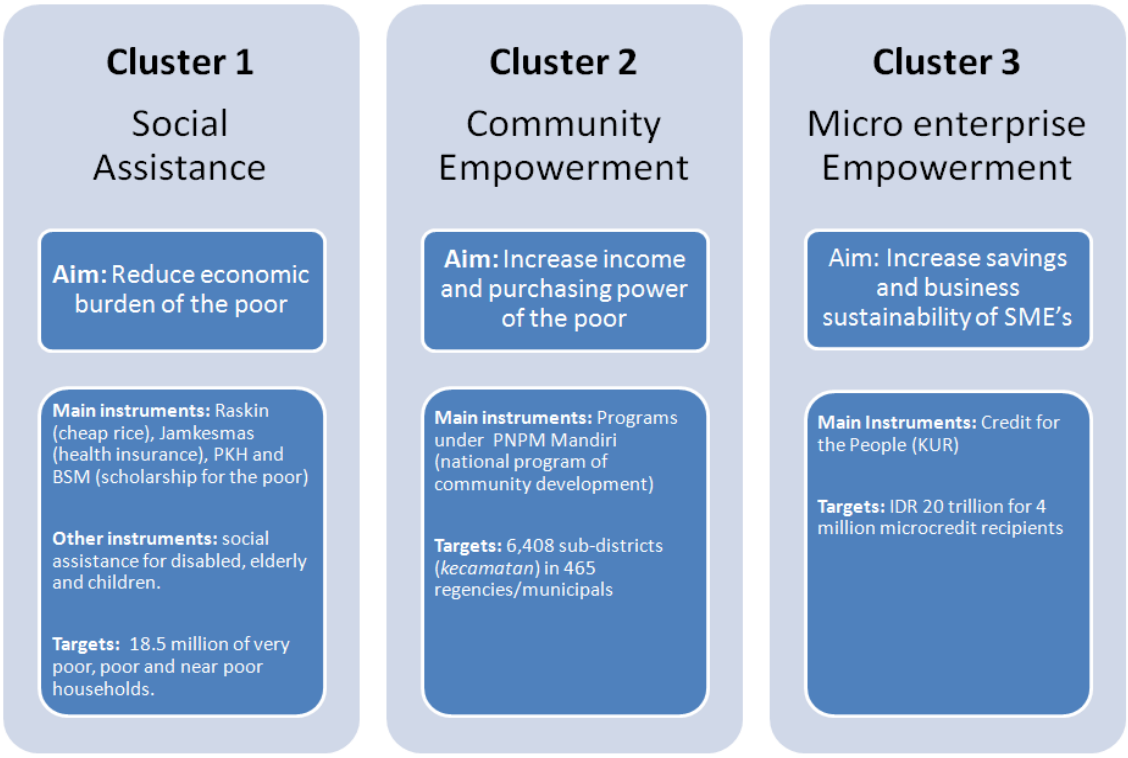
At the same time, mass riots attacking properties of some of the Indonesian riches happened in Jakarta and few other Indonesian big cities. The riots were mostly linked with higher disparity and inequality between the rich and the poor, particularly in the urban areas. The crises culminated in the fall of the New Order Government led by President Soeharto, who has been in power since 1960s. He was replaced by an interim government led by the Vice President B.J. Habibie (Sumarto, *et al.*, 2005). The interim government responded to the crises by, among others, seeking additional support from the World Bank. The bank required the government to implement some structural adjustments programs, including the cutting of subsidies of important consumer goods such as fuel and rice. The government was also obliged to privatize some important public infrastructures such as water and telecommunication facilities. Amidst the policies and the international 'supports', inflation surged and many people fell in poverty traps. The official report suggested that the national poverty rates increased from around 17.3% in 1996 to 24.3% in 1998. It was also estimated

[107] For example, in 1998, the general inflation rate was 78% and the food inflation rate was 118%.

that the poverty rate have increased by 164% from the onset of crisis in mid-1997 to the peak of the crisis around the end of 1998 (Suryahadi, *et al.*, 2012a; Suryahadi, *et al.*, 2010).

To reduce the adverse social impacts and increased poverty due to the crisis, the government introduced the Social Safety Net (JPS) policies in 1998. The policies included emergency programs such as emergency food security, health, education, employment creation and community development programs. As such, from 1998 to 2010, the government has shifted its development agenda from meeting growth oriented goals to achieving poverty reduction objectives. In addition, with the World Bank's support, the government have launched the national grand strategy for poverty alleviation. These strategies were documented in Interim Poverty Reduction Strategy Papers (I-PRSPs) and introduced in 2003. The full PRSPs were launched in 2004 with the focus to improve social protection and create greater opportunities for the poor to escape poverty (Suryahadi, *et al.*, 2010). Overall, it could be concluded that the economic crises as well as the resulting socio-political changes have shifted the Indonesian economic policies from growth oriented policies to poverty focused policies.

Figure 4-3: Three Clusters of Poverty Alleviation Strategies in Indonesia



Source: Modified from TPKP, 2009 (in Suryahadi, *et al.* 2010:11)

Currently, particularly from 2010, the government's poverty reduction strategy is formulated through a clustering of poverty reduction programs into three segments targeted at the very poor, poor and near poor (Nazara, 2012; Suryahadi, *et al.*, 2010; TNP2K, 2013). The first cluster is social assistance programs, which aim to fulfil the basic needs of poor households (especially food, health, education, clean water and sanitation) as well as to provide direct assistance to ease their burdens and enhance their quality of life. The main programs conducted under this cluster are (i) unconditional cash transfer (BLT or *Bantuan Langsung Tunai*), i.e. monthly cash assistance to poor households, (ii) conditional cash transfer (PKH or *Program Keluarga Harapan*), i.e. cash assistance conditional on attending healthcare services for pregnant mothers and/or toddlers and on children attending schools, (iii) rice for the poor (Raskin or *Beras Miskin*), i.e. cheap/subsidized rice for the poor, (iv) health insurance for the poor (Jamkesmas or *Jaminan Kesehatan Masyarakat*) and (v) scholarships for children of poor families (BSM or *Bantuan Siswa Miskin*). Most of the assistances were distributed directly to households, except for the scholarships, which were usually given through schools.

The second cluster is the community empowerment cluster, with the main objective of enhancing the capacity and income of the poor by involving them in the development process based on empowerment principles. In relation to this, the government provides social funds for poor communities, which they can use to improve basic social and economic services according to their priorities. The programs under this cluster are integrated under the so-called National Program for Community Development (PNPM Mandiri or *Program Nasional Pemberdayaan Masyarakat Mandiri*) which includes PNPM rural and PNPM urban areas, Rural Infrastructure Support (PNPM-RIS) and tourism village (PNPM *Pariwisata*).

The third and final cluster is microenterprise empowerment, which aims to provide access to credit/financing for microenterprises without the hindrance of the requirement to provide collateral. There are three main assistances under this cluster, namely (i) capital/financing assistance, (ii) opening access to capital and marketing of products, and (iii) facilitation and skill/business training. The assistances are expected to empower and increase the incomes of micro entrepreneurs.

The concept was designed and implemented based on the Presidential Regulation (*Perpres*) No.13/2009 regarding the Coordination of Poverty Alleviation (Suryahadi, *et al.*, 2010:11). The coordination is in line with the new understanding that eliminating multidimensional

poverty requires the participation of all development actors including the third sector. (Perdana & Maxwell, 2004). Despite this, it is noticeable that there seemed to be no formal poverty reduction policies acknowledged and involved religious institutions such as *zakah* institution in the national grand strategies. As briefly explained earlier, this is presumably related to the facts that most of the Indonesian economic policies tend to separate and neglect the role of religion in development. This might be one reason why the poverty reduction policies, particularly in the context of Indonesia, could not achieve the optimum and expected results.

4.3. *Zakah* Institution in Indonesia

This subsection explains the evolution and development of the *zakah* institution in Indonesia. As literature on this subject matter is quite scarce, the discussion is limited to the brief development of *zakah* from the Dutch colonial time in the 1800s to the implementation of *zakah* in the newly independent Indonesia (from 1945 to 1998) and the current times (after 1998). It also presents some data and facts on *zakah* collection and distribution in the world's largest Muslim country. The discussion is expected to provide the basis for analyzing the role of *zakah* in alleviating poverty to be discussed in the next sub-section.

4.3.1. Historical Development

In the early years of Islam in Indonesia, the practice of *zakah* appeared to be informal and voluntary. In fact, *zakah* payment was generally left to individual Muslims to manage.[108] However, during the Dutch colonial period in the 1800s, it started to become institutionalized. Regulations on *zakah* were mainly designed by the colonial government's oriental counsellor, Snouck Hurgronje,[109] as part of the Dutch Islamic policy (Salim, 2006). As early as 1882, the colonial government had been closely involved in administrating religious practices of Indonesian Muslims, beginning by facilitating the establishment of the Religious Court in Java. In the case of *zakah*, the government issued *zakah* regulations,

[108] According to Salim (2006), the administration of *zakah* at that time was done directly/personally by *muzakki* and indirectly through those who had mastered Islamic knowledge such as religious officials (*labay* and *modin* at the village level and *penghulu* and *naib* at the higher level) and informal religious leaders (*kiai*, *ulama'*, *ajengan*, etc.).

[109] Christiaan Snouck Hurgronje was a Dutch Orientalist scholar and a main advisor on native affairs to the Dutch colonial government in Indonesia. It is believed that he is responsible for all the Dutch Islamic Policy in Indonesia, including on *zakah* matters. Information on the Dutch *zakah* policy relies heavily on Hurgronje's advisory correspondence regarding *Djakat en Pitrah*, which was translated by Sukarsi in 'Nasihat-Nasihat C.S. Hurgronje Semasa Kepegawaiannya Kepada Pemerintah Hindia Belanda 1880-1936' (INIS, 1992).

namely *Bijblad* No. 1892/4 August 1893 and *Bijblad* No. 6200/28 February 1905, which encouraged Muslims to voluntarily pay *zakah* (Ali, 2006).

However, as the Dutch Islamic policies were mainly aimed at impeding the growing religious awareness among Indonesian Muslims, the *zakah* regulations came to serve the same purpose. Indeed, it is believed that the colonial government's main goal was to prevent *zakah* payment from becoming compulsory by stressing that Muslims were free to pay *zakah* voluntarily.[110] The policy was also intended to eliminate the abuse of *zakah* collection and distribution by colonial officials.[111] These strategies were ultimately expected to contribute to maintaining political stability in Indonesia (Sukarsi, in Salim, 2006). It is also suggested that the policy was adopted to prevent potential actions against the colonial government, which might be financed from *zakah* proceeds directed to *fi sabilillah* (i.e. struggle in the way of God) head of *zakah*. The policies could be considered successful, particularly by noticing that there had been a low level of Muslim consciousness to pay *zakah* during the colonial period (Ali, 2006).

Newly independent Indonesia adopted a similar strategy to the Dutch colonial policies on *zakah* administration. In January 1946, the Old Order regime under President Soekarno (1945-1967) established the Ministry of Religious Affairs (MORA) whose main task was to guarantee the freedom of people to observe their religious duties. The matter of *zakah*, however, was excluded from this task (Salim, 2006). Instead, MORA issued a circular (decree) announcing that it would not interfere with *zakah* administration (Boland, 1982). The exclusion of *zakah* is also evidenced by the original structure of the Ministry, which only contained bureaux of Islamic Religious Information, Islamic Marriages and Islamic Education (Noer, in Alfitri, 2006).

[110] According to Hurgronje, the colonial policy on *zakah* could be summarized as follows: "To acknowledge and to protect religious practices wherever possible provided that [such] practices are considered indigenous, not because they are Islamic [.] . . . [Such regulation was necessary] to protect individual autonomy from any pressure in collecting *zakah* and [*zakah*] *fitrah,* [in determining] their amount, or in choosing the agency that will allocate those religious funds" (in Salim, 2006). He also felt that they would eventually forgo the obligations to pay *zakah*, especially considering the 'burdens' of being Muslims in the colonial time and therefore the colonials' objective to impede the Islamic awareness could be achieved.

[111] The colonial government found that some native officials such as the regent (*bupati*), district chief (*wedana*), and head of the village (*kepala desa*) were misusing the *zakah* funds for their personal/community benefit. Realizing that such abuse by its own appointed officials might be a disincentive to political stability in the colony, the government issued a regulation in 1866 prohibiting those officials from involvement in the collection and distribution of *zakah*. However, the regulation was only applicable in Central Java, East Java and Banten. In other parts of Java, viz. Priangan and Cirebon, such regulations could not be imposed due to the existing commitment of the Dutch government to avoid interfering with the earnings of *penghulu* (religious judges) in both regencies (Salim, 2006:690).

In contrast, *zakah* policy of the subsequent New Order Regime tended to be ambiguous, most notably due to the 'dual' role of President Soeharto (1966-1998). One the one hand, the government seemed to support the administration of *zakah*, as was evident from the president's attitude that takes full responsibility for the collection and distribution of *zakah* in the country.[112] On the other hand, he rejected the MORA's decrees, which laid down the foundation for the management of *zakah* by the state.[113] Instead, in 1974, he announced his role as a national personal *zakah* administrator and created his own Islamic charity known as the Pancasila Muslim Charity Services Foundation (*Yayasan Amal Bakti Muslim Pancasila*[114]) for collecting *zakah* and other Islamic charities from all Indonesian Muslims, particularly government officers (Salim, 2008). Nevertheless, he allowed the MORA to issue technical guidance on *zakah* management in Indonesia[115] while also accepting the Joint Decrees No. 29/1991 and No. 47/1991 (with the Ministry of Interior)[116] that emphasized the voluntary nature of *zakah* organizations[117] (Alfitri, 2006; Doa, 2002). In relation to the institutional model of *zakah* administration, the president's roles seem to have significantly changed the nature of *zakah* administration from a (potentially) official, institutionalized *zakah* management under government/ministerial regulation, to an informal-voluntary practice of *zakah* that concentrated on the individual.

Despite that, the president's actions as well as the corresponding regulations have contributed somewhat positively to increasing the consciousness of Indonesian Muslims about their *zakah* obligations. They have also provided the foundations and remain the legal basis for the institutionalization and establishment of the local government *zakah* agencies even after his resignation as a national personal *zakah* officer (Abdullah, 1991).[118] By the end of 1996,

[112] This is clearly expressed in the president's official speech at the *Isra' Mi'raj* (the Prophet's Ascension) on 26 October 1968. At that time, he announced that, "As the first step, I would like here to announce to all Indonesian Muslims that as a private citizen I am prepared to take charge of the massive national effort of *zakah* collection...From now on, I am personally willing to receive *zakah* payments made in the form of money orders from every single Muslim in the country. God willing, I will regularly publicize to all citizens how much money I receive and I will be responsible for its expenditure. I do really expect that this appeal will be fully paid attention and will have a positive feedback from the leaders and all Muslims." (In Pedoman *Zakah* 1992:403-409).

[113] The MORA's decrees No. 4-5/1968 essentially laid down foundations for a national *zakah* board and the governmental *zakah* committee at all administrative levels (district and sub-district) across the country as well as the detailed rules for *zakah* collection implemented by the President's speech.

[114] *Pancasila* means Five Principles. It is essentially the philosophical foundation of the Indonesian State.

[115] The technical guidance is discussed in the MORA's Instructions No. 16/1989 and No. 5/1991.

[116] Joint Decree is also known as *Surat Keputusan Bersama* (SKB) in the Indonesian language.

[117] Article 1 of the Joint Decree stipulates that a government *zakah* agency (BAZIS) is a voluntary organization that manages the acceptance, collection, distribution and utilization of *zakah* and other types of almsgiving.

[118] Abdullah (1991) noted that, during the president's role as a national personal *amil*, several provincial governments had established the government-sponsored *zakah* agencies known as BAZIS (*Badan Amil Zakah, Infak dan Sedekah*) including BAZIS of the province of DKI Jakarta (1968), East Kalimantan (1972), West

almost all provinces in Indonesia had their local government *zakah* agencies (Saidi, 2003). Following the regulations, some segments of society such as corporations and non-profit organizations have also started establishing non-government *zakah* agencies (Hasanah, 2003).[119] *Forum Zakat* (FoZ), which is a formal *zakah* association in Indonesia, was also established in September 1997 (PEBS-FEUI & CID, 2009). [120] As a national *zakah* association, FoZ plays an important role in member networking, mediating *zakah* issues with the government, disseminating information, coordinating activities and acting as a consultant on various *zakah* problems. Indeed, at its first congress in January 1999, FoZ already had 150 members and was assigned to prepare a draft for the *zakah* management law in Indonesia (PEBS-FEUI & CID, 2009).

The fall of President Suharto in May 1998 brought many changes in Indonesia, most notably in the political and socio-religious areas. Islamic political parties emerged and demanded, among other things, the implementation of Islamic law *(shariah)* in the country. Islamic communities also insisted on more policy changes to fight the degradation of economic, socio-religious and political circumstances that conflicted with Islamic values (Effendy, 2003). Against this background, the sixth draft of the Indonesian *zakah* bill was finally agreed[121] and the *Zakah* Management Law No. 38/1999 was issued during the time of President B.J. Habibie[122] (Salim, 2008). [123]

Sumatra (1973), West Java (1974) and South Kalimantan (1974). After his resignation from the position, other provincial administrations continued to establish their BAZIS such as in South Sumatra (1975), Lampung (1975), Irian Jaya (1978), North Sulawesi (1985) and South Sulawesi (1985).

[119] Some of the earliest and best-known *zakah* organizations established during the 1990s period are Social Fund of Al-Falah Mosque Foundation (*Yayasan Dana Sosial Al Falah*, established in 1987) and Republika's Wallet for the Poor (*Dompet Dhuafa Republika*, established 1993) under the Republika (Islamic) newspaper.

[120] The establishment of FoZ was pioneered by eleven *zakah* organizations including Dompet Dhuafa Republika, Bazis DKI Jakarta, Baitul Mal Pupuk Kujang, Baitul Mal Pupuk Kaltim, Baitul Mal Pertamina, Telkom Jakarta, Bapekis Bank Bumi Daya, Lembaga Keuangan Syariah Bank Muamalat Indonesia, PT. Internusa Hasta Buana and Sekolah Tinggi Ilmu Ekonomi Indonesia Jakarta.

[121] The first draft was presented to the parliament in 1967, but withdrawn before it had a chance to be discussed. MORA then transformed it into the 1968/1969 ministerial decrees discussed earlier. The other draft appeared in 1985, composed by a joint committee from the Ministry of Justice and the Ministry of Religion. There was, however, no follow-up to transform the draft into a *Zakah* Bill to be presented to the parliament. Thus, the MORA could only produce a joint ministerial decree in 1991, which had limited influence on the institutionalization of *zakah* in Indonesia.

[122] B.J. Habibie was also the leader of Indonesian Muslim Scholars Association (ICMI, or *Ikatan Cendikiawan Muslim Indonesia*), the most prominent Islamic scholarly organization in the country at that time. ICMI had a moderate attitude and was supportive of Islam, as indicated by its important role in establishing the first Islamic bank in 1995 and supporting the *zakah* Bill.

[123] It is worth noting that, by the end of November 2011, the Law No. 38/1999 was amended with the Law No. 23/2011. However, as there are a number of issues in its contents, the newest Law has been under a judicial review process by the Indonesian Constitutional Court since 2012 up to now (September 2013).

4.3.2. Current Development

The new era of *zakah* development in Indonesia was marked by the issuance of the *Zakah* Management Law No. 38/1999, which is the legal basis for *zakah* organizations in Indonesia. The Law consisting of 10 chapters and 25 articles, as summarized in Table 4-6, essentially affirms that all Indonesian Muslims who are eligible to pay *zakah* (*muzakki*) are obliged to comply with the almsgiving. However, the assessment is left to the *muzakki*'s personal and voluntary discretion. It also emphasizes that the main objectives of *zakah* management in Indonesia are to help Muslims observe their *zakah* obligation, increase society's welfare, ensure social justice, and increase the impacts and efficiency of the *zakah* institution.

The Law also states that *zakah* and other Islamic almsgivings (*infaq, sadaqah, hibah,* and *wasiah*) can be paid through government and non-government *zakah* organizations (known as BAZ and LAZ, respectively). Structurally, the agencies should have advisory, supervisory and executive bodies in their organizational structure. Furthermore, as an incentive for *muzakki*, *zakah* paid through the formal organizations can be deducted from income tax payments (i.e. considered as tax expenses). In addition to accepting *zakah* payments, the main tasks of the agencies are distributing/utilizing *zakah* and reporting their performance to the parliament annually. *Zakah* proceeds should also be primarily utilized to meet the basic needs of *mustahik* and to finance productive purposes contributing to fulfillment of the basic needs. However, non-*zakah* revenues should be used mainly for productive purposes.

In order to implement the Law, MORA has issued Decree (KMA) No. 581/1999, which is later amended with KMA 373/2003, which gives technical guidelines for the management of *zakah* organizations in the country (Ministry of Religious Affairs, 2003). While the *zakah* law has briefly mentioned the governance structure of a *zakah* organization, the decree consisting of 8 chapters and 32 articles explains details such as memberships and responsibilities of each body within the organizations and at all government levels.[124] Heads of regions and MORA's appointed officer, for instance, automatically become members of the Board of Trustees in government *zakah* agencies due to their official positions.[125] Moreover, it explains the principles in utilizing *zakah.* In implementing *zakah* for productive purposes, for example, tasks such as feasibility studies, counselling, monitoring/evaluation must be included in the

[124] Including national, province, district/regency and sub-district levels
[125] See Chapter II, KMA 373/2003.

program designs. It is also mentioned that other technicalities will be further regulated by the Directorate of Islamic Community of MORA.[126]

Table 4-6: Principles of *Zakah* Management in Indonesia

Chapters	Articles and Main Contents
1. General provision	1. Relevant definitions used in the law (*zakah*, *muzakki*, *mustahik*, religion, ministry and *zakah* management aspects, which consist of planning, operationalizing and controlling/supervision, collection, distribution and utilization of *zakah).* 2. Every Indonesian citizen who is a Muslim and eligible to pay *zakah* or entity owned by Muslims is obliged to pay *zakah*. 3. Government must protect, guide and serve *muzakki*, *mustahik* and *amil* (*zakah* organizations).
2. Principles and objectives	4. Principles of *zakah* management: faith (*iman* and *taqwa*), transparency and legal certainty based on *Pancasila* and the 1945 Constitution. 5. *Zakah* management is aimed (i) to increase services for people in managing *zakah*, (ii) to increase society's welfare and social justice, and (iii) to increase the impacts and efficiency of *zakah*.
3. *Zakah* Management Organization (OPZ)	6. Management of *zakah* is conducted by government-based *zakah* organization (*Badan Amil Zakat* or BAZ). BAZ is established at the national, provincial, regency and district level and has coordinative, consultative and informative work relationship. Board of Trustees of BAZ consists of members of public and government; meanwhile the organization [Board of Executive] consists of advisory, supervisory and managing bodies. 7. Management of *zakah* can also be conducted by non-government *zakah* organizations (*Lembaga Amil Zakat* or LAZ) which fulfil ministerial regulations. 8. Main tasks of BAZ and LAZ are collecting, distributing and utilizing *zakah* according to *fiqh*. 9. BAZ and LAZ must be accountable to the Indonesian government. 10. Establishment, organizational structure and tasks of BAZ and LAZ are set by ministerial decree.
4. Collection of *Zakah*	11. Main Islamic principles of *zakah*: *zakah* consists of *zakah mal* and *zakah fitrah*; zakatable assets consist of gold, silver and money, earnings from trading/business, agriculture, fisheries, mining, and services. Additionally, assessment of *zakah* should be done according to religious law. 12. *Zakah* is collected based on notification of *muzakki.* 13. *Zakah* organization can accept Islamic donations other than *zakah*, such as *infaq*, *sadaqah*, *hibah* (grant), and *wasiah* (will/inheritance). 14. *Muzakki* can (i) calculate his/her own *zakah* due, (ii) request for assistance from *zakah* organization, and (ii) get income tax deduction from *zakah* paid to the organization according to relevant regulation. 15. Scope of *zakah* collection by BAZ is set by ministerial decree.
5. Utilization of *zakah*	16. *Zakah* proceeds are utilized based on *mustahik*'s prioritized needs and can be used for productive purposes as directed by the ministerial decree. 17. Non-*zakah* revenues mentioned in article 13 should be used particularly for productive purposes.
6. Supervision	18. Supervision is done by a supervisory body, whose leader is elected by the members. In doing financial examination, the supervisory body could use services of public accountant. 19. BAZ must report their activities annually to the Indonesian parliament. 20. Public can be involved in supervising BAZ and LAZ.
7. Sanctions	21. Negligent *zakah* management (i.e. not correctly recording *zakah* and non-*zakah* revenues) could be punished with three months' imprisonment or fine as much as IDR 30 million. Other criminal offences will be punished in accordance with the relevant law.
8. Other provisions	22. If *muzakki* lives abroad, collection of *zakah* is done by a *zakah* collection unit (UPZ) in the Indonesian embassy and the proceeds are given to National *Zakah* Agency. 23. To support BAZ in implementing its tasks, the government bears operational costs of BAZ.
9. Transitional provisions	24. No later than two years since the enactment of this Law, all existing *zakah* organizations must adjust and adhere to the provisions of this Law.
10. Closing provision	25. The Law comes into force on the date of issuance

Source: Author's summary from Law No. 38/1999 on *Zakah* Management in Indonesia (Government of Indonesia, 1999)

[126] See Chapter V and VIII, KMA 373/2003.

Furthermore, to support the government's task of managing *zakah* in the country, the National *Zakah* Board (BAZNAS or *Badan Amil Zakah Nasional*) was established based on the Presidential Decree (Keppres) No. 8/2001. According to this Decree, BAZNAS is responsible for collecting *zakah* (most notably from government agencies), distributing *zakah* proceeds and subsequently reporting its activities annually to the Indonesian president and parliament.[127] Moreover, to synchronize *zakah* management at the national level, it is in charge of coordinating, consulting and providing information to regional government *zakah* agencies (BAZDA or *Badan Amil Zakat Daerah*).[128] Importantly, to perform these tasks, it receives financial support from the government.[129]

Quite recently, the accounting standard for *zakah* and *infaq/sadaqah,* known as PSAK No. 109, was issued. The standard, which adopts the cash-basis accounting system, mainly aims to regulate the recognition, measurement, presentation and disclosure of *zakah* transactions managed by *zakah* organizations (Ikatan Akuntan Indonesia, 2010). However, for some technical reasons primarily related to *shariah* opinion *(fatwa)* of Indonesian Muslim scholars, the standard initially issued in 2008 was effectively implemented in 2012. [130] As such, most *zakah* organizations did not use this standard until 2012 although some of them attempted to adopt it in their financial reports prior to that year.

Given the relatively supportive legal-institutional development, new *zakah* organizations emerged all over Indonesia. As of 2010, there was one national *zakah* organization (BAZNAS), 33 provincial *zakah* organizations (BAZDAs) and 240 district/regency level BAZDAs from around 502 districts existing in Indonesia.[131] Moreover, there were more than 300 non-government *zakah* agencies, 18 of which have been approved to operate nationwide by the government/MORA.[132] Most of the non-government organizations are non-profit and corporate *zakah* agencies. Therefore, in practice, there are three major types of formal *zakah*

[127] See Chapter II, Keppres 8/2001.
[128] See Chapter V, Keppres 8/2001.
[129] The Law mentions that BAZNAS's expenses will be paid by the MORA (See Chapter VI, Keppres 8/200).
[130] Specifically, according to Ahmad Juwaini (the head of FoZ), the main reason for the delay was the requirement to wait for *shariah opinion (fatwa)* from the Indonesian *Ulama* Council on important issues including accounting for (i) promotional/marketing costs, (ii) non-halal income, (iii) indirect *zakah* distribution to *mustahik* and social organizations, (iv) *zakah* distribution in the form of assets, loans (revolving funds) and investments, and (v) corporate *zakah*. The *fatwa* on these issues were eventually issued by the end of 2011 (Personal Interview, 2011).
[131] It is also noted by Wibisono (2012) that, if all the districts followed government structure and established their collection units (known as UPZ), there will be additional 6636 UPZ in the sub-districts levels and 76155 UPZ in the village level.
[132] Some of the large non-government *zakah* organizations, however, have branches in several foreign countries such as the USA, Australia and Japan.

organizations known in Indonesia including government, corporate and non-profit *zakah* organizations (Beik, 2010). Despite that, informal or traditional institutions such as mosques' *zakah* committees and religious leaders (i.e. payments of *zakah* through local religious leaders) still exist in the communities (Kasri, 2013).

Table 4-7: *Zakah* Collection in Indonesia, 2002-2012

Year	Total Amount of *Zakah* Collection (IDR Billion)	Annual Growth (%)
2002	68.39	-
2003	85.28	24.70
2004	150.09	76.00
2005	295.52	96.90
2006	373.17	26.28
2007	740.00	98.30
2008	920.00	24.32
2009	1,200.00	30.43
2010	1,500.00	25.00
2011	1,729.00	15.27
2012	2,200.00	27.24
Average Growth 2002-2012		*44.44*

Source: BAZNAS, in PEBS-FEUI & IMZ (2010:31) and Beik & Arsyianti (2013:8)

Following the increase in the number of *zakah* organizations, the amount of *zakah* collected has also increased over time (Table 4-7).[133] During the period 2002-2012, the amount collected has increased gradually and significantly from around IDR 68 billion to IDR 2,200 billion. This implies an average annual growth of 44.44 %. The highest growth of 98.30% occurred between 2006 and 2007, whereas the lowest growth of 15.27% occurred between 2010 and 2011. Thus, the annual growth rates have fluctuated somewhat and have tended to decrease in the last few years. Additionally, it is noted that around two-thirds of the *zakah* proceeds collected during 2002-2007 were mainly paid through the non-government *zakah* agencies rather than the government agencies (PEBS-FEUI & IMZ, 2010). This preference seems to be related to factors such as better reputation and higher trust of *muzakki* earned by the non-government agencies (PEBS-FEUI & IMZ, 2010; Wibisono, 2011),[134] as well as

[133] Note that the *zakah* collection data also include collection from *infaq* and *sadaqah*, as *zakah* organizations usually report these amounts together with *zakah* revenues and collectively channel them to *mustahik* in the form of *zakah* disbursement programs.

[134] Wibisono (2011) also found that the average amount of *zakah* collected by the government *zakah* organizations (consisting of BAZNAS, 33 provincial BAZDAs and 447 district/municipal BAZDAs) was around 2 billion IDR in 2010. Meanwhile, the average amount collected by the non-government agencies (consisting of 18 national LAZ and 22 regional LAZ) in the same year was around 15 billion IDR. He believed that these results reflect the high level of trust of *zakah* payers towards the non-government *zakah* agencies.

higher professionalism and extensive public education/communication conducted by the management of the *zakah* organizations (Sulistiyowati, 2007). Accordingly, there is an indication that the non-government institution is more effective in collecting and managing *zakah* in the country.

Aside from the collection results, it is notable that most of the *zakah* payers live in Greater Jakarta Metropolitan area, particularly in Jakarta province. It is estimated that around 80% of the *zakah* revenues reported above have been collected from the *muzakki* in the province. Moreover, the ratio between *zakah* recipients and *zakah* payers in the area was around 11%, which is the highest potential in the country (Beik, 2010). [135] Not surprisingly, almost all large *zakah* organizations have their headquarters in this province although the distributions may be focused in other parts of Indonesia. Thus, Greater Jakarta is the centre of *zakah* collection activities in the country.

While promising collection figures were evident, there are no official data on the distribution of *zakah* proceeds in the country. However, although very limited, a number of case-studies provide insights into this important aspect (see, for instance, Beik, 2010; Nurzaman, 2011; PEBS-FEUI & IMZ, 2010; Piliyanti, *et al.*, 2013; Yumna & Clarke, 2011).[136] A relatively comprehensive study is the research by PEBS-FEUI and IMZ (2010), which involves nine of the largest *zakah* organizations in Indonesia.[137] The study reported a significant increase in *zakah* distributions from IDR 42 to IDR 226 billion during the period 2004-2008, which was equivalent to an annual growth rate of 67.2%. The proceeds were disbursed to seven main programs including direct (social) transfers to the poor and needy,[138] education assistance[139], health support[140], humanitarian or disaster relief activities[141], Islamic propagation

[135] The 11% ratio implies that 11 *zakah* recipients (*mustahik*) are provided assistance by 100 *zakah* payers (*muzakki*), provided that *all zakah* payers pay their *zakah* obligations. This is the lowest ratio in the country.
[136] Most of the studies also discussed the impacts of *zakah* institution. Therefore, they are elaborated in the next sub-section which specifically discusses this topic.
[137] The largest *zakah* organizations (by revenue) include Yayasan Baitul Mal of Bank Rakyat Indonesia, Dompet Peduli Umat of Daarut Tauhid, Dompet Dhuafa, Pos Keadilan Peduli Umat, Al-Azhar Peduli Umat, Rumah Zakat, Baitul Mal Umat Islam of Bank Negara Indonesia, Yayasan Dana Sosial al-Falah and Lembaga Zakat Infaq dan Sadaqah.
[138] It includes programs such as cash assistance during Ramadan and living allowances for the old, orphans, handicapped, widows, etc.
[139] It includes programs such as scholarship, free education for students from poor families and provision of school supplies.
[140] It includes programs such as free healthcare assistance and free ambulance service.
[141] It includes various programs for victims of disasters.

(*da'wah)*[142], productive economic activities[143] and other programs.[144] Proportions of *zakah* disbursed for each program are summarized in Table 4-8.

Table 4-8: Disbursement of *Zakah* in Indonesia, 2004-2008

Year	Direct Transfer	Education	Health	Humanity	Islamic Propagation	Community Development	Others
2004	17.58%	12.95%	8.54%	11.54%	4.43%	20.34%	24.61%
2005	5.97%	13.27%	5.33%	49.82%	2.69%	9.06%	13.86%
2006	13.55%	9.29%	6.69%	29.06%	2.21%	9.18%	30.02%
2007	17.82%	12.05%	6.16%	16.78%	5.94%	7.58%	33.66%
2008	20.35%	5.87%	2.44%	8.44%	4.32%	7.38%	51.20%

Source: PEBS-FEUI & IMZ (2010:38)

The study further concluded that the most common patterns of *zakah* disbursement are distribution for consumptive purposes (direct transfer, education, health, disaster relief and *da'wah*), which according to the case-study accounted for an average 58.62% of the distributed amount. The share of productive *zakah* programs, however, was only 10.71%, thereby indicating that productive activities were not prioritized by the agencies. It was also noted that programs such as health and community development have a relatively constant share even though the proportion of *zakah* proceeds disbursed for each program varied over time. Accordingly, there was an indication of program planning which set up the amount/proportion of *zakah* proceeds spent for each of these activities. Interestingly, the disbursement for 'other programs' showed substantial improvement over time and accounted for more than half of the disbursement in 2008. This is presumably related to the fact that there was no clear guidance or official accounting standard for reporting the expenditure related to *zakah* utilization at that time. [145]As such, programs other than those classified under the six main categories above are commonly grouped under 'the other programs' (PEBS-FEUI & IMZ, 2010),

Overall, the discussions suggest that there have been improvements in terms of legal-institutional aspects, networks and performance (collection and distribution) of *zakah*

[142] It includes programs such as building mosques, training of young Muslim scholars and the like.
[143] It includes programs such as provision of *qardul hasan* loans, skill/business training, supervised/non-supervised meetings and community development, etc
[144] According to the case study, the 'others' is defined as programs other than the previously mentioned programs. This includes fundraising and advocacy (part of education/communication or marketing) activities.
[145] Actually, Forum Zakah has issued some guidance for accounting/reporting of *zakah* related activities. The guidance was developed from the accounting standard of foundation and non-profit organizations. However, the guidance is rarely used by the members primarily due to technical reasons (such as no systematic attempts to educate *zakah* organizations on how to use the standard, etc.)

institution in Indonesia.[146] It is also notable that most of the *zakah* proceeds were collected in Greater Jakarta area; hence, Greater Jakarta could be considered as the 'capital' of *zakah* implementation in Indonesia. The issuance of Law No. 38/1999 and other supporting regulations have provided legal bases for establishing new *zakah* agencies across the country and subsequently developing the institution. Consequently, collection and distributions of *zakah* have also increased gradually. Theoretically, these should provide more benefits for and higher socio-economic impacts on the beneficiaries. Such impacts are discussed in the next section.

4.4. *Zakah* and Poverty Alleviation in Indonesia

As discussed in the previous chapters, linkages between *zakah* and poverty alleviation institutions can be examined at macro and micro levels.[147] From the macroeconomic perspective, there is arguably no obvious and strong linkage between *zakah* and poverty in Indonesia. Although it is the world's largest Muslim country by population size, Indonesia has a relatively secular government that separates state and religious matters. Indeed, it is difficult to imagine the government seriously incorporating *zakah* into its macroeconomic policy in the near future unless there is some kind of 'radical' political change resulting in leanings towards an Islamic government in the country (Effendy, 2003).

It is possible, however, to link *zakah* with the current poverty alleviation strategies adopted by the Indonesian government. As previously discussed, the national poverty alleviation strategies have been formulated around three policy clusters, namely social assistance, community development and microenterprises empowerment clusters. Arguably, the programs related to each cluster are quite similar and in line with the objectives and implementation of *zakah*. This is especially true for the programs under the social assistance cluster, which are consistent with the main objective of *zakah* to support provision of basic needs and consumption of poor people. In fact, programs such as cash assistance, cheap food (rice) and healthcare insurance have been implemented by almost all *zakah* organizations in the form of direct cash assistance, provision of food particularly during *Ramadan*, healthcare assistance and scholarships for children from poor families. Some *zakah* agencies go even further and provide free secondary and tertiary boarding schools for the children of the poor

[146] Following the line of thinking in Chapter 3, it could also be argued that the system (institutional model) of *zakah* management in Indonesia could be considered a hybrid system characterized by, among others, existence of *zakah* law and voluntary payments of *zakah* through the government *zakah* agencies.
[147] See explanation in Section 3.3.

(PEBS-FEUI & IMZ, 2010), a program unlikely to be implemented by the government in the near future particularly considering the limited government budget in funding and managing such kind of schools (Mukhlis, 2014).[148]

The community development strategy that empowers local communities to participate in decision-making and subsequently build their communities is also consistent with Islamic teaching[149] and implementation of *zakah* in the country. Although the same programs might not be widely implemented by the Indonesian *zakah* agencies, some community development programs such as Cattle Village (*Kampoeng Ternak*) and Mushroom Village (*Kampung Jamur*) empowerment programs are largely in line with the spirit of the community development strategy. Under the Cattle Village[150] program, the villagers were provided with the necessary assistance to develop their local community. In this case, because the potential of the village was animal husbandry, the assistance provided included livestock breeds, training (breeding skills, etc.) and networks to market the husbandry products. Other than that, the peasants have also received spiritual support to encourage them to be independent after they have 'graduated' from the program. From 1994 to 2006, the program has involved around 1,475 poor peasants in 18 provinces in Indonesia (Ferdian & Dewi, 2009). Albeit on a smaller scale, the program has been replicated by another large *zakah* agency for poor peasants in Yogyakarta province of Indonesia with a considerable degree of success (Muhtada, 2007).

The third cluster, the microenterprise empowerment cluster providing financial and technical support to the poor, is comparable with the productive *zakah* programs. This program, however, is relatively 'new' for *zakah* institutions and started to emerge in the light of the recent understanding that *zakah* proceeds can be used to finance productive economic activities (Majelis Ulama Indonesia, 2011).[151] Under the productive programs, *zakah* organizations usually provide working capital and technical support (skills training, business training, etc.) to *zakah* recipients. Furthermore, the recipients usually receive spiritual

[148] However, it is notable that the government has a number of free boarding schools in college/university levels. Upon graduation, the students must work as government officers. Therefore, these schools could be considered as official schools.

[149] Relevant Islamic principles include (i) mutual consultation, as implied from the following verse: "Those who hearken to their Lord, and establish regular prayer; who (conduct) their affairs by mutual consultation; who spend out of what We bestow on them for Sustenance (Qur'an 42:38) and (ii) empowerment, as implied from the following hadith narrated by Muslim: "You are the one who know most on your (earthly) business.

[150] It was previously known as the Healthy Sheep Breeding (TDS or *Ternak Domba Sehat)* program.

[151] Utilization of *zakah* for productive economic activities is allowed based on the opinion (*fatwa*) of Indonesian *Ulama* Council on the 2nd of February 1982 and confirmed by the Law of *Zakah* Management No. 38/1999.

training to increase their motivation to do well in business. In some cases, the assistance is given on a group basis. Meanwhile, in other cases, more comprehensive assistance covering both economic and non-economic assistance such as scholarships and medical insurance is given to poor families. Thus, there are many 'models' of implementation of productive *zakah* programs in Indonesia (Obaidullah, 2008a; PEBS-FEUI & CID, 2009; Yumna & Clarke, 2011).

Nevertheless, according to Obaidullah (2008a) the approach to poverty alleviation through developing Islamic microfinance in Indonesia is rather unique as it is characterized by connecting various institutions under the microfinance linkage models. He further suggests three microfinance linkage models in Indonesia. The first model is the Bank Indonesia linkage model, in which the central bank coordinates various support to micro entrepreneurs including capital support from Islamic banks, technical assistance from the central bank and basic need fulfilment and/or start-up capital funding from *zakah* agencies. The prototype has been implemented for the financing of micro entrepreneurs in the West Java province of Indonesia and could be considered a success.

The second model is the so-called BMT (*Baitul Maal wat Tamweel*)[152] - SHG (Self-Help Group)[153] - micro entrepreneurs linkage model. The model essentially links the BMTs, which also collect *zakah* from their members and the general public, with the community-based SHGs and micro entrepreneurs in order to support the micro entrepreneurs in terms of financing and technical matters relevant to the SHGs' competency. It is also noted that this model has traditionally been applied all over the country for many decades, although it has become more institutionalized in the last few decades.

The last model links *zakah* agencies, Islamic financial institutions[154] and micro entrepreneurs through a comprehensive microenterprise development program. An example of the integrated *zakah*-microfinance model pointed out by the author was the KUM3 (Mosque-based Micro Enterprise Community) program managed by Bank Muammalat Indonesia

[152] BMTs are savings and credit cooperatives that use *shariah*-compliant modes in their operations. A BMT essentially has two components, namely *Baitul Maal* or the social house (i.e. pools *zakah, infaq*, and *sadaqah*) and *Baitul Tamwil* or the house of business development.
[153] There are many types of SHG, such as KUBE (Cooperative Effort Groups or *Kelompok Usaha Bersama*, village-based SHGs), mosque-based SHGs and other community-based SHGs.
[154] The financial institutions include BMT, BPRS (Islamic rural banks) and Islamic (commercial) banks.

(BMI).[155] KUM3 is a comprehensive empowerment program that aims to transform a micro entrepreneur -who is also a *mustahik* actively involved in mosque activities- into a *muzakki.* The program started in 2006 stresses spiritual activities to build faith and piety among the entrepreneurs, while at the same time providing support to increase their incomes through the provision of revolving funds (under *qard hasan* or benevolent loan scheme), capacity-building and close guidance from the personnel of *zakah* agencies. In the process, as the *mustahik* repay the *qard hasan* loans provided, [156] they enter the feasibility domain and can obtain additional funding for their businesses from BMTs and Islamic Rural Banks. Once the business achieves a certain scale and becomes 'bankable', the Islamic bank (i.e. BMI) enters into various partnerships with the entrepreneurs –either directly or through the BMTs-, provides capital support, human resource development support and other needed supports until the entrepreneurs become sustainable and eventually become *muzakki*.

Another example of the integrated *zakah*-microfinance initiative is *Baitul Qiradh* of BAZNAS. As a strategic business unit of BAZNAS, *Baitul Qiradh* aims to improve the welfare of poor people by providing financial capital under *qard hasan* loans and profit-loss sharing schemes. It also provides technical assistance to poor peasants in West Nusa Tenggara Barat, East Nusa Tenggara, West Sumatra and West Java provinces in Indonesia as part of their *zakah* utilization programs. At the same time, the unit which has a legal form of BMT also offers saving and financing products under a profit/loss-sharing mechanism. It is reported that there were three *Baitul Qiradh* across Indonesia with average assets of USD 250,000 to USD 860,000 (Yumna & Clarke, 2011). However, the impacts of *zakah* on the recipients' wellbeing were not clearly discussed in the study.

Quite recently, some studies have attempted to evaluate the impact of *zakah* on poverty and welfare of the poor. Beik (2010) analyzed around 1,195 poor households receiving *zakah* assistance from two large *zakah* organizations in Jakarta[157] and found that the monthly incomes of the households have increased by around 8.94%. The incidence, depth and severity of poverty from 2007 to 2008 have also decreased by 16.79%, 13.9% and 36.7% respectively. However, another study measuring the change of Human Development Index (HDI) of the productive *zakah* recipients in the same area demonstrated that the assistance did

[155] Bank Muammalat Indonesia was the first Islamic bank in Indonesia and is currently the second largest Islamic bank (in terms of assets) in the country. The program was conducted by its independent *zakah* management agency called *Baitul Maal Muammalat* (BMM).
[156] Note that the quantum is increased every time the earlier loan is repaid, and the process is repeated over a 2-3 year period.
[157] They are BAZNAS and Dompet Dhuafa.

not directly affect the group's HDI. Indeed, the HDIs of the 110 poor households studied was still below the average HDI in the province (Nurzaman, 2011). Despite the different scales of sample taken by the two studies, the results highlight the possible different impacts of *zakah* on poverty and wellbeing of the recipients in Jakarta.

The above discussions generally suggest that the *zakah* institution has contributed positively in reducing poverty and increasing welfare of Indonesian societies, especially at the micro or community level. *Zakah* organizations have implemented various programs to meet basic needs of the poor communities and increase their incomes through productive activities, which in turn are expected to reduce poverty and increase prosperity of the poor. The programs are also consistent with the direction of the national strategy of poverty alleviation in this Muslim country.

Nonetheless, a number of issues are identified in the implementation of *zakah.* In terms of legal aspects, it appears that the Law No. 38/1999 has a number of weaknesses that may have various practical implications. For instance, it does not elaborate the calculation, *nisab*, rate and time for *zakah* payment, which might be interpreted differently by different Islamic schools of thought.[158] Additionally, although eligible Muslims are obliged to pay *zakah*,[159] the Law does not provide any sanctions for failing to comply with this obligation. Instead, it applies sanctions to *zakah* agencies that fail to accurately record and report *zakah* payments made by *muzakki*.[160] The tax regime is also 'unsupportive' as indicated by, among other things, the limitation of tax deductions (tax expenses) to income tax only. Consequently, because the category of *zakatable* items is broader than the items subject to income tax, some *zakatable* assets such as shares and deposits, as well as incomes from the assets, will not be deductible (Alfitri, 2006).

Furthermore, there is a problem with the 'dual' roles of BAZNAS. On the one hand, by law, it is appointed as the coordinator of *zakah* organizations in the country. On the other hand, it is also mandated by the Presidential Decree to collect and distribute *zakah* nationwide. [161] Therefore, it acts as both the coordinator and operator of *zakah*. These roles could potentially create a conflict of interest that could hinder the potential and reduce the effectiveness of the organization. As argued by Wibisono (2011), the dual roles will decrease credibility of the

[158] See chapter III, article 8, Law 38/1999.
[159] See chapter 1, article 2, Law 38/1999
[160] See chapter VII, article 2, Law 38/1999
[161] See the President Decree No. 8/2001, articles 1, 4, 6.

organization since it has to regulate/supervise itself and other zakah organizations while at the same time competing with the latter in collecting *zakah* funds. Additionally, since much of its tasks are related to the coordinating role which undoubtedly requires lots of resources, the issue could potentially decreases the trust of *zakah* payers wishing that their money would be directly used for helping the poor and needy *zakah* recipients. As such, effectiveness of the organization to perform well in both functions is questionable.

In operational aspects, an important issue is the 'gap' between the current and potential performances of *zakah* institution. In terms of *zakah* collection, there has been a significant increase in *zakah* revenue in the last few years. The amount, however, is believed to be far below the institution's potential, which according to some estimates ranges from IDR 7.5 trillion (in PEBS-FEUI & CID, 2009)[162] to IDR 217 trillion (Firdaus *et al.*, 2012). Thus, the collection of IDR 2.2 trillion reported in 2012 is well below the potential amount. The amount is also negligible if compared to the national budget for poverty alleviation, which amounted to around IDR 54 trillion in the same year. Another potential issue is the distribution/utilization of *zakah,* which tends to be consumptive in nature. As such, productive program directly aimed at cutting the 'vicious cycle' of poverty seems to be underdeveloped. Meanwhile, in terms of financial management, there are some indications that *zakah* agencies have relatively high management costs in managing their institution. Thus, financial inefficiency (i.e. higher ratio of input or expenses to output) appears in the implementation of *zakah*. This could potentially reduce its effectiveness in achieving its objectives of reducing poverty and creating social justice.

Finally, an increasingly important issue in poverty reduction and development discourses is impact evaluation. Although many studies have suggested that disclosing the impacts of charities will increase the credibility of and trust in the organizations, which will in turn increase their fundraising results (Anheier & Kendall, 2002; Sargeant, 1999; Sargeant, 2001), most *zakah* organizations in Indonesia are not concerned with evaluating and monitoring the impacts of their programs on the beneficiaries. Indeed, most of them are only concerned with disbursing the *zakah* proceeds (Kasri, 2013). This issue, together with other issues explained earlier, needs to be addressed by the institutions to optimize their impacts on reducing poverty and increasing the welfare of the poor.

[162] This is the estimation of Said Agil Munawar, the former Minister of Religious Affairs in Indonesia.

4.5. Summary and Conclusion

This chapter explains the profiles of poverty and the development of the *zakah* institution in Indonesia. It begins with a brief explanation supported with relevant data related to the general background of Indonesia and Greater Jakarta Metropolitan area as the research site. It also discusses poverty profiles, determinants of poverty, and poverty alleviation strategies implemented in the country. Generally speaking, poverty levels in Indonesia increased significantly after the 1998 economic crisis but have started to decrease in the last few years. Poverty is strongly associated with certain socio-demographic and economic factors, such as age, gender, marital status, education, occupation, household size, location, income and assets. Accordingly, the Indonesian government has implemented various poverty alleviation programs. Currently, the programs are focused in three-cluster strategies covering social assistance, community empowerment and micro enterprise empowerment programs.

The chapter also briefly explains the evolution and development of the *zakah* institution in Indonesia from the Dutch colonial era in the 1800s to contemporary times. It also presents some data and facts on *zakah* collection and distribution in the world's largest Muslim country. Given this development, it elaborates the potential and empirical role of *zakah* in reducing poverty in Indonesia. In relation to this, the literature generally suggests that the *zakah* institution has contributed quite positively to reducing poverty in Indonesia. Despite that, current studies indicate that the impacts seem to be rather ambiguous for the case of Greater Jakarta area. The impacts are also rarely linked with the model of *zakah* management/administration. These aspects will be included as features of this study, as explained in the next chapter.

Chapter 5 Research Methodology

This chapter reviews the overall framework of the study. It begins with a brief overview of the research methodology and research design, followed by explanations of the research methods for primary data collection and data analysis. In explaining the research methods, it briefly discusses the options available before selecting the methods and tools most relevant to the research objectives and within the resources available to conduct the empirical study. The last sections summarize the overall discussions, including the limitation and difficulties encountered during the fieldwork.

5.1. Overview of Research Methodology

Research methodology is a term that has been defined in many ways by different authors. It could be defined as "the theory of how research should be undertaken" (Saunders, *et al.*, 2009: 3). It could be viewed as "the science and philosophy behind all research" (Adams & Khan, 2007:25) or "the philosophy and general principle which guides the research" (Dawson, 2009:23). It is also commonly referred to as "a way of systematically solving the research problems" (Kothari, 2008:8).

Despite the varying definitions, two types of research methodology are generally known in literature, namely quantitative and qualitative research. Quantitative research usually emphasizes quantification in the collection and analysis of data. It also entails a deductive approach to the relationship between theory and research, which focuses on theories testing. Moreover, it embodies a view of social reality as an external objective reality. In contrast, qualitative research usually focuses on words rather than quantification in the collection and analysis of data. It also relies on an inductive approach to the relationship between theory and research, which emphasises on the generation of theories or propositions (Bryman, 2008:22). Overall, these imply that quantitative studies place greater emphasis on measuring variables and testing hypotheses, while qualitative studies rely more on interpretive or critical social science (Neuman, 2007).

Table 5.1 compares the quantitative and qualitative research methodology in more details. The most significant distinguishing characteristic between the methodologies is presumably the research approach, which is selected and implemented at the planning stage of the research and greatly influences the subsequent research processes. Both methodologies also

differ in the main research process (i.e. data collection and data analysis) and presentation of the research output.[163]

Table 5-1: Comparison between Quantitative and Qualitative Research

Stages/Criteria	Quantitative Research	Qualitative Research
Research planning		
Approach	Deductive (theory precedes observation)	Inductive (theory emerges from observation)
Purpose	Prediction, explanation, examination	Description, exploration
Function of Literature	Fundamental in defining theory and hypotheses	Auxiliary
Data collection		
Research design	Structured, closed, precedes Research; Statistically representative sample	Unstructured, open, constructed in the course of research; Single or several cases, not statistically representative
Recording instrument	Standardized for all subjects. Objective: data-matrix	Varies according to subjects' interests. Tends not to be standardized
Nature of the data	'Hard', objective and standardized	'Soft', rich and deep
Data analysis		
Object of analysis	The variable (analysis by variables, impersonal)	The individual/organization (analysis by subjects)
Aim of analysis	Explain variation ('variance') in variables	Understand the subjects
Mathematical and statistical techniques	Used intensely	Not/rarely used
Production of results		
Data presentation	Tables (relationship perspective)	Extracts from interviews and texts (narrative perspective)
Generalizations	Correlations; Causal models; Laws; Logic of causation	Classifications and typologies; Ideal types; Logic of classification
Scope of Results	Generalizability	Specificity

Source: Corbetta (2003:37)

Quantitative research is usually associated with deductive research approach, an approach which could be defined as a reasoning process that begins with a self-evident that lead to a conclusion relating to a particular case (Taylor, *et al.*, 2006). In other words, a deductive approach is a process of reasoning that flows from a theory/hypothesis to systematic empirical observations and eventually conclusions. The starting point is thus the theoretical knowledge acquired from existing literature or earlier empirical findings in order to explain or examine current observations. Based on the knowledge, hypotheses are constructed and relatively structured research designs are established. Relevant data are then collected and analysed, usually with the aim to explain variations in the variables of interest by using

[163] Some textbooks suggest that the quantitative and qualitative research also differ in term of research paradigm, in which the former tends to use positivism paradigm while the latter usually employs interpretative paradigm. However, because there are many definitions for each paradigm -some of which are still debatable-, they are not elaborated here. For more discussion, see Guba and Lincoln (1994) and Saunders *et al.* (2009).

appropriate statistical techniques. Finally, the findings and general conclusions of the study are presented (Corbetta, 2003; Flick, 2014).

On the other hand, qualitative research is mostly linked with inductive research approach. Induction is a reasoning process that begins by studying a specific case and generating a wider and more general conclusion from the case (Taylor, *et al.*, 2006). Therefore, an inductive approach could be referred as a process of reasoning in which observation prevails over the theory, hypothesis and interpretation with the purpose to describe or explore more recent phenomenon. In this respect, instead of relying too much on existing literature, the research process usually starts with the planning of a relatively unstructured research design which involves primary data collections from single or several cases. The data obtained through field work is subsequently analysed and presented appropriately to draw generally applicable conclusions or patterns within them. The conclusions would in turn contribute to build propositions or theories (Babbie, 2013; Corbetta, 2003; Saunders, *et al.*, 2009).

In this study, both methodologies and approaches are utilized to answer different research aims and objectives. Specifically, quantitative research and deductive approach are considered as the most appropriate methods to address the first research aim related to the identification, measurement and assessment of the poverty/wellbeing of *zakah* recipients associated with different types of *zakah* organizations in Indonesia. Therefore, relevant primary data are collected based on existing propositions/theories and then tested properly to explain and examine the issues addressed in the research aims and objectives. Meanwhile, qualitative research and inductive approach are deemed suitable to answer the second research aim that primarily seeks to explore the management model of *zakah* implementation in Indonesia. In this regards, the primary data obtained will be analysed efficiently to find a general pattern on how the *zakah* agencies in Indonesia manage their organizations. The findings and analyses from both methodologies and approaches are ultimately expected to generate relevant recommendations on how the *zakah* institution could enhance their role in alleviating poverty in the world's largest Muslim country.

5.2. Research Designs

Another important aspect that needs to be considered in any study is the research design or research strategies. Research design refers to a broad plan that provides a framework for the data collection and analysis. In other words, it serves as a 'blueprint' to facilitate and guide through various stages of a research project. It is also an important tool in emergent research

as it provides a framework for the collection and analysis of data (Frankfort-Nachmias & Nachmias, 1996). However, before classifying the research design, it is useful to identify the purpose of a research which commonly influence the way the research questions are answered through appropriate research design.

Based on the purpose of study, Robson (in Saunders, *et al.*, 2009:139-141) suggests that a research design could be categorized into explorative, descriptive and explanative research design. The exploratory research is usually aimed to explore new things or seek new insights. Thus, it is particularly useful to investigate topics which are rarely known or to understand specific problems/issues. Meanwhile, the descriptive research attempts to portray accurate profiles of persons, events or situations. It is also commonly employed as a forerunner or an extension to an exploratory research. Lastly, the explanatory research is concerned with establishing causal relationship between variables. Therefore, emphasised is placed to study a situation or elements of a problem in order to explain and test the relationship between the variables of interest.

Considering that this study has several objectives, all of the research designs above are utilized in different parts of the study. One of the main reasons for conducting the study is to identify the characteristics and determinants of poverty of *zakah* recipients in Indonesia as well as to examine the impacts of *zakah* institutions towards their wellbeing. As there are many variables that might influence the poverty conditions, it is necessary to establish and find out the relationship between the relevant variables. As such, the study could be considered as an explanatory study and hence the explanatory design is needed. Another objective of the study is to investigate the management model of *zakah* organizations in Indonesia. This is a topic that is little known and rarely discussed in the existing literature. Therefore, the exploratory nature of the research design helps to find answer to the relatively unknown issues. As for the descriptive research, this study used the design to make a substantial contribution regarding the identification and behaviours of the *zakah* recipients in Indonesia. The descriptive design is also useful as a preliminary analysis and/or an extension to the exploratory research.

Given the research designs above, appropriate research strategies should be selected to accomplish the research objectives. A number of research strategies are well-known in the literature (see, among others, Bryman, 2008; Glaser & Strauss, 2012; Hakim, 2000; Saunders, *et al.*, 2009). Common research strategies include experiment (based on experiment), survey

(involves structured collection of data from a sizeable population), case-study (comprehensive examination of a particular contemporary phenomenon within its real-life context by triangulating or using multiple sources of evidence), action research (interactive inquiry process with collaborative analysis), grounded theory (theory is extracted from qualitative data), ethnography study (focus on interpreting the social world through first-hand field) and archival research strategies (documents as main source of data). Each research strategy has unique advantages/disadvantages, as summarized in *Appendix 5A*.

It is notable that the strategies above are not mutually exclusive. In other words, it is possible to combine them under the same research work provided that they contribute to answering the research questions which might not be satisfactorily answered with a single design only. This 'combination' is often referred to as the 'mixed methods design' (Tashakkori & Teddlie, 2003). The mixed methods design provides many advantages particularly in terms of triangulation (use of two or more independent sources of data or data collection methods to corroborate research findings within a study), complementarity (enhancement of the results from one method to another method) and richer interpretation of an inquiry (Bryman, 2006: 105). For most studies of moderate budget, the mixed methods though triangulation is also suggested to be the best approach to ensure validity of the research findings (Bamberger, 2006; Hulme, 2000; Ramalingam, 2011).

In this study, a survey and case-study strategies under the mixed methods research design were taken as the methodological approach due to their relevance in achieving the research objectives. The survey strategy, which is strongly associated with deductive research approach and quantitative data, is considered appropriate to examine the characteristics and determinants of poverty of *zakah* recipients as well as the contributions of *zakah* in reducing their poverty condition (i.e. first research aim) mainly due to its ability to collect a large amount of data from a sizeable population in a manageable time and economical way. Additionally, the research outputs produced usually have high validity and reliability.

Meanwhile, the case study strategy is primarily utilized to explain the model of *zakah* management in Indonesia (i.e. second research aim). The strategy, which is often connected with the inductive research approach and qualitative data, is selected because it enables a rich understanding of the research context and the process being enacted. It is also suitable for the exploratory nature of the inquiries in this study. Overall, the combination and triangulation of

these research designs were also expected to produce high-quality research outputs that complement each other and contribute to producing reliable and valid data.

5.3. Research Methods

Once the appropriate research design is decided, the most suitable research methods must be selected. A research method is generally referred as the details of how data are being collected and analysed (Bryman, 2008; Saunders, *et al.*, 2009). Thus, a research method has two elements namely data collection and data analysis. Research method is often seen as the most essential part of any social sciences research which enables conclusions being made from the observations conducted.

The choice of the survey and case-study research designs under the mixed methods strategy provides this study with various data collection tools and research instruments. Since each technique and instrument has different features, the most important aspects in selecting the proper tools are the nature of the study, research objective and resources availability (Colton & Covert, 2007). The selected methods are expected to obtain valid and reliable data that in turn add credibility to the research findings.

5.3.1. General Aspects of Data Collection

Two important aspects of any data collection are the research instrument (i.e. instruments to collect the data) and the sampling process to collect the data. There are two research instruments utilized in this study, namely a questionnaire and a semi structured interview guideline. The former is mainly aimed to collect quantitative primary data regarding socio-economic, demographic and perceptions of respondents related to the *zakah* assistance received and the changes in their poverty/wellbeing conditions. Meanwhile, the latter is intended to seek qualitative information regarding various aspects of the management of *zakah* organizations in Indonesia. The data obtained from the instruments were subsequently analysed by using a number of quantitative and qualitative methods, such as descriptive statistics, inferential statistics (ANOVA and logistic regression analysis), poverty index, thematic (coding) and content analysis. These aspects are discussed below.

5.3.1.1. Research Instruments

Generally speaking, two types of data are known in any research: primary and secondary data. Primary data is data collected from fieldwork or observed from first-hand experience. Meanwhile, secondary data is data obtained from secondary sources such as

government/official reports and financial statements (Saunders, *et al.*, 2009: 256). Due to the nature of the data, the former is widely used in both quantitative and qualitative studies. However, the latter is commonly utilized in quantitative studies. This is particularly the case when the data needed has a large scale, and therefore it is relatively difficult and expensive to obtain it through (a small scale) field work (Bryman, 2008).

Primary data can be gathered using two main methods, namely communication/interview and observation methods. The former requires direct interviews with respondents to obtain the data. In contrast, the latter requires observations and recording of relevant facts, actions or behaviours of respondents (Bryman, 2008). Although the methods are quite distinctive, it is possible to combine them through triangulation techniques which help to obtain a variety of information on the same issue and to use the strengths of each research method (and instruments) to overcome the deficiencies of the other (Bryman, 2006).

The interview method could be generally divided into standardized and non-standardized interview techniques (Saunders, *et al.*, 2009:320). Standardized interviews or structured interview entails the administration of an interview schedule by an interviewer (Bryman, 2008:193). It commonly uses questionnaires based on a standardized format, in which the interviewers are required to read out exactly the same questions to respondents and records the answers in a structured (and usually pre-coded) format. Thus, it is also known as interview-administered questionnaires. This format also allows all respondents to get exactly the same context of questioning and hence produces more reliable answer to the research questions (Saunders, *et al.*, 2009:320). Furthermore, they could be conducted through face-to-face, telephone and electronic (internet/internet-mediated) interviews. Due to these nature, they are mostly used in descriptive and explanatory studies to explore general patterns of a subject matter and collect relevant quantifiable data (Robson, 2002). They are also generally applied in quantitative studies which involves a relatively structured research design, standardized recording instrument and hard/standardized data (Corbetta, 2003).

In contrast, non-standardized interviews do not require a specific format. A number of unstandardized interviews are known in literature, including semi-structured interview, unstructured (in-depth) interview and group interview (Saunders, *et al.*, 2009:320). In semi-structured interviews, an interview guideline (i.e. a list of general themes/questions to be covered during the interview) must be prepared. However, some questions can be omitted or added depending on the situation during the interview. Thus, there is flexibility for the

researcher to ask relevant questions and/or explore relevant issues which are not included in the prepared guideline. Furthermore, interviewees could also enjoy greater flexibility in answering the questions and express their perception using languages natural to them (Bryman, 2008:438). Accordingly, this method is suitable for exploring and explaining phenomenon and/or relationships between variables (Robson, 2002). In contrast, a predetermined list of questions is usually not needed in unstructured interviews, which is widely employed in exploratory studies to find out what happens and to seek new perspectives. Nevertheless, before conducting the interviews, it is important to be clear about the general nature of the subject matter (Robson, 2002). Due to these characteristics, the non-standardized interviews are commonly utilized in qualitative studies which deals with relatively unstructured research design, unstandardized recording instrument and relatively soft or 'rich' qualitative data (Corbetta, 2003).

As for the observation method, the main tools for primary data collection are ethnography (participant observation) and pure observation (non-participant or structured observations). While the former emphasizes discovering the meanings attached to people's actions, the latter is more concerned with the frequency of the actions. Both methods are good at explaining 'what is going on' in a particular situation and are thus suitable for exploratory studies (Saunders, *et al.*, 2009). However, due to their nature, specific and unique data collection techniques are somewhat less clear for both methods (Fife, 2005). Field notes, i.e. a detailed chronicle of events, behaviours, conversations and the researcher's initial reflection on them (Bryman, 2008), are probably the most common tool for obtaining data for both techniques. With structured field notes, frequency (or other measures) of the events is usually coded and quantified. With an unstructured format, however, analytic induction must be performed to analyse the data generated from the field notes (Saunders, *et al.*, 2009).

For the purposes of this study, an interview-administered questionnaire and a semi-structured interview guideline were utilized as the main research instruments to collect the primary data. The questionnaire was regarded as suitable for describing and exploring general patterns of, for instance, the characteristics and behavioural change of *zakah* recipients, which is one of the crucial quantitative information needed for this study. Despite the possible costly administration, the face-to-face interview nature of the questionnaire is also expected to increase the response rate of the survey, which might be lower if self-completion questionnaire is used. Furthermore, since most of the interviews were conducted in the respondents' place/house, the process might also be useful to provide additional context and

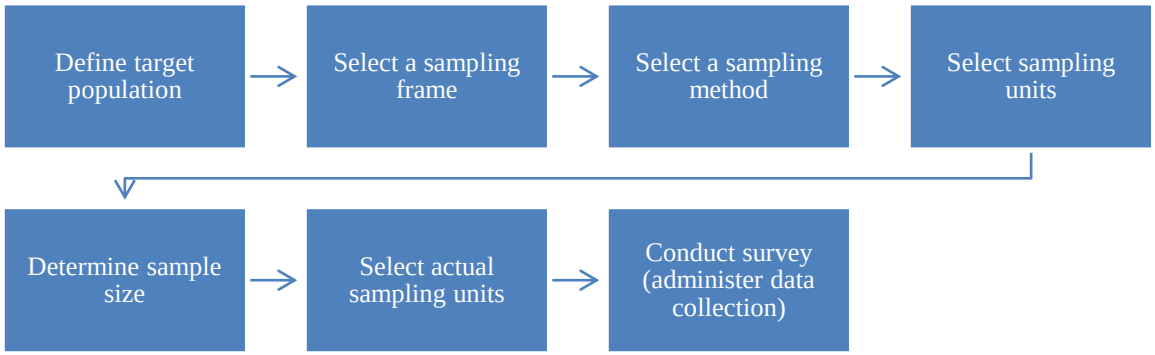
'ethnographic insights' which could enrich the quantitative data obtained from the survey. The instrument has also been employed by a number of relevant earlier studies (see, for instance, Beik, 2010). Thus, the study decided to adopt the questionnaire instrument.

As for the semi-structured interview guideline, this study utilized the instrument to obtain qualitative information on the implementation and management of *zakah* organizations in Indonesia. The instrument is selected primarily due to its suitability in collecting and exploring the qualitative information needed in this study, such as the management approach in collecting and distributing *zakah* proceeds in the country. It also allows some flexibility for both the researcher and the interviewees, particularly for exploring issues which are not included in the initial guideline and expressing opinions in a convenient way. These strengths are expected to produce a rich data set and a deeper understanding of the *zakah* management issues investigated in this study.

5.3.1.2. Selecting Samples

Sampling is the process of selecting a number of units (people, organization, etc.) from a population of interest. If the population is known and small enough, all units in the population can be sampled, and such a sampling process is known as a *census.* In most cases, however, this is almost impossible because the population size is usually very large or even unknown. Furthermore, although not all research is intended to make certain inferences and draw general conclusions about a population, it is usually agreeable that if a proper sampling selection process is followed then the research findings could be used to make conclusions about the relevant population (Zikmund, 2000). In other words, if representative samples are chosen, it may be possible to generalize the research outcome and derive conclusions regarding certain characteristics of the population from the samples (Bryman, 2008). Thus, sampling is a very important element in almost any social research analysis.

Figure 5-1: Stages in Selecting Samples



Source: Modified from Zikmund (2000:391)

In order to obtain a good and representative sample, it is necessary to make an appropriate selection such that sampling error[164] and sampling bias[165] can be minimized. This can be achieved if proper sampling procedures are conducted. The sampling procedures exhibited in Figure 5-1 above are suggested as a guide throughout the sampling process. The details of each procedure, except for the actual data administration, are discussed in the following subsections.

5.3.1.2.1. Sampling Frame

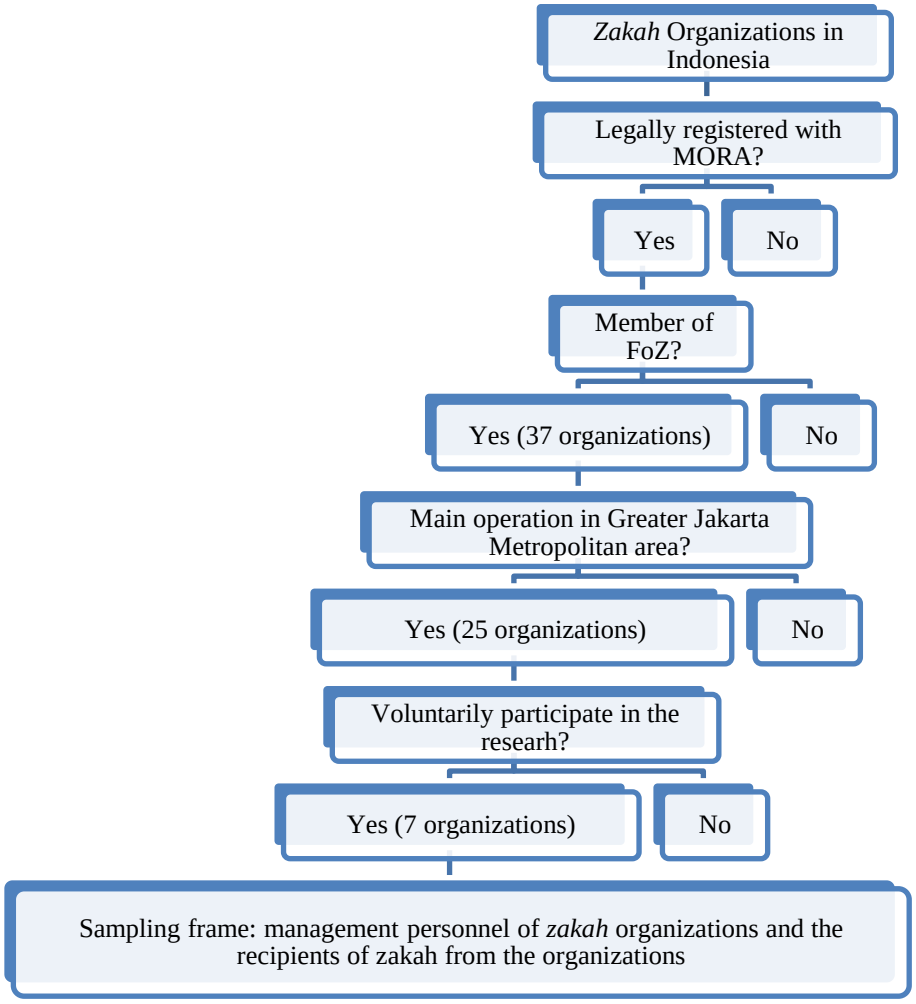
Population is commonly defined as the universe of units from which the sample is selected. For many reasons, particularly cost and time, it is almost impossible and impractical to obtain data from all population members. Therefore, a common approach is to select certain measures which reflect the population into a more realistic 'sampling frame' (Bryman, 2008). A sampling frame is also known as the 'working population' because it provides the list of the 'operational' population for the fieldwork. Once it is identified, it is possible to select a 'representative sample' or a sample that reflects certain characteristics of the population more accurately (Zikmund, 2000).

In this study, the research population is all *zakah* organizations in Indonesia and the recipients of *zakah* from the agencies. However, mainly because the actual numbers of *zakah* agencies[166] and *zakah* recipients[167] are unknown, the population was redefined into a sampling frame that fulfils several criteria. The criteria include legality (i.e. registered with the government),[168] ease of access to the relevant data (i.e. membership in *zakah* association),[169] and time/cost considerations. The area of research was also restricted to the Greater Jakarta area due to its role as the centre of *zakah* activities in Indonesia[170] and good infrastructure (particularly transportation and communication) that would reduce the cost and improve the efficiency of the fieldwork. The restrictions were also expected to enable a more

[164] Sampling error is error in the research findings due to differences between a sample and the population from which it is selected. This may occur even though a probability sample has been employed (Lind *et al*, 2008).
[165] Sampling bias is a distortion in the sample's representativeness, which arises when some members of the population (*sampling frame*) have little or no chance of being selected as the sample (Lind *et al*, 2008).
[166] This primarily happens because not all of them are formally/legally registered with the Ministry of Religious Affairs (MORA) and/or have joined the National *Zakah* Association (FoZ).
[167] This primarily happens because not all *zakah* organizations have a good database of *mustahik*.
[168] This implies that the *zakah* organizations must be formal organizations registered with the MORA. Thus, the legality of the organizations can be assured and the data published are more trustworthy and reliable.
[169] This implies that the *zakah* organizations must be members of *Zakah* Association (FoZ). This is expected to increase the probability of obtaining the data or at least providing the researcher with better access to obtain the required data. It is also notable that, by May 2011, FoZ had 37 formal members from all over Indonesia.
[170] This has already been discussed in Chapter 4.

focused analysis, which may not have been possible had all areas in Indonesia been studied. Based on these considerations, the sampling frames are portrayed in Figure 5-2.

Figure 5-2: Sampling Frames



Given the sampling frame above, seven large *zakah* organizations were willing to voluntarily participate in the research and were thereby selected for the sampling frame (see their profile in *Appendix 5B*).[171] Following the categorization of *zakah* organizations in Indonesia, as explained in chapter four,[172] the *zakah* organizations above consist of two government agencies, two corporate agencies (linked with Islamic banks) and three non-profit *zakah* agencies. To analyse the models of *zakah* implementation, requests for in-depth interviews were sent to the agencies. Meanwhile, to analyse the impacts of *zakah* on the recipients'

[171] It is also notable that four of the organizations were also the largest *zakah* organizations in Indonesia by revenue collected in 2008 (see PEBS-FEUI and CID, 2009). Indeed, in 2013, six out of seven organizations are reported to be in the top 10 of the largest (highest earning) *zakah* agencies in Indonesia (Tempo Magazine, April 2014). However, primarily due to confidentiality reasons, the organizations' actual names are not presented. However, brief details of their characteristics are presented in *Appendix 5B.*

[172] See section 4.3.1 and 4.3.2.

wellbeing, a list of 5605 households receiving *zakah* assistance from the agencies in year 2011 was obtained. They were considered the working population of the study.

5.3.1.2.2. Sampling Methods

The next stage is to choose the most appropriate samples from the sampling frame. For this purpose, two broad categories of sampling techniques widely used in social research are probability and non-probability sampling methods. With probability sampling, a (representative) sample is selected using a random selection method such that each unit in the population has a known and similar chance of being a sample. In contrast, with non-probability sampling, a sample is selected based on certain knowledge or judgement such that some units in the population are more likely to be selected than others (Bryman, 2008:168).

There are several sampling methods under the probability sampling technique, as discussed in Saunders *et al.* (2009) and Levy and Lemeshow (2013). They are *simple random sampling* (selection based on pure random method), *systematic random sampling* (selection based on a particular and sometime ad-hoc ordering method), *stratified random sampling* (selection based on a certain stratification variable), *cluster random sampling* (selection based on a naturally occurring cluster, such as geographical location) and *multistage (cluster) random sampling* (random selection based on several variable, usually cluster/geographic and particular stratification variable). Similarly, sampling techniques associated with the non-probability sampling include *quota sampling* (selection based on quota variable), *purposive sampling* (selection based on researcher's judgment), *snowball sampling* (selection based on reference of respondent), *self-selection sampling* (selection based on respondent's desire to be sampled) and *convenience sampling* (selection based on researcher's convenience) methods. Strengths and weaknesses of each sampling methods, including impacts of various factors on the choice for certain techniques, are summarized in *Appendix 5C.*

In this study, both sampling methods were utilized to answer different research questions. Under probability sampling, the multistage cluster random sampling was employed to collect data on socio-economic conditions of the households receiving *zakah* assistance for certain *zakah* agencies. This method was selected due to its cost-effectiveness and unbiased results, which has made it the most widely used technique for collecting similar data in most poverty studies (Haughton & Khandker, 2009). Additionally, the purposive sampling under the non-probability method was utilized to collect qualitative information related to the management

of *zakah* agencies. This is arguably the most common method of collecting data on organizational characteristics (Bryman, 2008). The combination of these sampling methods is expected to increase the reliability, validity and credibility of the data gathered.

5.3.1.2.3. Sampling Unit and Sample Size

Another important aspect of the sampling process is the determination of sample units and sample size. While the decision on sample units is usually related to the previous literature, the decision on sample size is not so straightforward. In many cases, the sample size decision depends on a number of considerations such as time, costs and other specific factors (non-response, heterogeneity of the population, etc.). Moreover, it often involves a 'compromise' between the various options available as well as various problems commonly occur in fieldwork (Bryman, 2008:179-182).

More specifically, in relation to the sample unit, the most common unit of observation in poverty studies is household (Baker, 2000; Haughton & Khandker, 2009; Niemietz, 2011). A household is usually defined as a group of persons eating and living together in the same house. This sampling unit has been employed by numerous poverty studies (see, for example, Madden, 2011; Miranti, 2010; Viswanathan & Srivastava, 2007) as well as several studies related to *zakah* in Muslim countries (Beik, 2010; Ibrahim, 2006; Jehle, 1994). It is also worth remembering that the households above must be listed as the recipients of *zakah* assistance from *zakah* organizations operating in Greater Jakarta Indonesia, which is the specific research area of the study. This implies that *zakah* organization is the other sample unit in the present study.

It is also known that quantitative data analysis usually requires a large sample size, which is associated with a lower sampling (margin) error and a higher precision/power of the estimations and inferences made. Technically, the sample size could be calculated by utilizing certain statistical methods.[173] In this regard, Bartlett, *et al.* (2001) suggest that at least 600 samples are needed for a 99% confidence level and 5% margin of error for a research with around 6000 units in the population (sampling frame) and continuous/categorical variables in the data analysis. As for qualitative data analysis, specifically analysis involving data collected through a purposive sampling method, the sample size is usually determined by the researcher's judgement rather than specific statistical method requirements (Bryman, *et al.*, 1996).

[173] For more discussion, see Israel (1992), Adcock (1997), Bartlett *et al.* (2001) and Lind (2004).

Based on the consideration above, the population (sampling frame) in this study was 5605 households listed as the recipients of *zakah* in Greater Jakarta Indonesia in 2011. Due to the need to analyse various types of data (i.e. categorical, ratio and interval data), the sample size recommended by Bartlett, *et al.* (2001) above was followed. Thus, around 700 households were included in the sample.[174] Moreover, Directors of all the seven *zakah* agencies studied were aimed to be respondents for the semi-structure interviews albeit more respondents were successfully interviewed during the actual field work. The sampling units and sample sizes planned are expected to result in high-quality data for further analysis.

5.3.2. General Aspects of Data Analysis

Data analysis is another important aspect of any research which directly provides answer to the research questions and helps achieving the research objectives. According to Bryman (2008:336), it is necessary to think about data analysis particularly prior to developing research instruments for at least three reasons. First, particular techniques of data analysis might be applicable to some types of variables and not to other variables. Thus, it is important to know different types of variables to be included in the study. Second, the kind of data collected (i.e. quantitative and qualitative data) need to be identified as they might influence the sort of data analytical techniques to be employed (including the sample size needed for the analysis). Lastly, knowing and become familiar with relevant computer software is also advisable to avoid difficulties in analysing and presenting the data collected.

With respect to the variable identification, four types of variables widely known in quantitative data analysis are nominal, dichotomous, ordinal and interval/ratio variable. Nominal variable refers to variable that does not have specific order, such as gender and religion. When the data only have two categories, the variable is known as dichotomous variables. Ordinal variable is the variable in which the data can be ranked or ordered, such as variable representing degrees of preference. Meanwhile, interval/ratio variable is variable with identical distances across the categories (Bryman, 2008:322). Moreover, the data associated with the interval/ratio variables are often referred as continues data, meanwhile the others are known as categorical data (Field, 2009). The four variables, however, are not/rarely used in qualitative data analysis. This is primarily due to the nature of the qualitative research which studies individual (person, organization, etc.) as the subject of analysis and aimed to deeply understand the subject. Accordingly, 'soft' data such as texts from the subject is the main type of data in qualitative analysis (Corbetta, 2003).

[174] The larger number is intended to anticipate problems such as non-response of respondents.

In relation to the analytical techniques, quantitative studies usually rely on mathematical and statistical techniques to answer the research questions. The techniques used, however, vary greatly depending on the study objectives. For example, descriptive statistics could be employed to describe characteristics of data. Meanwhile, inferential statistics such as analysis of variance or regression analysis are suitable to investigate or predict relationship between variables of interest. Moreover, the findings are usually presented in tabular or graphical format (Field, 2009). In contrast, qualitative studies do not or rarely use such techniques. The data obtained is usually analysed in a narrative perspective, i.e. the data are extracted from interview/text and the generalizations are made through critical interpretative method that produce logical classifications and conclusions (Boyatzis, 1998). Examples of qualitative data analytical techniques are thematic analysis, content analysis and discourse analysis (Bryman & Burgess, 2002). Similar to the quantitative research, the use of qualitative data analysis must be adjusted with the objectives of the study.

In contemporary research practice, data analysis stage has been benefited from a number of computer software which helps reduce the time needed to analyse the data obtained and ultimately the costs of research. In quantitative research, popular software used in social science research is SPSS and STATA (Cameron & Trivedi, 2009; Pallant, 2007). Meanwhile, in qualitative research, software such as NVIVO is commonly used to extract the qualitative data and subsequently present the data in a meaningful presentation (Bazeley & Jackson, 2013).

In this study, a number of statistical/mathematical (quantitative data analysis) techniques and qualitative data analysis tools are employed due to their relevance in addressing different research questions. Descriptive statistics was widely used, among others, to identify profiles of the poor (*zakah* recipients) and some basic data of the *zakah* organizations (number of employees, amount of *zakah* collected, etc.) Inferential statistics, such logistics regression model, was employed to examine the determinants of poverty and the impacts of *zakah* on the household wellbeing. These analyses were performed with the aid of SPSS and STATA software. Meanwhile, coding/thematic analysis was conducted to find general pattern in a number of important management aspects implemented by the *zakah* organizations studied. This analysis was made possible with the help of NVIVO software. The techniques will later be elaborated in relevant specific subsections.

5.4. Research Methods for Demand Side Analysis

This section explains the research methods for understanding the *zakah* recipients and investigating the impacts of *zakah* towards their poverty/wellbeing. Thus, it basically discusses the demand side analysis of *zakah* implementation in Indonesia, which is addressed as the first and second research questions. The research aspects include development of survey questionnaire, pilot testing and data reliability, administration of research instrument and structured interview process, and data analysis methods.

5.4.1. Development of Survey Questionnaire

As mentioned earlier, questionnaire was the main research instrument utilized to collect the data related to the characteristics and behaviours of *zakah* recipients (i.e. the demand side data) for this study. A good questionnaire needs to consider, among other things, the content, format and presentation/layout of the questionnaire (Colton & Covert, 2007). Other important elements are pilot testing and carefully planned administration of the questionnaire (Saunders, *et al.*, 2009). The overall design, pilot testing and administration of the instruments will affect the reliability and validity of the data collected.

Under the preparation part, the questionnaire designs (i.e. content, format and presentation) were developed after reviewing a number of relevant literatures such as journal articles, books, reports, PhD theses and other pertinent materials. It is notable that the content of a questionnaire must be related to the purpose and focus of study, i.e. the research questions to be answered (Colton & Covert, 2007:18). Accordingly, as will be elaborated later, most of the variables included in the questionnaire were adopted and/or modified from the existing studies related to poverty and *zakah* institution. However, some of the final questions were actually developed and/or modified after getting feedbacks from the pilot testing phase.

Format of a questionnaire needs to consider, among others, types of questions (i.e. open or closed questions), types of answers (i.e. open or pre-coded answers) and other practical considerations (such as avoiding ambiguous terms and very general or very technical questions). With an open question, respondents could answer a question as they wished. This implies that the open question is associated with open answer. In contrast, with a closed question, the respondents are presented with fixed and pre-coded alternatives to answer the question (Bryman, 2008:231).

In general, the closed question format is preferable than the open question format due to a number of advantages, including easiness to complete and process answers, enhance the

comparability of answers and reduce the possibility of variability in the recording of answers in structured interview. However, it also exhibits certain disadvantages such as inability to obtain specific/detail answers and loss of spontaneity in respondents' answer. Fortunately, most of the disadvantages could be handled by utilizing the open questions (Bryman, 2008:235-237).

Moreover, in relation to the closed questions, the pre-coded answers are usually presented in a scale-based answer, such as the Likert scale response. The Likert scale is often defined as the point-scale that asked respondents to indicate their level of agreement with an item/statement (Colton & Covert, 2007:33). It is also possible to use a more general itemized rating response, which indicates a rating (degree of changes, preference, importance, etc.) of a subject matter in numerical scales (usually between 3-10 points scales, as needed) so that the respondents can choose the appropriate number suitable for their conditions (Friedman & Amoo, 1999).

Another important aspect in a survey questionnaire's construction is its layout/presentation. Typically, a questionnaire contains six parts namely title, introduction, directions/instructions to answer the questions, selection items (main questions, usually closed ended), supply items (usually open ended), demographics characteristics of respondents and closing sections (Colton & Covert, 2007:14-16). However, it is also common for a questionnaire's structure to follow the sequence of the research questions of a study. Hence, the structure might be slightly different that the common presentation above (Bradburn, *et al.*, 2004; Bryman, 2008).

Table 5-2: Brief Content and Format of the Questionnaire

Section	Objective	Content	Design/Format
Section I (including cover page)	• Introduction • Address ethical concerns	• Researcher's details (coding) • Details of interview schedule: time of visit, interview status (finished/unfinished) and reason for unfinished interview • Informed consent: introduction of the researcher and purpose of study, request for voluntary participation in the survey, inform confidentiality of the information gathered • Details of respondent: city of residence (location), address and phone number (if available), name and types of assistance received (as cross-check with the list received from the *zakah* agencies) • Arrange (coding) questionnaire details	Combination of closed questions and open questions
Section II-III	Describe and explore the characteristics of respondents	• Socio-demographic backgrounds of respondents (head of household): gender, age, marital status, education and occupation • Characteristics of the household: household's size and assets • Details of household's monthly income (excluding transfer from *zakah* and other external sources)	Closed questions with pre-coded answer (for the socio-demographic background) and open questions (for the characteristics and income of households)
Section IV-V	Describe and explore the types and amounts of assistance received	• Types and amounts of income/monthly assistance received from *zakah* agencies, including participation in *zakah* assistance related activities • Types and amounts of income/monthly assistance received from non-*zakah* (government) sources	Closed questions with yes/no answer (for the types of income, *zakah* assistance and the related activities) and open questions (for the amount of income and *zakah* assistance)
Section VI	Describe and explore the wellbeing changes	The change in households' conditions/behaviours in five wellbeing/poverty dimensions (i.e. health, education, religion, economy and social) *after* receiving *zakah* assistance	Itemized rating scale, with scale 1-6
Section VII	Describe satisfaction with *zakah* agencies	Perception/satisfaction of respondents with the overall performance/interaction with the *zakah* agency	Likert scale, with scale 1-4
Final page	Fieldwork notes	Explore and note interesting details or stories (qualitative narratives) that might be related to the households' wellbeing/poverty.	Open questions, optional

In this study, as summarized in Table 5-2, the questionnaire consists of seven sections which combine the closed and open questions formats. Moreover, the questionnaire's presentation was primarily structured by considering the sequence of the research questions developed in this study. As a result, as will be elaborated later, the main three sections (i.e. section II-IV)

request information related to the first research question while the rest (i.e. section V-VI) address the second research question. In addition, an introductory (including cover page) and a closing/note sections are also included in the questionnaire. The former contains information related to the identity and location of respondent,[175] the questionnaire's administration,[176] and the informed consent to be read to respondent prior to conducting the interview-administered questionnaire. Meanwhile, the latter notes any interesting qualitative information (stories, narratives, etc.) that might explain conditions in the households investigated. A complete form of the questionnaire is presented in *Appendix 5D*.

In the subsequent three sections, most of the main information requested in the questionnaire was taken or modified from the literature discussed in the earlier chapters. Sections II to IV consist of the general questions related to characteristics of the households receiving *zakah* assistance (socio-demographic profiles of heads of households, household sizes and assets, and household income). The sources of income listed in section IV (i.e. wage, profit, rent and transfer from family/relatives) were derived from the entitlement approach proposed by Sen (2007) and modified by Ahmed (2004).[177] Furthermore, the questions related to amount and types of *zakah* assistance presented in section V were inspired by previous studies such as Jehle (1994), Beik (2010). Meanwhile, the activities related to *zakah* assistance was taken from the study of PEBS-FEUI and IMZ (2010). The questions are asked by using a combination of closed and open questions. The information gathered was primarily used to identify the characteristics of *zakah* recipients and evaluate the economic (monetary) impacts of *zakah* assistance on the household welfare.

[175] Following the common practice in administering a multi-stage cluster random sampling method (see, for instance, Bryman, 2008), the identity of respondent is recorded and coded according to the city (location/cluster), name of *zakah* organization (OPZ), type of assistance (TA) and household address/number. This is done not only to ensure a proper recording of the respondents' confidential detail, but also to ensure that they could be tracked if, for some reason, further information and/or clarification is needed from them later.

[176] The administrative information includes, among others, (i) the name of interviewer, supervisor (i.e. person supervising the interviewer), editor (i.e. person editing the answer recorded by interviewer) and puncher (i.e. person responsible to entry the data obtained), (ii) types of *zakah* assistance (as a control variable, based on the list received by the *zakah* agencies) and (iii) the time and date of interview, including the reason for unfinished interview (if happened).

[177] Note that the wording was mostly adopted from the World Bank's Living Standard Measurement study (Grosh & Glewwe, 2000) and the Indonesia Family Life Survey (Frankenberg & Thomas, 2000), with some simplifications. The Living Standard Measurement Survey (LSMS), for instance, asks for detailed information regarding all members of the household (age, gender, education, etc.); meanwhile, in this study such questions are only directed to the heads of households. The Indonesia Family Life Survey (IFLS) also asks for specific information about sources of income and various types of household expenditures; meanwhile, in this study the incomes are classified more generally and according to the modified entitlement approach.

Table 5-3: Operational Indicators of Multidimensional Poverty/Wellbeing

Dimension (Coverage)	Element (Operational Indicator)
Health: ability to access and meet basic needs to become (physically) healthy	1. Consumption 2. Access to healthcare 3. Awareness of health 4. Frequency of sickness
Education: Ability to access education and be knowledgeable	5. Access to school 6. School attendance 7. Basic knowledge from schooling 8. Academic/school achievement
Economy: ability to access and earn income to sustain a living	9. Skill 10. Employability 11. Income 12. Purchasing power 13. Savings
Faith: ability to access/know and practise one's religion	14. Prayers and fasting 15. Islamic/Qur'anic studies 16. Charity (*sadaqah/infaq*) 17. *Hajj* (great pilgrimage)
Social: ability to access and manage a family that is Islamic and well-functioning in society	18. Better future for family 19. Harmony 20. Un-Islamic or anti-social activities 21. Participation in community activities

The non-monetary impacts of *zakah* toward the households' multidimensional poverty were investigated in Section VI. More specifically, as shown in Table 5-4, this section incorporated 21 themes/questions related to the changes of household poverty/wellbeing –measured with an itemized rating on the scale of 1-6 (i.e. from extremely worse to extremely better)[178] - in health, education, religion, economic and social dimensions. The five dimensions also reflect the dimensions of human wellbeing suggested in *maqasid al-Shariah* theory, as developed by prominent Muslim scholars Imam al-Ghazali and Imam Shatibi (in Ashur, 2006).[179] Furthermore, the definitions of poverty/wellbeing in each dimension were inspired and derived from the understanding of the capability approach in the multiple dimensions, which emphasize access and ability to function in a society (Alkire, 2007). These focus were also

[178] In this study, a 6-point scale is used to avoid neutral and biased answers.

[179] It is worth mentioned that the Ghazalian/Shatibian maxim is considered as an appropriate framework to examine multidimensional aspects of human wellbeing for at least two main reasons, including (i) its relevance to current situation in the Muslim world where poverty and backwardness persistently exist most notably in the past few centuries, and (ii) its approach which limit the poverty/wellbeing dimensions into five dimensions such that policy makers could focus their attentions and resources to the aspects. Furthermore, from a technical perspective, it is notable that a measurement is easier when it involves relatively limited number of concepts. Thus, despite its limitations, human wellbeing as measured by the five levels of necessities is relatively easier to measure than those described under an unlimited or open-ended list of human wellbeing indicators as prescribed by other scholars such as Ibn Taymiyyah and Ibn Qayyim.

emphasized by the proponents of the *maqasid al-Shariah* theory, which reinterpreted the principles and argued that human wellbeing could be achieved through opening access (promotion) and protection of the essentials from potential harms such that people have abilities to exist in society and ultimately have a meaningful life (i.e. achieve *falah*) (Kasri & Ahmed, 2014). Accordingly, education wellbeing is generally defined as the ability to access education and be knowledgeable; and *vice versa* for the education poverty. Likewise, economic wellbeing refers to ability to access and earn income to sustain a living. The other definitions are shown in the table.

Furthermore, the variables/indicators for each dimension were mainly developed[180] from the literature on the determinants and impacts of poverty discussed in chapter two[181] and chapter three.[182] The indicators used in the economic dimension, for instance, are mostly adopted from Allardt (1993) and Rahman and Ahmad (2010). Meanwhile, the social indicators are taken from studies such as those by Ahmed (2002) and Narayan, Chambers *et al.* (2000) and considered suitable with the Indonesia conditions The indicators presented in Table 5-4 are selected with the view that, although theoretically there are unlimited options for the poverty/wellbeing indicators (Alkire, 2002), the most suitable indicators should be selected in the light of the values/norms of the referent population as emphasized earlier by Sen (2004).[183] Additionally, as the *maqasid* principles left the most suitable operational indicators for the Muslim society to determine according to the current conditions and norms/customs (*urf*) of the people (Mattson, 2003), relevant previous studies are also considered appropriate to be the reference for selecting the indicators. These are the basis for choosing the poverty/wellbeing indicators presented in the table.

[180] It is noted by Alkire (2007:7) that, "In practical applications of the capability approach and related multidimensional [poverty] approaches, the methods of identifying capabilities or poverty dimensions are surprisingly straightforward. It would appear that most researchers draw implicitly on five selection methods, either alone or in combination". These are: (i) existing data/convention, (ii) assumption of what people do/should value, (iii) public 'consensus', (iv) on-going deliberative participatory processes and (v) empirical evidence from multidisciplinary studies regarding people's values. This study mainly utilized the last method in deriving the wellbeing indicators.

[181] For complete measures/indicators of poverty, please see section 2.2.1 and Table 2.1. See also discussion about the determinants of poverty in section 2.2.

[182] See discussion in section 3.3 regarding the impacts of *zakah* institutions.

[183] It is also noted by Alkire (2007:7) that in the practical applications of the capability approach and related multidimensional [poverty] approaches, the methods of identifying capabilities or poverty dimensions are surprisingly straightforward. Most researchers draw implicitly on five selection methods, either alone or in combination, based on (i) existing data/convention, (ii) assumption of what people do/should value, (iii) public 'consensus', (iv) on-going deliberative participatory processes and (v) empirical evidence from multidisciplinary studies regarding people's values.

The final sections asked the respondents to express their general satisfaction in dealing with the management of *zakah* organizations (in section VII) and noted their concerns with the agencies and/or additional experience –or even any interesting qualitative information observed during the fieldwork- related to their households poverty conditions (in 'field work' note page). The question items related to the degrees of satisfaction above are developed based on a commonly-used four-point Likert scale (i.e. from strongly disagree to strongly agree). [184]

It is worth noting that, considering the importance of ethical issues, the research objective and 'informed consent' statement ensuring confidentiality of the respondent's information/answers were clearly explained in the introductory part of the questionnaire. The wording and layout of the questionnaire were also made as simple as possible. As suggested in much of the literature (Bryman, 2008; deVaus, 2002; Dillman, 2007), these efforts were made to ensure that the questionnaires were easily understood so that the reliability and validity of the answers given could be increased.

5.4.2. Pilot Testing

In social science research, the term pilot study often referred to the pre-testing of a particular research instrument (Baker, 1994:182) The pilot test aims to ensure, among other things, clarity (i.e. the questionnaire's instructions are clear and the respondents can follow them correctly), comfort (i.e. the respondents are comfortable about answering the questions and the researcher is confident about interviewing the respondents), necessity for visual aids[185] and proper recording of the data recording (Bryman, 2008; Saunders, *et al.*, 2009). It is also suggested that expert professionals and actual/potential respondents[186] be involved to enable early assessments of the validity and reliability of the research instrument (van Teijlingen & Hundley, 2002).[187] The process will also help to improve the questionnaire by identifying and eliminating potential problems (Zikmund, 2000).

[184] In this study, a 4-point scale is used to avoid neutral answers, which are often given when respondents are reluctant to answer the question.
[185] The visual aids include, for instance, a show card (showing specific scale/options as answers for particular questions), diagram, picture, etc. (depending on the need).
[186] The expert professionals are considered the best persons to give feedback on any content, wording, sequence, and layout issues. Meanwhile, the actual/potential sample from the population was most appropriate to give feedback on the time required to answer the survey, difficult questions, clarity of the instructions and, to a certain extent, comments on the layout of the questionnaire form.
[187] For more discussion on the pilot test, see Bell (2005), Saunders *et al.* (2009) and Bryman (2009).

For this research, two rounds of pilot-testing were conducted. In the first pilot test, 20 'expert professionals' from different backgrounds[188] were selected as the 'sample' and asked to fill in the questionnaire. In the second test, the same sample size was taken from the actual/potential population of *zakah* recipients living around the researcher's home area. The pre-test phases were beneficial, enabling the identification of important issues related to the content/structure and layout (presentation) of the questionnaire. Based on the findings, some modifications were carried out to improve these aspects.[189] It was also decided to write a 'survey manual' book and provide a show card (visual aid) to ensure clarity of the instructions for both interviewers and respondents.

In addition to the pilot tests, the study formally tested the internal consistency reliability of the data by using Cronbach's Alpha statistics. Cronbach's Alpha measure is the most widely used statistic to evaluate the internal consistency reliability associated with the scores derived from a scale. Theoretically, a minimum score of 0.7 is expected from the scale-based data resulting from a survey (Nunnally, 2010). In this study, the Cronbach's Alpha coefficient was 0.91, which is significantly above the recommended value of 0.7 (see Table 5-4). This implies that the scale-based questions have a good level of internal consistency and reliability; therefore, the data generated could be considered highly reliable.

Table 5-4: Reliability Statistics (Cronbach's Alpha Coefficient)

Average inter-item covariance:	0.298057
Number of items in the scale:	21
Scale reliability coefficient (Cronbach's Alpha):	0.9098

Overall, the pilot testing, provision of survey manuals and show cards as well as formal statistical testing on the scores generated from the survey are expected to increase the quality and reliability of the data obtained.

5.4.3. Administration of Research Instrument and Survey (Structured Interview) Process

The final stage in the data collection process is to administer the research instruments. In this stage, it is important to have the necessary skills and appropriate system to collect and record

[188] The expert professionals were selected from family, friends and colleagues who are *zakah* payers and/or engaged/involved in work related to *zakah.*

[189] With respect to the content, for example, the questions that seemed to be difficult and 'sensitive' to ask in a household survey, such as those about the husband/wife relationship and involvement in criminal activities, were dropped from the questionnaire. Meanwhile, in relation to the questionnaire layout, the questionnaire was extended from seven to ten pages after it was decided to use a larger font and place a particular section on a specific page to make the interview process faster/easier.

the data effectively. The skills required for an interview include, among others, opening the interview, using appropriate language in the questioning and listening, summarizing the understanding, dealing with difficult participants, and data recording. It is also suggested that proper interviewer training could improve the reliability of a survey. A lack of competence in this field could result in interviewer and interviewee bias and, subsequently, poor data quality. Meanwhile, in relation to the field system/management, it is necessary to ensure appropriate provision of the survey's logistics[190] and efficient delivery of the questionnaires to collect the data effectively (Bryman, 2008; deVaus, 2002).

In this study, under the preparation part, the management of *zakah* organizations were firstly contacted and the relevant data -particularly the list of the *zakah* recipients- was obtained. At relatively the same time, assistance from several enumerators was obtained.[191] Despite their existing qualities, they were provided with two days' training to improve their skills and familiarize them with the questionnaire's context.[192] From the post-training discussion, it was believed that they had the necessary skills to conduct the survey satisfactorily. Furthermore, in relation to the field management, all the survey logistics (list of respondents, copy of questionnaires, survey manual, show card, small souvenirs to respondents, etc.) were prepared. It was also arranged that the assistants would have a regular weekly meeting with the researcher before, during and after the fieldwork. The researcher also met the assistants' coordinator in a daily basis. Problems arising during the questionnaire's administration were identified and solutions were immediately suggested during the meeting.

Furthermore, considering that the study intended to obtain data from 700 households living in nine cities[193] of the Greater Jakarta region, the fieldwork was conducted in sequence in order that the transportation and other logistical costs might be managed more efficiently. The sequence implies that respondents from a particular city (cluster) will only be surveyed after

[190] These include, among other things, printouts of questionnaires, questionnaire manuals and list of respondents.

[191] There were 20 enumerators supported this study, in which most of them were final-year university students from the University of Indonesia where the researcher became a lecturer. Some of them, however, were new graduates with previous experiences in doing social research's surveys.

[192] In the first session of the training, the interviewers were given basic knowledge about the process, standard and ethics involved in a social survey. The questionnaire's contents were also explained as guidance for conducting the survey properly. In the second session, they were asked to play a 'role-playing' exercise (i.e. each interviewer takes turns at being an interviewer and a respondent) to simulate the real interview situations. According to Berg and Lune (2004:97), the role-playing model is the most effective way to learn to interview. In the last session, they were asked to find and interview a real respondent as a pre-test. Based on this, an intensive discussion to identify real problems in the fieldwork was conducted and the outputs were used to improve the questionnaire designs.

[193] The cities include Jakarta Utara (North Jakarta), Jakarta Timur (East Jakarta) Jakarta Pusat (Central Jakarta), Jakarta Barat (West Jakarta), Jakarta Selatan (South Jakarta), Depok, Tangerang, Bogor and Bekasi cities.

all those living in another city have been surveyed. Thus, as they live in nine cities of the Greater Jakarta area, around 80 households were targeted for each city. In practice, 685 valid responses were received and utilized in the analysis.[194]

In the actual fieldwork, for ethical and better accessibility purposes (i.e. to get a better access to the respondents), the researcher/interviewer initially came to the head of villages and requested their permission to conduct the survey in their area.[195] Once the permission had been granted, the researcher/interviewer proceeded to find the respondents' house either alone or with the help of the village head. If the head of households were at home and available for an interview, the interview was directly conducted. If they were not at home, the researcher/interviewer usually asked for a more appropriate time to come back and interview them later and subsequently tried to find other respondents who live nearby.

In general, establishing initial communications with the respondents were not very difficult. After introducing the purpose of study and reading the informed consent, most of the respondents were happy to be interviewed. The respondent sometimes invited the other family members who were available at that time to sit together with the researcher/interviewer. In some cases, they even provided tea and/or biscuits for the researcher/interviewer and the whole family. Furthermore, as the conversation started with the questions about basic socio-demographic and economic conditions of the households, they had almost no difficulties in answering the questions. The family members sometimes supported the head of household to answer or clarify the answer to the questions.

However, when being asked about the changes in the households poverty/wellbeing conditions after receiving *zakah* assistance in the multiple dimensions, the answers sometime did not come quick. In other words, sometime it took time for them to think about the most appropriate option/scale/rating that truly represented their perceptions. That was particularly applied for the questions related to private matters such as observance of rituals (religious activities) in religion dimension as well as harmony amongst family members and involvement in 'un-Islamic' activities such as drugs, gambling and criminal activities in social/family dimension. To some extents, it seemed that some of the respondents were a little bit reluctant to expose the private matters and/or a little bit 'afraid' that the answer

[194] Valid responses refer to the finished questionnaire with complete answers.
[195] It was anticipated that the head of village would asked for an official letter assigning the interviewer to conduct the interview. Therefore, a formal official letter mentioning that the researcher is affiliated with a university was prepared and used for this purpose.

would somehow ‘harm’ them, at least in terms of getting the *zakah* assistance again in the near future should they shown such ‘bad’ attitudes.

In relation to this, as well as to avoid response bias, the researcher/interviewer often had to convince them that their answers were confidential and would only be used for academic purpose (as already mentioned earlier in the informed consent). If they were still not very convinced, it was further emphasized that their answers would be anonymous and would be used as an input for the *zakah* organizations to enhance their supports towards the *zakah* recipients in the future. In other words, as the researcher has good relationships with the management of the *zakah* organizations, answering the questions honestly would indirectly contribute and help the *zakah* organizations to offer better assistance for them and those in similar conditions with them in the future. This emphasize was also done as an introduction to the last question regarding their satisfaction and concerns in dealing with the *zakah* agencies. These strategies appeared to be successful as they responded quite positively and finally answered the questions.

It is also notable that each interview lasted from about 30 to 60 minutes, or an average of 45 minutes per respondent. However, in some cases, the respondents invited the researcher/interviewer to see the conditions of their house after the interview finished while casually ‘proposing’ additional supports that they might need in the future. For example, they shown the conditions of the kitchen and toilets (which were often built in semi-permanent foundation and sometime located far outside the house) and mentioned that they were hoping to renovate and make the facilities better/healthier in the future. In other cases, they brought the researcher/interviewer to see their trade carts or small shop (usually part of or attached to the house) while suggesting that they need more goods/inventories to run and/or expand the business and subsequently earn higher profit and better income for the family. This might lasted for about half an hour, before the researcher/interviewer finally asked for permission to go and continue the interviews with other respondents. It is also notable that despite all the preparations, as will be elaborated later in this chapter, certain issues still arose during the actual field survey.

Once the interviews have been conducted for each day, the interviewers had to check the questionnaire to ensure that they have recorded all the answers correctly. By the end of the week, all questionnaires would again be rechecked by an editor. Since some incomplete answers were found, the questionnaires were returned to the respective interviewer who then

return and/or phoned the respondent (if they have a phone number) to get and fill in the missing answer. Once the overall interviews have been conducted and all the data have been recorded properly, both in papers and in excel format, the researcher prepared to analyse the data in the next stage of the research.

5.4.4. Data Analysis Methods

In analysing the survey results, this study primarily utilizes a number of statistical methods including descriptive statistics, inferential statistics (analysis of variance and logistic regression analysis) and poverty index analysis.[196] These methods are elaborated below.

5.4.4.1. Descriptive Statistics

Descriptive statistics are statistics that summarize and organize characteristics of a particular data set. They are also seen as a tool to provide 'preliminary' information on patterns in the data. Under this analysis, the widely used statistical measures are frequency distributions, measures of central tendency (mean, median, mode, etc.) and measures of standard deviations (standard deviation, variance, max, min, range, etc.). It is also notable that the study has converted some of the Indonesian currency (IDR) figure to dollar figure, by assuming that 1 USD = IDR 9,000 (the mean exchange rate between USD and IDR in 2011). In addition, the statistics are often illustrated in graphical presentations such as bar charts, pie charts and histograms (Field, 2009; Lind, *et al.*, 2004; Pallant, 2007).

In this study, descriptive analysis was utilized on many occasions. It was used to describe all basic information gathered from the questionnaire, such as socio-economic characteristics of respondents, which is directly related to the research question regarding identification of the poor. It was also employed to explain the variables used in the logistic regression models. Thus, descriptive analysis was utilized in various parts of the study particularly when there was a need to describe and summarize the data characteristics.

5.4.4.2. Inferential Statistics

Inferential statistics could be defined as the statistical methods to draw more general conclusions, usually related to characteristics of a population, from sets of specific data. They are also utilized to test specific hypotheses and make informed decisions about courses of actions to be taken afterwards. They are widely used in all kinds of research in almost all disciplines, including business and public policy research (Field, 2009).

[196] The survey notes (i.e. the last part of the questionnaire) which mostly contains qualitative data, however, will be analysed by using the same methods with the results of semi-structured interviews. Therefore, the methods are discussed in the supply side data analysis.

Statistical inferences, especially hypothesis testing, usually require some assumptions about the data generation. These assumptions are commonly linked with parametric and non-parametric statistical methods. Under the former, the assumptions require that the data/sample be generated from a probability sampling method and follow a normal distribution with homogenous variance and independence of sample. Normality of data could be formally tested by employing a variety of normality tests, such as Kolgomorov-Smirnov and Shapiro-Wilk tests. However, it is notable that the importance of the normality assumption diminishes as sample size increases (Altman & Bland, 2009).[197] As such, it is believed that performing the formal normality tests are not really necessary because hypothesis testing involving large dataset -particularly when the data are numerical- could be conducted satisfactorily without performing the normality tests (Lumley, *et al.*, 2002).[198] In contrast, the latter is more lenient and makes no specific assumptions about the population's distributions. Thus, in relation to hypothesis testing, the method is well known as a distributions-free test. It is also often associated with nominal or ordinal data. However, results of the non-parametric testing strictly apply to the observed sample and cannot be generalized to make conclusions about characteristics of the population (Field, 2009; Pallant, 2007).

In this study, the main statistical methods used to make the necessary inferences were analysis of variance and logistic regression models. In addition, both parametric and non-parametric methods were utilized to test various relevant hypotheses. The details are explained below.

[197] It is further argued that large data set usually follows the law of large number and/or the central limit theorem, in which the average of many independent samples is close to the mean of the underlying assumption and therefore approximately a normal random variable. This implies that large data is usually normally distributed, regardless of several 'outliers' which potentially make the data rejected when performing formal normality tests mentioned above.

[198] In their work, Lumley *et al.* (2002:1) demonstrate that the results of a t-test (i.e. a type of a parametric test) performed for a large and extremely non-normal numerical data set are similar with the result of Wilcoxon rank-sum test (i.e. a non-parametric test) for the same data set. They concluded that hypothesis testing involving a large data set could be analyzed conveniently by using parametric method, regardless of the data distribution and of whether normality test are conducted or not for the dataset. In other words, it is not really necessary to employ normality test prior to performing parametric type of hypothesis testing. This conclusion is also shared by a number of other studies which link the normality of data with the law of large number and the central limit theorem (in Altman and Blant, 2009). The studies argued that few outliers usually exist in a large data set, which causes formal normality test to reject the hypothesis of normally distributed data even when the data is actually distributed normally. As such, when the dataset is large, it is deemed unnecessary to rely on formal normality test which tend to be over sensitive to the outliers.

5.4.4.2.1. Analysis of Variance (ANOVA)

Analysis of Variance (ANOVA) is statistical models widely used to analyse the differences between group means and their associated procedures, such as 'variation' amongst and between groups, in which the observed variance in a particular variable is partitioned into components attributable to different sources of variation. In its simplest form, ANOVA provides a statistical test to determine whether the means of two or more independent groups are equal. In practice, it has been widely used to reveal the differences in behaviour, attitude, performance and other conditions of interests between various groups of observations (Lind, *et al.*, 2004; Saunders, *et al.*, 2009).

Various hypothesis testing can be performed using the ANOVA method. With normally distributed (parametric) and/or large numerical data, a *t-test* can be utilized to compare and test differences of means between two groups of observations. In other words, it tests whether the mean differences are significantly different from zero. If there are more than two groups, however, the significant differences of the means must be tested with an *F-test*. The F-test is conducted by decomposing the variability of the data in terms of sums of squares. The decompositions produce an F-statistic, which is basically the ratio of between-group variability (explained variance) and within-group variability (unexplained variance). The statistic will be large if the former is large relative to the latter, which is unlikely to happen if the population means of the groups all have the same value (Lind, *et al.*, 2004).

In contrast, when the data are non-parametric, alternative techniques, such as the *Mann-Whitney test* (comparing means of two groups) and the *Kruskal-Wallis test* (comparing means of more than two groups) should be performed. Technically, the tests rank the observations and compare the mean ranks for the groups under the null hypothesis (Ho) that there is no significant difference of means amongst the groups. Thus, they essentially use the ordinal information in the data to test significant difference in the means (Agresti & Finlay, 2009; Lind, *et al.*, 2004).

It is also possible to formally test the significance of the relationship between two categorical variables with *Pearson's Chi-square test.* The test, usually expressed in a cross-tabulation or contingency table, is also known as the test of independence because it can be used to assess

whether paired observations of two categorical variables are independent of each other. For a small sample,[199] the alternative test is known as *Fisher's exact test* (Field, 2009).

For the purposes of this study, a number of ANOVA techniques were employed to compare and analyse the difference between the means of relevant poverty measures. The t-tests and F-tests (parametric methods) were employed to test significant differences in the *zakah* recipients' mean incomes across different models of *zakah* management. Meanwhile, the Kruskal-Wallis tests (non-parametric methods) were used to determine whether the households' wellbeing changes were significantly different for the beneficiaries of *zakah* from different types of *zakah* agencies. Thus, they compare the impacts of *zakah* under different models of *zakah* management, which is one of the main issues addressed in this study. Lastly, Pearson's chi-square test was also utilized to assess the significance of relationships between the characteristics of *zakah* recipients and the types of *zakah* institutions supporting them.

5.4.4.2.2. Logistic Regression

Regression analysis is a statistical analysis aimed at exploring and predicting relationships between a dependent variable and one/more independent variables. The most common regression model is the linear regression model.[200] Another variant of the model is the logistic regression model, in which the dependent variable is a categorical or ordinal variable and the independent variables are categorical or continuous variables. Due to these features, the logistic regression model is widely used in social sciences studies (Field, 2009).

In a standard logistic regression model, the measure predicted is the *probability* of Y (dependent variable) occurring given known values of X_s (independent variables), which is indicated by the *beta* or coefficient values of the model. This is significantly different from the (standard) linear regression model, which predicts the value of a dependent variable Y from the independent variables X_s. Values of the parameters are calculated using the maximum-likelihood estimation, which selects coefficients that make the observed values most likely to occur. However, the main measures of the logistic regression model, such as goodness of fit indicated by F-statistics and Mc Fadden's Pseudo-R^2 measures, are relatively the same as those of the linear regression model; yet, they are derived from slightly different formulae and are thus described by slightly different terminologies (Field, 2009).

[199] In contingency table analysis, a small sample occurs when the expected frequency is less than 5.
[200] As this model is not used in this study, it is not discussed in detail here. For more discussion, see any standard statistics or econometric textbooks such as Gujarati (2000) and Enders (2004).

Accordingly, larger values are better than smaller ones. It is also notable that values between 0.2-0.4 could be considered as excellent fit (McFadden, 1979:306). [201]

The logistic regression model can also produce the odds ratio and the marginal effects of the independent variable. The odds ratio, or *exp (b)*, is the ratio between the probability that an event has occurred and the probability that it has not occurred. In other words, it is the relative proportion of the two probabilities. An odds ratio greater than 1 indicates that the odds of the outcome occurring increase as the predictor increases (i.e. the event is more likely to occur), while a value of less than 1 suggests that the odds of the outcome occurring decrease as the predictor increases (Field, 2009:271). Another useful parameter generated by the model is the marginal (partial) effect, which measures the (post-estimation) direction and effect (magnitude) of a change in one of the regressors (X_k) on the conditional mean of *Y*. Like the beta coefficient in the linear regression model, the parameter provides a good approximation of the amount of change in *Y* that will be produced by a one-unit change in $X_{k..}$ As for the categorical variable, the coefficient shows a discrete change (in terms of probabilities) in X_s compared to the base-level or benchmark category (Cameron & Trivedi, 2009).

In this study, the logistic regression model is utilized to investigate the determinants of poverty, particularly in relation to the model of *zakah* support received by the households. The variables used in the models are mostly adopted from previous studies (Achia & Wangombe, 2010; Alisjahbana & Yusuf, 2003; Coulombe & McKay, 1996; Dartanto & Nurkholis, 2013; Jalan & Ravallion, 1998; Kristjanson, *et al.*, 2010; van Edig & Schwarze, 2012); meanwhile, the control variables specific to this study are related to the assistance received from *zakah* organizations. Specification of the logistic regression model is as follows:

$$\boldsymbol{y_i = c + \beta_1 HHP_i^n + \beta_2 HC_i^n + \beta_3 Z_i^n + \beta_4 GOV_i^n + e_i}$$

in which y_i is the binary variable for the household's poverty status (i.e. 0 = not poor or improved wellbeing condition and 1 = poor or not-improved wellbeing condition), *HHP* is a vector of head of household's profiles (i.e. age, gender, marital status, education and occupation), *HC* is a vector of household characteristics (i.e. location, sizes, number of household's members with health problems and assets), *Z* is a vector of *zakah* assistance-

[201] It is noted that the value of the Mc Fadden's Pseudo R^2 is primarily useful when comparing nested logistic regression model. Other than that, value between 0.2 and 0.4 could be considered as very good fit.

related factors (i.e. types of *zakah* agencies contributing to the household, types of assistance received and participation in *zakah* assistance-related activities), *GOV* is a vector of government support (i.e. existence of government transfer) and *i* is the number/identity of the households (i=1....n). Details of the variables are summarized in *Appendix 5E.*

Prior to running the model, correlation analysis is often performed to measure the association between two variables. This measure is also useful for detecting potential collinearity problems since very strong associations between the independent variables could lead to unreliable and bias estimation results.[202] Furthermore, the strength and direction of the relationship is measured with a statistical parameter known as *r* (correlation coefficient). Values of the coefficient vary from -1 to +1, with higher values indicating a stronger association between the variables (Cohen 1988, in Field, 2009). It is notable that most of the aforementioned studies were also performed this analysis prior to running the logistic regression model.

Testing specification and goodness of fit of the selected logistic regression models are highly recommended in the regression analysis. This can be done by performing, among others, the Hosmer-Lemeshow test and constructing the classification table. The Hosmer-Lemeshow specification test evaluates the goodness of fit under the null hypothesis of correct model specification by comparing the sample frequency of the dependent variable with the fitted probability within subgroups of observations. Meanwhile, the classification table compares the predicted and actual outcomes based on a loss-function which produces the percentage of correctly classified observations. In this respect, a higher percentage reflects a better prediction and thereby a better logistic regression model specification. Performing these procedures is strongly advised to correctly specify the model and subsequently obtain the best possible model that gives the most accurate and reliable estimation results (Cameron & Trivedi, 2009). These tests have been done by a number of relevant studies such as Alisjahbana and Yusuf (2003) and Van Edig and Schwarze (2012).

5.4.4.3. Poverty Index

This study employed two poverty measures, namely income-based (monetary) and multidimensional (non-monetary) poverty measures. To calculate them, at least three steps

[202] Collinearity or multicollinearity shows association between independent variables (*Ys*). Strong association amongst the *Ys* could result in unreliable and spurious regression, in which the model seems to have good fit (indicated by, among others, high R^2 or Pseudo R^2) yet the estimated coefficients (i.e. the b_s) are not significant (Gujarati, 2003).

should be taken: (i) define an indicator of welfare/poverty; (ii) establish a poverty line; and (iii) estimate summary statistics to aggregate the welfare/poverty information relative to the poverty line (Ravallion, 1998).[203] Additionally, to compare the results for various subgroups of the population, decomposition can be conducted for the variable of interest.

Under the income-based poverty analysis, the welfare indicator utilized was household income. While most of the literature suggests that consumption/expenditure is a better proxy for poverty/wellbeing, income was considered a more appropriate measure mainly due to the adoption of the entitlement approach in which *zakah* assistance, commonly given as monetary contributions that add to the households' total incomes, is an important part of the transfer. [204] By using income as the welfare indicator, the changes in the welfare can also be easily calculated; thus, the economic impacts of *zakah* on the household's poverty/wellbeing can be estimated and separated from the impacts of other income sources. This approach has also been used in several earlier studies (Arif, 2006; Beik, 2010; Ibrahim, 2006; Jehle, 1994; Toor & Nasar, 2001), albeit with slightly different considerations. Moreover, the poverty line used was the official poverty line. Following the method developed by Ravallion (1998) and used in many poverty studies, the household poverty line is calculated from the per capita poverty line adjusted with household size. As a result, the estimated urban household poverty line in the Greater Jakarta area in 2011 was around IDR 1,556,291 on a monthly basis. The detailed calculation is presented in *Appendix 5F*.

Table 5-5: Poverty Index

No	Poverty Index	Formula
1	The Headcount Index (P_0)	$P_0 = \frac{1}{N}\sum_{i=1}^{N} I\,(I_i < z)$
2a	Nominal Poverty Gap (PG)	$G_i = z - I\,(I_i < z)$
2b	The Poverty Gap Index (P_1)	$P_1 = \frac{1}{N}\sum_{i=1}^{N} \frac{G_i}{z}$
3	The Poverty Severity Index (P_2)	$P_2 = \frac{1}{N}\sum_{i=1}^{N} \left(\frac{G_i}{z}\right)^2$
4	The Time Taken to Exit Poverty (t_g)	$t_g^j \approx \frac{\ln(z) - \ln(x_j)}{g} = \frac{W}{g}$

Note: N = total number of people in the population, N_p = number of poor, I_i = income, z = poverty line, G_i = gap between income and poverty line and g = economic (income) growth rate. For detail interpretation, see again *Appendix 2B.*

[203] For more discussion, see explanation in Chapter 2.

[204] Even if the *zakah* assistance is given as in-kind/services to the needy, the equivalent monetary values can be easily estimated by (i) asking the households to estimate the values of assistance they received and (ii) asking/confirming the value of *zakah* assistance to the management of *zakah* organizations. In this study, the first method is mostly used. The second method, however, is occasionally used as a cross-check.

Furthermore, considering the features of the poverty index explained in earlier chapter as well as objectives of the study, the indices included in this study (see Table 5-5) were the Headcount Index (H or P_0), nominal value of poverty gap (PG) and the associated Poverty Gap Index (P_1), the Poverty Severity Index (P_2) and the time taken to exit poverty measure (t_g). These indices were considered suitable primarily due to the relatively uncomplicated calculation and interpretation while at the same time providing valuable insights into relevant policy making. Not surprisingly that they are the most commonly used poverty indices in poverty studies and policy analysis, including by many national statistical agencies (see, among others, Boateng & Bank, 1990; Chen & Ravallion, 2007; Dartanto & Nurkholis, 2013). The use of these indices would also allow comparison with similar indices produces by other studies, which is one of the study's objectives.

In relation to the multidimensional wellbeing measures, this study constructed a set of simple average measure of multidimensional poverty index for each of the poverty dimensions viewed as the most appropriate representation of the multidimensional nature of poverty as recommended in literature (Ravallion, 2011). It also calculated an aggregate-and-composite wellbeing measure for all wellbeing/poverty dimensions, which is suggested as useful for focusing the attention of policy-makers regarding the importance of the findings (Alkire *et al.*, 2011). Equal weight was given to each indicator/dimension since there is no strong justification to prioritize one variable above the others. This weighting method has been adopted in many studies, resulting in the Human Development Index and other similar development indices (Anand & Sen, 1997; Anto, 2009; Dar & Otiti, 2002). Moreover, since the composite index measures welfare change, any index value above four indicates the occurrence of positive changes or a reduction in poverty.[205] Thus, 'four' is the poverty line or the cut-off point for the multidimensional poverty measure listed in Table 5-3. Finally, a comparison analysis is conducted by decomposing and ranking the index based on the model of *zakah* management to provide more insight into the implementation that has the highest welfare impacts.

5.5. Research Methods for Supply Side Analysis

This section explains the research methods for understanding the approach or model of *zakah* administration in Indonesia, including its effectiveness in alleviating poverty. Hence, it

[205] Recall that the study used a 6-points scale, indicating the changes from becoming extremely worse to becoming extremely better.

basically discusses the methods associated with the supply side analysis of *zakah* implementation in Indonesia, which is addressed in the third and fourth research questions. The research methods include development of survey questionnaire, pilot testing and data reliability, administration of research instrument and semi-structured interview process, and data analysis methods.

5.5.1. Development of Semi-structured Interview Protocol

Semi-structured interview guideline is the second major instrument used in this study. Compared to the questionnaire (i.e. the structured interview schedule) developed earlier, the idea of an interview guide is much less specific and standardized. However, the guide still needs to consider and prepare some basic elements such as basic information of respondents and certain order on the topic areas to enable a reasonably well flow of interview. It also needs to formulate interview questions in a way that helps answering the research questions. During the interview, it is suggested to use a language that is relevant to the respondents and avoid asking leading questions (Bryman, 2008:442). Additionally, it is necessary to address ethical issues prior to conducting the interview (Bryman & Stephens, 1996).

Table 5-6: Semi-Structured Interview Guideline

No	Aspect/Concept	Dimension	Themes
1	Strategic Management	Vision/Mission	1. Vision and mission of organization
		Governance	2. Governance and structure of organization
		Strategic planning	3. Strategic planning process
2	Operational Management, Monitoring and Evaluation and Financial Performance	Human Resource Management	4. Number, status, qualification and salary of employees 5. Employee improvement programs (training)
		Specific Operational Management: Collection, Distribution, and Communication	6. Sources and average amounts of revenues collected 7. Model of *zakah* collection 8. Target and amount of funds distributed 9. Model of *zakah* distribution 10. Model of communication (relationship with stakeholders)
		Accounting (Financial) Management	11. Share of *zakah* agencies from the *zakah* fund (*shariah* compliance aspect) 12. Internal and external audit
		Monitoring and Evaluation	13. Types/methods and frequency of monitoring and evaluation conducted
		Selected Financial Performance	14. Total *zakah* collected 15. Total *zakah* distributed
3	Current issues	Current Issues	16. Areas of concern in managing *zakah* organization 17. Role of *zakah* organization in poverty alleviation 18. External and regulatory environment

In this study, as discussed in chapter four, the formal legal basis of *zakah* implementation in Indonesia is the Law No. 38/1999 regarding *zakah* management. The Law states that the management of *zakah* organizations should include three main aspects, namely planning, operational (particularly collection and distribution of *zakah*), and controlling or monitoring and evaluation of the management practices (Government of Indonesia, 1999). Previous studies also suggest that clear vision/missions and organizational capabilities, which are part of the operationalization aspect, are keys to a successful *zakah* organization (Ahmed, 2004). Accordingly, the aspects were investigated during the semi-structured interview. Furthermore, as understanding financial performance and current issues (i.e. part of strategic management) becomes increasingly important in assessing performance and improving sustainability of non-profit organizations, including *zakah* organizations (Ahmed, 2004; Anheier, 2005; Moore, 2003), these issues were also examined during the interview. Based on these considerations, a semi-structured interview guideline was developed and summarized in Table 5-6.[206]

Note that, although most of the questions were related to the management practices of *zakah* agencies, some of them were relatively inductive and 'flexible' in nature (i.e., they followed the information given[207] or conversation started by the respondents) and was expected to enable the exploration and discovery of interesting findings. This applied particularly to the questions related to the current issues in *zakah* implementation. Despite that, the problems faced by *zakah* administrators documented in earlier studies, such as poor targeting of *zakah* recipients, diversion from poverty-focused programs, high cost of *zakah* administration and communication problems (see, among others, Anwar, 1991; Arif, 2006; Benthall, 1999; Faridi, 1993; Pereire, 2007b), were used as guidance during the interviews

5.5.2. Pilot Testing

As explained earlier, conducting a pilot study is strongly advised in quantitative research to ensure clarity and improve the questionnaire design.[208] Similar recommendation is also advised in qualitative research involving a semi structured interview (see, among others, Berg & Lune, 2004; Jacob & Furgerson, 2012; Turner, 2010). It is also suggested that the pilot studies be conducted with persons who know the field well, so that they could contribute to

[206] The details are presented in *Appendix 5G*.
[207] Some of the respondents provided the researcher with materials such as official publications (magazines, annual reports, products, etc.) to answer the questions and support the information given during the interviews.
[208] See again the discussion in section 5.4.2.

improve the interview's design and reliability by identifying the potential problems and additional issues to be explored during the interview (van Teijlingen & Hundley, 2002).

In this study, the pilot study was conducted by interviewing three key persons who were experts in the field of *zakah* studies in Indonesia. [209] The pilot interviews were beneficial and enabled the identification of important issues related to the flow of interview and the topics to be explored in the semi-structured interview guideline. Accordingly, a number of improvements in the interview design were carried to improve these aspects. Additional insights into the problems of *zakah* administration in Indonesia were also gathered and hence could be used later to enrich the analysis of the study.

5.5.3. Administration of Research Instrument and Semi-Structured Interview Process

Administration of the semi-structured interview is the last stage in the data collection process. In this respect, as briefly explained earlier, it is important to get proper access to the respondents and have the necessary skills to administer the research instrument and record the data effectively.[210] In addition, there are several basic rules in conducting an interview that should be noticed, including establishing a warm and comfortable rapport, focus on purpose, present a natural front, demonstrate aware hearing, conducting interview in comfortable place for respondents and be cordial and appreciative (Berg & Lune, 2004:99-100).

In this study, under the preparation part, the management of *zakah* organizations were firstly contacted to propose for the interviews schedule and obtain the relevant data (particularly the financial statements and annual reports of *zakah* organizations[211]). Additionally, to make the access easier, the researcher contacted the key person in some of the organizations through personal communications.[212] Accordingly, the researcher managed to personally interview 22 management personnel of the *zakah* agencies studied in October 2012.[213] Although initially

[209] The key persons constitute (i) an academic, who also serves as an adviser to one of the largest *zakah* organization in Indonesia as well as an expert staff to the Indonesian law maker, (ii) a Director of an NGO specializing in *zakah* consultancy, and (iii) the assistant of the Director of the *zakah* NGO.
[210] Please see again the discussion in section 5.4.3
[211] In Indonesia, *zakah* organizations have no obligation to publish annual reports. Thus, not all of them have such reports. Even if they have the reports, they are not usually publicly available. This is the case with almost all the agencies investigated, except for one agency which published its 2011 Annual Report on its website.
[212] The personal communications used include, among others, emails and message through social media.
[213] Initially, the researcher planned to conduct the interview at relatively the same time with the administration of the questionnaire. However, for some considerations (including time, access and possibilities to get important input from the questionnaires' results), it was decided to do the interview once the survey's results have been obtained. After all, there were no changes in the management personnel of the *zakah* organizations compared to

the study only aimed to interview the Directors and/or General Managers of the agencies, most of them came with other management personnel such as operational manager, human resource manager and finance manager. [214] Thus, in the actual field work, around three respondents were interviewed for each agency. Each interview lasted for about 30 minutes to 3.5 hours. Despite that, as will be elaborated later, getting access to the respondents was not easy and considerable amount of time and efforts were needed prior to that.

As for the interview process, it could be generally said that the interviews could be conducted relatively smooth. For the respondents' convenience, all of the interviews were conducted in their offices and at their preferred time. They were relatively open and happy to answer most of the questions, particularly those related to their organizations' operational aspects. They even provided the researcher with many booklets and other materials related to the *zakah* programs implemented. However, the questions related to financial issues such as salaries of employees and organizational expenses were answered slightly reluctantly by most of the respondents. Furthermore, as the interviews were conducted at the time a new *zakah* law was being reviewed in the Indonesia's Constitutional Court, the respondents were quite enthusiastic in expressing their opinions regarding the legal issue and other issues related to the consequences of the law's (possible) implementation in the future. Accordingly, the researcher is confident that the interviews have been conducted satisfactorily and provide important and relevant information for achieving the objectives of the study.

5.5.4. Data Analysis Methods

This study employed thematic analysis based on the coding of the interview results as the main analytical research method.[215] It also performed some content analysis of the relevant materials from the official documents provided. Additionally, as the analysis of *zakah* administration in Indonesia is also aimed to examine the financial performance of the organizations, their financial reports are also analysed by utilizing financial analysis. These methods are elaborated below.

5.5.4.1. Analysis of Qualitative Data

A variety of methods have been used to analyse qualitative data in social sciences research. The most common method is probably *thematic analysis* (Guest, *et al.*, 2011) which

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the previous year's condition. Additionally, the results of the *zakah* recipients' survey could also be confirmed to the management personnel of the *zakah* organizations.

[214] Detailed profiles of the respondents are summarized in *Appendix 5B*.

[215] As mentioned in section 5.3.2.4, the survey notes (i.e. the qualitative data obtained from the survey utilized as the research method for the demand side analysis) is also analysed by using the thematic analysis.

emphasizes examining and recording 'themes' within qualitative data (Braun & Clarke, 2006). The other methods include *content analysis* (analyzing the context of communication materials), *discourse analysis* (analyzing the representation of particular phenomena), *rhetoric analysis* (analyzing the meaning behind texts) and *conversation analysis* (analyzing social interaction in everyday life situations) (Bryman & Burgess, 2002; Fischer, 2006; Krippendorff, 2004). Given the rich choices, it is important to select the most appropriate methods driven by both theoretical assumptions and research questions of the study.

In this study, thematic analysis was considered the most appropriate method for analyzing the qualitative data obtained from the semi-structured interviews due to its ability to summarize, interpret and compare the key features (themes) from a large qualitative data set. This method has been used in a number of organizational studies (Bryman & Burgess, 2002; Cassell & Symon, 2004; Miller, *et al.*, 2004). Another method utilized was content analysis, which is useful in interpreting documents and communication materials in order that values, intentions, attitudes and cognitions in management and organizational studies might be analysed (Carley, 1997; Duriau, *et al.*, 2007; Huff, 1990; Kabanoff & Holt, 1996; Morphew & Hartley, 2006). The methods are briefly explained below.

5.5.4.1.1. Thematic Analysis

Thematic analysis is a method of organizing, describing, identifying, analyzing and reporting themes within qualitative data (Boyatzis, 1998). It also emphasizes pinpointing, examining and recording patterns of the data (Braun & Clarke, 2006). While examining the themes, it goes beyond simply counting phrases or words in a text and moves on to identifying and coding implicit and explicit ideas within the data (Guest, *et al.*, 2011). Thus, it is often associated with and also known as coding analysis.

Most researchers consider thematic analysis to be a very useful research method in capturing the intricacies of meaning within a rich qualitative data set such as transcripts of semi-structured interviews (Boyatzis, 1998; Braun & Clarke, 2006). It also provides other advantages in data analysis, including flexibility for use in multiple theories and the ability to generate interesting and sometimes 'unanticipated' insights particularly in policy and development studies (Braun & Clarke, 2006).[216] However, it also has some disadvantages

[216] According to Braun and Clarke (2006:37), thematic analysis offers a number of advantages for qualitative data analysis including (1) flexibility, (2) relatively easy to learn/do, (3) accessible to researchers with little/no experience of qualitative research, (4) results being generally accessible to an educated general public, (5) useful for working within participatory research paradigm, (6) can usefully summarize key features of a large body of data and/or offer a "thick description" of the data set, (7) can highlight similarities *and* differences across the

such as limited interpretative power if the analysis excludes theoretical frameworks (Guest, *et al.*, 2011).

When using the thematic analysis, it is important to have a clear strategy for analyzing the data. This is primarily related to the fact that qualitative data sets are usually very rich and can come from various sources such as audio, text and video. Texts, the most common type of qualitative data from interview results, also range from single-word responses to open-ended questions with thousands of pages of responses (Saldaña, 2012). Finding themes that capture important ideas about the data while representing some levels of patterned responses or meaning within the data set, therefore, is not an easy task (Braun & Clarke, 2006).

In this respect, there are six phases recommended in a thematic analysis (see Table 5-7). While all phases are important, coding is seen as the primary process for developing themes within the raw data, through which important moments in the data are recognized and coded prior to interpretation. As such, the thematic analysis is also known as the coding analysis. Furthermore, according to Boyatzis (1998:29), the development of a thematic code can be driven by theory, prior data/research and current/raw data (inductive process). The code's interpretation can include comparing theme frequencies, identifying theme co-occurrences and graphically displaying relationships between different themes (Guest, *et al.*, 2011).

Table 5-7: Phases of Thematic Analysis

No	Phase	Description of the Process
1	Familiarization with data	Transcribing the data; translating the data (if necessary); reading and re-reading the data; noting down initial ideas
2	Generating initial codes	Coding interesting features of the data in a systematic way across the entire data set; collating data relevant to each code
3	Searching for themes	Collating codes into potential themes; gathering all data relevant to each potential theme
4	Reviewing themes	Checking that the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2); generating a thematic 'map' of the analysis
5	Defining and naming themes	Ongoing analysis to refine the specifics of each theme as well as the overall story the analysis tells; generating clear definitions and names for each theme
6	Producing the report	Selection of vivid, compelling extract examples; final analysis of selected extracts relating the analysis to the research question and literature; producing a scholarly report of the analysis

Source: Summarized from Braun and Clarke (2006)

data set, (8) can generate unanticipated insights, (9) allows social as well as psychological interpretations of data, and (10) can be useful for producing qualitative analyses suited to informing policy development.

It is also worth recognizing that the recommended guidelines are not 'fixed' rules. Indeed, flexibility must be applied to fit the research questions and the data obtained. Additionally, qualitative analysis is not a linear process. Rather, it is a recursive process in which the researcher can move back and forth as necessary throughout the phases. It is also a process that develops over time and should not be done in rush (Patton, 1990).

In this study, thematic analysis technique based on the coding of the data – also known as the coding analysis- was used extensively to provide insights into the management practices of *zakah* organizations in Indonesia, most notably the strategic and operational management implemented by the agencies. In the coding analysis process, the raw data/text was initially transcribed, translated and transferred into NVIVO software. Afterward, the initial codes were generated and the relevant data/quotations were collated. Based on the preliminary codes, potential general themes were established and explained through a focused coding which contains definitions and names for each theme. Each coding is subsequently explored with reference to supporting information and relevant quotations for each theme, which provide the basis for the overall story and narrative reflected from the data.

In presenting the coding results, both the identity numbers of respondents (R1, R2, R3, etc.) and the combination of the respondents' identities and the types of *zakah* agencies they represent (G1-1, G1-2, C1-1, C2-1, etc.) are utilized interchangeable. Whenever necessary, explanation of the context of a particular word mentioned during the interview that has a somewhat unclear meaning will be written or explained in brackets. The results are mainly expected to answer the research questions regarding the organizational framework (model) of *zakah* implementation in Indonesia and identify the areas of concern in implementing the model effectively.

5.5.4.1.2. Content Analysis

Content analysis can be broadly defined as a research technique aimed to make certain inferences by objectively and systematically identifying specific characteristics of messages (Holsti, 1969). It is also referred to as a research technique for making replicable and valid inferences from texts (or other meaningful matters) to the contexts of their use (Krippendorff, 2004). More specifically, Neuendorf (2002:10) suggests that "content analysis is a summarizing [of] quantitative analysis of messages that relies on the scientific method... and is not limited as to the types of variables that may be measured or the context in which the messages are created or presented."

Content analysis has a long history of use in communication, journalism, sociology, psychology and business studies (Neuendorf, 2002). In organizational and management research, it provides a replicable method of accessing individual or collective structures such as values, intentions, attitudes and cognitions aspects of an organization (Carley, 1997; Huff, 1990; Kabanoff & Holt, 1996). It also allows analytical flexibility and rich meaning associated with organizations' documents and can be used in conjunction with other methods for the purpose of triangulation (Duriau, *et al.*, 2007; Jauch, *et al.*, 1980). However, it also has some limitations particularly in translating the meaning in text into other abstract analytical or theoretical language (Woodrum, 1984). Despite that, given the benefits above, its use in organization studies has been growing over the past 25 years (Duriau, *et al.*, 2007; Erdener & Dunn, 1990; Jauch, *et al.*, 1980)

Although the implementation of content analysis varies considerably, the word or phrase is commonly used as the basic unit of analysis, in which the words mentioned most often are perceived to be more important. In such analysis, the most common techniques used are word frequency counts (i.e. counting the frequency of appearance of a particular word), key-word-in-context listing (i.e. listing the key words commonly appear in a text), classification of words into content categories, content category counts and retrieval based on content categories and co-concordance (Weber, 1990:41). These tasks can be performed manually or with the assistance of computer-based content analysis software such as NVIVO.

In this study, the main tool used was the word frequency count and key-word-in-context (KWIC) listing calculated using the NVIVO software. These methods were suitable for answering the research questions regarding the philosophical foundation, social missions and focus of *zakah* organizations in Indonesia, as well as determining whether poverty alleviation is the organizations' main objectives.

5.5.4.2. Financial Performance Analysis

Earlier studies suggest a number of indicators that represent capacities and efficiency of non-profit organizations, such as collection, distribution, expenses (program expenses, fundraising expenses, etc.) and various growth measures (Ahmed, 2004; Anheier, 2005; Charity Navigator, 2012; Gomes & Liddle, 2009; Kaplan, 2001; Kendall & Knapp, 2000; Rahman, 2006; Wahab & Rahman, 2011). The calculation, however, is subject to data availability, which in turn depends of the enforcement of the regulatory framework for the *zakah* institutions in each country.

Table 5-8: Indicators for Financial Performance of *Zakah* Organizations

No	Financial Indicators	Definition	Source of Data
1	Growth of total revenue/collection	Growth of total revenues collected by *zakah* organizations, which include *zakah* and other Islamic charitable funds (*infaq, sadaqah* and *awqaf* funds, if any)	Cash flow statement and Statement of Fund Changes for the period of 2009-2011.
2	Growth of total distribution	Growth of total funds disbursed by *zakah* organizations for financing their programs.	
3	Efficiency (input/output)	Ratio of input (fundraising expenses) to output (total revenue).	

For the case of Indonesia, due to the inexistence of appropriate accounting standards, most of the financial data available prior to the year 2012 are basic financial data such as the amounts of revenue and disbursement of *zakah* funds.[217] Given the data limitations, two capacity measures and one efficiency measure were employed to analyse the financial performance of *zakah* organizations (Table 5-8). The capacity measures are the growth of total revenue and the growth of total distribution of *zakah* proceeds. Meanwhile, by using the production approach, [218] the efficiency measure examined in this study is the ratio of input (fundraising expenses) to output (total revenue). The indicators have been used and tested in a number of previous relevant studies (Ahmed, 2004; Rahman, 2006; Wahab & Rahman, 2011a; Wahab & Rahman, 2012).

5.6. Limitation and Difficulties

As briefly discussed earlier in several parts of this chapter, various challenges and difficulties were encountered in the fieldwork process. The challenges ranged from the sample identification to the actual data collection process. However, the main issues faced were related to three 'classical' issues, namely access, time and cost (Table 5-9).

In general, it took around three months to prepare and conduct the survey of around 700 households living in nine cities of the Greater Jakarta area. The most common problem was finding the respondents based on the (random) list used. Ideally, the task requires the researcher to return to the list and randomly pick another respondent. However, bearing in mind the cost and time limitations, the adjustment made in the field was to ask for 'referral'

[217] See the relevant discussion in Chapter 4.
[218] In defining the input and output, the production approach is used. With this approach, *zakah* organization is seen as producing *zakah* revenues/collection (output) by utilizing various methods associated with fundraising expenses (input). For more discussion about this approach, see Rahman (2006) and Wahab and Rahman (2011, 2012)

to other potential respondents from a neighbour or the head of the village in which the survey was conducted. Other minor issues, such as non-response problems (i.e. the respondents are not sure about the answers to the questions due to old age, sick, 'busy' environment, etc.), were not very serious and could be easily solved during the questionnaire administration. It also took a considerable amount of time to gain access to and conduct interviews with the management personnel of the *zakah* organizations.

Table 5-9: Limitations and Difficulties

Stage/Process	Limitations and Difficulties	
	Interview-Administered Questionnaire	**Semi-Structured Interview**
Population identification	• Actual number of population is unknown due to inexistence of proper database on the *zakah* recipients	• Actual number of population is unknown due to relatively restricted public access
Sampling process	• Difficulties in getting the full list/details of respondents • Expensive costs and timely preparation for the logistical materials (print/copy the questionnaires, training and costs of enumerator, pilot project, souvenirs for the respondents, etc.)	• Difficulties, even rejections, in gaining access and arranging interview schedule with the management personnel of the *zakah* organizations. • Relatively costly preparation to arrange meetings and travel to the offices of *zakah* agencies
Actual data collection	• Difficulties in finding and reaching the respondents due to, among others (i) address is not complete and difficult to find, and (ii) they were not at home, working, have moved to new address, were not recognized in the listed address, have passed away or (simply) reject participation in the survey • Difficulties during the interviews, such as because (i) the respondents were old and did not clearly understand the questions, and (ii) interruption from the surrounding environment (noises from children, guests coming, etc.) or 'busy' conditions (such that the interviewed must be conducted while they were working or at other times) • Considerable amount of cost and time to reach and interview the respondents.	• Re-scheduling was done for some interviews due to busy schedules of the respondents • In some cases, the *zakah* management personnel only had very limited time for the interviews • 'Interruptions' from bosses, guests, phone calls, etc.

Despite these challenges, most of the difficulties could be handled either through changes in research strategies or with the assistance of colleagues. Therefore, the overall data collection processes could be considered a success.

Chapter 6 Understanding the Characteristics and Nature of *Zakah* Recipients

This chapter aims to understand the characteristics and nature of the *zakah* recipients, which is addressed as the first research objective and translated into several research questions of the study. It begins by describing the main characteristics of the recipients, including their socio-demographic and economic profiles, and examining the determinants of poverty amongst the households. The analysis also tests the significance of the relationship between the characteristics and the determinant factors above with the types of *zakah* organizations supporting them. Furthermore, it describes the relationships between the beneficiaries and the organizations which in turn provide the basis for their satisfaction in dealing with the agencies. Finally, in the last section, it elaborates a number of issues identified by the recipients in relation to their households' poverty conditions and the interactions with the *zakah* institutions to enrich the analysis presented earlier. With this structure, it is notable that each section of this chapter corresponds with each questions addressed in the first research question of the study. The overall findings and analyses will also contribute to achieve the first research aim regarding the impacts of *zakah* institutions on the poverty/wellbeing changes of the recipients.

6.1. Characteristics of *Zakah* Recipients

The following sections present the key characteristics of respondents, which is part of the first research question of the study, by focusing on the profiles of the head of household as well as socio-demographic and economic profiles of the households. Considering that the recipients are affiliated with three types of formal *zakah* organizations existing in Indonesia, as explained in the earlier chapters, significant difference in the characteristics across the types of agencies is also investigated. Hence, the results also imply the key characteristics of recipients associated with each type of *zakah* agencies.

6.1.1. Characteristics of Head of Households

Table 6-1 summarizes the ages of heads of households interviewed. Around 97.2% of them could be classified as the productive age group aged between 15 and 64 years, although only around 63.21% of them were relatively young (between the ages of 15 and 45 years). The proportions of each age group were relatively the same across different types of *zakah* agencies, where two thirds of the recipients were aged between 15 and 45 years. Given the

small variations, a significant relationship was not found between the age of respondents and the types of *zakah* organizations supporting them (chi-square = 1.209, p = 0.877).

Table 6-1: Age of Respondents

Age Group	Descriptive Statistic	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
15-45	Count	99	117	217	433
	% within Types of OPZ	65.13%	61.58%	63.27%	63.21%
46-64	Count	49	64	113	226
	% within Types of OPZ	32.24%	33.68%	32.94%	33.99%
>64	Count	4	9	13	26
	% within Types of OPZ	2.63%	4.74%	3.79%	3.80%
Total	Count	152	190	343	685
	% within Types of OPZ	100.0%	100.0%	100.0%	100.0%
Chi-Square Test			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			1.2091	4	.877
N of Valid Cases			685		

Table 6-2: Gender of Respondents

Gender	Descriptive Statistic	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
Male	Count	31	44	111	186
	% within Types of OPZ	20.4%	23.2%	32.4%	27.2%
Female	Count	121	146	232	499
	% within Types of OPZ	79.6%	76.8%	67.6%	72.8%
Total	Count	152	190	343	685
	% within Types of OPZ	100.0%	100.0%	100.0%	100.0%
Chi-Square Test			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			9.747	2	.008
N of Valid Cases			685		

In terms of gender, most of the recipients (72.85%) were women. The preference for women is consistent with the result of the chi-square test indicating that there is a significant relationship between the gender of the recipients and the types of *zakah* agencies affiliated with them (chi-square = 9.747, p = 0.008). The finding that women, primarily those affiliated with the government *zakah* agencies, is the leading recipient of *zakah* is probably related to the perception that the households led by women were often poorer compared to the male-headed households. As such, the more disadvantaged group should be prioritized in getting the *zakah* assistance. Additionally, from a practical point of view, the finding might be

influenced by presumption that women could better represent the households in dealing with the organizations. This is particularly important in relation to the administrative matters/requirements related to the *zakah* assistance, which are usually more extensive under the government *zakah* agencies, and usually more time consuming and must be done in (normal) working days/hours.

Table 6-3: Marital Status of Respondents

Marital Status	Descriptive Statistic	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
Married	Count	98	101	229	428
	% within Types of OPZ	64.50%	53.20%	66.80%	62.50%
Unmarried	Count	54	89	114	257
	% within Types of OPZ	35.50%	46.80%	33.30%	37.50%
Total	Count	152	190	343	685
	% within Types of OPZ	100.00%	100.00%	100.00%	100.00%
Chi-Square Test			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			9.986	4	0.007
N of Valid Cases			685		

In relation to marital status, Table 6-3 shows that the majority of the respondents from all types of *zakah* organizations were married. This implies that the married respondents are the main targets of the agencies. However, compared to the others, the proportions of married and unmarried respondents were relatively balanced for those receiving assistance from the corporate agencies. Not surprisingly, a significant relationship was found between the marital status of respondents and the types of *zakah* organizations supporting them (chi-square = 9.986, p = 0.007).

The finding is presumably related to the general fact that most of the *zakah* assistance programs are targeted for the households led by married couples. This is particularly relevant for the integrative *zakah* assistance programs, which are commonly implemented by the non-profit *zakah* organizations. In a broader perspective, it might also be related to the expectation that poverty could be reduced more significantly if relevant assistances were targeted to households with complete parents instead of unmarried/ individual member of societies.

Another important characteristic is educational background. Generally speaking, it is suggested that most of the respondents are relatively educated. Approximately 56.8% of the

respondents have attended high schools and college/university.[219] However, around 14.16% confessed to not having gone to school. Despite that, only small variations appear among the respondents across different types of *zakah* management. This is confirmed by the result of the result of the chi-square test suggesting that there was no significant difference between the respondents associated with different types of *zakah* agencies (chi-square = 7.351, p = 0.499).

Table 6-4: Education of Respondents

Education	Descriptive Statistic	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
Not going to school	Count	18	33	46	97
	% within Types of OPZ	11.8%	17.4%	13.4%	14.2%
Elementary School	Count	41	53	105	199
	% within Types of OPZ	27.0%	27.9%	30.6%	29.1%
Junior High School	Count	39	34	85	158
	% within Types of OPZ	25.7%	17.9%	24.8%	23.1%
Senior High School	Count	49	65	99	213
	% within Types of OPZ	32.2%	34.2%	28.9%	31.1%
College/University	Count	5	5	8	18
	% within Types of OPZ	3.3%	2.6%	2.3%	2.6%
Total	Count	152	190	343	685
	% within Types of OPZ	100.0%	100.0%	100.0%	100.0%
Chi-Square Tests			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			7.351	8	.499
N of Valid Cases			685		

With respect to occupation, it is revealed that most of the recipients (52.1%) earned a living by working as small traders/businessmen (28.32%), informal-sector labour (13.28%), and formal-sector employees (8.76%). However, a significant proportion with an average of 47.88% said that they were not working (i.e. did not have a permanent job in the last month). This group constitutes around half of the respondents, i.e. between 42% and 51%, across all types of *zakah* organization. Moreover, preference over a particular occupation appears amongst different agencies as suggested, for instance, by a significantly higher proportion of traders receiving assistance from the corporate institutions. Not surprisingly, a significant

[219] There were 18 respondents identified to have college/university education. While they represent a very small proportion of the sample, i.e. around 2.6% of the respondents, most of them (around 60%) either received *zakah* assistance in form of educational assistance for their children or received economic assistance to improve their business (around 34%).

relationship was found between respondent's occupation and the types of *zakah* organizations (chi-square = 18.154, p = 0.020).

Table 6-5: Occupation of Respondents

Occupation	Descriptive Statistic	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
Not working	Count	74	79	175	328
	% within Types of OPZ	48.7%	41.6%	51.0%	47.9%
Trader/Small-Businessman	Count	30	71	93	194
	% within Types of OPZ	19.7%	37.4%	27.1%	28.3%
Informal Sector Labour	Count	28	21	42	91
	% within Types of OPZ	18.4%	11.1%	12.2%	13.3%
Employee	Count	16	15	29	60
	% within Types of OPZ	10.5%	7.9%	8.5%	8.8%
Others	Count	4	4	4	12
	% within Types of OPZ	2.6%	2.1%	1.2%	1.8%
Total	Count	152	190	343	685
	% within Types of OPZ	100.0%	100.0%	100.0%	100.0%
Chi-Square Tests			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			18.154	8	.020
N of Valid Cases			685		

At this junction, the preference towards the traders shown by the corporate *zakah* agencies above could be linked with the affiliation of the agencies. As mentioned in the research method chapter, the corporate agencies studied are associated with two large Islamic banks in Indonesia. As traders/small businessmen are important stakeholder of the Islamic banks, it is very natural that they would concern on improving the wellbeing of the traders/small businessmen including through their affiliated *zakah* organizations. Despite that, there might be other reasons behind the targeting of the traders/small businessmen. Primarily based on the semi-structured interview results, additional insights into this finding will be elaborated in chapter eight.

6.1.2. Household Characteristics

5.6.1.1. Socio-Demographic Characteristics

Tables 6-6 and 6-7 summarize additional socio-demographic characteristics of the households receiving *zakah* assistance in Greater Jakarta in 2011.[220] The majority of the households (63.65%) had between 4 to 6 family members. Almost a fifth (18.39%) had a relatively large household with more than six members. On average, the household size of a typical *zakah* recipient is 5.1 persons. While this figure seems relatively large for a single urban family, it is almost the same as the national figure of overall household size in Indonesia.[221] It is also noticeable that the proportions of respondents living in Jakarta and outside Jakarta[222] were relatively the same during the period.

Table 6-6: Socio-Demographic Characteristics of *Zakah* Recipients' Households

Socio-Demographic Characteristics		Frequency	Percentage
Household Size	1-3 persons	123	17.96%
	4-6 persons	436	63.65%
	7-9 persons	98	14.31%
	10-12 persons	24	3.50%
	> 12 persons	4	0.58%
	Total	685	100.00%
Households with members in poor health	0 person	577	84.23%
	1-3 persons	108	15.77%
	Total	685	100.00%
Location	Jakarta	377	55.04%
	Bodetabek (Outside Jakarta)	308	44.96%
	Total	685	100.00%

An important yet often neglected characteristic is the household's health condition. A majority of the households (84.23%) mentioned that their family members are in relatively good health. However, around one-sixth (15.77%) have between one and three members suffering from poor physical and mental health. On average, it was found that around 0.17 of the members have poor health (disabilities, chronic illness and/or permanent diseases). This

[220] Note that the questionnaire actually asked for a specific number of people to indicate household size. However, to provide a more meaningful analysis, the variables are reclassified into the categories reported in the table.

[221] According to the survey conducted by national statistical agency (BPS), the average number of people in a poor household in both rural and urban areas of Indonesia in 2008 was (also) 5.1 members (in Beik, 2010).

[222] Outside Jakarta refers to Bogor, Depok, Tangerang and Bekasi cities.

implies that one in every five persons in the households suffers from health problems which render them unable to work and earn income for the household.

Table 6-7: Household Sizes and Health Conditions

Variable	Mean	St. Dev.	Mean, by types of *Zakah* Organization			F-test	Prob > F
			Government (n=152)	Corporate (n=190)	Non-Profit (n=343)		
Household size	5.098	2.009	5.36	5.21	4.92	2.92	0.054
Number of members in poor health	0.169	0.405	0.22	0.13	0.17	2.45	0.087

Table 6-7 also reports the decomposition of the characteristics above according to the types of *zakah* organizations supporting the households. Despite small variations, the households with the largest size and most members with health problems appeared amongst those associated with the government *zakah* agencies. However, the results of the F-test show that the significant differences are relatively weak at the 10% significance level. Thus, there seems to be no significant difference in the mean figures reported above across different types of *zakah* agencies.

5.6.1.2. Economic Characteristics

Two types of household assets were investigated in this study, namely home ownership and source of drinking water. As shown in Table 6-8, a majority of the households (61.02%) did not own a house. Indeed, most of them live in the same house as their parents. Only around 38.98% mentioned that they own a house. The proportions are relatively the same across different types of *zakah* organizations. As a result, the chi-square test suggests that there was no significant relationship between the types of house ownership and the types of *zakah* organizations (chi-square = 0.269, p = 0.874).

Similar results were found with respect to the possession of the source of water, which is one type of asset considered in this study (see Table 6-9). Almost half of the respondents (49.93%) lack their own source of drinking water and thereby rely on purchased water. The rest (50.1%), however, reported having their own source of water at home, and they do not have to buy water from the market. A relatively balanced proportion was also found after decomposition of the results according to the respondents' affiliation. As such, no significant relationship was found between the source of water and the types of *zakah* administration (chi-square = 0.151, p = 0.927).

Table 6-8: Home Ownership

Ownership of House	Descriptive Statistic	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
Not owned a house	Count	94	113	211	418
	% within Types of OPZ	61.84%	59.47%	61.52%	61.02%
Owned a house	Count	58	77	132	267
	% within Types of OPZ	38.16%	40.53%	38.48%	38.98%
Total	Count	152	190	343	685
	% within Types of OPZ	100.00%	100.00%	100.00%	100.00%
Chi-Square Test			**Value**	**Df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			0.2697	2	0.874
N of Valid Cases			685		

Table 6-9: Source of Water

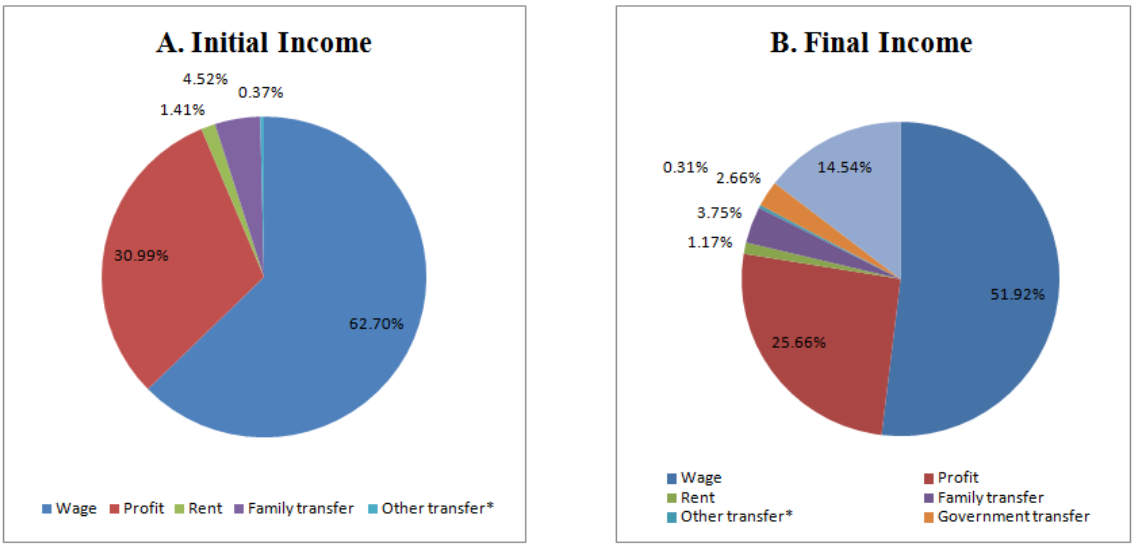
Source of water	Descriptive Statistic	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
No own source of water	Count	78	94	170	342
	% within Types of OPZ	51.32%	49.47%	49.56%	49.93%
Private source of water	Count	74	96	173	343
	% within Types of OPZ	48.68%	50.53%	50.44%	50.07%
Total	Count	152	190	343	685
	% within Types of OPZ	100.00%	100.00%	100.00%	100.00%
Chi-Square Test			**Value**	**Df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			0.1511	2	0.927
N of Valid Cases			685		

In addition to the assets, the compositions of the households' monthly income without (before) and with (after) *zakah* assistance are reported in Table 6-10. It is estimated that the households' average initial income (without *zakah* assistance) amounts to IDR 1,592,052 (USD 177) per month. The main source of income was wage/salary, with a monthly average income of IDR 972,069 (around USD 108), while the least important source was rental income. With the government transfer, the average income increased to IDR 1,641,808 (around USD 182). However, if *zakah* assistance amounting to a monthly average of IDR 272,323 (around USD 30) is also considered, the average income increases significantly to IDR 1,914,131 (around USD 213).

Table 6-10: Household Monthly Income, by Source of Income

Sources of Household's Monthly Income	N	Descriptive Statistics (in IDR)			
		Mean	St. Dev.	Minimum	Maximum
Wage	684	972,069	973,541	0	6,400,000
Profit	683	480,488	1,038,997	0	15,000,000
Rent	679	21,819	170,930	0	2,800,000
Family transfer	678	70,147	228,443	0	2,200,000
Other transfer (exc. transfer from government and *zakah* Institutions)	685	5,811	37,872	0	450,000
Total initial income (A)	*685*	*1,592,052*	*1,356,503*	*0*	*15,000,000*
Government transfer (B)	685	49,756	214,777	0	4,022,000
Total income with government transfer (A+B)	*685*	*1,641,808*	*1,379,289*	*0*	*15,000,000*
Zakah transfer (C)	685	272,323	896,482	1000	14,200,000
Total Household Income with Zakah Transfer (A + B + C)	*685*	*1,914,131*	*1,710,637*	*0*	*19,100,000*

Figure 6-1: Household Monthly Income Without and With *Zakah* Assistance



The relative importance of each source of income can also be seen from its contribution to the monthly household incomes. As portrayed in Figure 6-1A, around 62.70% of the initial income was contributed by wage/salary followed by income from profits of small business (30.99%) and transfers from extended family/others (4.89%).[223] If the transfers from government and *zakah* institutions are considered, the proportions change significantly. As the *zakah* transfer contributed around 14.54% of the income, the relative contributions of other sources of income decreased (Figure 6-1B). The comparison indicates that the transfer

[223] This proportion is the summation of family transfer (4.52%) and other transfers (0.37%).

from *zakah* institutions, which significantly exceeds the government's contribution, is an important source of income for the households.

Decomposition of each source of household income according to the types of *zakah* providers is reported in Table 6-11. In general, the results of the F-test suggest that there are no significant differences in the incomes amongst the recipients of *zakah* from different organizations. However, a significant difference is indeed found with respect to the amount of *zakah* transfer received from the agencies ($p = 0.001$), with a clear indication that the non-profit *zakah* agencies have distributed the largest amount of *zakah* assistance amounting to IDR 397,761 in 2011. This result provides an early indication of the different contributions of *zakah* management, which presumably have different impacts on the households.

Table 6-11: Household Monthly Incomes, by Types of *Zakah* Organizations

Sources of Household Monthly Incomes	Government		Corporate		Non-Profits		F-test	Prob > F
	N	Mean (IDR)	N	Mean (IDR)	N	Mean (IDR)		
Total Initial Income	152	1,535,692	190	1,654,854	343	1,582,240	0.34	0.710
Government transfer	152	63,232	190	37,581	343	50,527	0.61	0.546
Total Income with Government Transfer	152	1,598,924	190	1,692,436	343	1,632,767	0.21	0.812
Zakah transfer	152	178,711	190	79,513	343	397,761	7.02	0.001
Total Final Income	152	1,777,635	190	1,813,200	343	2,030,528	1.61	0.200

6.2. Determinants of Poverty of *Zakah* Recipients

The determinants of poverty of *zakah* recipients included as part of the first research question were examined by utilizing logistic regression models and their associated marginal-effect models. However, prior to operationalizing the models, it is recommended to test the model specifications by using the Hosmer-Lemeshow test and the classification table. In this respect, since the null hypothesis of correct model specification is not rejected (i.e. $p>0.05$), results of the Hosmer-Lemeshow test indicates that the model is correctly specified. Furthermore, the classification table shows that the percentage of correctly classified observations is 65.99%, suggesting that around 65.99% of the values are correctly classified by the model (see Table 6-12). Overall, since the specifications and the goodness of fit of the models can be considered acceptable, the estimation results of the corresponding models will therefore be reliable.

Table 6-12: Model Specification and Goodness of Fit Tests (Results of Hosmer-Lemeshow and Classification Table)

Results of Model Specification Testing				Classification Table
N	**Group**	**Hosmer-Lemeshow Chi2**	**Prob > Chi2**	**Correctly Classified (%)**
685	10	6.62	0.5784	65.99%

Table 6-13: Determinants of Poverty of *Zakah* Recipients

Variable	Logistic Regression		Marginal Effect	
	Odds Ratio	**Standard Error**	**dy/dx**	**Standard Error**
Demographic Characteristics of Head of Household				
Age	0.984	0.007**	-0.003	0.002**
Gender (0 = female, 1 = male)	1.421	0.295	0.072	0.041
Marital status (0 = not married, 1 = married)	0.845	0.152	-0.035	0.037
Education				
1 - Elementary school	0.710	0.206	-0.065	0.054
2 - Junior high school	0.496	0.153**	-0.141	0.059**
3 - Senior high school	0.479	0.151**	-0.149	0.061**
4 - College/University	0.245	0.146**	-0.299	0.128**
Occupation				
1 - Informal labour	0.915	0.261	-0.018	0.057
2 - Small trader	0.368	0.073***	-0.222	0.043***
3 – Employee	0.385	0.120***	-0.211	0.072***
4 – Others	0.954	0.633	-0.009	0.132
Socio-Economic Characteristics of Household				
Household size	0.838	0.036***	-0.037	0.009***
HH member with disabilities	1.263	0.275	0.049	0.045
Home ownership (0 = No, 1 = Yes)	1.018	0.188	0.004	0.038
Possession of water source (0 = No, 1 = Yes)	1.149	0.209	0.029	0.038
Location (0 = Outside Jakarta, 1 = Jakarta)	1.287	0.241	0.053	0.039
Receive government support (0 = No, 1 = Yes)	1.101	0.203	0.020	0.039
Constant	15.613	8.520***		
Number of observations	685			
LR Chi2	78.270			
Prob > Chi2	0.000			
Pseudo R2	0.086			

Note: *** and ** denote significance at 1% and 5%; dy/dx for factor levels is the discrete change from the base level.

The logistic regression result is presented in Table 6-13. There are four variables found to be statistically significant, namely the head of the household's age, education and occupation and the household size. In all cases, the odds ratios are less than one, indicating a lower

likelihood of being poor as the values of the aforementioned variables increase. Given these results, it could be generally concluded higher age, higher education, more formal occupation and larger households' size are related to a lower probability of being poor. The other socio-demographic variables (i.e. gender, marital status, disabilities, assets and location) as well as government supports did not significantly influence the households' poverty/wellbeing conditions in 2011.

Specifically, as indicated by the marginal effect model, it was found that a one-year increase in age decreases the likelihood of being poor by around 0.3%. Although the magnitude is relatively small, the result implies that older age was somewhat associated with less poor conditions. The result is presumably related to the facts that older people tend to have better skills and more experience which enable them to secure a good job and earn a relatively decent income. It may also be linked with the tendency of government to provide social assistance for old people, which contribute to reduce their poverty condition.

Furthermore, a lower level of education was strongly and positively related to the poverty condition. The heads of households who had attended junior high school, senior high school and college/university were less likely to be poor compared to those who had not gone to school by around 14.1%, 14.9% and 29.9% respectively. These results are as expected, since people with higher education are usually wealthier than those with lower educational background. Meanwhile, with respect to occupation, households led by small traders/businessmen and employees were less likely to be poor than those led by unemployed persons by 36.8% and 38.5% respectively. These results are not really surprising due to the facts that these groups of people commonly earn a higher income than those not working and those with less formal occupation. Additionally, the relatively higher magnitude of the variables could be an indication regarding the importance of having a more formal occupation in reducing the household's poverty.

The result also shows that an additional family member decreases the probability of being poor by approximately 3.7%. Thus, larger households tend to be wealthier than smaller households. This finding might to be related to the situation in which a larger household usually earn higher income as more members in the family could work and contribute to the household's income. This commonly happens in the context of poor people in developing countries like Indonesia.

6.3. Relationships with *Zakah* Organizations

This section describes several aspects in the relationship between the recipients of *zakah* with the *zakah* organizations supporting them, which also corresponds as the first research question of this study. The aspects include, among others things, the types and amount of *zakah* assistance received by the respondents, participation rate in the *zakah* assistance related activities and the respondents' satisfaction with the overall interactions with the organizations.

6.3.1. Types of *Zakah* Assistance Received

Table 6-14 reports the number of *zakah* recipients for each type of assistance received by the households in 2011. Almost half of the respondents (43.5%) received educational assistance, followed by economic assistance (26.7%) and social assistance (22.3%). Meanwhile, healthcare assistance was obtained by only around 7.4% of the total recipients. These results tend to suggest that educational assistance is the preferred *zakah* utilization program implemented in Greater Jakarta.

Table 6-14: Number of Recipients for Various *Zakah* Disbursement Programs

Category of *Zakah* Assistance	Descriptive Statistics	Types of *Zakah* Organization (OPZ)			Total
		Government	Corporate	Non-Profit	
Education	Count	121	43	134	298
	% within Types of OPZ	79.6%	22.6%	39.1%	43.5%
Economic	Count	6	55	122	183
	% within Types of OPZ	3.9%	28.9%	35.6%	26.7%
Healthcare	Count	13	2	36	51
	% within Types of OPZ	8.6%	1.1%	10.5%	7.4%
Social	Count	12	90	51	153
	% within Types of OPZ	7.9%	47.4%	14.9%	22.3%
Total	Count	152	190	343	685
	% within Types of OPZ	100.0%	100.0%	100.0%	100.0%
Chi-Square Test			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			197.052	6	.000
N of Valid Cases			685		

Different types of *zakah* management seem to have different program preferences. For example, while the government agencies provided educational assistance to 79.6% of the respondents, the corporate and non-profit agencies distributed the same assistance to only 22.6% and 39.1% of the households respectively. A formal test further confirms that there was a significant relationship between the types of *zakah* organizations and the types of *zakah*

programs received by the respondents (chi-square = 197.05, $p < 0.001$). At this junction, based on this result only, it is slightly difficult to precisely determine the reason behind the preference toward one kinds of *zakah* assistance for each type of the *zakah* agencies. However, it might be associated with factors such as their background and/or affiliations, vision/mission and targets to be achieved as well as resources (particularly human resources and financial resources) available to the organizations. For example, preference to disburse *zakah* under the education assistance shown by the government agencies could be linked with the motivation to support the government's universal education program in Indonesia. Meanwhile, the focus of the non-profit agencies on the economic assistance might be related to their concern on economic independency of the poor, which is also reflected in their vision/mission statement. More specific explanations regarding these factors will be reinvestigated in later chapters.

6.3.2. Amounts of *Zakah* Assistance Received

Table 6-15 estimates the monthly amount of *zakah* assistance received by the households. The highest amount of *zakah* assistance of IDR 522,065 (around USD 58) was given to the households under the economic program, with an amount just slightly above the health assistance figure. Meanwhile, the smallest amount was obtained by the beneficiaries of educational assistance. At the onset, the differences might be linked to the nature of the programs. It is generally understandable that the economic *zakah* assistance programs, such as provision of business equipment, usually require a higher amount of money compared to the other types of assistances. Likewise, it is quite intuitive that the healthcare assistance would be generally more costly than, for example, tuition fee or scholarship for students. Compared to the other assistance, this is probably also one reason why the healthcare assistance is given to a smaller number of recipients. Despite that, large variations are also evident across different types of the programs as shown by the standard deviation and range (minimum and maximum values) of assistance money received by the respondents.

Table 6-15: Amounts of Monthly *Zakah* Assistance, by Types of Assistance

Types of *Zakah* Assistance	N	Mean (IDR)	Std. Dev. (IDR)	Min. (IDR)	Max. (IDR)
Economic assistance	178	522,065	1,447,797	1,250	14,200,000
Non-economic assistance					
Education assistance	292	133,490	158,310	2,500	1,100,000
Healthcare assistance	55	496,848	1,237,327	2,000	6,041,000
Social assistance	194	140,764	474,372	1,000	5,000,000

Decomposition of the assistance is presented in Table 6-16 below. There was no significant difference found in the amount of economic assistance obtained by the households associated with different *zakah* agencies (p = 0.113). A similar result is shown in the education variable. Significant differences, however, were found in relation to the amounts received by the beneficiaries of healthcare (p = 0.009) and social assistance (p = 0.002). In this respect, the corporate agencies have provided the highest amount of healthcare assistance albeit only to two recipients. This is presumably related to the higher medical costs needed in helping the *zakah* recipients. Perhaps, the beneficiaries were suffering from very serious disease which required intensive care and expensive medical cost.

Table 6-16: Amounts of Monthly *Zakah* Assistance, by Types of *Zakah* Organizations

Types of *Zakah* Assistance/Program	Government		Corporate		Non-Profits		F-test	Prob > F
	N	Mean (IDR)	N	Mean (IDR)	N	Mean (IDR)		
Economic assistance	8	312,499.88	49	175,115.43	121	676,420.2	2.21	0.113
Non-economic assistance								
Education assistance	113	135,392	47	95,493	132	145,391	1.74	0.177
Healthcare assistance	15	546,943	2	3,037,167	38	343,372	5.23	0.0085
Social assistance	22	52,757	95	40,023	77	290,200	6.72	0.0015

However, it is also notable that the corporate agencies also gave the smallest amount of social assistance to a larger number of beneficiaries. Similar practices tend to be adopted by the others, although the gap between the amounts of *zakah* distributed in the healthcare and social assistance were not as large as those implemented by the corporate ones. Thus, there seems to a specific pattern of *zakah* disbursement (i.e. higher amount of *zakah* proceeds are given to smaller number of recipients; *vice versa)* which might be related to the resources available to the agencies.

6.3.3. Participation in Activities Related to *Zakah* Assistance

In addition to the monetary assistance above, there were other activities that could be pursued by *zakah* recipients in association with the assistance received. The main activities were Islamic/Qur'anic study (*pengajian*), healthcare advocacy, skill-building/business training, and group meetings. In general, Islamic/Qur'anic study was mentioned as the most widely attended activity with around 30.4% of respondents participating in the activity during the year 2011. This was followed by supervised group meetings (23.7%) and skill-building/business training (16.6%). On average, 17.1% of the respondents have participated

in the aforementioned activities (see Table 6-17). The higher participation rate for the Islamic/Qur'anic study is probably related to the nature of the activity, which could be attended by all *zakah* recipients (regardless of the types of assistance received), and more frequent implementations of the program (usually weekly or monthly). These characteristics might not appear in other programs, including the supervised group meeting and skill/business training which are commonly conducted as parts of economic *zakah* disbursement programs.

Table 6-17: Participation in Activities related to *Zakah* Assistance

Activities Attended	Descriptive Statistics	Types of *Zakah* Organization (OPZ)			Total	Pearson Chi-Square (N = 680)		
		Government	Corporate	Non-Profit		Value	df	Asymp. Sig. (2-sided)
Islamic/Qur'anic Study	Count	25	48	134	207	29.374	2	.000
	% within Types of OPZ	16.6%	25.3%	39.5%	30.4%			
Healthcare Advocacy	Count	12	13	78	103	32.589	2	.000
	% within Types of OPZ	7.9%	6.8%	23.0%	15.1%			
Skill-building/ business training	Count	5	11	97	113	70.579	2	.000
	% within Types of OPZ	3.3%	5.8%	28.6%	16.6%			
Supervised group meeting	Count	11	19	131	161	84.140	2	.000
	% within Types of OPZ	7.3%	10.0%	38.6%	23.7%			
Non-supervised group meeting	Count	3	14	71	88	40.221	2	.000
	% within Types of OPZ	2.0%	7.4%	20.8%	12.9%			
Other activity	Count	0	1	24	25	21.958	2	.000
	% within Types of OPZ	.0%	.5%	7.0%	3.6%			
	Average	*6.2%*	*9.3%*	*26.3%*	*17.1%*			

Breaking down the participation rate according to the model of *zakah* management suggests that most of the respondents involved in the activities were the *zakah* recipients from the non-profit agencies. On average, approximately 26.3% of them have participated in the listed activities. This figure is more than double that of the other organizations. This is confirmed by the significant relationships between participation in the activities and the types of *zakah* organizations ($p < 0.001$). This is arguably related to the ability of the non-profit agencies in ensuring that participation of the beneficiaries in the activities would enable them to reduce poverty and improve wellbeing of the households. As investigation on this result requires a

better understanding on the operation of *zakah* organizations and the impacts of *zakah* on the beneficiaries' wellbeing, these 'connections' will be further discussed in later chapters.

6.3.4. Satisfaction with *Zakah* Organizations

Given all the assistance obtained, either in monetary terms or in terms of activities related to the assistance, Table 6-18 summarizes the respondents' satisfaction with the *zakah* institutions. In general, around 90% of them were satisfied with their dealings with the organizations. Indeed, around one in four respondents felt very happy with the overall interactions. Only a minor percentage of less than 1% was dissatisfied with the whole experience.

Table 6-18: Satisfaction with Overall Interaction with *Zakah* Organizations

Perception	Descriptive Statistics	Types of *Zakah* Organizations (OPZ)			Total
		Government	Corporate	Non-profits	
Very dissatisfied	Count	2	0	3	5
	% within Types of OPZ	1.3%	.0%	.9%	.7%
Somewhat dissatisfied	Count	10	30	25	65
	% within Types of OPZ	6.6%	16.0%	7.3%	9.5%
Generally satisfied	Count	111	131	207	449
	% within Types of OPZ	73.0%	69.7%	60.7%	65.9%
Very satisfied	Count	29	27	106	162
	% within Types of OPZ	19.1%	14.4%	31.1%	23.8%
Total	Count	152	188	341	681
	% within Types of OPZ	100%	100%	100%	100%
Chi-Square Test			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			32.476	6	.000
N of Valid Cases			681		

It is also found that the satisfaction of respondents seemed to be slightly different under different models of *zakah* organization. This is confirmed by the results of the chi-square test suggesting that there was a significant relationship between the respondent's perception and the model of *zakah* management supporting them ($p < 0.001$). The descriptive results further suggest that the satisfactions seemed to be higher amongst the recipients of *zakah* from the non-profit agencies. There are many factors that might contribute to this achievement. Some possible factors include higher amount of *zakah* assistance provided to the recipients (see Table 6-16) and higher satisfaction from participating in the *zakah* related activities (see Table 6-17). Furthermore, factors such as program designs and quality of relationships with *zakah* officers could also influence such results. As detail investigations on these issues

require more information about the administration of *zakah* in Indonesia, they will be reinvestigated and discussed in other relevant chapters.

6.3.5. Additional Assistance/Transfer

In addition to receiving the *zakah* assistance, around half of the households (56.1%) also received some kind of government transfer in 2011. The assistance varied from cheap/subsidized rice provided by the central government to unconditional cash assistance and healthcare insurance managed by the district government. It was also found that the proportions of respondents obtaining the assistance were relatively the same across the agencies. Consistent with this observation, there was no significant difference in the proportion of respondents receiving the government transfer under different models of *zakah* management (chi-square = .223, p = .894).

Table 6-19: Existence of Government Support

Government Support	Descriptive Statistics	Types of *Zakah* Organizations (OPZ)			Total
		Government	Corporate	Non-Profit	
Yes (received government support)	Count	85	104	195	384
	% within Types of OPZ	55.9%	54.7%	56.9%	56.1%
No (do not received any government supports)	Count	67	86	148	301
	% within Types of OPZ	44.1%	45.3%	43.1%	43.9%
Total	Count	152	190	343	685
	% within Types of OPZ	100.0%	100.0%	100.0%	100.0%
Chi-Square Test			**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square			.223	2	.894
N of Valid Cases			685		

6.4. Issues and Areas of Concerns

Employing thematic analysis, two broad issues are identified from the surveys (interview-administered questionnaire) conducted with the *zakah* recipients. The first issue is related to the household conditions, in which vulnerability due to internal and external factors was frequently mentioned by the respondents. The second issue is related to their interactions and relationships with the management of *zakah* organizations. In this respect, the areas of concern were mostly related to the application, distribution and sustainability of *zakah*

assistance.[224] The overall findings and analyses presented in this section correspond with the first research question of the study.

6.4.1. Issues related to Household Conditions

Vulnerability was the main theme to emerge during the interviews. There were two main sources of vulnerability, as summarized in Table 6-20, namely internal and external factors. The internal shocks frequently mentioned by the respondents were related to household debt, poor health conditions and recent/sudden death of family members, particularly the head of the household. Meanwhile, the external shocks were related to working conditions, unfavourable business conditions and accidents.

A significant number of the households revealed that they had debts, most notably to purchase basic household goods such as stoves, frying pans, clothing and television. Some of the debts were related to business loans and were primarily borrowed from moneylenders (loan 'sharks', BMTs, cooperatives and banks). The debts had to be paid regularly, sometimes on a daily basis. In some cases, the debts had to be paid to debt collectors, who often acted in a way that created tensions for the household's members.

Poor health conditions and recent death of the household's head were also experienced by a number of households. When the main earner suffered from physical and/or mental illness and death, household income usually dropped dramatically. Additionally, if children or other family members were sick, the mother usually had to stay at home to take care of them. As a result, she could not support her husband and add to the family income. She would also be unable to attend *zakah*-related activities such as Islamic/Qur'anic study.

[224] Note that, because the last interview question regarding the areas of concern is an open question and voluntary (optional) in nature, only around 25% of the respondents provided additional insights to answer this question. Thus, remarks and disaggregation are made based on the types of *zakah* management supporting the recipients.

Table 6-20: Issues and Areas of Concerns related to Household Conditions

No	Theme	Sub-Theme	Remarks	ID of Respondents
1	Vulnerability due to internal shocks	Vulnerability due to (recent/sudden) death of family members	Head of household, who is also the main earner, just passed away and the household suddenly became poorer. Child cannot go to school because of accident that caused them to lose legs.	13239, 15149, 15152, 15163, 21102, 23240, 36468, 45268, 51108, 54145; 31102
		Vulnerability due to poor health conditions (disabilities, physical and mental illness)	When the head of household (main earner) is sick, household income dropped dramatically.	11104, 21101, 21310, 33266, 63115, 63427
			Family members (other than head of household), particularly children, is sick. If a child is sick, mother usually stays at home to take care of the children and therefore cannot support her husband to work. She could not participate in *zakah*-assistance related activities such as Islamic/Qur'anic study either.	12309, 14248, 21101, 25341, 33266, 52114, 63325, 63427, 93101, 97258-59
		Vulnerability due to household debt	Many households have debts which must be paid regularly. Most of the debts are consumptive (i.e. related to the purchase of consumptive goods), although some of them are relatively productive (i.e. used to buy motorcycle, stocks of materials/trading goods, pay for business loan, etc.).	12113-15, 13220-21, 13223-24, 13226, 13232, 13236, 13238, 13244-45,15160, 15165, 21212, 52122, 63211, 76263-64, 76266-72, 77274-75, 77278, 77280, 82403, 87260, 97258
			Some of them became stressed when dealing with debt collector.	12115, 97258
		Vulnerability due to polygamy	Some of the households practised polygamy.	44157, 97258
		Vulnerability due to other internal shocks	Household member (earner) is in prison, so the household income decreased significantly.	52115
2	Vulnerability due to external shocks	Vulnerability related to working conditions	Husband/wife (main earner) is either unemployed or does not have a permanent job or works in informal sector with very fluctuating income.	11102-03,12316, 13234, 13243, 14147, 15163, 15167, 21107, 22419,36468, 44155, 44157, 52123, 75449, 75455, 87481-82, 97260, 97467
		Vulnerability due to unfavourable business conditions	Business does not run very well (and even bankrupt) due to, among others, (i) competition with other small businesses, (ii) lack of capital and (iii) debt (i.e. many customers do not pay their debts to the business).	12115, 13222, 15164, 23233, 33263
		Vulnerability due to other external shock	House caught fire and burnt all the household assets (accidents)	87244
3	Other issues/ concerns	Working children	Some households have children working to support family income, particularly when the main earners have health problems. Some of the children are working while studying, and hence this condition might affect their schooling aspects (attendance, achievement, etc.)	11105-06, 13228, 15158, 15165, 37131, 45267
		Consumptive behaviour	Households have debts (i.e. to pay rent, etc.), but choose to buy consumptive goods (TV, etc) instead of paying the debt.	23232

Factors such as polygamy also made the households more vulnerable. In a few cases, it was followed by 'unjust' treatment by the husband.[225] Accordingly, the wife (respondent) returned home and subsequently became dependent on her parents, including for raising her children. Moreover, such a marital status had also created problems in applying for *zakah* assistance for the children. This occurred because they were considered as having 'complete parents' and therefore did not count as prioritized *zakah* recipients.[226] Lastly, other issues such as imprisonment of family members also affected the household negatively.

The external shock most frequently mentioned was related to working conditions, in which the main earners were unemployed or working in informal sectors with uncertain incomes. Another related condition was unfavourable business situations, which sometimes caused the business to shut down. It was also mentioned that business were not very good at that time due to competition from other small businesses, including similar businesses run by other *zakah* recipients and/or members of their (Islamic microfinance) group. The lack of capital needed to improve the business, which was strongly related to overdue/unpaid debt accrued by their customers, was also cited as one of the unfavourable conditions that sometimes led to bankruptcy. The situation deteriorated when accidents such as fire destroyed the household's business/domestic assets.[227] Consequently, profits and improvement to the household's income and wellbeing conditions expected from the business will not materialize.

Another issue that concerns the respondents was working children. Ideally, children below 15 years should attend school, as the government has stipulated nine years' basic education (from elementary school to junior high school) for all children. However, primarily due to poverty problems, many children have to work to add to the family income. In some cases, they work while studying. In other cases, they simply could not go to school although their parents recognized that education was perhaps the best pathway to escape poverty. While this condition has presumably affected their attendance and achievement at school negatively, the income earned was considered an important contribution to household income. Furthermore, interesting consumption behaviours were revealed. For example, one respondent admitted that buying a television was preferred instead of paying overdue housing rent. Smoking cigarettes was also very common amongst the recipients. Overall, the negative factors were likely to reduce the poverty reduction impacts delivered by the *zakah* institution.

[225] The unjust treatment included, among others, not providing money to buy the household's daily needs rarely returning home and disappearing without reason. However, violent attitudes were not mentioned by them.
[226] Many *zakah* agencies prioritize orphans as *zakah* recipients.
[227] A common household asset is a small shop (usually attached to the house) used to run the small business.

6.4.2. Issues related to *Zakah* Assistance

In relation to *zakah* assistance, several areas of concern were identified during the fieldwork. They include, among others, the application, operationalization and sustainability of *zakah* assistance received (see Table 6-21). With respect to the *zakah* application, some of the respondents felt that the application took a considerable amount of time, although it might vary according to the types of *zakah* assistance applied for. The processes also tended to be bureaucratic with too many documents and tests.[228] Despite that, the process was relatively easy when it was facilitated by a third party such as community/religious leaders and the staff of organizations partnering with the *zakah* agencies. In some cases, the respondents only had to provide a copy of their identity card(s) to apply for the assistance. [229]

The second important issue is associated with operationalization (distribution) of *zakah* assistance. Following successful applications, the recipients were usually gathered in public places such as mosques or community centres where the assistance would be directly distributed.[230] The exception to this distribution style was probably the disbursement of educational assistance, which was usually sent directly to schools. Interestingly, for the *qardul-hasan* (revolving fund) economic assistance, some of the respondents reported that the loan was given back as cash (grant) assistance when they managed to pay it on time.

It is also noticeable that problems such as 'mismatch', misuse and poor targeting of *zakah* assistance appeared during the distribution process. The mismatch occurred when the households received assistance beyond that for which they had applied and urgently needed. This was often the case when they were provided with educational support when they actually needed healthcare or economic support. Misuse of *zakah* assistance happened when the recipients used the assistance for purposes other than for which it was intended. Some respondents confessed, for example, that they have used the money associated with economic assistance to pay for their children's tuition fees. Meanwhile, the poor targeting primarily occurred when the assistance was provided to non-poor households such as rich widows or 'unemployed' housewives (of rich men) due to, among other things, the incorrect identification of the (potential) *zakah* beneficiaries. Finally, in a broader sense, it was felt that the time taken to distribute the assistance needs to be reduced while the amount of assistance needs to be increased in the future.

[228] An example is the test for praying and reading the Qur'an for children applying for educational assistance.
[229] This mostly applies to the (potential) recipient of social assistance.
[230] This includes operationalization of *zakah* assistance-related activities such as Qur'anic study and healthcare advocacy.

Another concern raised was the sustainability of *zakah* assistance. It was revealed that the households actually hoped to receive more sustained economic assistance, which would enable their businesses to run well and help them to become more independent in the future. In one case, the beneficiary received the assistance only once, which, according to him, contributed to 'premature' development and the eventual failure of the business.[231] Additionally, some respondents were concerned about the sustainability of educational assistance for their children. Since educational assistance was commonly given directly to schools, those parents whose children move to other schools or continued to a higher level of education worried that they would no longer receive the assistance. Other respondents reported that the support was curtailed for no clear reason and they did not know where and how to raise their concerns.

Another *zakah*-related issue found during the fieldwork was 'inconsistencies' in the recipients' data. Some of the names listed as *zakah* recipients received no assistance at all from the *zakah* organizations. Some of them, however, mentioned that they did apply for the assistance but received no responses from the agencies. Interestingly, it was also found that *zakah* assistance had been given to non-Muslims, which could be seen as a mistargeting problem when there were other Muslims nearby needed the same support.

The final concern frequently cited was related to government and other assistance. As previously discussed, almost half of the respondents also obtained some kinds of government transfer. One household reported that, although they had received cheap rice from the government, the rice could not be eaten because of its bad quality. Others mentioned that they need better access to government healthcare facilities and insurance because the family members have complex diseases that cannot be dealt with in the health facilities operated by the *zakah* organizations. Thus, instead of money, they expected to be given advice and access to the government facilities. Lastly, it was found that the *zakah* recipients received assistance from organizations affiliated with other religions. In one case, the respondent even mentioned that the Islamic organizations were so unresponsive to their request that they accepted the assistance offered by churches.

[231] More specifically, the beneficiary felt that the economic assistance given had somewhat 'adversely' affected him. On the one hand, he received short-term economic assistance (working capital) which encouraged him to expand his business (buying inventory, planning higher sales, etc.). On the other hand, due to the short-term (and paltry) nature of the assistance (which can usually be extended, if he receives further assistance) and other factors (such as lack of skill, bad economic conditions, etc.), the business plan did not perform as expected and the beneficiary felt let down by the agency.

Table 6-21: Issues and Areas of Concerns related to *Zakah* Assistance

No	Theme	Sub-Theme	Remarks	ID of Respondents
1	Application of *zakah* assistance	Time and process	Application takes a considerable amount of time and the process tends to be bureaucratic	12114, 43416, 43335, 43340, 45267
		Role of intermediary (third party) in applying *zakah* assistance	Application/registration is done/facilitated by community and/or religious leaders	15162, 44152, 97278
			Application/registration is done/facilitated by staff of *zakah* agencies who come to/visit the recipients	33455-56, 87355, 87361, 87371, 87452-53, 87478, 87480
			Application/registration is done/facilitated by organization appointed by the agencies	83105
			Application/registration is done/facilitated by largely unknown people	83111, 87158
2	Distribution (operationalization) of *zakah* assistance	Distribution style	Distribution is coordinated by community and/or religious leaders and conducted in public places (mosque or community centre)	15162, 45262, 45266, 83105, 83111
			Education assistance (tuition fee, etc.) is given directly to school	21108, 22125, 74139
			Education assistance is given to and actually intended for the school (for example: for school renovation) and the students are listed as the *zakah* recipients	94112-5, 94121, 94124-5, 94140, 94231-94235, 94239, 94426-30,94436-38, 94441
			Initially, *qardul hasan* is given as a loan scheme. However, after respondents have paid all the instalments on time, it is given back as cash assistance (*hibah*/grant)	13226, 13232
		'Mismatch' of *zakah* assistance	Obtain education assistance, when what they actually need is healthcare or economic assistance	21101, 41111, 44152, 44158, 87364, 94124, 97258
		Misuse of *zakah* assistance	Respondent actually gets (cash) economic assistance. However, the cash is used for other purposes such as paying child's tuition fee or given to others.	23230, 23239
			Respondents get education assistance, yet it is used for medical costs due to emergency situation.	46276, 31102
		Poor targeting of *zakah* recipients	Respondent initially got (regular) education assistance. However, it is used to pay for daily needs because there are no more children requiring education assistance.	32416
			Zakah is given to non-poor households, such as wives of (rich) men who get economic assistance and rich widows.	21104, 65142, 65143; 96243
		Time	Distribution takes a considerable amount of time.	43146, 44155, 45263, 45267, 97262
		Amount of *zakah* assistance	Amount of *zakah* assistance, particularly related to business capital/loan, should be increased	11101, 12114, 15161, 15164-65, 21310, 33260, 45267, 66267, 97262, 97263
3	Sustainability of *zakah* assistance	Sustainability of economic assistance	Respondents expect to get more sustained economic assistance	12114, 23242, 23243, 33259, 87264
			Respondent only received economic assistance once and therefore the business could not be continued	23243
		Sustainability of education assistance	Respondents' concerns about sustainability of the assistance when children move to other school, children finish the school and want to continue to college, scholarship suddenly stopped without clear reason.	12114, 42124, 42127, 63121
4	Other *zakah*-related issues	Inconsistencies in *mustahik* data	There are inconsistencies in the *mustahik* data as the names and addresses are listed as the *zakah* recipients yet the household actually did not receive any *zakah* assistance.	22221, 62104, 62110 (interviews were discontinued)
		Non-Muslim	*Zakah* recipient is a non-Muslim person	66259 (interview was discontinued)
5	Government and other assistance	Cheap rice	The cheap rice received from government cannot (too hard to) be eaten.	15165
		Access to government assistance	Recipients need better access to government health insurance and facilities.	21310
		Assistance from other religion	Respondent received assistance from church.	45267

6.5. Summary and Conclusions

This chapter addresses the research questions regarding identification of the poor (*zakah* recipients) and the determinants of their poverty condition. It also discusses the households' relationship with *zakah* organizations as well as the problems they experienced, particularly during the interaction with the *zakah* agencies. In general, most of the poor households were led by someone relatively young, female, married, relatively uneducated and mostly not working. The household size was relatively large, with one member with health problems for every five households surveyed. In relation to assets, around half of the respondents owned private houses and water. Furthermore, their sources of incomes were varied, with *zakah* transfer accounting for around 14.54% of the household's income. It was also revealed that higher age, higher education, more formal occupation and larger households' size are related to a lower probability of being poor. Mixed evidence, however, was found regarding significant differences in the characteristics described above amongst the recipients of *zakah* from different agencies.

With respect to the relationship between the *zakah* institutions and the *zakah* recipients, a number of salient features were identified. They include, among others, a large number of recipients associated with education assistance, a high amount of economic *zakah* assistance, a wide participation in Islamic/Qur'anic study and a relatively high overall satisfaction (i.e. around 90%) of respondents in dealing with the *zakah* agencies. Despite that, a number of issues and areas of concerns during the *zakah* implementation were also identified. Related to the household conditions, vulnerability due to internal shocks (household debt, poor health conditions and recent/sudden death of family members) and external factors (working conditions, unfavourable business conditions, inflation and accidents) was revealed. Meanwhile, in relation to the interactions and relationships with the *zakah* organizations, the areas of concern reported were the application process, poor targeting and misuse of *zakah* assistance during the distribution/utilization phase, and sustainability of the *zakah* assistance obtained.

Chapter 7 Impacts of *Zakah* on Household Poverty and Wellbeing

This chapter comprehensively analyzes the impacts of *zakah* on the poverty/wellbeing of the households receiving *zakah* assistance in 2011, which is the second research objective of the study, based on the data gathered through the survey (interview-administered questionnaire). The analysis is generally divided into two broad categories, namely income-based (monetary) and multidimensional (non-monetary) poverty analysis. Thus, the analysis corresponds with each part of the second research question of the study.

The impacts of the *zakah* institution are subsequently investigated with reference to the results of the descriptive analysis of the aggregate and decomposed measures of poverty, the analysis of variance (ANOVA), the results of the logistic regression models as well as their associated marginal effect models. In all cases, significant differences in the results amongst the recipients associated with different types of *zakah* management are also tested with relevant statistical tests. The overall results are expected to contribute to address the first research aim and generally provide empirical evidence on the contributions of the *zakah* institution to poverty alleviation in Greater Jakarta, Indonesia.

7.1. Impacts of *Zakah*: Income-based (Monetary) Poverty Analysis

This section analyses the results of the survey (i.e. administration of the interview administered questionnaire) by employing descriptive and logistic regression analysis. The analysis is expected to provide more understanding regarding the impacts of *zakah* institution on the households' poverty/wellbeing when income-based poverty measure is used, which is part of the second research question of the study.

7.1.1. Descriptive Analysis

Prior to analyzing the income-based poverty data, it is useful to look at some descriptive statistics of the data (see Table 7-1). The households' average monthly incomes without and with *zakah* assistance were IDR 1,641,808 and IDR 1,914,131 respectively. It is notable, however, that most of them actually lived with incomes below the average values. This is indicated by the income distribution figures where 50% of the population (p50) have monthly mean incomes of only IDR 1.3 million and IDR 1.5 million respectively under both conditions.

Table 7-1: Descriptive Statistics of Household Incomes

Descriptive Statistics	Total Income Without *Zakah* (in IDR)	Total Income With *Zakah* (in IDR)
Mean	1,641,808	1,914,131
St. Deviation	1,379,289	1,710,637
Minimum	0	1,000
Maximum	15,000,000	19,100,000
Distribution (percentile):		
p5	266,667	350,000
p25	862,000	983,333
p50	1,300,000	1,500,000
p75	2,010,750	2,315,666
p95	4,025,000	4,763,333

When analyzing the determinants of poverty and, subsequently, the impacts of the *zakah* institution on the household's wellbeing, it is common to observe the pattern of the data by looking at the descriptive and correlation statistics of the relevant variables. The detailed statistics are presented in Appendices 7A and 7B. The descriptive results suggest that the factors potentially influencing the household poverty can be categorized into four groups, namely demographic characteristics of heads of households, socio-economic conditions of the household, *zakah* assistance-related factors and government (non-*zakah*) support. Testing of the pair-wise correlation between the variables also suggests that most of the variables are weakly-to-moderately correlated. Therefore, the probability of technical problems arising when the variables are used in logistic regression models, such as collinearity explained in the methodology chapter, can be reduced.

Table 7-2: Overall Changes in Household Poverty Index

Poverty Index	Without *Zakah*	With *Zakah*	Mean Changes (%)	t-test
Headcount Index (H)	0.616	0.533	-8.32%	7.879***
Poverty Gap, in IDR	393,835	320,467	-73,369	12.059***
Poverty Gap Index (P_1)	0.253	0.206	-4.71%	12.059***
Poverty Severity Index (P_2)	0.145	0.111	-3.34%	9.892***
Time to Exit Poverty (T_g), in years	9.235	8.732	-0.50	26.634***

Note: *** indicates significance levels of 1%.

Proceeding to the income-based poverty index analysis, Table 7-2 summarizes the poverty conditions of the households prior to and after receiving *zakah* assistance in Greater Jakarta. The changes in the poverty measures were also estimated and the significant differences were further assessed with the t-test. Results of the test confirmed that the mean changes were

significantly different from zero. Accordingly, improvements in household wellbeing after receipt of the assistance were statistically significant in all measures.

The result also shows that the proportion of poor households prior to receiving *zakah* assistance in 2011 was 61.6%. Compared with the household monthly poverty line of IDR 1,556,291 (calculated in chapter five), the proportion of poor households decreased to 53.3% after receipt of the assistance. This implies a reduction of around 8.32% in the poverty headcount index amongst the *zakah* recipients, which was primarily enabled by the contribution from *zakah* transfer. The significance of the result is confirmed by the test above. Therefore, there is strong evidence that the *zakah* institution has contributed positively to reducing poverty in Greater Jakarta, Indonesia.

With regard to the household's nominal income, the *zakah* transfer has also produced a decrease in the poverty gap from IDR 393,835 (USD 43.76) to IDR 320,467 (USD 35.61) on a monthly basis. Relative to the poverty line, the nominal poverty gap indicates that the monthly cost of eliminating poverty amongst the poor is around IDR 320,467. Furthermore, translating the nominal poverty gap figures into the poverty gap index resulted in a poverty gap index of 0.253 (without *zakah*) and 0.206 (with *zakah*). It was also estimated that the poverty severity index, a poverty measure that gives more weight to the poorest of the poor amongst the households, has decreased from 0.145 to 0.111. These results suggest that the depth and severity of poverty have been reduced by 4.71% and 3.34% respectively by the *zakah* contributions.

Moreover, the results show that the average exit time measure has decreased from 9.235 years to 8.732 years. Although the number of years required to escape poverty is still relatively high, these findings suggest a drop in the average time needed to escape from poverty of around 0.5 years (6 months) as a result of *zakah* contributions. However, it is notable that the average exit time can only be achieved if the household's income grows *at least* at the same rate with the current figures.

7.1.2. Decomposition Analysis

To investigate the significant differences in poverty conditions amongst the recipients of *zakah* under different types of *zakah* organization, it is first necessary to decompose the poverty index according to the categories above. Prior to receipt of the assistance, the poverty levels were generally high. The headcount indexes were all above 60%, suggesting that more than 60% of the households were poor. Similarly, the depth and severity of poverty were

relatively high at ranged between 14% and 26.3%. The time required to exit poverty, however, varied considerably and was close to 15 years for some of the recipients. However, after receipt of the assistance, the poverty indices decreased significantly for all the recipients from different types of *zakah* organizations. The poverty indices without and with *zakah* assistance are reported in Table 7-3.

Table 7-3: Poverty Index Without (Before) and With (After) *Zakah* Assistance, by Types of *Zakah* Organizations

Poverty Index	Without *Zakah* Assistance			With *Zakah* Assistance		
	Government	Corporate	Non-Profit	Government	Corporate	Non-Profit
H	0.605	0.600	0.630	0.546	0.553	0.516
PG, in IDR	383,405	408,845	390,144	315,879	369,743	295,204
P_1	0.246	0.263	0.251	0.203	0.238	0.190
P_2	0.140	0.154	0.142	0.109	0.136	0.099
T_g, in year	2.71	14.29	9.22	2.22	13.75	8.74

Note: H = Headcount Index, PG = Poverty Gap, P_1 = Poverty Gap Index, P_2 = Poverty Severity Index, Tg = Time to Exit Poverty

Further observations suggest that the largest decrease in the headcount index, of 11.37%, was found in the households receiving support from the non-profit organizations. Meanwhile, the smallest decrease of 4.74% was experienced by those associated with the corporate agencies. A similar trend is noted with respect to the poverty gap and the poverty severity indices. The significant differences in the means are also confirmed by the results of the t-test presented in Table 7-4 below. Thus, it can be concluded that the proportion, depth and severity of poverty have decreased significantly amongst the households, particularly those affiliated with the non-profit agencies.

Table 7-4: Results of t-test for Testing Significant Difference of Poverty Index Changes, by Types of *Zakah* Organizations

Variable	Government (N=152)		Corporate (N=190)		Non-Profit (N=343)	
	Mean Changes	t-test	Mean Changes	t-test	Mean Changes	t-test
H	0.059	3.598***	0.047	2.260**	0.114	6.720***
PG, in IDR	67526	8.106***	39102	6.349***	94940	8.368***
P_1	0.043	8.106***	0.025	6.349***	0.061	8.368***
P_2	0.032	8.054***	0.018	5.991***	0.043	6.598***
T_g, in year	0.497	11.708***	0.541	14.313***	0.453	15.629***

Note: H = Headcount Index, PG = Poverty Gap, P_1 = Poverty Gap Index, P_2 = Poverty Severity Index, Tg = Time to Exit Poverty; *** and ** indicate significance levels of 1% and 5% respectively.

It was also found that the fastest 'acceleration' in escaping from poverty was experienced by those affiliated with the corporate *zakah* agencies, as suggested by the decrease in the average exit time by 0.54 years. Although the figure was only slightly different from those of the other agencies, it is noticeable that the respondents from the corporate agencies were also those showing the longest nominal time taken to escape poverty.

Table 7-5: Results of F-test for Testing Significant Difference of *Post-Zakah* Poverty Index, by Types of *Zakah* Organizations

Source	Sum of Squares	df	Mean Square	F	Prob > F
H					
Between groups	0.198	2	0.099	0.4	0.6731
Within groups	170.313	682	0.250		
Total	170.511	684	0.249		
PG					
Between groups	6.83E+11	2	3.42E+11	2.05	0.1301
Within groups	1.14E+14	682	1.67E+11		
Total	1.15E+14	684	1.68E+11		
P_1					
Between groups	0.28	2	0.141	2.05	0.1301
Within groups	47.03	682	0.069		
Total	47.32	684	0.069		
P_2					
Between groups	0.17	2	0.085	2.25	0.1006
Within groups	25.70	682	0.038		
Total	25.87	684	0.038		
Tg					
Between groups	10,661.86	2	5330.929	8.400	0.0003
Within groups	397,773.80	627	634.408		
Total	408,435.65	629	649.3413		

Note: H = Headcount Index, PG = Poverty Gap, P_1 = Poverty Gap Index, P_2 = Poverty Severity Index, Tg = Time to Exit Poverty

Slightly different results were obtained when the post-*zakah* poverty indices were compared across different types of *zakah* organizations. As shown in Table 7-5, a significant difference at 1% significant level was only found with respect to the average time taken to exit poverty measure.[232] This result generally suggest that, despite the initial poverty conditions, the households associated with different *zakah* organizations seem to differ only in relation to the average time needed to escape poverty even after receiving *zakah* assistance in 2011. However, it is possible that the poverty index might be different for the respondents

[232] If the 10% significance level is considered, however, a significant difference is also found with respect to the poverty severity index. This implies that the severity of poverty and inequality amongst the recipients from different *zakah* agencies are significantly different.

associated with specific types of *zakah* assistance. As such, the investigation is continued for the *zakah* recipients under different assistance programs.[233]

Table 7-6: Poverty Index Without (Before) and With (After) *Zakah* Assistance, by Types of *Zakah* Assistance

Poverty Index	Without *Zakah*				With *Zakah*			
	Economic	Education	Health	Social	Economic	Education	Health	Social
H	0.49	0.61	0.71	0.75	0.36	0.53	0.61	0.72
PG, in IDR	272,840	372,388	409,639	560,861	188,395	291,637	330,420	518,856
P_1	0.18	0.24	0.27	0.36	0.12	0.19	0.22	0.33
P_2	0.09	0.14	0.14	0.23	0.06	0.10	0.11	0.20
T_g, in year	3.63	4.17	4.25	27.97	3.28	3.67	3.78	27.30

Note: H = Headcount Index, PG = Poverty Gap, P_1 = Poverty Gap Index, P_2 = Poverty Severity Index, Tg = Time to Exit Poverty

In a similar way, the next few tables show the decomposition of the poverty index according to the types of *zakah* assistance received by the households. The results generally suggest that all of the poverty indices appear to be higher amongst the recipients of *zakah* under social (non-economic) assistance programs in both periods of time. This is particularly evident with regard to the headcount index and the exit time measure prior to obtaining support from the institution. In contrast, those receiving the economic programs seemed to be less poor than the others in all of the indices calculated (Table 7-6).

Table 7-7: Results of t-test for Testing Significant Difference of Poverty Index Changes, by Type of *Zakah* Assistance

Variable	Economic		Education		Health		Social	
	Mean Changes	t-test	Mean Changes	t-test	Mean Changes	t-test	Mean Changes	t-test
H	0.126	5.115***	0.087	5.101***	0.078	2.331***	0.026	2.266***
PG, in IDR	84,445	6.258***	80,752	8.035***	84,578	3.537***	42,005	4.848***
P_1	0.054	6.258***	0.052	8.035***	0.054	3.537***	0.027	4.848***
P_2	0.031	6.218***	0.041	6.325***	0.030	3.692***	0.024	3.666***
T_g, in year	0.350	9.670***	0.484	15.861***	0.507	6.391***	0.673	15.888***

Note: H = Headcount Index, PG = Poverty Gap, P_1 = Poverty Gap Index, P_2 = Poverty Severity Index, Tg = Time to Exit Poverty; *** and ** indicate significant level of 1% and 5% respectively.

Furthermore, as shown in Table 7-7, the change in the poverty index among the beneficiaries of *zakah* under the economic program was close to 13%, which is the highest figure

[233] It should be noted that this inquiry is note specifically addressed in the research question. However, since such testing might potentially enrich the analysis, the investigation is conducted in this section.

compared to the others. Likewise, the changes in the depth and severity of poverty within this group were also the largest although the values were close to the figures associated with the recipients of health assistance. However, in terms of nominal poverty gap changes, the largest mean change is evident amongst the recipients of education assistance. Despite that, significant differences in the mean index before and after receiving *zakah* assistance were found for all indices.

Table 7-8: Results of F-test for Testing Significant Difference in *Post-Zakah* Poverty Index, by Types of *Zakah* Assistance

Source	Sum of Squares	df	Mean Square	F	Prob > F
H					
Between groups	11.192	3	3.731	15.950	0.000
Within groups	159.319	681	0.234		
Total	170.511	684	0.249		
PG					
Between groups	9.58E+12	3	3.19E+12	20.700	0.000
Within groups	1.05E+14	681	1.54E+11		
Total	1.15E+14	684	1.68E+11		
P_1					
Between groups	3.9533	3	1.318	20.700	0.000
Within groups	43.3630	681	0.064		
Total	47.3163	684	0.069		
P_2					
Between groups	1.9038	3	0.635	18.040	0.000
Within groups	23.9621	681	0.035		
Total	25.8660	684	0.038		
Tg					
Between groups	60,402.2178	3	20134.073	36.210	0.000
Within groups	348,033.4360	626	555.964		
Total	408,435.6540	629	649.341		

Note: H = Headcount Index, PG = Poverty Gap, P_1 = Poverty Gap Index, P_2 = Poverty Severity Index, Tg = Time to Exit Poverty

Indeed, as reported in Table 7-8, significant differences in all the *post-zakah* poverty indices were also found across the households with different types of *zakah* support. Overall, the results suggest that there were significant difference in the households' wellbeing under different *zakah* utilization programs. There is also an indication that the recipients of economic assistance were relatively wealthier than the others after receiving the *zakah* assistance.

7.1.3. Logistic Regression Analysis

The impacts of the *zakah* institution on the poverty/wellbeing of the recipients were further examined by utilizing logistic regression models and their associated marginal-effect models. Prior to operationalizing the models, however, it is necessary to test the model specifications. In this respect, Table 7-9 reports the results of the Hosmer-Lemeshow specification test and the goodness of fit test. Under the former, the null hypothesis of correct model specification is not rejected (i.e. $p>0.05$). Hence, the Hosmer-Lemeshow test suggests that the model is correctly specified. Furthermore, the classification table shows that the percentage of correctly classified observations is 69.71%. Overall, these results imply that the specifications and the goodness of fit and of the model can be considered acceptable. Accordingly, the estimation results of the corresponding models will be reliable.

Table 7-9: Model Specification and Goodness of Fit Tests: Results of Hosmer-Lemeshow and Classification Table for Income-based (Monetary) Poverty

Results of Model Specification Testing				Classification Table
N	**Group**	**Hosmer-Lemeshow Chi2**	**Prob > Chi2**	**Correctly Classified (%)**
680	10	10.67	0.2209	69.71%

Results of the corresponding logistic regression models are shown in Table 7-10. The socio-demographic variables found to be significantly influence the multidimensional poverty/wellbeing of the *zakah* recipients are the head of the household's age, education and occupation and the household size. In all cases, the odds ratios of the variables are less than one. Furthermore, types of *zakah* assistance and participation in the skill/business training and non-supervisory meeting are significant in the model. However, the odds ratio for the social *zakah* assistance is above one, indicating a higher likelihood of being poor compared to the recipients of economic assistance (i.e. the benchmark category). Overall, these results imply that higher age, higher education, more formal occupation, larger households' size, acceptance of economic assistance and participation in the aforementioned activities were all related to a lower probability of being poor.

Table 7-10: Results of Logistic Regression Model: Impacts of *Zakah* on Income-based Poverty Measure

Variable	Logistic Regression		Marginal Effect	
	Odds Ratio	**Std. Error**	**dy/dx**	**Std. Error**
Demographic Characteristics of Head of Household				
Age	0.972	0.008***	-0.006	0.002***
Gender (0 = female, 1 = male)	0.843	0.183	-0.034	0.043
Marital status (0 = not married, 1 = married)	0.941	0.182	-0.012	0.038
Education				
1 - Elementary school	0.618	0.185*	-0.092	0.055*
2 - Junior high school	0.397	0.127***	-0.181	0.060***
3 - Senior high school	0.374	0.123***	-0.193	0.061***
4 - College/University	0.162	0.109***	-0.357	0.121***
Occupation				
1 - Informal labour	1.001	0.284	0.000	0.057
2 - Small trader	0.452	0.097***	-0.163	0.044***
3 – Employee	0.426	0.143**	-0.175	0.068***
4 – Others	2.230	1.649	0.148	0.121
Socio-Economic Characteristics of Household				
Household size	0.792	0.038***	-0.046	0.009***
HH member with disabilities	1.362	0.319	0.061	0.046
Home ownership (0 = No, 1 = Yes)	1.116	0.214	0.022	0.038
Possession of water source (0 = No, 1 = Yes)	1.063	0.200	0.012	0.037
Location (0 = Outside Jakarta, 1 = Jakarta)	1.133	0.238	0.025	0.042
Zakah Assistance and Other Supports				
Types of *zakah* organization				
1 – Corporate	1.064	0.300	0.012	0.056
2 – Non-profit	1.298	0.332	0.051	0.050
Types of *zakah* assistance				
1 – Education	1.578	0.394*	0.096	0.052*
2 – Healthcare	1.702	0.647	0.112	0.080
3 – Social	3.721	1.052***	0.266	0.055***
Participation in *zakah* assistance-related activities				
Islamic/Qur'anic study (0=No, 1=Yes)	0.806	0.178	-0.043	0.044
Health advocacy (0=No, 1=Yes)	1.280	0.352	0.048	0.053
Skill/business training (0=No, 1=Yes)	0.450	0.139***	-0.161	0.061***
Supervisory meeting (0=No, 1=Yes)	0.729	0.198	-0.064	0.056
Non-supervisory meeting (0=No, 1=Yes)	0.486	0.152**	-0.145	0.062**
Other related activities (0=No, 1=Yes)	1.943	0.976	0.127	0.091
Receive government support (0 = No, 1 = Yes)	0.917	0.176	-0.017	0.038
Constant	21.873	14.437***		
Number of observations	680			
LR Chi2	151.330			
Prob > Chi2	0.000			
Pseudo R2	0.161			

Note: ***, ** and * denote significance at 1%, 5% and 10% respectively; dy/dx for factor levels is the discrete change from the base level.

Further investigations based on the marginal effects models suggest that the impacts of education and occupation tend to be high. The estimated results indicate that those with junior high school, senior high school and college/university education were less likely to be poor by 18.1%, 19.3% and 35.7% respectively if compared to those not attending school. Similarly, compared to the recipients who were not working, those working as a small trader and an employee have a lower probability of being poor by 16.3% and 17.5%. The estimated result suggests that a one-unit (person) increase in the head of household's age and the household size would decrease the likelihood of being poor by 0.6% and 4.6% consecutively. Thus, the impacts were relatively modest than the previously mentioned variables.

It is also noticeable that the types of *zakah* assistance and *zakah* assistance-related activities are strongly linked with the likelihood of being poor. Compared to those receiving economic assistance, the probability of being poor was higher by 9.6% and 26.6% for the recipients of *zakah* under educational and social assistance. Likewise, the beneficiaries attending skills/business training and non-supervisory meetings under the economic assistance were less likely to be poor by 16.1% and 14.5%. Despite that, according to the income-based models, the types of *zakah* organizations providing the assistance and the government supports did not significantly influence the household's welfare.

7.2. Impacts of *Zakah*: Multidimensional (Non-Monetary) Poverty Analysis

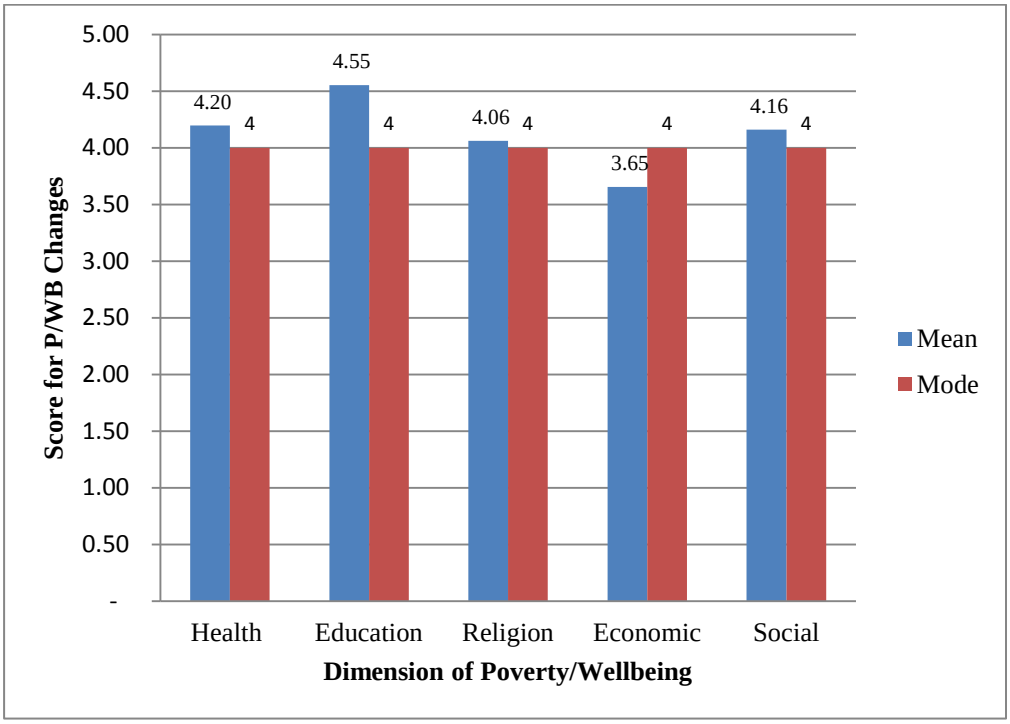
Similar with the previous section, this section analyses the survey's results by employing descriptive and logistic regression analysis. The results, which also correspond to the second research question of the study, is hoped to provide more understanding regarding the impacts of *zakah* institution on the households' poverty/wellbeing when multidimensional poverty/wellbeing measures are used.

7.2.1. Descriptive Analysis

Aggregate changes in the multidimensional poverty measures are depicted in Figure 7-1. In general, the findings revealed that most of the households have enjoyed positive changes in almost all of the wellbeing dimensions after receiving *zakah* assistance. On average, the changes found have scores of between 4.06 and 4.55 (on the scale of 6), which indicates a positive and modest change of household wellbeing. The biggest and most positive average change was found with respect to the educational dimension (mean score of 4.55), while the smallest change was found in relation to the economic aspect (mean score of 3.65). It was

also evident that the improvements were experienced by a majority of the households, as implied by the mode value of four in all five dimensions.

Figure 7-1 : Aggregate Changes in Multidimensional Poverty Measures



Overall, the aggregate results suggest that there have been significant improvements in the households' wellbeing after receiving various types of *zakah* assistance in 2011. The positive changes happened in almost all of the wellbeing dimensions albeit the results are rather inconclusive for the economic dimension. Therefore, at this juncture, it can be said that there is evidence of the positive contributions of *zakah* in reducing multidimensional poverty and increasing welfare in Greater Jakarta, Indonesia.

Further examination of each of the wellbeing dimensions is summarized in Table 7-11. It is apparent from the table that the highest wellbeing improvement was experienced in the educational dimension. On average, around 87.34% of the respondents mentioned that the household's wellbeing in terms of children's school attendance, literacy, school achievement and access to school had increased significantly after the receipt of support from the *zakah* institution. Amongst the indicators, the most positive changes were felt in relation to school attendance and literacy (i.e. ability to read and do mathematical calculations), which seem to be particularly related to the educational assistance provided by the institution.

Table 7-11: Specific Changes in Multidimensional Poverty Measure

Poverty Measure/Indicator	N	Negative changes (not-improved/poorer)		Positive changes (improved/less poor)	
		Frequency	Percentage	Frequency	Percentage
Health Dimension					
Food consumption	684	166	24.27	518	75.73
Access to health service	677	183	27.03	494	72.97
Health awareness	684	102	14.91	582	85.09
Quality of health	683	138	20.2	545	79.8
Average			21.60		78.40
Education Dimension					
School access	599	89	14.86	510	85.14
School attendance	597	63	10.55	534	89.45
Literacy	585	70	11.97	515	88.03
School achievement	595	79	13.28	516	86.72
Average			12.67		87.34
Religious/Spiritual Dimension					
Praying and fasting	682	52	7.62	630	92.38
Islamic/Qur'anic study	674	127	18.84	547	81.16
Charity	672	171	25.45	501	74.55
Hajj	299	208	69.57	91	30.43
Average			30.37		69.63
Economic Dimension					
Skill	663	210	31.67	453	68.33
Employability	660	263	39.85	397	60.15
Income	684	253	36.99	431	63.01
Purchasing power	559	363	64.94	196	35.06
Savings	562	320	56.94	242	43.06
Average			46.08		53.92
Social Dimension					
Future	663	111	16.74	552	83.26
Harmony	681	67	9.84	614	90.16
Anti-social behavior	94	36	38.3	58	61.7
Community activity	672	127	18.9	545	81.1
Average			20.95		79.06

In contrast, the smallest poverty reduction impact was felt in the economic dimension. Only 53.92%, or slightly more than half, of the households expressed positive changes in wellbeing. Amongst the indicators constructing this dimension, purchasing power and savings were found to be the measures in which most of the households had reported deterioration in their daily lives, as indicated by the large proportions of negative changes.

However, in terms of skills, employability and income, improvements were actually more prevalent. It is therefore suggested that, although the households have experienced improvement in their economic resources (i.e. the first three indicators), for some reasons the positive changes could not be translated into higher economic outputs (i.e. purchasing power and savings).

Relatively moderate improvements were shown in relation to social, health and spiritual dimensions. In the social dimension, the average proportion of respondents reporting positive changes was 79.06%. The largest advancement was felt in terms of harmony among the household's members, whereas the smallest advancement was shown in relation to anti-social behaviour such as gambling and consumption of alcohol/drugs. Relatively similar magnitudes of poverty reduction were felt in the health dimension, where an increase in health awareness was expressed by a majority (around 85.09%) of the households. However, in terms of access to health services, close to one-third reported that their access to such services had deteriorated in 2011. In terms of spirituality, the most positive changes were expressed in relation to regularity in praying and fasting (92.38%) and studying Qur'an/Islam (81.16%). Lastly, and somewhat unsurprisingly, most of the respondents reported no improvement in terms of preparation for *hajj* (great pilgrimage) compared to the conditions in the previous year.

7.2.2. Decomposition Analysis

Similar to the income-based poverty analysis, decomposition of the multidimensional poverty measures/indices according to the models of *zakah* management was conducted to find out which models have the highest poverty reduction impacts on the recipients. In relation to this, Table 7-12 reports the decomposition of the measures according to the types of *zakah* organizations supporting the households. The highest overall mean score of 4.22 was found amongst the recipients of *zakah* from the non-profit organizations. Indeed, except for the health dimension, the reported wellbeing improvement surpassed those of the others. In contrast, it was found that the smallest overall improvement of 3.98 had been felt by those associated with the government agencies. Despite that, they actually showed a slightly higher positive change in the social dimension when compared to the beneficiaries of *zakah* from the corporate organizations.

Table 7-12: Decomposition of Multidimensional Poverty Index, by Types of *Zakah* Organizations

Multidimensional Poverty Dimensions	Mean Score, by Types of *Zakah* Organization		
	Government	Corporate	Non-profit
Health	4.07	4.25	4.22
Education	4.38	4.55	4.63
Religious	3.88	4.04	4.15
Economic	3.50	3.59	3.75
Social	4.05	3.98	4.36
Average (Aggregate/ Composite Index)	*3.976*	*4.082*	*4.222*

Table 7-13: Results of Kruskal-Wallis Test for Testing Significant Difference in Multidimensional Poverty Index, by Types of *Zakah* Organizations

Poverty Measure	Types of *Zakah* Organization	Observation	Rank Sum	Chi-Squared	df	Probability
MPI-health (mean health)	Government	152	46,810.50	5.013	2	0.082
	Corporate	189	66,368.00			
	Non-profit	336	116,324.50			
MPI-education (mean education)	Government	131	32,852.00	11.318	2	0.004
	Corporate	159	45,972.50			
	Non-profit	291	90,246.50			
MPI-religion (mean religion/spiritual)	Government	69	8,941.50	5.893	2	0.053
	Corporate	79	11,531.50			
	Non-profit	149	23,780.00			
MPI-Economic (mean economic)	Government	88	17,998.50	7.756	2	0.021
	Corporate	137	30,832.00			
	Non-profit	241	59,980.50			
MPI-social (mean social)	Government	26	1,070.00	6.249	2	0.044
	Corporate	26	994.00			
	Non-profit	38	2,031.00			
MPI-aggregate (all dimensions)	Government	21	674.00	2.24	2	0.3263
	Corporate	19	603.00			
	Non-profit	29	1,138.00			

The significant differences in the mean changes above were formally tested by utilizing a series of Kruskal-Wallis tests (Table 7-13). The results show that the null hypothesis of no significant differences was rejected in educational, economic and social dimensions at the 5% significance level. Nevertheless, if the 10% significance level is considered, significant differences were found in all dimensions except for the aggregate measure. These results generally suggest that there were significant differences in the average household's wellbeing in almost all dimensions after receiving *zakah* assistance from different types of *zakah*

agencies with respect to education, economic and social dimension. There was also an indication that the non-profit's *zakah* recipients tend to have higher wellbeing changes than the others.

Table 7-14: Decomposition of Multidimensional Poverty, by Types of *Zakah* Assistance

Multidimensional Poverty Dimensions	Mean Score, by Types of *Zakah* Assistance			
	Economic	**Education**	**Health**	**Social**
Health	4.28	4.18	4.34	4.09
Education	4.51	4.69	4.24	4.39
Religious	4.21	4.07	4.06	3.9
Economic	3.92	3.66	3.44	3.4
Social	4.25	4.27	4.06	3.86
Average (Aggregate/ Composite Index)	*4.234*	*4.174*	*4.028*	*3.928*

More variations appeared if the disaggregation was conducted with respect to the types of *zakah* assistance provided (Table 7-14). In general, the highest poverty reduction was felt by the beneficiaries of *zakah* under economic and education assistance programs, with a mean score of 4.23 and 4.17. However, under both assistances, the highest improvements were actually shown in the education and health dimensions. Meanwhile, the smallest welfare improvements of 3.928 were shown by those receiving the social *zakah* assistance. Despite that, it is noticeable that all of the *zakah* recipients –regardless of the types of supports received- were relatively deprived in economic dimension.

Significant differences in the figures above were confirmed by the results of Kruskal-Wallis tests, particularly in economic, education and social dimensions (Table 7-15). Relaxing the confidence level to 10%, significant differences were indeed found in all dimensions, including in the aggregate measure. The results generally indicate that the mean improvements across the recipients of *zakah* under different utilization programs differed significantly from one another. Which groups differ, unfortunately, cannot be directly inferred from the results.

Table 7-15: Results of Kruskal-Wallis Test for Testing Significant Difference in Multidimensional Poverty Index, by Types of *Zakah* Assistance

Poverty Measure	Types of *Zakah* Assistance	Observation	Rank Sum	Chi-Squared	df	Probability
MPI- health	Economic	178	63,858.50	6.609	3	0.086
	Education	296	98,854.00			
	Healthcare	51	19,217.50			
	Social	152	47,573.00			
MPI-education	Economic	136	38,465.00	16.941	3	0.001
	Education	283	89,934.00			
	Healthcare	35	8,354.50			
	Social	127	32,317.50			
MPI-religion	Economic	75	12,679.50	7.763	3	0.051
	Education	121	17,980.00			
	Healthcare	20	3,004.00			
	Social	81	10,589.50			
MPI-Economic	Economic	129	36,075.50	29.487	3	0.000
	Education	188	44,150.50			
	Healthcare	33	6,497.00			
	Social	116	22,088.00			
MPI-social	Economic	22	1,129.00	8.285	3	0.041
	Education	41	2,057.00			
	Healthcare	9	340.50			
	Social	18	568.50			
MPI-all dimensions	Economic	14	570.50	7.407	3	0.060
	Education	35	1,343.00			
	Healthcare	6	175.50			
	Social	14	326.00			

7.2.3. Logistic Regression Analysis

The impacts of the *zakah* institution on the multidimensional poverty/wellbeing of the recipients were further examined by utilizing logistic regression models and their associated marginal-effect models. Similar to the income-based poverty analysis discussed earlier, the goodness of fit and the model specifications were tested prior to the analysis. As shown in Table 7-16, the Hosmer-Lemeshow tests reject the null hypothesis of the model's misspecification ($p > 0.05$), which suggests that all the models have been correctly specified. Furthermore, the classification tables show that the percentages of correctly classified observations were relatively high and range between 60% and 79%. Overall, it can be concluded that the specification and goodness of fit of the models are reasonably good and that the estimation results are therefore reliable.

Table 7-16: Model Specification and Goodness of Fit Tests: Results of Hosmer-Lemeshow and Classification Table for Multidimensional (Non-monetary) Poverty

Model	Results of Model Specification Testing				Classification Table
	N	Group	Hosmer-Lemeshow Chi2	Prob > Chi2	Correctly Classified (%)
Health	672	10	8.34	0.4014	59.67%
Education	576	10	10.85	0.2101	69.10%
Religious	292	10	12.24	0.1407	75.34%
Economic	461	10	6.16	0.6289	74.84%
Social	89	10	10.81	0.2126	78.65%

Proceeding to the logistic regression analysis,[234] Table 7-17 reports the estimated results for the poverty determinants in the health dimension. Generally speaking, looking at the odds ratio figures, the health poverty/wellbeing of the recipients were strongly influenced by occupation of head of household and possession of asset (house). If 10% significant level is considered, factors such as types of *zakah* assistance, supervisory meetings, and other *zakah*-related activities were also found to be significant. Higher likelihood of being poor seemed to be associated with occupation as informal labour and acceptance of social *zakah* assistance. Surprisingly, participation in health advocacy activities did not produce any statistically significant impacts on the welfare improvement although the direction of the relationship is indeed negative (i.e. they made the recipients less likely to be poor). Likewise, the impact of government support including health insurance was not significant in the model.

In particular, the result of the marginal effect model suggests that households led by persons working in informal sectors were more likely to be poor in health dimension than those in unemployment, by around 14.83%. This is presumably related to the facts that, due to their occupation and working environment, they were exposed to many and more severe health problems compared to the unemployed. [235] Likewise, possession of a house (assets) reduced the probability of being poor by 8.22%. Furthermore, in relation to *zakah* assistance, households obtaining health assistance seemed to have a lower probability of being poor in the health dimension than those receiving economic assistance, by around 13.35%.

[234] It is worth noting that attempts have been made to estimate the determinants of poverty under the aggregate model. However, primarily due to collinearity problem, most of the variables in the model are not statistically significant. Hence, the estimation results are not presented here.

[235] A good example is the recipients working as a motorcycle-taxi driver, who has to deal with severe pollution and bad traffic jam while working in the capital's main streets in a daily basis. Not only that, sometimes they have to work very early in the morning or very late in the night because those are the times where most people needs their services. Another example is the street vendors who commonly sell their goods on/near streets. In doing so, they are not only exposed to pollution problems, but also work safety issues (high risk of accidents, etc.) and other security issues (exposed to street crime, etc.).

Interestingly, it was also revealed that the recipients attending supervisory meetings, which are usually part of the economic empowerment program, were less likely to be poor, by around 11.12%. Similarly, participation in other activities, such as green (environmental) campaigns, was also associated with a lower chance of being poor in health dimension.

Table 7-17: Results of Logistic Regression Model: Impacts of *Zakah* on Poverty/Wellbeing in Health Dimension

Variable	Logistic Regression		Marginal Effect	
	Odds Ratio	**Std. Error**	**dy/dx**	**Std. Error**
Demographic Characteristics of Head of Household				
Age	1.007	0.007	0.002	0.002
Gender (0 = female, 1 = male)	1.363	0.276	0.071	0.046
Marital status (0 = not married, 1 = married)	0.948	0.170	-0.012	0.041
Education				
1 - Elementary school	0.936	0.253	-0.015	0.063
2 - Junior high school	0.642	0.189	-0.103	0.068
3 - Senior high school	0.662	0.200	-0.096	0.070
4 - College/University	0.822	0.477	-0.046	0.135
Occupation				
1 - Informal labour	1.891	0.504**	0.148	0.061**
2 - Small trader	1.271	0.257	0.056	0.047
3 – Employee	0.793	0.253	-0.053	0.072
4 – Others	0.810	0.518	-0.048	0.143
Socio-Economic Characteristics of Household				
Household size	0.963	0.041	-0.009	0.010
HH member with disabilities	1.233	0.258	0.048	0.048
Home ownership (0 = No, 1 = Yes)	0.699	0.126**	-0.082	0.041**
Possession of water source (0 = No, 1 = Yes)	0.727	0.128*	-0.073	0.040*
Location (0 = Outside Jakarta, 1 = Jakarta)	0.994	0.194	-0.001	0.045
Zakah Assistance and Other Supports				
Types of *zakah* organization				
1 – Corporate	0.759	0.200	-0.063	0.059
2 – Non-profit	1.072	0.259	0.016	0.055
Types of *zakah* assistance				
1 – Education	1.206	0.286	0.043	0.055
2 – Healthcare	0.538	0.199*	-0.134	0.076*
3 – Social	1.541	0.394*	0.100	0.059
Participation in *zakah* assistance-related activities				
Islamic/Qur'anic study (0=No, 1=Yes)	1.059	0.225	0.013	0.049
Health advocacy (0=No, 1=Yes)	0.878	0.232	-0.030	0.060
Skill/business training (0=No, 1=Yes)	1.153	0.334	0.033	0.066
Supervisory meeting (0=No, 1=Yes)	0.614	0.161*	-0.111	0.059*
Non-supervisory meeting (0=No, 1=Yes)	0.799	0.236	-0.051	0.067
Other related activities (0=No, 1=Yes)	0.358	0.190*	-0.216	0.096**
Receive government support (0 = No, 1 = Yes)	1.161	0.209	0.034	0.041
Constant	1.073	0.645		
Number of observations	672			
LR Chi2	55.120			
Prob > Chi2	0.002			
Pseudo R2	0.059			

Note: ***, ** and * denote significance at 1%, 5% and 10% respectively; dy/dx for factor levels is the discrete change from the base level.

Table 7-18: Results of Logistic Regression Model: Impacts of *Zakah* on Poverty/Wellbeing in Education Dimension

Variable	Logistic Regression		Marginal Effect	
	Odds Ratio	**Std. Error**	**dy/dx**	**Std. Error**
Demographic Characteristics of Head of Household				
Age	0.988	0.009	-0.002	0.002
Gender (0 = female, 1 = male)	0.849	0.210	-0.032	0.047
Marital status (0 = not married, 1 = married)	0.862	0.186	-0.029	0.042
Education				
1 - Elementary school	0.507	0.157**	-0.146	0.067**
2 - Junior high school	0.457	0.152**	-0.166	0.071**
3 - Senior high school	0.422	0.146**	-0.182	0.073**
4 - College/University	0.065	0.073**	-0.410	0.090***
Occupation				
1 - Informal labour	1.132	0.340	0.025	0.060
2 - Small trader	0.995	0.234	-0.001	0.046
3 – Employee	0.826	0.330	-0.036	0.074
4 – Others	1.256	1.002	0.046	0.164
Socio-Economic Characteristics of Household				
Household size	1.021	0.051	0.004	0.010
HH member with disabilities	0.672	0.173	-0.078	0.050
Home ownership (0 = No, 1 = Yes)	0.975	0.206	-0.005	0.041
Possession of water source (0 = No, 1 = Yes)	0.801	0.169	-0.043	0.041
Location (0 = Outside Jakarta, 1 = Jakarta)	0.968	0.228	-0.006	0.046
Zakah Assistance and Other Supports				
Types of *zakah* organization				
1 – Corporate	0.325	0.102***	-0.226	0.060***
2 – Non-profit	0.450	0.126***	-0.167	0.059***
Types of *zakah* assistance				
1 – Education	0.456	0.134***	-0.151	0.056***
2 – Healthcare	1.011	0.445	0.002	0.093
3 – Social	0.980	0.301	-0.004	0.064
Participation in *zakah* assistance-related activities				
Islamic/Qur'anic study (0=No, 1=Yes)	0.615	0.154*	-0.094	0.047**
Health advocacy (0=No, 1=Yes)	1.082	0.334	0.015	0.061
Skill/business training (0=No, 1=Yes)	1.047	0.370	0.009	0.070
Supervisory meeting (0=No, 1=Yes)	0.474	0.149**	-0.140	0.055**
Non-supervisory meeting (0=No, 1=Yes)	0.705	0.267	-0.066	0.069
Other related activities (0=No, 1=Yes)	0.769	0.473	-0.050	0.112
Receive government support (0 = No, 1 = Yes)	1.406	0.297*	0.066	0.041
Constant	6.742	4.844***		
Number of observations	576			
LR Chi2	69.880			
Prob > Chi2	0.000			
Pseudo R2	0.096			

Note: ***, ** and * denote significance at 1%, 5% and 10% respectively; dy/dx for factor levels is the discrete change from the base level.

In the educational dimension, the variables found to be significantly related with household poverty/wellbeing were educational background, types of *zakah* organizations, types of *zakah* assistance, participation in Islamic/Qur'anic study and attendance at supervisory meetings (see Table 7-18). In all cases, the odds ratios were less than one, suggesting that the variables

above were associated with lower probability of being poor. Thus, higher education, association with non-government (i.e. corporate and non-profit) *zakah* agencies and participation in the aforementioned activities reduced the probability of being poor in education dimension.

Referring to the results of the marginal effect model, the influence of the parent's education on the household's educational wellbeing found is hardly surprising. Indeed, compared to those not attending school, coefficients of the models suggest that the *zakah* recipients with higher education were less likely to be poor in education dimension by approximately 14.56% (elementary school), 16.62% (junior high school), 18.17% (senior high school) and 41.04% (college/university). Thus, the impacts of higher education are evident from these findings.

The positive impacts of *zakah* institutions are also evident from the regression results. Compared to those receiving *zakah* from the government agencies, the recipients of *zakah* from the corporate and non-profit agencies were less likely to be poor by 22.57% and 16.69% respectively. Similarly, the probability of the beneficiaries of educational assistance being poor was lower by 15.06% than those linked with the economic assistance. However, perhaps somewhat contradictory to the previous result, the participants in supervisory meetings under the economic *zakah* assistance were less likely to be poor by 13.65%. Overall, the results suggest that the *zakah* institution has contributed positively to increasing the households' educational wellbeing.

Another important dimension of poverty is religious/spiritual wellbeing. In this respect, the estimation results summarized in Table 7-19 generally suggest that the factors significantly influence the household spiritual poverty/wellbeing were age of the household's head, possession of house (asset), location, types of *zakah* assistance, attendance at Islamic/Qur'anic study and participation in other *zakah*-related activities. Except for the types of *zakah* assistance, the odds ratio figures were below one. These results imply that lower likelihood of being spiritually poor are connected with higher age, home ownership, residential location outside Jakarta, reception of economic *zakah* assistance and participation in the mentioned activities. Additionally, it is evident that the impacts of government support on the household wellbeing were not significant during the period.

Table 7-19: Results of Logistic Regression Model: Impacts of *Zakah* on Poverty/Wellbeing in Religious/Spiritual Dimension

Variable	Logistic Regression		Marginal Effect	
	Odds Ratio	**Std. Error**	**dy/dx**	**Std. Error**
Demographic Characteristics of Head of Household				
Age	0.974	0.013**	-0.005	0.002**
Gender (0 = female, 1 = male)	1.669	0.598	0.088	0.060
Marital status (0 = not married, 1 = married)	1.673	0.566	0.092	0.061
Education				
1 - Elementary school	1.254	0.682	0.040	0.097
2 - Junior high school	1.609	0.954	0.082	0.104
3 - Senior high school	0.614	0.362	-0.089	0.105
4 - College/University	0.317	0.348	-0.207	0.190
Occupation	0.000	0.000	0.000	0.000
1 - Informal labour	0.642	0.281	-0.079	0.077
2 - Small trader	1.192	0.448	0.030	0.065
3 – Employee	1.447	0.751	0.063	0.087
4 – Others	0.396	0.459	-0.165	0.204
Socio-Economic Characteristics of Household				
Household size	0.949	0.073	-0.009	0.013
HH member with disabilities	1.026	0.406	0.004	0.070
Home ownership (0 = No, 1 = Yes)	0.454	0.144**	-0.143	0.057**
Possession of water source (0 = No, 1 = Yes)	0.631	0.203	-0.081	0.055
Location (0 = Outside Jakarta, 1 = Jakarta)	2.170	0.760**	0.143	0.065**
Zakah Assistance and Other Supports				
Types of *zakah* organization				
1 – Corporate	0.816	0.384	-0.036	0.083
2 – Non-profit	0.888	0.392	-0.021	0.078
Types of *zakah* assistance	0.000	0.000	0.000	0.000
1 – Education	2.614	1.225**	0.177	0.083**
2 – Healthcare	1.856	1.242	0.115	0.123
3 – Social	4.525	2.145***	0.272	0.081***
Participation in *zakah* assistance-related activities				
Islamic/Qur'anic study (0=No, 1=Yes)	0.173	0.062***	-0.336	0.063***
Health advocacy (0=No, 1=Yes)	1.767	0.736	0.097	0.067
Skill/business training (0=No, 1=Yes)	1.691	0.744	0.089	0.071
Supervisory meeting (0=No, 1=Yes)	0.939	0.394	-0.011	0.075
Non-supervisory meeting (0=No, 1=Yes)	0.651	0.306	-0.078	0.087
Other related activities (0=No, 1=Yes)	0.260	0.169**	-0.244	0.112**
Receive government support (0 = No, 1 = Yes)	1.399	0.440	0.059	0.055
Constant	3.419	3.537		
Number of observations	292			
LR Chi2	90.460			
Prob > Chi2	0.000			
Pseudo R2	0.227			

Note: ***, ** and * denote significance at 1%, 5% and 10% respectively; dy/dx for factor levels is the discrete change from the base level.

Interesting results are implied by the marginal effect estimations. The model suggests that a one-unit (year) increase in age decreases the likelihood of being poor by 4.56%. In other words, older people were more likely to be spiritually richer than younger ones. It was also found that those who owned their own houses were less likely to be poor by around 14.26%.

Meanwhile, the impact of location is evident, as the regression result indicates that the *zakah* recipients living in Jakarta were more likely to be spiritually poor, by 14.32%, compared to those living in the satellite cities (outside) of Jakarta.

The impacts of *zakah* institutions on the households' spiritual wellbeing were found to be related with the types of *zakah* assistance as well as participation in Islamic/Qur'anic studies and other activities. The influence of participation in Islamic/Qur'anic studies is evident from the estimation result suggesting that the participants were less likely to be spiritually poor by around 33.58%. Similarly, the effect of joining in with the other activities tends to decrease the probability of being poor. Meanwhile, in relation to *zakah* assistance, it was found that those receiving educational and social assistance were more likely to be poor than those obtaining economic assistance by 17.75% and 27.18% respectively. In other words, obtaining economic assistance was associated with a lower probability of being spiritually poor amongst the recipients.

In the economic dimension, the results obtained suggest that the variables that critically influenced the household's poverty/wellbeing were occupation of head of household, the number of household members with disabilities and types of *zakah* organizations (see Table 7-20). Referring to the odds ratio values, it could be suggested that the higher probability of being poor is associated with higher number of household members with disabilities and social *zakah* assistance. It was also found that the impacts of government interventions, which were mostly related to economic assistance (such as cheap rice and unconditional cash transfers), did not significantly decrease the household poverty condition.

Further examination of the results of the marginal effect model reveals that a larger number of households with health problems members were positively related with the household's poverty. Indeed, the marginal effect model predicts that an additional unit (household member) with poor health problems increases the household's likelihood of being poor by around 13.19%. It was also found that those working in the 'others' category are less likely to be poor by approximately 43.37%.[236] Other socio-demographic variables usually associated with economic wellbeing such as education and household assets, however, were not significant in the model.

[236] According to the respondents, as documented in the fieldwork notes, the 'others' category includes occupations such as contractor, freelance surveyor, hairdresser, etc. There are 12 respondents (0.17%) under this category.

Table 7-20: Results of Logistic Regression Model: Impacts of *Zakah* on Poverty/Wellbeing in Economic Dimension

Variable	Logistic Regression		Marginal Effect	
	Odds Ratio	Std. Error	dy/dx	Std. Error
Demographic Characteristics of Head of Household				
Age	1.012	0.011	0.002	0.002
Gender (0 = female, 1 = male)	0.838	0.238	-0.030	0.048
Marital status (0 = not married, 1 = married)	0.729	0.203	-0.052	0.044
Education				
1 - Elementary school	1.405	0.605	0.056	0.073
2 - Junior high school	0.958	0.421	-0.008	0.077
3 - Senior high school	1.213	0.547	0.033	0.077
4 - College/University	0.303	0.227	-0.242	0.155
Occupation				
1 - Informal labour	1.107	0.471	0.016	0.066
2 - Small trader	0.639	0.188	-0.079	0.052
3 – Employee	1.327	0.608	0.043	0.066
4 – Others	0.116	0.122**	-0.434	0.202**
Socio-Economic Characteristics of Household				
Household size	1.024	0.064	0.004	0.010
HH member with disabilities	2.219	0.841**	0.132	0.062**
Home ownership (0 = No, 1 = Yes)	0.699	0.178	-0.060	0.043
Possession of water source (0 = No, 1 = Yes)	1.122	0.280	0.019	0.041
Location (0 = Outside Jakarta, 1 = Jakarta)	1.155	0.319	0.024	0.046
Zakah Assistance and Other Supports				
Types of *zakah* organization				
1 – Corporate	0.501	0.219	-0.113	0.069*
2 – Non-profit	0.709	0.283	-0.053	0.059
Types of *zakah* assistance	0.000	0.000	0.000	0.000
1 – Education	1.201	0.396	0.034	0.062
2 – Healthcare	1.593	0.911	0.082	0.095
3 – Social	2.551	0.934**	0.149	0.057***
Participation in *zakah* assistance-related activities				
Islamic/Qur'anic study (0=No, 1=Yes)	0.889	0.247	-0.020	0.047
Health advocacy (0=No, 1=Yes)	1.414	0.481	0.055	0.051
Skill/business training (0=No, 1=Yes)	0.750	0.262	-0.049	0.063
Supervisory meeting (0=No, 1=Yes)	0.692	0.237	-0.064	0.062
Non-supervisory meeting (0=No, 1=Yes)	0.623	0.227	-0.085	0.069
Other related activities (0=No, 1=Yes)	0.891	0.499	-0.019	0.096
Receive government support (0 = No, 1 = Yes)	1.124	0.293	0.019	0.043
Constant	2.440	2.114	0.000	0.000
Number of observations	461			
LR Chi2	63.610			
Prob > Chi2	0.000			
Pseudo R2	0.120			

Note: ***, ** and * denote significance at 1%, 5% and 10% respectively; dy/dx for factor levels is the discrete change from the base level.

The estimation results also suggest that those receiving *zakah* from the corporate agencies were less likely to be poor than the government *zakah* recipients by around 11.33% (at 10% significance level). Furthermore, compared to those obtaining economic assistance, the probability of being poor amongst the beneficiaries of social assistance was higher by

approximately 14.92%. Therefore, it can be concluded that the impacts of the *zakah* institution in increasing the economic wellbeing and reducing the poverty of the households seemed to be fairly positive.

Table 7-21: Results of Logistic Regression Model: Impacts of *Zakah* on Poverty/Wellbeing in Social Dimension

Variable	Logistic Regression		Marginal Effect	
	Odds Ratio	Std. Error	dy/dx	Std. Error
Demographic Characteristics of Head of Household				
Age	0.966	0.032	-0.005	0.005
Gender (0 = female, 1 = male)	0.355	0.280	-0.155	0.114
Marital status (0 = not married, 1 = married)	0.233	0.221	-0.197	0.111*
Education				
1 - Elementary school	2.599	2.951	0.135	0.156
2 - Junior high school	1.016	1.243	0.002	0.171
3 - Senior high school	2.641	3.207	0.138	0.168
4 - College/University	2.519	4.601	0.131	0.251
Occupation				
1 - Informal labour	8.926	9.242**	0.274	0.104***
2 - Small trader	0.289	0.245	-0.171	0.109
3 – Employee	2.614	2.800	0.130	0.132
4 – Others	n.a			
Socio-Economic Characteristics of Household				
Household size	1.047	0.184	0.007	0.026
HH member with disabilities	0.499	0.369	-0.102	0.106
Home ownership (0 = No, 1 = Yes)	0.227	0.197*	-0.204	0.103**
Possession of water source (0 = No, 1 = Yes)	1.825	1.473	0.086	0.112
Location (0 = Outside Jakarta, 1 = Jakarta)	0.145	0.131**	-0.262	0.097***
Zakah Assistance and Other Supports				
Types of *zakah* organization	0.000	0.000	0.000	0.000
1 – Corporate	0.434	0.451	-0.120	0.142
2 – Non-profit	0.168	0.181*	-0.261	0.148*
Types of *zakah* assistance				
1 – Education	0.292	0.357	-0.167	0.157
2 – Healthcare	6.437	10.115	0.245	0.194
3 – Social	11.432	14.714*	0.307	0.152**
Participation in *zakah* assistance-related activities				
Islamic/Qur'anic study (0=No, 1=Yes)	0.043	0.045***	-0.405	0.084***
Health advocacy (0=No, 1=Yes)	15.828	15.326***	0.357	0.087***
Skill/business training (0=No, 1=Yes)	2.800	3.071	0.146	0.145
Supervisory meeting (0=No, 1=Yes)	0.470	0.497	-0.113	0.159
Non-supervisory meeting (0=No, 1=Yes)	5.645	6.861	0.230	0.133*
Other related activities (0=No, 1=Yes)				
Receive government support (0 = No, 1 = Yes)	3.575	2.982	0.191	0.118
Constant	64.123	183.080		
Number of observations	89			
LR Chi2	43.970			
Prob > Chi2	0.015			
Pseudo R2	0.357			

Note: ***, ** and * denote significance at 1%, 5% and 10% respectively; dy/dx for factor levels is the discrete change from the base level.

The other wellbeing aspect investigated in this study is the social dimension. In this dimension, based on the odds ratio figures reported in Table 7-21, the variable found to be strongly associated with poverty/wellbeing of the *zakah* recipients were occupation, location and attendance at Islamic/Qur'anic study and health advocacy. Some other variables, including house, types of *zakah* organizations and types of *zakah* assistance were also found to be significant albeit at a 10% level. The estimation results generally suggest that higher likelihood of being poor in social dimension tend to be related with occupation as informal labour, acceptance of social assistance and health advocacy. In contrast, lower likelihood of being poor is associated with possession of house, residential location in Jakarta, affiliation with the non-profit *zakah* agencies and attendance at Islamic/Qur'anic study.

Referring to the estimation results of the marginal effect models, the findings suggested that the probabilities of being socially poor were strongly lower among households living in a private house and registered as residents of Jakarta cities by the significant figures of 20.42% and 26.17% respectively. The marital status (i.e. being married) was also found to lower such probability albeit at a 10% significance level. In contrast, the marginal effect model indicated that the recipients of *zakah* working in informal sectors were more likely to be socially poor than those unemployed by 27.40%.

Further results revealed that the non-profit *zakah* recipients were less likely to be socially poor by 26.1% than the government *zakah* recipients, albeit at 10% significance level. Similarly, compared to those obtaining economic assistance, those under the social program were more likely to be poor by 30.71%. Attendance at Islamic/Qur'anic study and non-participation in health advocacy were also found to be positively related with lower probabilities of being poor by the figures reported in the table.

To sum up the overall logistic regression analysis, it can be generally suggested that the impacts of *zakah* institutions on improvement in the household's wellbeing were evident in all of the wellbeing dimensions. The variables most frequently related to the positive changes were the types of *zakah* assistance, where the recipients of economic assistance seem to be less poor than the others. Meanwhile, the activities presumably related to the multidimensional poverty reductions are participations in supervised meetings and in Islamic/Qur'anic studies.

7.3. Summary and Conclusion

This chapter investigates the contributions and impacts of *zakah* on the poverty/wellbeing of households after receiving *zakah* assistance in 2011, which is the second research objective of the study. The analysis of the relevant data provided evidence that the *zakah* institution has contributed positively to reducing the incidence, depth and severity of poverty as well as the average time taken to escape poverty. It also documented empirical support for the positive role of *zakah* institutions in improving multidimensional wellbeing of the households particularly in terms of health awareness (health dimension), school attendance (education dimension), observance of praying and fasting (spiritual dimension), technical/business skills (economic dimension) and harmony amongst family members (social dimension).

Table 7-22: Impacts and Factors Associated with Lower Probability of Being Poor

Indicators/Dimensions of Poverty/Wellbeing	**Critical Factors Associated with Lower Probability of being Poor**			
	Characteristics of Head of Household	**Characteristics of Household**	***Zakah* Assistance related Factors**	**Government Support**
Income poverty	Older age, higher education, more formal occupation	Larger household sizes	Obtaining economic assistance, participation in training and non-supervised meeting	Not significant
Health poverty/wellbeing	Occupation	Household asset (house and water)	Obtaining health assistance, participation in supervised meeting	Not significant
Education poverty/wellbeing	Higher education		Association with non-government *zakah* agencies; obtaining education assistance; Participation in Islamic study and supervised meeting	Not significant
Religion/spiritual poverty/wellbeing	Older age	Household assets (house), location (outside Jakarta)	Obtaining economic assistance; Participation in Islamic/Qur'anic study.	Not significant
Economic poverty/wellbeing	Occupation	Illness	Association with corporate *zakah* agencies, obtaining economic assistance.	Not significant
Social poverty/wellbeing	Marital status (married couple), more formal occupation	Household assets (house), location (Jakarta)	Association with non-profit *zakah* agencies; obtaining economic assistance; Participation in Islamic/Qur'anic study	Not significant

Furthermore, as summarized in Table 7-22, a number of factors critically influence the poverty level and the positive changes in the household wellbeing after the receipt of *zakah* assistance were identified. Generally speaking, the most notable features of the households associated with a decrease in poverty and improvement in welfare are more formal occupations and ownership of assets (particularly houses). Meanwhile, the impacts of *zakah* assistance related factors seem to vary for different wellbeing dimensions. Nevertheless, there are some indications that those households receiving economic *zakah* assistance as well as actively participating in Islamic/Qur'anic study and supervised meetings are likely to be less poor compared to the others. There is also initial evidence that improvements in health and educational dimensions are related to the healthcare and educational assistance provided by the institutions. Further investigation of some of the issues will be elaborated in the next section, as part of the analysis of the models of *zakah* management in Indonesia.

Chapter 8 Management Practices and Performance of *Zakah* Organizations

This chapter explores the results of the semi-structured interviews with the management personnel of *zakah* organizations associated with three types of *zakah* institutions in Indonesia.[237] The results were analyzed by utilizing thematic or coding analysis and content analysis, as explained in the methodology chapter. Furthermore, in presenting the results, the general themes from the results are explained through a focused coding. Afterwards, each coding is explored with reference to supporting information and relevant quotations for each theme. Towards the end, the organizations' capacity and efficiency are also calculated and discussed. The overall findings and analyses are expected to provide insights into the organizational frameworks and performance of *zakah* organizations in Indonesia, which essentially address the second research aim and contributes to achieve the third research objective of the study.

8.1. Strategic Management

This section discusses the semi-structured interview results related to several aspects of strategic management, including vision/mission of the organizations, governance structure and strategic planning. The analysis corresponds with part of the third research question of the study and expected to enhance understanding regarding the strategic management of the *zakah* organizations in Indonesia.

8.1.1. Vision and Mission

Table 8-1 summarizes the vision and missions, generally known as mission statements, of the *zakah* agencies studied. The statements constituted the answers to the first question in the interview. Few of the management personnel interviewed knew the statements from memory. Accordingly, during the interviews, some of them responded by pointing out the statements directly from the annual reports or website. They also briefly mentioned the profile and main programs of their organizations, which are summarized in *Appendix 8A*.

[237] Recall that three types of *zakah* organizations are analyzed in this study, namely government/semi-government (G), corporate (C) and non-profit (N) organizations. Furthermore, 22 management personnel of the *zakah* agencies have participated in the interview. For more information regarding the organizations and the respondents interviewed, see Appendix 5B and explanation in sections 5.2.2.3 (sampling unit and sample size).

Table 8-1: Vision and Missions of *Zakah* Organizations

Organization	Vision	Mission
G1	Becoming an excellent and trustworthy management of *zakah*, *infaq* and *sadaqah.*	Realizing an optimal management of *zakah*, *infaq* and *sadaqah* which is trustworthy, professional, transparent, accountable and independent to help create a pious, prosperous and powerful society.
G2	To be a national centre of *zakah* that is trustworthy, transparent and professional.	(i) To increase people's awareness about paying *zakah* through *zakah* organizations as well as to direct and guide society to establish social welfare and justice; (ii) To be the coordinator of all existing BAZ[a] and LAZ[b] through effective and targeted synergy; (iii) To be the national data centre, to cover all data of BAZ/LAZ, *zakah* collection data from BAZ/LAZ, data of *zakah* utilization, including national data of *muzakki* and *mustahik*; (iv) To be the centre of development and mentoring for national human resources of *zakah.*
C1	Becoming the engine of society's economic independency in order to create communities with strong character, growing and caring.	(i) Implementing comprehensive and integrated programs on economic and social empowerment and (ii) Establishing and developing the network of empowerment.
C2	Becoming a prominent *zakah, infaq* and *sadaqah* management that is trustworthy, professional and compliant with Islamic law (*shariah*).	(i) Optimize collection and distribution of *zakah*, *infaq* and *sadaqah* within *the organization*[c] and in society in general; (ii) Improve the utilization of *zakah* funds properly and effectively; (iii) Conduct all activities based on the principle of Good Corporate Governance.
N1	To implement an empowered community that relies on local resources through a fair system.	(i) To develop the value of humanity and independence; (ii) To enhance the society's charitable giving and resources support for empowerment; (iii) To stimulate the synergy of programs and empowerment of the organization's network in the global community; (iv) To develop and utilize people's assets through a fair economy; (v) To develop *zakah* as an alternative method of poverty alleviation.
N2	Becoming an international philanthropic organization based on professional empowerment.	(i) Actively involved in building international philanthropic networks; (ii) Facilitating society's empowerment and (iii) Optimizing all resource aspects through excellent human resources.
N3	To be the most reliable organization for developing independency.	(i) To efficiently make use of programs such as rescue, rehabilitation and empowerment in order to develop self-sufficiency; (ii) To establish partnerships with both national and international communities, corporations, governments and NGOs[d]; (iii) To provide underprivileged societies (beneficiaries) with information, education and advocacy.

Source: Annual Reports, website and interview results; Note: [a] Refers to Government *Zakah* Organization, [b] Refers to Non-Government *Zakah* Organization, [c] For anonymity, the organization's name in the text is replaced with the general term "the organization", [d] Refers to Non-Government Organizations.

Preliminary analysis employing the key-word-in-context (KWIC) method of content analysis identified several 'key words' in the mission statements. As portrayed in the tag-cloud illustration (Figure 8-1), they include the words 'professional', 'trustable/trustworthy', 'independency', 'empowerment', 'society', 'human', 'people', and 'accountable'. These words are presumably the most 'common themes', which provide the foundations of what the institutions want to be and achieve with their overall programs and activities.

Figure 8-1: Key Words of the Mission Statements

Source: Data analysis with NVIVO-9

A closer examination of the mission statements indicates that the common topics can be framed within two main themes.[238] As summarized in Table 8-2, the organizations seem to focus on achieving either particular organizational characteristics or particular organizational outcomes. The themes lead to a general understanding that different types of *zakah* agencies have different perspectives and 'idealized views' of their organizations.

Table 8-2: Focuses of Vision/Missions of *Zakah* Organization

Interview Question	What is the vision and missions of your organization? What are they focused on?
Focused coding	Subthemes/Remarks
1	Focus on characteristics of organization
2	Focus on managerial activities and related outcomes to be achieved
Concluding theme	Different types of *zakah* organizations have different focuses in terms of what they want to be and achieve with their program/activities

[238] General terms, verbs and prepositions such as '*zakah'*, 'management', 'through', 'becoming' and 'involved in' are excluded from the analysis.

Furthermore, by employing the word frequency method of content analysis, it was possible to identify several organizational characteristics extensively mentioned in the statements (see Table 8-3). The most widely cited word is 'trustable/trustworthy/reliable', which was mentioned five times and constituted 1.8% of the total words in the mission statements. The words 'professional' and 'independency/independent' were each found in four locations (1.44%). These characteristics, which could be seen as 'self-concept' that the institutions wanted to achieve, were recognized by all organizations regardless of their type. Two other widely cited words, namely 'international/global' and 'transparent/accountable', were mentioned by different types of organization. In particular, the former was only cited by the non-profit *zakah* organizations while the other was mentioned by almost all institutions. [239]

Table 8-3: Focused Coding 1 for the Vision/Mission Statements

Subtheme	Focus on organization's characteristics
Interview with	Remarks
G1, C2; G1, G2; N3	Trustable; trustworthy; reliable (1.8%)
G1, G2, C2, N2	Professional (1.44%)
C1, N3; G1, N1	Independency; independent (1.44%)
N1, N2, N3	International, global (1.44%)
G1, G2	Transparent; accountable (1.08%)

Table 8-4: Focused Coding 2 for the Vision/Mission Statements

Subtheme	Focus on activities and targets/outcomes to be achieved
Interview with.	Remarks
G2, C2, G1, N1, C1; N3; G2; N2	Collection, utilization/distribution programs (economic, social, education, etc.); advocacy; increase awareness (about paying *zakah*), mentoring; facilitating (5.04%)
G1, G2, C1, C2, NI, N2, N3	Society(ies), community(ies), people, human (4.69%)
C1, N1, N2, N3	Empowerment/empowered (2.53%)
G1; G2; N1	Prosperous; welfare; poverty alleviation (1.08%)
N1, G2	Fair (system, economy), justice (1.08%)

Table 8-4 lists activities and targets/outcomes frequently mentioned in the statements. The main managerial activities, such as collection and distribution/utilization of *zakah*, were cited by all agencies in at least 17 locations (5.04%). Similarly, the words 'society(ies)', 'community(ies)', 'people' and 'human', which were the main 'targets' of the institutions, were mentioned in 15 locations (4.69%). However, stronger outcomes such as

[239] Based on the organizational profile presented in *Appendix 8A*, it is notable that only the non-profit organizations have official branches in foreign countries.

'empowerment' were emphasized only by the non-profit agencies. Meanwhile, more 'philosophical' terminologies such as 'prosperous', 'pious', 'welfare' and 'poverty alleviation' were emphasized only by the government agencies. These orientations could potentially influence the management's direction and practices.

8.1.2. Governance Structure

The second interview question was related to governance of *zakah* organizations. There were three governance bodies in the organizations, namely Advisory Board (Board of Trustees),[240] Executive Board (Board of Directors)[241] and Supervisory Board. The structures were generally in line with the requirements of the Law No. 38/1999 on *Zakah* Management in Indonesia. This implies that the organizations indeed comply with the existing legal frameworks.

Despite the relatively similar structures, differences were found with respect to the backgrounds/qualifications of the Board's members and the number of members on each Board. These aspects were not clearly specified in the law except for the government agencies, which must have government officers in their structure. In relation to this, it was found that the Board's backgrounds were relatively varied, with a tendency to place the 'founding fathers' and *shariah* scholars in the governance structure. Meanwhile, the highest average number of Board members was found in the government agencies.

Table 8-5: Types and Number of the Boards' Members

Type of Board	Number of Members							Average			
	G1	G2	C1	C2	N1	N2	N3	G	C	N	Non-G (C+N)
Advisory Board	11	7	3	11	5	1	1	9	7	2	4
Supervisory Board	11	7	2	6	3	1	1	9	4	2	3
Executive Board	6	11	3	10	6	5	5	9	7	5	6
Total	27	23	8	27	14	7	7				
Average								*9*	*6*	*3*	*4*

Source: Interview and calculation based on official documents provided

Further explanation by N2, an official from G1, revealed that the Advisory Board usually consists of a number of government officials. Interestingly, they did not necessarily have to understand about *zakah* or have official positions related to religious affairs. In fact, they did not even have to be Muslims. Thus, their existence was more of a 'bureaucracy' matter.

[240] The term Advisory Board only applies to the government *zakah* agencies, while the term Board of Trustees only applies to the non-government organizations.
[241] Detailed structures of management for each type of *zakah* organization are summarized in *Appendix 8B*.

However, as mentioned by N7 (G2-5), some of them indeed have positions related to religious affairs and could even be categorized as *Shariah* scholars. Similar trends were shown in the Supervisory Boards and Executive Boards in the government agencies.

The other organizations have significantly fewer members on the Boards except in the case of C2. The average numbers were six and three respectively for the corporate and non-profit *zakah* agencies, with a clear indication that most of them (N2 and N3) have only one advisory Board. Interestingly, all of them have a *shariah* scholar post on the Boards although this is not required by law. The structure and compositions potentially affect the decision-making process and procedures in the organizations.

8.1.3. Strategic Planning

Another important management aspect is strategic planning, which involves the process of generating and subsequently choosing particular strategies and programs to pursue. According to the interviewees, the strategic planning process could be generalized into two themes, namely "by-design" and "by-flow" strategies (Table 8-6).[242] The former refers to the strategy/program formulation focusing on the planning based on internal processes within the organization. Meanwhile, the latter indicates the planning process that is more responsive to external and environmental forces. At this juncture, the information gathered led to an understanding that the majority rely on the by-design process albeit most of them used both approaches in generating their strategies. However, the latter is maintained by some agencies due to the nature of the *zakah* institution which, according to them, must be flexible and responsive to the urgent needs of society.

Table 8-6: Strategy and Program Planning

Interview Question	How do you generate and plan the policies and program ideas?
Focused Coding	Subthemes/Remarks
1	By-design (more responsive to internal factors/process)
2	By-flow (more responsive to external factors)
Concluding Theme	Different organizations have different approaches for generating policies and program ideas, which could be classified into (i) by-design approach and (ii) by-flow approach. Most of them, however, rely on the former.

Table 8-7 provides the responses and insights of respondents who believed that their organizations have practised the "by-design" strategy. There are at least four processes or 'methods' used under this strategy, as elaborated below.

[242] These terminologies were particularly mentioned by respondents R11 and R22.

Table 8-7: Focused Coding 1 for the Strategy and Program Planning

Subtheme	Program generation with by-design approach
Interview with	Remarks
R9 (C1-1), R11 (C2-1), R21 (N2-1), R22 (N3-1)	Adopting and modifying similar programs of other organizations
R9 (C1-1), R21 (N2-1), R4 (G2-2)	Improvement of the current programs
R7 (G2-5), R14 (N1-1), R21 (N2-1), R22 (N3-1), R11 (C1-1)	Poverty and social mapping
R21 (N2-1)	Inspiration/analogies from religious stories, particularly stories of the Prophets (*sirah nabawiyah*)

a) *Adoption/modifications of similar programs*

Adaptation and/or modification of successful programs implemented by other institutions with similar missions were the methods used by almost all of the agencies to generate the programs. This was emphasized by R11, the General Manager of C2, who stated that, "*Talking about programs...we have almost the same programs as other zakah organizations. We have education, healthcare, economic and socio-religious programs...*"

In some cases, the inspiration might come from successful programs initially implemented by foreign institutions. R22, the Deputy CEO of N3, mentioned that, *"...now we have a village-based empowerment program. We take example from Japan: one-village one-product program..."* Meanwhile R9, Executive Director of C1, admitted that its Islamic microfinance program was basically a modification of the Grameen Bank concept.

> *"Yes, similar [to the Grameen Bank concept]. Indeed, we adopted some of the ideas from there. However, Grameen was only intended for women. This has weaknesses, because it is said to have negative impacts on families...In our program, the management must be done together [by both husband and wife]. This is so because responsibility to earn a living actually relies on the husband. So, we take the positive [lessons] from Grameen..."*

b) *Improvement of existing programs*

Evaluations and improvements carried out within the organizations were also mentioned as one of the mechanisms used to create a new and/or better program. For example, R9 stated that the IT system was implemented after he felt that there was a need to improve and "tidy up" the previous administration system due to the increased amount of paperwork related to higher *zakah* collections in the past few years. Others mentioned that

evaluation of existing programs based on the feedback of *zakah* payers, mostly obtained from customer satisfaction surveys, was the main consideration to improve the existing program. While in general this practice is quite natural for most of formal organizations, especially corporations, this was not the case for most *zakah* agencies in Indonesia. Thus, this is an improved practice in the management of *zakah* in the country.

c) *Poverty and social mapping*

Although the idea that links *zakah* with poverty alleviation is relatively new in Indonesia, the interview results suggest that poverty and social mapping have been important drivers of the programs implemented by the agencies. As explained by R7 (G2-5), "*In making policies, we firstly try to map [them] based on the poverty map that we know...After that, we create the program*". Similarly, R14 (N1-1) mentioned that, *"...it [the program planning] is started with poverty mapping..."* Furthermore, the mapping was usually done by utilizing various types of poverty data, such as official poverty data, poverty maps created by other organizations and recommendations from third parties. These facts were also acknowledged by R22 (N3-1) and R11 (C2-1) during the interviews.

d) *Inspiration from religious stories*

One *zakah* agency contended that religious 'mindsets' and historical events play important roles in shaping their programs. While this is relatively 'unusual' and only implemented by one particular non-profit agency, it may be interesting to explore the idea to gain more insights into the practice.

In his narrative about the inspiration for an integrated community development program successfully conducted by his organization, R21 explained that:

> *"We were inspired by the migration (hijrah) of the Prophet Muhammad (pbuh) from Makkah to Madinah. When he migrated, what he firstly built was the [people's] mindset. If the mindset has changed, then the Madinah people could be directed towards Islamic belief (aqidah). We were the same. When we came to a village, we changed the people's mindsets...behaviours: that you [the villagers] are capable, have potentials...That's what we wanted to build. Second, after the mindset of the Madinah people [has changed into] 'Islam', the Prophet (pbuh) built a mosque. He prepared the mosque not only for praying, but also for the Islamic society's activities, [giving] motivation, education, etc. We built the so-called Bina Mandiri Hall (Balai Bina Mandiri). It could be used for meeting place, for training purpose, etc. Third stage, when the mosque had been built, then he built a marketplace. The market here refers to the real market that could improve the economic growth in Madinah. Similarly, we prepared the marketplace [for the mustahik]..."*

This 'inspiration' is unique, in the sense that it emphasizes the stories of the Prophet

(pbuh) and the Islamic values inherently held by a *zakah* agency; something that makes it different from other types of voluntary institutions. In reality, it seems that few have attempted to 'internalize' and use Islamic narratives in the management process. Nevertheless, as also suggested from the other interviews, Islamic values such as trust and hard work have a central place in the organizational culture and seem to correlate with the organizations' "professionalism" orientation. [243]

Table 8-8: Focused Coding 2 for the Strategy and Program Planning

Subtheme	Program generation with by-flow approach
Interview with	Remarks
R7 (G2-5), R8 (G2-6), R11 (C2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Responding to the need (request) of *mustahik*, which is sometimes triggered by 'external' events such as natural disasters
R11 (C2-1), R22 (N3-1)	Input from *muzakki* and other external parties

Proceeding to the second mechanism, Table 8-8 summarizes two major processes of program planning under the "by-flow" strategy. The explanations are as follows.

a) *Responding to the needs of mustahik*

This was the most extensive strategy used under the "by-flow" program design. As stated by R8, the Program Manager of G2, "*…in essence, we created our programs based on mustahik needs. Otherwise, why would we make the programs? That is the standard logic built in this organization…*" Moreover, according to R22 (N3-1), "*So, in many aspects, our programs are very customized...they are always based on the need and interest of the society*". It is also notable that this style was particularly preferred in administering disaster relief programs, which require a relatively customized program design.

b) *Input from muzakki (donors) and other external parties*

Although not very common, another method found under this strategy was planning based on input from external parties. An example was given by R22 (N3-1) from the non-profit agency, *"Quite some time ago, there was a research institution that told us 'Do you see that village? Pity the child there…' 'Why?' 'None of the school children have shoes'.*

[243] It was also mentioned during the interviews that the organizations have attempted to cultivate Islamic values to their employees by conducting a number of activities, including starting the working day with congregated *dua*', encouraging congregated prayers (mainly *zuhur* and *asr* prayers) and daily sermons with motivational speeches (usually after *zuhur* prayer). These activities are believed to improve the employee's motivations and work ethics. More comprehensive investigations, however, are beyond the scope of this study.

So, sometimes this kind of thing encourages us to make the program[244]*"*. Another example was "the motivation and breaking the fast (*iftar*) program for prisoners", a popular program implemented by many large *zakah* agencies. The program was created after a former (political) prisoner - who was coincidently a *muzakki* of that agency - brought the idea to one of the management personnel.

The other important aspect in the strategic planning was the process of gaining approval for the policies/programs. In this context, all agencies have a standard procedure, which generally includes the following mechanisms: (i) discuss the ideas generated in internal meetings; (ii) draft an annual program planning; (iii) bring them to the Advisory Board for approval and (iv) implement the programs, once the approval is received. Furthermore, to guide the program implementation, most organizations have some kind of Standard Operating Procedures (SOPs) for important management procedures. The SOPs were expected to support employees in performing their tasks properly. They were also an inherent part of organizations wishing to acquire international management quality certifications.

8.2. Organizational/Operational Management

This section discusses the interview results related to several important aspects of organizational/operational management, including human resources management, specific operational management related to the daily activities of the *zakah* agencies (i.e. collection of *zakah*, distribution of *zakah* and communication of *zakah* related messages), financial management and monitoring and evaluation. Together, the analysis corresponds with part of the third research question of the study.

8.2.1. Human Resources Management

In this study, the aspects of human resources management investigated were recruitment process, compensation and improvement (training) programs. For the first aspect, it was revealed that the recruitment processes conducted by the *zakah* agencies were relatively similar to those of other organizations. The processes include vacancy identification, job advertisement and job selection.[245] Once the most suitable candidate was selected, the

[244] Refer to the free school shoes program.

[245] The interview results suggest that the process is relatively similar to the recruitment process in other formal organizations. First, the vacancy is identified by a specific unit/department in the *zakah* organization. Second, the human resources department analyzes the request (conducts job analysis and develops personal specification) and advertises the job. The position is usually advertised through specific networks such as online and/or social media (website, mailing list, online job advertisement, Facebook, etc.) and directly forwarded to universities with relevant disciplines; very rarely is the position advertised through 'mainstream' print media

contract was usually designed to give the new employee a 'probation' period ranging from 3 months to 2 years.[246] In this situation, they were often called contract-based employees. If their performance fulfilled the agency's expectations, they would be offered a permanent position.

Further explorations suggested that educational background was the main criteria used in the recruitment process. Most of the agencies required a university Bachelor's degree (Diploma/S1) for managerial and other specialized positions (accounting/finance, IT, etc.). In some agencies, such as C1 and N1, higher management levels (managers or directors) were even required to have a postgraduate degree. However, for administrative/clerical positions, senior high schools or non-university graduates were acceptable (Table 8-9).

Table 8-9: Qualifications and Salary of Employees

Zakah Organization	Total Number of Employee	Qualifications of Permanent Employees		Monthly Salary of a New Employee*
		University	Non-University	
G1	53	32	21	>100% above UMR
G2	53	48	5	>100% above UMR
C1	35	32	3	50-75% above UMR
C2	10	10	0	50-75% above UMR
N1	800	n.a	n.a	>75% above UMR
N2	1078	411	46	25-50% above UMR
N3	426	n.a	n.a	1-25% above UMR

Source: Interviews and internal documents; *In comparison with the Regional Minimum Wage (UMR) in Greater Jakarta Metropolitan Area

Personal characteristics and experiences were also considered important qualifications that add to the candidate's values. In addition to adherence to Islamic teachings,[247] the other personal characteristics cited during the interview were Islamic and social spirits. As mentioned by R10, a manager in C1, "*Here, we emphasize that they have a social and empowerment spirit because we are dealing a lot with community development activities...the da'wah [Islamic propagation] spirit must be there".* Moreover, it was stated that, "*...organizational experiences, community development [experiences], Islamic economics [knowledge], those are values added for us. It is easier for us to motivate [them]. Their*

such as newspapers or magazines. Third, an administrative test (selection of CV, etc.) is conducted. For those who pass the test, a fourth and final set of selection procedures (written test, psychological test, interview, etc.) will be carried out. Finally, the most suitable candidate is selected and their work contracts are designed.

[246] Under the current Indonesian labour regulation, the Law No. 13/2003, the maximum time allowed for a probation period is 3 years.

[247] Some formal criteria mentioned during the interviews are style of clothing (wearing Islamic clothes or *hijab* for women) and non-smoking attitudes.

personal development is usually smoother as well". These qualifications were also valued because the institutions see their employees as 'spiritual friends' of *muzakki* and *mustahik* and 'role models' in society (interviews with R3, R7, R8 and R10).

The new employee's qualifications and the human resources policies seemed to be related to the salary received by the new recruits, as indicated by the data presented in Table 8-9 above, which also compares the salary of a new employee with the Minimum Regional Wage (UMR) in Greater Jakarta.[248] In 2011, the employee's average monthly salary was around IDR 1.25 million (139 USD) or slightly above the UMR. The highest salary (>100% above UMR) was found amongst the government employees. In relation to this, R8 (G2-6) mentioned that his initial salary was comparable with that of a bank officer. In contrast, lower amounts and more variations in salaries were prevalent amongst the employees of non-profit *zakah* agencies. However, when discussing this issue, R22 (Director of N3) argued that salary was not the only 'reward' provided. He emphasized that, "W*e provide many facilities to our employees. With respect to housing, for instance, we built a housing complex for employees...with a very affordable price".* The other non-profit agencies also provided various benefits such as scholarships, insurance and personal loans for their employees.

Table 8-10: Total Number and Status of Employees

Zakah Organization	Total Number of Employees	Number and Status of Employees			Ratio of Permanent to Contract-based Employees
		Permanent (Full-Time)	Contract-based		
			Full-time	Part-Time (On-Project Basis)	
G1	53	35	18	0	1.94
G2	53	48	0	5	9.60
C1	35	35	0	0	0
C2	10	10	0	0	0
N1	800	225	90	485	0.39
N2	1078	366	91	621	0.51
N3	426	29	243	154	0.07

Source: Interviews and internal documents

Table 8-10 exhibits the total number and composition of the employees in 2011. The highest number of employees can be found in the non-profit agencies, followed by the government and corporate agencies. Typically, the former have hundreds of employees. N2, which was established in 1998, for example, has around 1078 employees across Indonesia. Meanwhile,

[248] The comparison with the minimum regional wage (UMR) is made due to difficulties in establishing the exact salary figures for different positions in most of the *zakah* organizations. In 2011, the UMR was around 1.24 million IDR.

the government agencies have a relatively 'moderate' number of 53 employees. Furthermore, according to the working status of employees, most of the organizations employed both permanent and contractual employees in 2011. However, different agencies have different compositions of such employees. The corporate *zakah* agencies only employed permanent employees, while the others employed both types of employees. The smallest ratios of permanent to contractually-based employees were found amongst the employees of the non-profit agencies, which range from 0.07 to 0.51, implying that most of the employees were basically contractually-based employees. These employees usually obtained lower salaries and limited benefits compared to their fellow permanent employees.

Although not regulated by any law, 'volunteer' positions were also in place. They were usually needed to support special and short-term programs, such as special *zakah* fundraising during the holy month of *Ramadan*. Most of them received no benefits, probably with the exception of those working with G2 and N2. In 2011, G2 had around 70 volunteers working in Greater Jakarta in *Ramadan*. In addition to daily salaries, they were offered benefits such as certificates of appreciation and opportunities to attend training on *zakah* management. Similarly, N2 had 621 volunteers spread across Indonesia. According to the internal documents obtained, it offered monthly salaries and four benefits including an opportunity to become a full-time employee, healthcare insurance, a chance to attend various *zakah*-related and self-development training courses, and recommendations for work in N2's partner companies.

Table 8-11: Types and Average Numbers of Training Courses Attended Annually

Zakah Organization	Average No. of Training Attended	Types of Training Conducted	
		General (Non-technical)	Technical
G1	1	n.a	Fundraising, accounting.
G2	2	Motivation	Fundraising, accounting, program specific training.
C1	1	n.a	Fundraising, accounting.
C2	1	n.a	Basic accounting.
N1	2	Motivation	Fundraising, accounting, program specific training.
N2	2	Motivation, personal development, organizational development	Marketing/fundraising, finance/accounting, service quality, human resource certification, program-specific training, etc.
N3	2	Motivation	Fundraising, accounting, IT (information and technology)

Source: Interviews and internal documents

Table 8-11 shows the types and average number of training courses attended by a *zakah* employee in 2011. The employees of the corporate agencies attended an average of one training course annually, while the others typically participated in two annual training courses. [249] While the former commonly attended technical training, such as accounting training,[250] the latter usually attended a greater variety of training courses including those associated with their personal development. For example, out of 10 training courses offered by N2, personality, motivations and organizational development training were commonly attended as they were expected to increase the quality of the human resources and ultimately improve the organizational capabilities.

8.2.2. Specific Operational Management

5.2.2.1. Collection

Important aspects of the fundraising activities (types of fundraising programs, methods of payments, etc.) and characteristics of the *zakah* payers (types, number, amount and proportions of contributions, etc.) were explored to obtain more insights into the models for collecting *zakah* proceeds. The exploration leads to a general understanding that two fundraising approaches were implemented by the *zakah* agencies, namely the retail and the partnership models (Table 8-12). The models were associated with two types of *zakah* payers i.e. individuals and institutional *muzakki*. Characteristics of each approach are elaborated in the subsequent tables.

Table 8-12: Collection Approaches

Interview Question	How do you collect *zakah*? (i.e. what is the model of fundraising implemented in your organizations)
Focused Coding	Subthemes/Remarks
1	Retail fundraising approach
2	Partnership fundraising approach
Concluding Theme	*Zakah* organizations implement different approaches to fundraising. The models include the retail and partnership fundraising models.

The retail approach has several distinguishing characteristics (see Table 8-13 below). First, it focuses on collecting *zakah* from individual *zakah* payers including those affiliated with the organizations. In this respect, some of the respondents admitted that their agencies (G1, C1

[249]However, according to R7 (G2-5), the training was mainly intended for new employees, who usually attended an average number of four training courses in a year. For the rest, training is conducted based on demand only. Thus, there is a chance that an existing employee will not attend any training courses at all in a particular year.
[250] The accounting training attended in 2011 was training on the new law of *zakah* accounting, known as PSAK 109, which was authorized by the end of 2011 and was to be implemented in 2012.

and C2) relied on the revenues from individual payers, particularly employees of their parent institutions. Indeed, it was revealed during the interview that the donors were almost exclusively the employees of the affiliated companies.[251] Another specific individual group mentioned was the *hajj* pilgrims, who are required to pay *zakah* through the appointed government *zakah* agency. As for the non-profit organizations, however, the general public/individuals were their main focus of fundraising.

Table 8-13: Focused Coding 1 for the Collection Approach

Subtheme	Retail fundraising approach
Interview with	Remarks
R1 (G1-1), R9 (C1-1), R11 (C2-1)	Focus on segmented individual *zakah* payers, particularly those affiliated with the organizations
R3 (G2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Focus on general individual *zakah* payers (general public)
R1 (G1-1), R7 (G2-5), R9 (C1-1), R12 (C2-2), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Relies on regular *zakah* collection programs
R1 (G1-1), R7 (G2-5), R9 (C1-1), R12(C2-2), R14 (N1-1), R21(N2-1), R22 (N3-1)	Utilize various methods of payment, particularly using the banking services

Table 8-14: Methods of *Zakah* Payment

Methods of *Zakah* Payments			
Direct Payments	*Implemented by*	*Indirect Payments*	*Implemented by*
Cash payments at service counter (in *zakah* offices)	All organizations	Regular direct debit payment (from monthly payroll or bank deposit)	G1, C1, C2
Cash payments through *zakah* services counter in public places (mall, airport, offices complex, community buildings, etc.)	G2, N1, N2, N3	Transfer through bank (via bank counter, ATM, mobile banking or internet banking)	All organizations
Cash payment through pick-up service	G2, N1, N3	Transfer through point of payments (via post office, etc.)	N3

Source: Interviews and internal documents

Second, in terms of fundraising programs, almost all agencies relied on regular *zakah* collection programs. Under these programs, *muzakki* were periodically invited to pay *zakah* and other Islamic charitable funds. Regular and frequent communication messages were commonly employed to attract the individual donors. Third, the Islamic charities have also facilitated the payments by providing numerous methods of payments. According to the

[251] Affiliated company refers to the parent company, which usually has several smaller companies and/or the other companies within its structure.

interviewees, the preferred method of payment in Greater Jakarta was transfer through banking services. The variations in the payment methods are summarized in Table 8-14 above, with an indication that the non-profit agencies have utilized almost all of the payment methods available.

Table 8-15: Focused Coding 2 for the Collection Approach

Subtheme	Partnership fundraising approach
Interview with	Remarks
R1 (G1-1), R3 (G2-1)	Establishing partnership with institutional *muzakki*/donors, particularly government and government-related institutions
R9 (C1-1), R11 (C2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Establishing partnership with institutional *muzakki*/donors, particularly corporations and communities
R9 (C1-1), R11 (C2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Often associated with special fundraising events/programs

Table 8-15 describes the primary characteristics of the partnership fundraising approach. The first feature is related to collaboration with specific institutions. Quite intuitively, the government agencies were relatively successful in making partnerships with other government and government-related institutions (including business partners of government agencies), as revealed by R1 (G1-1) and R3 (G2-1). Similarly, the corporate agencies mainly relied on the partners of their parent company. In fact, one Director interviewed admitted that they have not fully explored the possibility of partnering with other institutions due to an underdeveloped 'internal market' within the agency. Meanwhile, corporations[252] and communities were mainly attracted to becoming partners of the non-profits agencies.

The second feature is related to the fundraising programs, in which special (non-regular) fundraising events were often organized under the partnership model. Examples of such programs were Gala Dinners and Charity Concerts[253] as well as numerous events under the *Ramadan* fundraising program.[254] On some occasions, the special programs were conducted together with the ceremonial *zakah* distributions event where the partner organizations or institutional *muzakki* came and directly observed their *zakah* contributions being distributed to the (agreed) beneficiaries.

[252] The corporations are mostly private corporations, although the government has shares in some of their companies.
[253] Examples include fundraising to support the people of Palestine, to collect funds for education, etc.
[254] Examples include the fundraising programs aimed to provide food for *sahur* and *ifthar* for street children, wedding on the street, etc.

Additionally, it was disclosed that different types of *zakah* agencies have implemented different approaches to 'encourage' fundraising. The government agencies, for instance, took advantage of various government regulations obligating all government officers to pay *zakah* through the government bodies.[255] In contrast, although the parent company of the corporate agencies might have relatively the same 'power' (influence) to direct its employees to pay their charity through the corporate-affiliated agencies, the only employees encouraged to do so were Muslims and those volunteering to do so. [256] For the non-profit agencies, however, such a 'power' rarely existed. Therefore, they depended heavily on public funds.

Table 8-16: Types, Number and Contributions of *Zakah* Payers to Total Revenues

Zakah Organization	Number of *Zakah* Payers		Total Revenues (Rp million)	Proportion of Contribution to *Zakah* Revenue (%)	
	Individuals	Institutions		Individuals	Institutions
G1	112,139	25[a]	75,658.61	97%	3%
G2	15,171	392	44,168.59	70%	30%
C1	3,696	5	32,963.49	70%	30%
C2	30,000	0	52,130.24	90%	10%
N1	54,000	6,000	186,872.74	90%	10%
N2	96,261	2,977	145,871.34	82%	18%
N3	n.a [b]	n.a[b]	79,629.76	70%	30%
Total	311,267	9,399	537,665		

Note: [a] Estimation based on the number of government agencies and government's partner companies channelling their *zakah* through the organization as reported in the 2011 Financial Statement; [b] Unable to provide the figures due to current 'administrative internal audit' conducted within the organization;
Source: Interview and 2011 Annual/Financial Report

Table 8-16 reports the fundraising results of the agencies, revealing that the highest *zakah* revenues were collected by the non-profit agencies. In 2011, two of the non-profit agencies managed to collect funds amounting to around IDR 187 and IDR 146 billion respectively. The agencies also have the largest number of both individual and institutional donors, although the number was slightly below that of G1, which was mostly collected *zakah* from government employees. Meanwhile, the corporate organizations have the smallest number of *muzakki* including corporate *muzakki* and subsidiaries of the parent company.

Moreover, it is evident that the proportions of individual donors outweigh the proportions of institutional donors in contributing to Islamic charities. However, in terms of revenue shares,

[255] Indeed, it was revealed during the interview that individual government officials who are *not* Muslims are also obligated to pay *zakah* through the appointed agency (G1) as mandated by the Governor's Decree.
[256] The confirmation should be clearly stated in a written statement addressed to the company's executive, stating whether individuals do or do not agree to pay *zakah* through the corporate-affiliated *zakah* organizations.

the proportions were relatively different. Five institutions (0.14%) channelling *zakah* through C1, for example, contributed around 30% of its revenue. Similarly, in the case of N2, the proportion of income from around 3000 institutional donors (3% of the total number of donors) accounted for 18% of the revenues in 2011. Thus, the donors' contributions are not always proportionate with the amount of *zakah* paid.

5.2.2.2. Distribution

Investigations into the models of distribution/utilization of *zakah* funds lead to a general understanding that there are at least two main approaches of *zakah* distributions implemented by the institution.[257] As exhibited in Table 8-17, the models include the consumptive distribution model and the productive utilization model. Each approach has several distinguishing features, particularly in relation to the purpose/expected impact, nature and types of programs,[258] amount of money distributed (assistance provided) and methods of distributing the fund (*zakah* assistance).

Table 8-17: Distribution Approach

Interview Question	How do you distribute the *zakah* proceeds? (i.e. what are the models of *zakah* distributions implemented in your organization?)
Focused Coding	Subthemes/Remarks
1	Consumptive distribution approach
2	Productive utilization approach
Concluding remarks	Two approaches of *zakah* distribution were identified, namely consumptive distribution and productive utilization models. The non-profit and corporate agencies generally implement the second model, while the government organizations follow the first model.

The categorization and general themes suggested above were inferred from the interviews as well as the different nature of the programs implemented under the approaches, which are explored in the next few tables. However, one *zakah* agency stated that it has proportionally implemented both models in its operations. According to R7, the executive of G2, *"There are two principles for distributing zakah funds in our organization. First, we have the so-called charity or consumptive distribution. Second, we have those [distribution] that are productive in nature, which we call empowerment programs..."*

The consumptive approach is usually intended to provide immediate relief that serves the short-term needs of *mustahik*, which are commonly consumptive in nature (see Table 8-18).

[257] In the context of Indonesia, only seven group of *mustahik* (i.e. all, except the *Riqab* or those in slavery) are recognized by law as the head of *zakah.*
[258] See the program details in *Appendix 8A.*

Typically, this type of distribution is associated with education,[259] healthcare,[260] social,[261] religious[262] and disaster relief[263] programs. Under the model which often involves cash (monetary) distribution, a relatively small amount of money is usually distributed. However, for transparency and safety (risk management) purposes, some of the interviewees revealed that the money was increasingly given through bank transfer, paid directly to the relevant party or used to buy/provide the required items. [264]

Table 8-18: Focused Coding 1 for the Distribution Approach

Subtheme	Consumptive distribution approach
Interview with	Remarks
R7 (G2-5), R11 (C2-1), R14 (N1-1)	Provides immediate relief which primarily serves the short-term need of *mustahik*
R7 (G2-5), R8 (G2-6), R10 (C1-2), R22 (N3-1)	Charity type of assistance
R1 (G1-1), R2 (G1-2), R4 (G2-2), R8 (G2-6), R9 (C1-1), R10 (C1-2), R11 (C2-1), R14 (N1-1), R19 (N1-6), R21 (N2-1), R22 (N3-1)	Usually associated with education, healthcare, socio-religious and disaster relief programs.
R1 (G1-1), R8 (G2-6) , R11 (C2-1), R14 (N1-1)	Typically distribute a relatively small amount of money
R1 (G1-1), R8 (G2-6), R11 (C2-1), R14 (N1-1)	Usually involve cash (monetary) distribution

In contrast, the productive utilization approach aims to provide assistance that develops the long-term skills/capabilities of *mustahik* (see table 8-19). Under the program usually designed as charity with social mapping and priority, the *zakah* recipients are expected to earn a higher income, experience better living conditions and eventually become more independent individuals/households. Hence, it is hoped that the productive activities will have longer-term and more sustainable impacts on the lives of the *mustahik* and their communities, as emphasized by R14 (N1-1), *"Empowerment is usually done in economic program…usually the impact is relatively sustainable."*

[259] Example: provision of scholarship, tuition fee, etc.
[260] Example: cash to pay for medical costs, medicine, etc.
[261] Example: cash assistance for poor people during *Ramadan*, cash for paying debts, etc.
[262] Example: cash assistance to mosques, mosque's wardens, etc.
[263] Example: cash assistance to provide food, blanket, shelter, medicine, etc., for victims of natural disaster.
[264] For example, tuition fee invoice is often paid directly to school or given through bank transfer; medical cost is often paid directly to the hospital; etc.

Table 8-19: Focused Coding 2 for the Distribution Approach

Subtheme	Productive utilization approach
Interview with	Remarks
R3 (G2-1), R7 (G2-5), R8 (G2-6), R9 (C1-1), R10 (C1-2), R12 (C2-2), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Provide assistance that produces longer-term and more sustainable impacts on the *mustahik* and (sometimes) their communities
R4 (G2-2), R8 (G2-6), R9 (C1-1), R10 (C1-2), R11 (C2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Charity with social mapping and priority (productive almsgiving)
R1 (G1-1), R4 (G2-2), R8 (G2-6), R9 (C1-1), R10 (C1-2), R11 (C2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Usually associated with *zakah* utilization through economic and integrated/comprehensive programs
R12 (C2-2), R16 (N1-3), R17 (N1-4), R21 (N2-1), R22 (N3-1)	Typically provides a relatively high amount of money
R1 (G1-1), R8 (G2-6), R12 (C2-2), R16 (N1-3), R17 (N1-4), R21 (N2-1), R22 (N3-1)	Combines both cash (monetary) and in-kind provision of goods

The model is usually associated with the economic and integrated (community development) programs which combine cash (monetary) and in-kind provision of goods/services to *mustahik.* With this approach, the amount of money distributed is usually higher than that of the non-economic programs. An example of the program is the provision of productive goods such as agricultural machines, fertilizers, seed-livestock, sewing machines and wheel-barrows for small traders under the economic empowerment programs. However, under the integrated programs, the productive goods are often contributed along with other assistance such as scholarships for children and health assistance for members of the *mustahik* family. The programs are mostly regular in nature and well-planned.

Another insight revealed was the different focuses of distribution programs, with an indication that the non-profit and corporate *zakah* agencies tend to implement the productive utilization model. In this respect, R9 (C1-1) stated that, *"Because our affiliation is financial institution, we direct the programs into economic empowerment program… [to create] economic independency of ummah…"* Another executive, R11 (C2-1) revealed that, "*…our focus is indeed [Islamic] microfinance".* Meanwhile, CEO of N2 suggested that the focus of his organization was an integrated program combining economic empowerment (as main

program) with other non-economic assistances. This type of program was clearly not prevalent amongst the programs of the government agencies.[265]

Table 8-20: Number and Average Amount of Funds Distributed to *Zakah* Recipients

Zakah Organization	Number of Individual *Zakah* Recipients	Amount of Funds Distributed (IDR thousand)	Average Amount of Funds Distributed (IDR thousand)
G1	38,170	53,081,865	1,391
G2	195,696	39,769,991	203
C1	160,394	29,866,773	186
C2	28,481[a]	41,919,149	1,472
N1	110,985	172,220,099	1,552
N2	838,579	164,835,187	197
N3	100,000[b]	68,590,968	686
Average	210,329	81,469,147	812

Note: [a] Estimated number based on 2010 figures of 23,734 *mustahik* (assuming that the growth rate during the 2010-2011 period is equal to the growth rate in the previous period) as the 2011 data were not given for 'technical' reasons; [b] Estimated amount, based on the number of *mustahik* during 2009-2011 of 300,000 individuals (mentioned during the interview) and assumption of the same number of *mustahik* for each year. The exact data were not given for confidentiality reasons.
Source: 2011 Financial Statements of each *zakah* organization.

Given the programs and assistance distributed, Table 8-20 reports the number of individual *zakah* beneficiaries[266] and the average amount of *zakah* proceeds received in 2011. The non-profit agency N2 shows the highest number of *zakah* recipients at around 800,000 individuals during the period. Meanwhile, the organizations with the fewest *zakah* recipients are the corporate-based *zakah* agencies. The data also suggest that the number of beneficiaries is positively associated with the amount of *zakah* distributed by each agency. The higher the total amount distributed to the *mustahik*, the more individuals obtaining benefits from the *zakah* assistance.

The data also indicate that the agencies distributing to a large number of *mustahik* could only afford to give a relatively small amount of money to each individual. This is reflected from the average amount of money received by the *mustahik* of G2 and N2, which amounted to 'only' IDR 200,000 (USD 22.2) annually. In contrast, G1 and C2, which provide *zakah* assistance to less than 40,000 beneficiaries, managed to give around IDR 1.4 million (USD 155.56) per year, which is more than seven times the average amount of money received by the former.

[265] However, it was also revealed during the interview that the government *zakah* agency (G2) has planned to implement the integrated program as well. The program has already been designed and will be implemented in 2014.
[266] Actually, other institutions (mosques, Islamic schools, etc.) were receiving *zakah* assistance during the period. However, not all the agencies keep a proper record of the actual number of these organizations. Thus, the number reported and analyzed here is only the individual *zakah* beneficiaries reported by the organizations.

5.2.2.3. Communication

Communication is another important aspect of *zakah* management primarily due to its role in connecting *zakah* payers (*muzakki*) with *zakah* organizations (*amil*) and *zakah* beneficiaries (*mustahik*). Responses gathered during the interviews suggest that there are two main approaches of communication practised by the agencies, namely the individual-oriented and the community-oriented communication models (see Table 8-21). These models are strongly influenced by the purpose and target (audience) of the communication.

Table 8-21: Communication Approach

Interview Question	How do you communicate your programs? (i.e. what models of communication are implemented in your organization?)
Focused Coding	Subthemes/Remarks
1	Individual-oriented communication approach
2	Community-oriented communication approach
Concluding Theme	Different types of *zakah* organizations have implemented different approaches in communication. Nevertheless, there was an indication that the non-profit organizations tend to use the retail-oriented model while the rest tend to utilize the community-oriented model

Under the individual-oriented approach, communication is often associated with fundraising activities. As such, it is mostly intended to attract new *muzakki* and maintain the existing ones, who in turn contribute to increase the fundraising results. This is reflected in, among other things, the content of the communication instruments which generally informed about the *zakah* utilization programs to be conducted and the achievements of the agencies.[267] The main target of such communication is individual *muzakki*, who are also the main contributors to the organization's revenues (Table 8-22).

Table 8-22: Focused Coding 1 for the Models of Communication

Subtheme	Individual-oriented communication model
Interview with	Remarks
R3 (G2-1), R4 (G2-2), R14 (N1-1), R21 (N2-1)	Communication is often associated with fundraising activities
R14 (N1-1), R21 (N2-1)	Targeted at general individual *zakah* payers
R4 (G2-2), R14 (N1-1), R21 (N2-1)	Use media of communication extensively and frequently, particularly mass media, which has wider outreach and audience.

[267] The achievements commonly given by financial magazines and NGOs include, among others, awards for highest revenue growth and most innovative programs. These awards are often cited by the agencies in their communication and advertising materials.

In this respect, the communication channel primarily used was media that have wider outreach and audiences. Examples of such media include electronic media (television and radio), print media (national newspapers and magazines) and online media (websites, online newspapers, emails, social media, etc.). Even though advertising in some of the mass media such as television and newspapers was relatively expensive, particularly if done on a frequent basis (such as on a weekly basis) or in 'prime time' (such as the holy month of *Ramadan),* it was seen as the most effective medium of communication, most notably by some respondents from the non-profit *zakah* agencies (interviews with R21 and R14). Indeed, two of the largest *zakah* organizations (N1 and N2) have used national television and newspapers extensively as the organization's main media of communication/advertising.

The other communication model is the community-oriented approach, where communication is mainly associated with transparency and accountability practices to maintain trust and long-term supportive relationships with specific or community-based *zakah* payers (Table 8-23). As emphasized by R10 (C1-2), *"…[publication/communication is intended] to bridge…so they [zakah payers] trust us…one of it is through website; then we advertise our programs in national media…".* He further explained, *"To maintain the zakah payers, we send them bulletin like this every three months. We also send them SMS broadcast; it is a kind of 'reminder' sent every Friday…we remind them to pay zakah".* Another *zakah* management personnel member, R1 (G1-1), stated that, *"We publish the program and audit results in print-media…to be transparent..."* Moreover, when talking about his organization's future plans for advertisements on local television, R11 (C2-1) underlined that, *"Actually, this [publication on local television] is intended more as a program accountability activity…"*

Table 8-23: Focused Coding 2 for the Communication Approach

Subtheme	Community-oriented communication approach
Interview with	Remarks
R1 (G1-1), R2 (G1-2), R10 (C1-2), R11 (C2-1), R13 (C2-3), R22 (N3-1)	Communication is often associated with transparency and donor maintenance practices.
R1 (G1-1), R10 (C1-2), R11 (C2-1), R13 (C2-3), R22 (N3-1)	Targeted to *zakah* payers in communities, particularly those affiliated with the organizations.
R1 (G1-1), R2 (G1-2), R10 (C1-2), R11 (C2-1), R13 (C2-3), R22 (N3-1)	Use relatively less frequent and limited types of communication media.

It is also notable that most agencies implementing this model use a relatively limited type of communication channels (see *Appendix 8C*). The frequency of using the media is also less frequent, which is suitable for reaching the specific audience (*zakah* payer) groups. Examples of such media are low-cost print media (brochures, bulletins, magazines, etc.) and low-cost online media (websites and social media). Electronic media such as newspapers and TV, however, are only used occasionally. Overall, this type of communication media was more prevalent amongst the corporate and government agencies with specific segments of *zakah* payers.

8.2.3. Financial Management

Two aspects of financial management, namely the share of *amil* (*zakah* organization) in *zakah* revenues and the status of financial audit, are investigated in this study. The first aspect indicates the *shariah*-compliant dimension of a *zakah* institution, while the second indicator reflects the assessment of the quality of financial management implemented by the *zakah* agencies.

Table 8-24: Share of *Amil*

Interview Question	Do you use *zakah* proceeds to finance activities of *amil* (*zakah* agencies)? If yes, how much is the share of *amil?*
Focused Coding	Subthemes/Remarks
1	Use *zakah* proceeds (with certain share) to finance the organizational internal activity.
2	Do not use *zakah* proceeds to finance the organizational internal activity.
Concluding Theme	Different *zakah* agencies utilized different amount and proportion of *zakah* proceeds to finance their internal management activities.

Table 8-24 exhibits responses of the management personnel interviewed regarding the share of *amil* in *zakah* revenues. All respondents believed that an *amil* has a right to use up to 12.5%, or around one-eighth, of the *zakah* proceeds to finance its activities. This belief reflects the most common *fiqh* perspective adopted in Indonesia. However, different agencies appeared to have different financial policies on this matter. They also took different proportions of *zakah* funds to finance the management activities.

As summarized in Table 8-25 and Table 8-26 below, almost all of them have taken around 10%-12.5% of the *zakah* revenues for internal use by the management, as confirmed by R4, R17 and R21. Most of the proceeds were used to pay salaries and cover administrative expenses. However, two of the agencies (i.e. C1 and N3) preferred to be ‘conservative’ and

utilized only up to 10% of the proceeds for the same purposes. C2 was even more conservative and only used around 2.5% of the revenues to finance the internal activities. Interestingly, as pointed out in Table 8-26, G1 has a policy not to take the *amil*'s share from *zakah* proceeds. Instead, it only used the non-*zakah* sources (*infaq, sadaqah* and government contributions) to pay its internal expenses.

Table 8-25: Focused Coding 1 for the Share of *Amil*

Subtheme	Use *zakah* proceeds(with certain share) to finance internal activities
Interview with	Remarks
R12 (C2-2)	Use between 0-5% of the *zakah* proceeds to finance its internal activities
R9 (C1-1), R22 (N3-1)	Use between 5%-10% of the *zakah* proceeds to finance its internal activities
R4 (G2-2), R17 (N1-4), R21 (N2-1)	Use 10%-12.5% of the *zakah* proceeds to finance its internal activities

Table 8-26: Focused Coding 2 for the Share of *Amil*

Subtheme	Do not use *zakah* proceeds to finance internal activities
Interview with	Remarks
R1 (G1-1)	Use non-*zakah* sources to finance internal activities

To assess the organization's financial performance, it was elicited that the agencies have internal and external audit mechanisms in place. Most of the agencies, as elaborated in Table 8-27 to Table 8-29 below, received 'standard unqualified' opinions from independent auditors. This implies that all financial statements have been included and sufficient evidence has been accumulated to meet the existing financial/accounting standards.

Table 8-27: Financial Audits

Interview Question	Do you conduct internal and external audits? If yes, what is the audit opinion last year?
Focused Coding	Subthemes/Remarks
1	Conduct both audits with 'standard unqualified' opinion
2	Conduct both audits with 'qualified' opinion
Concluding theme	All of them have conducted internal and external audit mechanisms with different results (audit opinion)

In this respect, five organizations obtained the 'standard unqualified' opinion from independent external auditors. It was the highest opinion that could be given by an external auditor. However, one organization (G1) only received a 'qualified' opinion, suggesting that

some inconsistencies were found in its financial reports.[268] Additionally, one *zakah* agency had not finished its financial auditing process and thus had not received any audit opinion at the time the interview was conducted.[269]

Table 8-28: Focused Coding 1 for the Financial Audits

Subtheme	Conduct both audits with 'standard unqualified' opinion
Interview with	Remarks
R5 (G2-3), R9 (C1-1), R12 (C2-2), R21 (N2-1), R22 (N3-1)	Conduct both internal and external audits, which resulted in 'standard unqualified' (best) opinion

Table 8-29: Focused Coding 2 for the Financial Audits

Subtheme	Conduct both audits, yet received 'qualified' opinion
Interview with	Remarks
R1 (G1-1)	Conduct both internal and external audits, which resulted in 'qualified' opinion

8.2.4. Monitoring and Evaluation

Monitoring and evaluation activities, generally known as the controlling dimension of management, are an important managerial aspect often neglected by many charities. Nevertheless, responses gathered during the interviews suggest the opposite for the *zakah* institutions. As summarized in Table 8-30, two types of monitoring/evaluation conducted were program evaluation and organizational performance evaluation. While all of the organizations have some kind of program evaluation in place, as explained below, evaluation of overall management performance was mostly done by the non-profit organizations.

Table 8-30: Monitoring and Evaluation

Interview Question	Do you conduct any monitoring and evaluation? If yes, what kinds of monitoring/evaluation have been conducted?
Focused Coding	Subthemes/Remarks
1	Conduct program evaluation
2	Conduct organizational performance evaluation
Concluding Theme	Most of the organizations conduct program evaluation and some kind of overall organizational performance evaluation measure

[268] Further investigation indicated that there were some inconsistencies in the expenses figures reported in the financial statements. However, the researcher was unable to confirm the reasons for these figures due to communication problems (i.e. the researcher was unable to contact them again after the interview).
[269] As of 31/03/2013, N1 mentioned that it has not received any audit opinion yet.

All organizations have conducted program evaluation and measured the output of the programs implemented in 2011, including the number of activities and beneficiaries associated with each of the programs (see Table 8-31). The program output was usually measured once a year and reported in the annual meeting (and annual reports). Prior to measuring the output, field monitoring (survey) was commonly conducted. However, some organizations acknowledged that they have 'delegated' the process to a third party such as research institutions or surveyor agencies. Two agencies have also conducted surveys to measure the satisfaction of their customers. In this respect, R10 stated that *"For mustahik, the example is [satisfaction survey] of school children in ABC [specific education program]...; For XYZ [specific economic program], we also measure their satisfaction. For fundraising, we have complaint procedures..."* Similarly, the government agency G2 has also conducted a survey on *muzakki's* satisfaction. [270]

Table 8-31: Focused Coding 1 for the Monitoring and Evaluation

Subtheme	Conduct program evaluation
Interview with	Remarks
R1 (G1-1), R8 (G2-6), R9 (C1-1), R11 (C2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Conduct field monitoring, sometimes indirectly with the support of partner institutions.
R1 (G1-1), R8 (G2-6), R9 (C1-1), R11 (C2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Measure program output once a year.
R4 (G2-2), R10 (C2-2)	Measure customers (*mustahik*/*muzakki*) satisfaction.

Table 8-32: Focused Coding 2 for the Monitoring and Evaluation

Subtheme	Conduct organizational performance evaluation
Interview with	Remarks
R22 (N3-1)	Use a Balanced Scorecard, once a year
R3 (G2-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)	Receive an international management quality certification (mostly ISO 9001:2008) on a regular basis

Organizational performance evaluation was conducted by only five agencies, mostly the non-profit ones (Table 8-32). R22, for instance, specifically mentioned that his organization used the Balanced Scorecard method to measure its annual performance. The other agencies obtained international management certification ISO 9001:2008, which acknowledged excellent management practice. Two agencies, i.e. G2 and N1, proudly mentioned that they received the ISO 9001:2008 certificate for the overall management performance in 2011.

[270] Although not discussed during the interview, the researcher was asked to participate in the survey.

Meanwhile, N2 and N3 have certificates for specific management functions including "provision of distribution of *zakah* services" (program implementation) and "support services" (customer satisfaction). The importance of the international certification was also evident from N2's plan to enhance the scope of the management functions certified because he believed that it could enhance the trust of *muzakki* and subsequently increase the organization's fundraising results (interview with R20).

8.3. Capacity and Efficiency of *Zakah* Organizations

This section examines the capacity and efficiency of the *zakah* organizations studied. Brief explanations of the results are also provided, which contributes to provide more insights into the performance of *zakah* institution in Indonesia. Overall, the analysis and discussion are aimed to address the third research question of the study.

8.3.1. Organizational Capacity

Table 8-33 reports revenue and distribution of *zakah* proceeds during the period of 2009-2011.[271] The growth rates of the funds, which reflect the organizational capacities in collecting and distributing *zakah*, were also estimated and reported.[272] It is shown that the non-profit organizations collected the highest amounts of average revenues, amounting to IDR 118.4 billion. Indeed, two of the agencies (N1 and N2) have consistently collected annual revenues above IDR 100 billion. On average, the amount collected was more than double the mean amount of funds collected by the government agencies and triple the amount raised by the corporate agencies. However, in terms of total revenue growth, the corporate agencies recorded the highest growth rate of 86.03% during the period. This is followed by the non-profit and government *zakah* organizations. Despite that, the general trend was a gradual increase in the total amounts of *zakah* collected during the period for each *zakah* organization.

With respect to the distribution, it is estimated that the nominal amount of *zakah* distributed/utilized has increased annually for all agencies. The average values range from IDR 21 billion (corporate agencies) to IDR 113 billion (non-profit agencies). These results tend to suggest that the organizations have improved their utilization capacity by providing more money and assistance to the poor/needy. Furthermore, in terms of average growth, the non-profit agencies recorded growth of 240.69% during this period. However, as reported in

[271] This excludes the amounts taken by the *amil*, which is categorized as expenses in the financial statements.
[272] Details of the *zakah* revenues and distribution amounts are presented in *Appendix 8D.*

Appendix 8D, the agency showing a consistently higher growth rate was actually the corporate agency. For the others, except G1, the growth actually deteriorated.

Table 8-33: Descriptive Statistics for the Organizational Capacity Measures, 2009-2011

Variable	Obs.	Mean	Std. Dev.	Min	Max
Type =1 (government *zakah* organization)					
Total revenue (IDR million)	6	48,646.88	18,216.75	26,377.11	75,658.62
Total distribution (IDR million)	6	35,040.26	11,963.7	17,620.23	53,081.87
Growth of total revenue	4	.2565076	.0548198	.2082424	.3333545
Growth of total distribution	4	.4176596	.1929414	.2910556	.704738
Type =2 (corporate *zakah* organization)					
Total revenue (IDR million)	6	28,510.61	15,180.4	11,518.75	52,130.25
Total distribution (IDR million)	6	21,702.53	12,479.16	8,425.654	41,919.15
Growth of total revenue	4	.8603499	1.784044	-.1885709	3.525684
Growth of total distribution	4	.9223124	1.294984	.071439	2.848854
Type =3 (non-profit *zakah* organization)*					
Total revenue (IDR million)	8	118,420.3	57,961.53	22,528.76	19,1706.6
Total distribution (IDR million)	8	113,214.8	60,852.99	5,179.291	17,2220.1
Growth of total revenue	5	.5614448	1.076611	-.0252147	2.477559
Growth of total distribution	5	2.406975	5.101764	.0567847	11.5317

Note: [a] The data excluded are the financial data of N1 in 2009, because at the time the organization used/published the financial report based on the Islamic calendar period (30 Rajab to 30 Sya'ban 1430H, or 20 Aug. 2008 - 21 Aug. 2009).

The relatively high collection and distribution capacities shown by the corporate agencies are presumably related to the low administrative and overhead costs incurred by the management. It was revealed during the interviews that some crucial costs such as rent and maintenance expenses were borne by the parent companies. As such, they did not have to pay any rental costs. It might also be related to the other management practices, such as human resources and operational management. These connections will be elaborated in the next chapter.

8.3.2. Organizational Efficiency

Another performance indicator measured in this study is the efficiency of *zakah* institutions. As reported in the descriptive statistics below, fundraising expenses have increased gradually for almost all the agencies. The lowest annual mean expense of around IDR 1.5 billion was found with respect to the corporate agencies. In contrast, the highest average expense, which was around 15 times higher than that of the former, was shown by the non-profit agencies. Additionally, the amounts of *zakah* collected and distributed have increased gradually, with an indication that the non-profit agencies are dominating the figures.

Table 8-34: Descriptive Statistics for the Organizational Efficiency Measure, 2009-2011

Variable	Obs.	Mean	Std. Dev.	Min	Max
Type =1 (government *zakah* organization)					
Fundraising expenses (input, IDR million)	6	8,165.627	2,598.498	3,871.809	1,1034.8
Total revenue (output, IDR million)	6	48,646.88	18,216.75	26,377.11	75,658.62
Efficiency	6	.1729224	.0407295	.1343102	.2390017
Type =2 (corporate *zakah* organization)					
Fundraising expenses (input, IDR million)	6	1,536.414	758.9841	661.3394	2,512.449
Total revenue (output, IDR million)	6	31,342.59	12,770.12	12,593.46	52,130.25
Efficiency	6	.0532629	.0224994	.0139207	.0762192
Type =3 (non-profit *zakah* organization)*					
Fundraising expenses (input, IDR million)	8	18,141.29	12,098.61	401.7457	35,231.34
Total revenue (output, IDR million)	8	127,453.9	45,082.13	78,345.09	191,706.6
Efficiency	8	.1430822	.0913331	.0051279	.25587

Note: [a] The data excluded are the financial data of N1 in 2009, because at the time the organization used/published the financial report based on the Islamic calendar period (30 Rajab to 30 Sya'ban 1430H, or 20 Aug. 2008 - 21 Aug. 2009).

Given the total collection figures, the fundraising efficiency was obtained (see Table 8-34). The results suggest that the most efficient *zakah* organizations were the corporate agencies. They have an average fundraising efficiency of 0.05, which indicates that IDR 1.0 was collected for every IDR 0.05 spent for fundraising activities. The second most efficient type of organization was the non-profit agencies, with an efficiency score of 0.14. The least efficient type of organization was the government agencies, with a mean efficiency score of 0.17.

The efficiency of the corporate agencies is arguably related to the effective *zakah* collection or fundraising methods practiced by the organization. As mentioned earlier, most of the *zakah* proceeds were collected through direct debit or online banking system. Thus, collecting *zakah* became easier and less costly compared to other methods such as home collections and opening counters in public places, as implemented by the other agencies. The fundraising efficiency could also be linked with the fundraising programs conducted by the organizations and/or the human resources behind the program. As these issues require more comprehensive understanding of the other aspects of management practices, further explanations about the possible reasons behind the efficiency performance will be discussed in the contextualization chapter.

8.4. Current Issues in Managing *Zakah* Organizations

Responses gathered during the interviews revealed a number of interesting current issues and external challenges faced by the organizations. As summarized in Table 8-35, the areas of concern cover important management aspects such as human resources, operational and

financial management. The issues identified, which is also part of the third research question of the study, need to be addressed in order to achieve an effective *zakah* administration.

In the area of organizational and human resources management, three main issues were identified. First, despite the belief that competent human resources are the key to a successful *zakah* institution, problems in enhancing the qualities and capacities of employees (*amil*) were found, most notably due to expectations that employees should be 'spiritual friends' to *muzakki* and *mustahik*. The issue was specifically mentioned by R11 (C2-1). Second, the employee compensation package seemed to be inadequate; therefore, some employees demanded higher compensation. Despite that, most of the management believed that the compensations offered were already competitive, as indicated by the salaries which were generally above the minimum regional wage. Finally, there was an increasing employee turnover in some organizations. R14 (N1-1), for instance, stated that the turnover had slightly increased in the last few years. However, one respondent (C1-2) suggested that it has been low in his organization.

Second, with respect to communication and fundraising management, it was believed that trust and reputation as well as accountability and transparency are positively related to better fundraising results. However, building and implementing those important aspects were not easy. For example, there were cases where some *muzakki* did not want their names (and amount of donations) to be known and/or published for religious and personal reasons.[273] Thus, there were real challenges to transparency and accountability, particularly amongst the non-profit organizations that depend heavily on public funds.

Third, some threats to attract more *zakah* payers were also identified. The non-government agencies, for instance, are seen as 'competitors' for obtaining public funds by the government *zakah* organizations. However, this perspective did not seem to be felt by the former. Indeed, the corporate agencies believed that they have the potential to obtain more *muzakki* and thereby higher revenues in the future. Meanwhile, the non-profit institutions suggested that they will observe the behaviour of *muzakki* to maintain long-term supportive relationships

[273] According to the story told by R22 (N3-1), the *muzakki* said that they wanted to keep sincerity (*ikhlas)* by giving in anonymity. On other occasions, they simply did not want their identity to be known and even sent their 'representative' to make the contribution in cash at the *zakah* agency's office.

with the donors. [274] Additionally, the fact that many Indonesian Muslims still think that *zakah* is all about *zakah fitrah* is also seen as a challenge by the agencies.[275]

There were four notable areas of concern with respect to the distribution of *zakah* proceeds. First, during the selection of *zakah* recipients, the existence of 'brokers of *mustahik'* and poor targeting of the *zakah* recipients were identified. The existence of the so-called 'brokers of *mustahik',* or the middle-men/women expecting to receive some kind of compensation for their 'services' in connecting the *mustahik* and *amil* (*zakah* agency), was recognized by the employees of G2 and C1. However, according to R7 (G2-5), no legal actions were taken against them.[276] Furthermore, although rare, poor targeting of *zakah* in which the agencies provide assistance to 'undeserving' recipients or give assistance not needed/requested by the recipients was found.[277] Nevertheless, R14 (C1-1) believed that, at some point, all *zakah* agencies experienced these problems and, hence, they should be considered simply as 'marginal errors' in the selection process.

Second, during the program implementation phase, threats from external parties were discovered. As explained by R9 (C1-1), the threat could come from 'loan sharks' who try to prevent potential *mustahik* from receiving *zakah* funds. [278] It could also come from the traditional Muslim scholars, who prefer the *zakah* money to be distributed directly to the poor regardless of the recurrent negative social impacts created by such a distribution style.[279] Third, despite the belief that the *zakah* institution could transform *mustahik* into *muzakki*, the transformation took time and effort; thus, it was not easy to implement it given the limited sources available within the organization. Finally, with respect to the 'targets' covered by the distribution programs, the 'untapped' potential to distribute the funds to a larger number of *zakah* recipients and to wider areas was recognized.

[274] They believe that most of the *muzakki* show at least the following behaviours: (i) they have a portfolio of giving (i.e. not loyal to a particular *zakah* organization; instead, they contribute through various *zakah* organizations), (ii) they prefer to give monetary donations instead of non-monetary contributions, such as participation in *zakah* utilization programs, and (iii) they not really concerned about accountability issues.
[275] As such, they are not really aware of other types of *zakah* such as *zakah* on income (profession's *zakah*), salaries, stocks, etc.
[276] It is mentioned that when such cases occur, usually the brokers are simply advised not to do it again.
[277] This was later confirmed by some of the *zakah* recipients surveyed/interviewed.
[278] It usually related to the capital support from *zakah* organization through its Islamic microfinance program.
[279] The negative social impacts, such as 'riots' and casualties during the direct distributions of *zakah*, occur almost every year in Indonesia. However, such a distribution style continues to be practiced in society.

Table 8-35: Current Issues in Managing *Zakah* Organizations

No	Theme	Subtheme	Remarks, by Types of *Zakah* Organization			Interview with
			Government	Corporate	Non-profits	
1	Organization and human resource management	Competence of human resources	Human resource need to have not only good qualifications, but also good characters	There is a lack of number (quantity) and competence (quality) of employees	*Zakah* management personnel (employees) are often regarded as friends of *muzakki*	R3 (G2-1), R7 (G2-5), R8 (G2-6), R11 (C2-1), R21 (N2-1)
		Salary of employees	Employee's salary is relatively competitive		Some employees demand higher salary and more benefits	R7 (G2-5), R8 (G2-6),
		Employee turnover		Employee turnover is relatively low	Employee turnover has increased in the last few years	R10 (C1-2), R14 (N1-1)
2	Communication and fundraising (operational management)	Trust, reputation and *zakah* collection (fundraising results)	Trust from society, including government officers, is the key factor that contribute to higher *zakah* collection	Trust and reputation have increased possibility of obtaining funding and collaborating with international institutions (such as IDB)	Trust from *muzakki*, who often consider *amil* as his/her friends, is the main strength contributing to higher *zakah* collection.	R1 (G1-1), R9 (C1-1), R21 (N2-1)
		Accountability, transparency and *zakah* collection	Transparency increases public trust, which in turn increases *zakah* collections	Accountability has positive relationship with increasing *zakah* collection	Challenges in implementing accountability	R1 (G1-1), R9 (C1-1), R21 (N2-1)
		Potentials and threats to get more *muzakki*	Private *zakah* organizations are somewhat seen as 'competitors'	High potential to gain more *muzakki* and consequently higher *zakah* collection	Most people still think that *zakah* is all about *zakah fitrah*	R1 (G1-1); R9 (C1-1); R11 (C2-1); R21 (N2-1)
		Behaviours of *muzakki*			Identifying behaviors of *muzakki* is important in increasing *zakah* collection	R14 (N1-1), R22 (N3-1)
3	Distribution/ utilization (operational management)	Selection of *mustahik*	Problems with "broker" of *mustahik*		Poor targeting of *mustahik* is identified	R7 (G2-5), R14 (N1-1)
		Threats from external parties		Threats are found from 'loan sharks' and traditional Muslim scholars		R9 (C1-1)
		Behaviours and transitions of *mustahik* into *muzakki*	Transition from *mustahik* into *muzakki* requires character-building. Yet, there are some difficulties in changing some negative behaviours of *mustahik*	Transition from *mustahik* into *muzakki* takes time	Ability of ex-*mustahik* to pay *zakah* through *zakah* agencies, and hence become *muzakki*, is found	R7 (G2-5), R8 (G2-6), R9 (C1-1), R22 (N3-1)
		Potential to reach more *mustahik*		Untapped potential to distribute *zakah* to more people and reach wider areas of distributions		R9 (C1-1), R11 (C2-1)
4	Financial management	Cost of fundraising	Higher cost of communication and fundraising		Higher cost of communication and fundraising; lack of concern with fundraising efficiency	R3 (G2-1), R4 (G2-2), R14 (N1-1), R22 (N3-1)

		Cost of human resources			Higher cost of recruiting new employees and maintaining the existing ones	R14 (N1-1)
		Asset management		Difficulties in buying/acquiring assets, although the money exist		R11 (C2-1), R14 (N1-1); R23 (N3-1)
		Cash management		Idle funds consistently exist		R12 (C2-2)
5	Monitoring and Evaluation	Concern with monitoring/ Evaluation			Lack of concern and competence to measure the activities/results other than program output	R14 (N1-1)
6	*Zakah* and poverty alleviation	Role of *zakah* organizations in poverty alleviation	*Zakah* has contributed significantly to reducing poverty in Indonesia	*Zakah* has contributed to transforming *mustahik (* mainly the *mustahik* of the economic empowerment program) into *muzakki*	Although *zakah* has played an important role in poverty reduction, it is 'irrational' to put too much 'burden' on the institution to eradicate poverty	R3 (G2-1), R9 (C1-1), R14 (N1-1)
		Problems in enhancing the role of *zakah* in poverty alleviation	Weak coordination and synergy between different institutional stakeholders of *zakah*			R3 (G2-1)
7	Other Issues	Synergy with other organizations	Difficulties in making synergies with other institutions, including (other) *zakah* agencies, government (domestic and foreign) and international partners. Terrorism issue is also cited		There is a suspicion, particularly according to military observers, that the charitable funds will be used to finance terrorism-related activity	R3 (G2-1), R22 (N3-1)
		Media and education of *zakah*	Relationship between media and *zakah* education needs to be reoriented			R3 (G2-1)
		Law No. 23/2011 on *Zakah* Management in Indonesia (new *zakah* law)	The new *zakah* law could potentially strengthen the position of the government *zakah* agencies	Lack of support for *zakah* movement, including to enhance the role of *zakah* in reducing poverty in Indonesia	The new *zakah* law has many weaknesses and 'contradictory' contents.	R1 (G1-1), R9 (C1-1), R14 (N1-1), R21 (N2-1), R22 (N3-1)

In the area of financial management, four major issues were identified. First, the cost of fundraising and communicating *zakah* programs, particularly to individual (retail) *muzakki*, has increased considerably. This was particularly felt by the non-profit agencies. However, to cite the opinion of R14 (N1-1), most of the executives of *zakah* agencies were not concerned about the efficiency issue although some wealthy *muzakki* started to question the use of their donations. Similarly, R14 believed that the cost of recruiting new employees has recently risen. Third, asset management has been ineffective due to the fact that, among other things, (i) fixed assets, such as office buildings, could only be purchased by using the *amil's* funds, (ii) public infrastructure, such as public hospitals, could only be built on *waqf*-based land, and (iii) there were high costs in managing *waqf* assets.[280] Finally, with respect to cash management, idle (surplus) funds consistently existed, presumably due to existing regulations and bureaucracy within the *zakah* agencies. These financial management problems were mostly felt by the corporate institutions.

In relation to monitoring and evaluation, not many issues were discovered. As explained earlier, most of the organizations have conducted simple monitoring/evaluation albeit only in the form of program output evaluation. Yet, according to one of the management personnel interviewed, most of the agencies were not really concerned about the issue. Similarly, they did not feel the importance of measuring the impacts of *zakah* on the welfare of *mustahik*, as one of important outcome measures. This 'ignorance' seemed to be primarily related to the lack of competence to measure such impacts.

Another interesting theme revealed during the interviews is the role of *zakah* in poverty alleviation.[281] Generally speaking, almost all of the agencies believed that *zakah* has contributed positively in reducing poverty in Indonesia. According to R9 (C1-1) and R22 (N3-1), *zakah* institution has successfully transformed *mustahik* (most notably those under the economic empowerment program) into *muzakki*. Despite that, R3 (G2-1) suggested that many Muslims were still skeptical about the capabilities of the *zakah* institution to reduce poverty due to the 'paradigmatic' problem in society.[282] Moreover, R14 (N1-1) felt that it was

[280]For example, there are cases where the *waqf* assets (such as a school) have inherent liabilities (debt, etc.) when given as *waqf* property. In other cases, the assets (such as an office/kiosk building) are requested back by the original owner after the condition has improved.

[281] In addition to the role of *zakah* in poverty alleviation, other roles of *zakah* in development were also identified during the interviews. These include, among others, (i) opening access to basic public services, (ii) opening job opportunities and (iii) provide various public advocacies (legal, health, etc.).

[282] The paradigmatic problem, as understood by R3, refers to the perspective that *zakah* should only be paid once a year and particularly during Ramadan (and/or slightly before the *Eid Fitr*). *Zakah* is also commonly known to be distributed directly to the poor, instead of being used productively as (productive) *zakah* funds. As

somewhat irrational to put too much 'burden' on the institution, which indeed has a limited amount of funds and restricted capabilities in matters of poverty alleviation. Furthermore, institutional problems such as weak coordination and synergy between different *zakah* stakeholders (including the government) persist, such that the role of *zakah* in reducing poverty is quite limited in Indonesia.

A final aspect investigated was the external environment (other issues). While the scope of this aspect was very wide, at least three issues were revealed during the interviews. First, synergies between *zakah* agencies and other institutions seemed to be quite difficult. According to R3 (G2-1), the difficulties mainly occurred due to different perspectives on implementing *zakah* distribution/utilization programs. Synergies with government institutions (ministries, state-owned corporations, etc.) were also problematic due to bureaucratic issues.[283] Surprisingly, cooperation with foreign countries and international institutions was also increasingly difficult because of, among other things, suspicions that the charitable funds would be used to finance "terrorism-related activities". This 'prejudice' was particularly felt by a non-profit agency, which received 'insights' from military observers believing that the funds had been utilized for terrorist activities.

The second important aspect was the relation between media and *zakah* institutions. It was regrettable that, particularly during the holy month of *Ramadan*, mass media (newspapers, television, etc.) preferred to broadcast 'bad' and somewhat 'uneducated' news about *zakah*-related activities. For example, according to G2's executive, the media consistently broadcast news about 'riots' and problems following direct distribution of *zakah* from rich people instead of educating the audiences about the importance and benefits (*hikma*) of *zakah* or persuading them to pay *zakah* through formal organizations, which will use the funds effectively to fight poverty.

Finally, an on-going issue was the implementation of the Indonesia's new *zakah* law i.e. the Law No. 23/2011. In this respect, different types of *zakah* organizations seemed to have different standpoints. The government *zakah* agencies believed that the new law could potentially strengthen their positions, most notably due to certain 'privileges' being given to

such, *zakah* is only a short term charitable instrument which has nothing to do with 'long term issues' such as poverty alleviation. R3 further suggested that this might be due to the fact that utilizing *zakah* as a poverty alleviation tool has never been tried in Indonesia before.

[283] The bureaucratic problems identified include, among others, regulations on state budget which does not allow allocation for *zakah* agencies, differences in ways to implement a program, and accounting/reporting standard. In addition, non-bureaucratic problems such as external 'shock', such as the death of a supportive high-ranking government official, were also reported during the interviews.

the body.[284] However, the non-profit *zakah* organizations insisted that the new *zakah* law has many weaknesses and 'contradictory' contents[285] that could trigger a setback in developing the *zakah* institution in Indonesia. Likewise, the corporate agencies felt that the law did not support the *zakah* movement, especially in contributing to poverty reduction in the country. Accordingly, the non-government *zakah* organizations 'challenged' the new law and brought it to the Constitutional Court for a judicial review. The judicial review was resolved on the 31st of October 2013, with some amendments of the law's articles[286] and reinforcement of the law afterwards.

8.5. Summary and Conclusion

This chapter generally discusses the implementation and management of *zakah* organizations in Indonesia. Importantly, it identified the management approaches related to strategic planning, collection, communication and distribution/utilization of *zakah* proceeds. In relation to strategic planning, the by-design and by-flow approaches to planning were identified. With respect to *zakah* collection, the retail and partnership fundraising approaches were found amongst the organizations. Similarly, the community-oriented and individual-oriented approaches to conducting *zakah* campaigns (communication) were discovered. Meanwhile, the consumptive and productive utilization styles were recognized in relation to *zakah* distribution. There were also indications that different types of *zakah* organizations have adopted different approaches in the management aspects above.

The analysis in this chapter also estimates the capacity and efficiency of the organizations. In this respect, the corporate *zakah* agencies were found to be the most efficient *zakah* organizations in the last three years. Meanwhile, organization with the highest collection and distribution capacities were the corporate and the non-profit agencies respectively. The

[284] For example, informal institutions such as religious leaders and mosques could no longer collect *zakah.* Additionally, private *zakah* organizations could collect *zakah* but the utilizations depend on the government coordinating body which is also given the privilege of collecting *zakah.*

[285] The weaknesses and contradictory contents include, among others, (i) the 'dual' role of BAZNAS as a regulator as well as operator in *zakah* management, (ii) restrictions on the involvement of civil society in developing *zakah*, such as by legally requiring private *zakah* organizations to become mass organizations, restricting the ways in which the non-government *zakah* organizations utilize the *zakah* funds, etc.

[286] There were eight articles (i.e. articles number 5, 6, 7, 17, 18, 19, 38 and 41) questioned during the judicial review. However, the courts decided that only two articles were against the Indonesian constitution and therefore must be omitted and/or revised. The articles are article number 38 regarding the management of *zakah* by traditional/informal institution (such as mosque) and article number 41 regarding the sanction for the traditional/informal institutions if they still attempted to collect and distribute *zakah*. In this respect, the court decided that *zakah* could still be paid through the informal organizations and there are no sanctions for the traditional *amil*.

reasons for such a performance, however, are yet to be discussed, although some possible causes have already been discussed in relation to the areas of concern mentioned during the interviews with the *zakah* management personnel. Overall, the results are expected to provide some insights into the framework of *zakah* implementation in Indonesia.

Chapter 9 Contextualization of the Findings: Towards a Framework for an Effective *Zakah* Administration in Indonesia

This chapter aims to develop an analytical and critical interpretative discussion of the overall empirical findings presented in the previous chapters. The analysis is conducted by reviewing the main findings of the study and explaining the possible reasons behind the results, while at the same time reflecting on the findings within the available body of knowledge. The overall findings are subsequently utilized to propose a framework for an effective poverty-focused *zakah* management in the world's largest Muslim country, which is also the fourth research objective of the study. Given the context of *zakah* implementation in Indonesia, further contextualization and reflections of the results are also briefly discussed.

For the purposes of clarity, this chapter is structured according to each of the research questions addressed in this study. It starts by identifying the *zakah* recipients and determining why they are poor. It also discusses the recipients' relationship with the *zakah* organization supporting them. The analysis is then proceeds to interpret the economic (monetary) and multidimensional (non-monetary) impacts of the *zakah* institution on the poverty/wellbeing of the beneficiaries. It also discusses a number of critical elements of management that shaped the organizational framework of *zakah* administration in Indonesia, including the capacity and efficiency of the institution to achieve the poverty alleviation objective. On the basis of the overall discussions, the most effective model for poverty-focused *zakah* management is proposed and reflections of the results are briefly discussed. The last section provides further reflections of the findings and analyses of the study, which focuses on the implications of the findings in improving efficiency of *zakah* targeting and enhancing the impacts of national poverty alleviation strategies in Indonesia.

9.1. Understanding the *Zakah* Recipients

The first research question addressed in this study is the identification of the poor and the determination of why they are poor. In general, particularly based on the descriptive findings discussed in chapter six, the results suggest that the majority of poor households were led by someone relatively young (i.e. of a productive age of between 15 and 45 years), female, married, relatively uneducated and not working. The household size was relatively large with an average number of 5.1 members. One member with disabilities and/or poor health was also found for every five households surveyed. In relation to assets, around half owned

private assets (i.e. house and source of water). Additionally, prior to receiving *zakah* assistance, around 60% earned an average monthly income below the poverty line.

While the findings above are specific to this sample, i.e. the recipients of *zakah* in Greater Jakarta, the socio-demographic characteristics found are generally consistent with the descriptive profiles of poor households in Indonesia documented by other studies (Alisjahbana & Yusuf, 2003; Dartanto & Nurkholis, 2013; World Bank, 2006). Furthermore, in the context of evaluating the effectiveness of *zakah* institution as a poverty alleviation tool, it generally appears that *zakah* targeting has been relatively successful. This is so because the aforementioned groups of people could be considered as the most disadvantaged people in the society who are intuitively deserve to get supports from *zakah* institutions. These type of *ashnaf* (*zakah* recipients) are also documented by Arif (2006) in his study about effectiveness of *zakah* targeting in Pakistan. Despite that, as will be elaborated earlier, there were some indications that the targeting still needs to be improved in the future.

Mixed evidence, however, was found regarding significant differences in the aforementioned socio-demographic characteristics across the recipients of *zakah* from different *zakah* organizations. Referring to the results of the chi-square tests reported in the analysis,[287] the variables shown to be significantly related with the administration of *zakah* were gender, marital status and occupation. In other words, there was a significant difference between the *zakah* beneficiaries from different *zakah* organizations with respect to the socio-demographic profiles.[288] Moreover, the amount of *zakah* assistance obtained also differed significantly between the groups. Although the test could not reveal which groups of recipients differ, the results tend to suggest that the organizations distinguish the *zakah* beneficiaries according to the above characteristics.

Turning to the results of the logistic regression models, the variables found to significantly determine the poverty status of the recipients prior to receiving *zakah* assistance were age, education, occupation and household size.[289] Specifically, the likelihood of being poor decreased when the household was led by someone older, with a higher level of education and a more formal occupation. Larger household size was also negatively related to the probability of being poor. However, variables such as gender, marital status,

[287] See the results reported in Table 6-1 to Table 6-9.
[288] If the 10% significance level is considered, significant differences were also found with respect to household size and number of disabled members.
[289] See detailed results in Table 6-13.

illness/disabilities, assets, location and government supports did not significantly influence the households' poverty condition in 2011.

The finding that older age decreases the likelihood of being poor by around 0.33% is quite surprising because most studies suggest that older age tends to correlate with a higher probability of being poor (Baiyegunhi & Fraser, 2010; Rahman, 2013; van Edig & Schwarze, 2012). Nevertheless, the finding could perhaps be explained by the tendency of older people to have more skills, experience and, eventually, the opportunity to secure a good job and income. It may also be related to the fact that, due to their poor condition, they are usually prioritized by the Indonesian government as beneficiaries of social assistance schemes (Suryahadi, *et al.*, 2010).

A higher level of education was found to be positively related to the household's welfare. Compared to those who had not gone to school, the households whose heads had attended college/university were more than 30% less likely to be poor. These results were hardly surprising as higher education is strongly associated with better knowledge for working and thereby greater opportunity to secure high-paying jobs. The result corroborates the earlier findings on the importance of education as a determinant of poverty/wellbeing in Indonesia (Alisjahbana & Yusuf, 2003; Booth & Mosley, 2003) and other developing countries such as China, Kenya, Malawi and Mauritania (Coulombe & McKay, 1996; Jalan & Ravallion, 1998; Mango *et al*., 2004; Mukherjee & Benson, 2003).

With respect to occupation, the estimated result showed that households led by persons working as small traders/businessmen and employees were less likely to be poor compared to those led by unemployed persons. Again, this finding is quite intuitive considering that the more formal occupations generally provide a relatively reasonable and stable income for the household. This finding is consistent with the other findings suggesting that not working and/or working in relatively informal sectors were positively related to poverty and vulnerability in Indonesia (Sumarto, *et al.*, 2008) and Mauritania (Coulombe & McKay, 1996).

It was also revealed that larger household size is positively and significantly related with lower probability of being poor. Indeed, it was estimated that one additional family member decreases the likelihood of being poor by around 3.7%. This result is quite intuitive in the context of the developing world since larger households tend to have more economic resources (i.e. labour) to earn higher incomes than the smaller ones, which in turn contributes

to reduced poverty and increased welfare of the households. This result is in line with the findings of most poverty studies in Indonesia and developing countries in general (Dartanto & Nurkholis, 2013; McCulloch & Baulch, 2000; Sumarto, *et al.*, 2008; van Edig & Schwarze, 2012).

With regard to the relationship between the *zakah* institutions and the *zakah* recipients, a number of salient features identified include a larger number of recipients of education assistance (yet with the smallest amount of *zakah* transfer), a larger amount of money disbursed for economic assistance and a wider participation of beneficiaries in Islamic/Qur'anic study activity. At this point, the findings provide some early indications regarding the pattern of *zakah* implementation in Indonesia. It appears that the organizations preferred to distribute *zakah* to a large number of recipients through the type of assistance that only needs a relatively small amount of money, relatively easier to manage and favoured by *zakah* payers; that is, the educational assistance. These are quite similar to the pattern commonly adopted by most charities in the UK and worldwide (Kendall, 2003). However, as improving the poor's welfare is strongly associated with the more expensive economic support as suggested by earlier studies (see, for instance, Ahmed, 2002; Rahman & Ahmad, 2010), such assistance was also increasingly provided to the poor. The institutions also seemed to be quite successful in encouraging the *zakah* recipients to attend the Islamic/Qur'anic study activity, which presumably reflects and strengthens the 'Islamic nature' of the organizations.

All in all, these patterns are arguably related to the capacities of the Islamic social organizations to manage their resources (human resources, financial resources, etc.) effectively and implement the programs that contribute to achieve their mission. Nevertheless, as discussions about the organizational capacities and effectiveness require more knowledge and understanding about the nature and characteristics of the *zakah* management, further investigation and analysis related to these issues will be elaborated in later part of this chapter.

In addition to the results above, analysis of the qualitative data provided some interesting insights into the critical factors that influence the household's poverty and vulnerability. Broadly speaking, the factors can be classified into internal and external factors.[290] The internal factors frequently mentioned by the *zakah* beneficiaries were poor health and

[290] See the analysis in section 6.4.

recent/sudden death of family members. These shocks have not only prevented them from working optimally, but have also limited their chances of earning sufficient income for the family. The death of family members, particularly the head of the household who is the breadwinner, also had devastating impacts on the household's wellbeing. Overall, the findings confirm the results of previous studies in Indonesia (Dartanto & Nurkholis, 2013), Pakistan (Rahman, 2013), Bangladesh (Davis & Baulch, 2011), Kenya (Kristjanson, *et al.*, 2010) and South Africa (Baiyegunhi & Fraser, 2010).

Household debt was also mentioned as an important source of internal shock. As explained in the empirical chapter, a considerable number of poor households were indebted. While most of the debts were consumptive in nature[291], some of them were used for productive purposes. Nevertheless, both types must be paid regularly, sometimes on a daily basis and through debt collectors. When prices increased, as indeed happened in Greater Jakarta in 2011 (Badan Pusat Statistik, 2013), household expenditure increased quite significantly and subsequently affected the debt payments. Some households failed to pay their debts; others were even forced to borrow more money - sometimes from 'loan sharks' - to meet their daily needs and pay their debts. Thus, the poor become poorer, or at least more vulnerable to poverty, due to debt problems. While this factor is not directly mentioned in the existing studies, it may be linked with the lack of household access to credit, which was mentioned as a type of debt (loan) dealt with by the respondents and noted by a number of studies as a determinant of poverty in Indonesia (Dartanto & Nurkholis, 2013; van Edig & Schwarze, 2012) and South Africa (Baiyegunhi & Fraser, 2010).

A major external factor primarily related to the household's vulnerability was the sudden loss of a job. Although there were many factors that might have caused job termination, it was evident that the unemployment rate in Greater Jakarta at that time was relatively high at 11.23% (Badan Pusat Statistik, 2013). Accordingly, the poor may have been adversely influenced by the difficult labour market conditions and may thus have been unable to contribute to the household income. Another external shock cited was unfavourable business conditions due to the lack of capital and the competition with other micro entrepreneurs (including fellow *zakah* recipients) which, in some cases, led to business failure. Similar factor has been identified as having a positive correlation with being poorer in South Africa and Indonesia (Baiyegunhi & Fraser, 2010; Dartanto & Nurkholis, 2013; van Edig &

[291] This implies that they are related to the purchase of essentials and basic consumptive goods such as televisions.

Schwarze, 2012). Accidents such as fire, which destroyed the poor's houses (assets), were also identified as factors preventing the poor from immediately escaping poverty as virtually no households had insurance against such disasters. Indeed, as the house is often used as a kiosk (i.e. business asset), such accidents could have a catastrophic impact on the family's long-term wellbeing. The loss of assets was noted as a determinant of vulnerability in South Africa (Baiyegunhi & Fraser, 2010).

The study also uncovered several issues related to the interactions of the *zakah* beneficiaries with the *zakah* organizations. The main areas of concern include, among others, the relatively complicated and 'bureaucratic' application process, poor targeting and misuse of *zakah* assistance during the distribution/utilization phase, and sustainability of the *zakah* assistance obtained. These problems have been documented by a number of studies examining the effectiveness of *zakah* implementation in Muslim countries, particularly when *zakah* administration is performed by government such as in Pakistan, Malaysia and Egypt (see, among others, Arif, 2006; Helal, 2012; Toor & Nasar, 2001). As such, they are not exclusive to the administration of *zakah* in Indonesia. Nevertheless, as these issues are mostly related to the operational aspect of *zakah* administration, more comprehensive analysis and discussion will be extended in the later section.[292]

Overall, these findings are expected to provide more information and enhance understanding regarding the characteristics and nature of the poor *zakah* recipients. The knowledge could also be used to address future challenges faced by the administrations, which in turn contribute to increase the effectiveness of *zakah* targeting and *zakah* implementation in Indonesia. Further reflection on the findings is presented in the last part of the chapter.

9.2. Impacts of the *Zakah* Institution on Poverty/Wellbeing of the Recipients

The second research question related to the impacts of *zakah* on household poverty and wellbeing has been addressed in chapter eight. The results generally suggest that there have been significant improvements in household wellbeing after the receipt of *zakah* assistance, as indicated by the decrease in the income-based poverty index and the positive changes in almost all of the multidimensional poverty measures. Significant differences in the post-*zakah* poverty/wellbeing conditions across the recipients from different *zakah* affiliations

[292] See discussion in Section 9.3.

were also found. The main findings and possible reasons for them, as well as their brief implications, are elaborated below.

9.2.1. Impacts of *Zakah* based on the Income-based (Monetary) Poverty Analysis

A number of interesting findings and implications can be highlighted from the income-based poverty index analysis. First, the study found that *zakah* has contributed in reducing the income-based poverty indices by 8.32% (H), 4.71% (P_1) and 3.34% (P_2)[293], implying that the incidence, depth and severity of poverty of the recipients have decreased by relatively significant figures. The findings provide strong empirical evidence on the positive contribution of the *zakah* institution in reducing poverty and enhancing the welfare of the *zakah* beneficiaries in Greater Jakarta, Indonesia, in 2011. They also add to the existing literature on the positive impacts of the *zakah* institution in alleviating poverty, which have been found in, among other countries, Pakistan and Malaysia (Ibrahim, 2006; Jehle, 1994; M Akram & Afzal, 2014).

Table 9-1: Comparing Poverty Index Changes

Poverty Index	Percentage of Change, 2010-2011		Difference
	National Figure*	Greater Jakarta**	
Poverty Headcount Index (H)	-6.48%	-8.32%	1.84%
Poverty Gap Index (P_1)	-3.18%	-4.71%	1.53%
Poverty Severity Index (P_2)	-2.50%	- 3.34%	0.84%

Source: *National figure refers to the figures calculated from the database provided by Badan Pusat Statistik (2012); ** Results of this study

Second, comparing the above results with the average changes in poverty indices in the three provinces of Indonesia where the Greater Jakarta area is located,[294] the reductions in the poverty indices estimated in this study are slightly higher than the national figures (see Table 9-1). Although this is only a rough comparison, the results seem to indicate that the *zakah* institution has performed slightly better than the national authorities. This is particularly evident in terms of reducing the proportion of poor people.

While noting that people living in Greater Jakarta are usually slightly wealthier than the rest of people living in the three provinces and in Indonesia in general, the achievement above is arguably related to the capacities and effectiveness of the *zakah* institutions in delivering their

[293] See detailed results in Table 8-3.
[294] They are Jakarta, West Java and Banten Province. See more explanations in chapter 4.

poverty focused programs. Despite the presumably limited financial resources, particularly if compared to the government's resources, the institutions appear to have good quality and committed human resources as well as more comprehensive and/or integrated poverty alleviation models and strategies –which will be extensively discussed in the next section- which in turn contribute to their success in enhancing the welfare of *zakah* beneficiaries. Accordingly, *zakah* institution should be considered an important institution for poverty alleviation and a potential partner for the Indonesian government in fighting poverty problems.

Third, it is also noticeable that the poverty headcount index figure above is approximately double those of the poverty gap index and poverty severity index figures. Even though the indices naturally tell different 'stories', these findings indicate that income inequality remains high amongst the households albeit there has been a relatively large reduction in the proportion of poor people. While inequality is a broad issue that is beyond the scope of this study, it is evident that inequality has increased all over Indonesia, as suggested by the increase in the Gini coefficient from 35.57 in 2010 to 38.14 in 2011 (Badan Pusat Statistik, 2013).[295] Thus, this problem was experienced not only by the *zakah* recipients but also by the entire Indonesian population.

Fourth, the study also found that the *zakah* supports have enabled an average decrease in the household nominal poverty gap from IDR 393,835 (USD 43.76) to IDR 320,467 (USD 35.61) on a monthly basis.[296] The figure also implies that the monthly amount needed to move a poor household above the poverty line is around IDR 320,467 (USD 35.61). While this amount seems to be relatively 'small' and within the capacity of *zakah* organizations, the objective of crossing the poverty line will only be achieved if the assistance has been targeted efficiently and utilized according to the intended purposes. In other words, there should be no 'leakage' in the distribution of *zakah* proceeds.

However, given that the average amount of monthly assistance distributed to each recipient was around IDR 812,000[297] while the average amount received by Greater Jakarta's households was only around IDR 272,323,[298] there is an indication that some kind of

[295] See Table 4-1.
[296] See Table 7-2.
[297] See Table 8-20.
[298] See Table 6-10.

'leakage' did occur in the distribution.[299] While this problem has been identified by similar studies in other countries (Arif, 2006; Hasan, 1987; Toor & Nasar, 2001), it has not been formally reported in the case of Indonesia and thus potentially reduces the poverty alleviation impacts expected from the institution.

A possible reason for such leakage is related to the indirect distribution of *zakah* proceeds through unofficial third parties. As suggested during the semi-structured interviews, such parties may be the persons helping the poor to gain access to *zakah* agencies; these persons are also known as the 'brokers of *zakah*'. On the one hand, they believe that, as they have linked the poor with *zakah* assistance, they are entitled to some 'shares' in the amount received by the recipients. Indeed, some of them seemed to consider themselves as *amil* who deserve part of the *zakah* proceeds. On the other hand, the poor seemed to have no option but to accede to such requests from their 'saviours'. Thus, leakages presumably occurred due to this 'mutually dependent' (yet non-*shari'ah*-compliant) relationship.

These parties could also be the people unofficially 'appointed' by *zakah* officers to help them work in the field.[300] In fact, considering that some agencies set high operational targets such as a large number of *zakah* recipients[301] and tend to tie additional salaries/benefits to the targets,[302] it is likely that the officers have incentives to informally recruit 'volunteers' to support them. Following the common 'norm' in Indonesia, these volunteers are usually given some kind of compensation for their contributions. In many cases, it seemed that part of the compensation had been taken from the recipients' assistance money, thus contributing to the leakage.

Comparing these situations with the historical development of *zakah* institution, it is notable that the activities triggered the leakage (i.e. the activities of the broker and the unofficial appointment of *zakah* officers) probably did not occur during the Prophet's time. Indeed, the literature suggested that *zakah* proceeds were only distributed by those officials formally trained and appointed by the Prophet (pbuh) or the Companions (Al-Qardawi, 2000).

[299] The differences were also found in specific programs, particularly the social assistance program, in which the amounts claimed to have been distributed to the poor were different from the amounts actually received by the beneficiaries. It was also evident from the program proposal sent to *muzakki* (including the researcher) in which a higher amount than that actually distributed to the needy was requested for the program.
[300] The fieldworks include, among others, identifying the poor and distributing the assistance.
[301] This is usually considered one of the program outputs, particularly if the programs are conducted in cooperation with institutional *zakah* payers.
[302] It was evident during the interviews that some *zakah* agencies have implemented a 'commission system' in *zakah* collection, in which the *zakah* officers who collect higher amounts of *zakah* obtain higher commissions for their performance. It is possible that such a system is also implemented in the distribution of *zakah*.

Accordingly, in addition to better monitoring and evaluation, there is a need to improve the human resources capabilities within the organizations to avoid such problems. It may also be better to 'invest' and formally recruit temporary (contractually-based) employees instead of 'wasting' *zakah* money on brokers and volunteers.[303] If the demand is high, hiring more employees could also contribute to reducing the high unemployment problem faced by the country. As pointed out by Kendall (2003), it was the contribution of the voluntary sector to the UK labour market that made it such an important sector in the economy. This has in turn encouraged the UK government to form partnerships in various development programs with the third sector. The same rationales could be applied in developing *zakah* institutions in Indonesia.

Another possible reason is the 'systematic' problem related to the accounting of *zakah* in Indonesia. During the interviews, it was discovered that some of the organizations had reported project expenses[304] as part of the funds distributed to the recipients. Although this practice may not contravene the existing accounting standards, from a policy perspective the inconsistent numbers make the targeted policies less accurate. For example, a policy that distributes a certain amount of money believed to be the minimum cost of eliminating poverty (i.e. the nominal poverty gap figures) will not be sufficient if some of the amount is used for the project's administrative purposes. Accordingly, it becomes more difficult to conduct poverty reduction policies effectively. It may also cause inefficiency and the wasting of money that could actually be used to help the poor.

Fifth, it was also estimated that the *zakah* contributions have reduced the average time required to exit poverty from 9.24 years (without *zakah* assistance) to 8.73 years (with *zakah*).[305] While this is clearly a positive result, it should be noted that the exit time can only be achieved if the growth of the poor's income remains at the same rate. However, if it were possible to somehow escalate the income growth, for example through more assistance from *zakah* agencies and/or government institutions, the time required might be shortened and poverty might thus be eliminated earlier. By way of illustration, given that the annual growth

[303] Although different *zakah* organizations have different human resources policies related to volunteers, it is evident from the data presented in chapter eight (see Table 8-10) that the corporate agencies have the smallest ratio of permanent to contractually-based employees, while the government agencies have the highest ratio. Coincidently, from the interview results, it was found that the *zakah* 'broker' problem was only experienced by the latter. Therefore, there seems to be a positive correlation between the facts that lead to the suggestion given above.
[304] Project expenses include, among others, administrative and logistic costs of implementing the program.
[305] See Table 7-2.

rate of household incomes in this sample is around 25.9%, it can be predicted that any poverty eradication policies attempting to double the growth rate will be able to reduce the time taken to exit poverty from around 8.73 years to 4.4 years. In contrast, if the income growth were to decrease, for instance due to recessions or income shocks, the opposite could occur.

Table 9-2: Ranking the Impact of *Zakah* on Income-based Poverty Changes, by Type of *Zakah* Organization

Poverty Index	Rank (Decrease in Poverty Index)		
	G	C	Non-Profit
Headcount Index (H)	2	3	1
Poverty Gap (PG), in IDR	2	3	1
Poverty Gap Index (P_1)	2	3	1
Poverty Severity Index (P_2)	2	3	1
Time to Exit Poverty (T_g), in years	2	1	3

Note: 1=largest decrease, 2=moderate decrease and 3=smallest decrease

Sixth, after decomposing the poverty index changes based on the types of *zakah* organizations supporting the recipients and subsequently ranking the results (Table 9-2), it is found that the largest decreases in almost all of the income-based poverty indices are more prevalent amongst the recipients of *zakah* from the non-profit agencies. Therefore, there is an early indication that these agencies are the most effective form of *zakah* organization for reducing income poverty and severity of poverty of the *zakah* recipients. However, it is noticeable that these results were not strongly significant except for the time taken to exit poverty measure.[306]

Seventh, the most positive improvement in all indices appeared to be highest amongst the recipients of economic assistance (see Table 9-3).[307] In other words, the largest poverty reduction was experienced by the households obtaining economic *zakah* assistance. The result confirmed by relevant statistical test[308] is quite intuitive considering the direct relationship between the economic *zakah* utilization programs and the household income. In fact, most of the economic assistances such as provision of working capital (as grant and/or

[306] However, if the 10% significance level is considered, P_2 will be statistically significant. Complete results of the tests are presented in Table 7-5.

[307] It is notable that the largest change in the exit time measure is found amongst the *mustahik* receiving social assistance rather than those receiving economic assistance. However, as shown in Table 7-16, the *nominal* time of 27.3 years needed by the former to escape poverty is actually the longest compared to the others. Meanwhile, the shortest exit time of around 3.3 years is found with respect to the economic *zakah* recipients. Thus, the findings are consistent with the above general conclusion.

[308] See Table 7-8.

qardul hasan revolving loan) were aimed at financing and supporting income-generating activities of the recipients. Accordingly, as suggested by a number of earlier studies (Ahmed, 2008; Khan, 2007; Muhtada, 2007), this type of assistance seems to be the most effective program for reducing poverty. Nevertheless, the mechanisms that influence poverty reduction cannot be inferred from the aggregate figures.

Table 9-3: Ranking the Impact of *Zakah* on Income-based Poverty Changes, by Type of *Zakah* Assistance

Poverty Index	Rank (Decrease in Poverty Index)			
	Economic	**Education**	**Health**	**Social**
Headcount Index (H)	1	3	2	4
Poverty Gap (PG), in IDR	1	2	3	4
Poverty Gap Index (P_1)	1	3	2	4
Poverty Severity Index (P_2)	2	1	3	4
Time to Exit Poverty (T_g), in years	4	2	3	1

Note: 1=largest decrease, 2-3=moderate decreases and 4=smallest decrease

Eighth, referring to the results of the post-*zakah* logistic regression models, it was found that the welfare improvements have been significantly related to specific socio-demographic characteristics including older age, higher education, more formal occupations and larger household sizes.[309] These results confirm the earlier findings of this study. They are also generally consistent with the conclusions of most of the studies investigating the determinants of poverty as discussed in the literature review (see, for instance, Baiyegunhi & Fraser, 2010; Coulombe & McKay, 1996; Dartanto & Nurkholis, 2013).

Finally, in relation to the types of *zakah* assistance and the related activities, it was revealed that obtaining economic assistance and participating in training and supervised meeting activities (part of the economic empowerment program) have decreased the recipients' probability of being poor. Indeed, compared to the recipients of education and social assistances, the households receiving economic support were less likely to be poor by 9.57% and 26.58% respectively. This leads to the conclusion that the impacts of *zakah* were significantly felt by the households receiving economic assistance. This finding is therefore in agreement with the results explained earlier (see Table 9-3) as well as the existing studies (Beik, 2010; Muhtada, 2007). However, the types of *zakah* assistance providers and the government supports did not have significant impacts on the household's wellbeing.

[309] See Table 7-11.

To sum up, the overall analyses generally suggest that the *zakah* institutions have contributed positively in reducing the incidence, depth and severity of poverty of the recipients. The poverty gap and time to exit poverty have also decreased, albeit issues such as leakage of *zakah* proceeds are also found. It is also notable that poverty reductions are mostly felt by the most disadvantaged groups as well as those associated with non-profit *zakah* organizations and economic *zakah* assistance.

9.2.2. Impacts of *Zakah* Based on the Multidimensional (Non-Monetary) Poverty Analysis

In addition to the income-based poverty analysis above, this study uncovered some interesting findings with respect to the multidimensional poverty analysis. First, the most positive change in household wellbeing was found in the educational dimension. This result suggests that the highest welfare improvement was felt with respect to education of the recipients' children. At the outset, this is probably related to the beliefs of respondents (parents) that education (seeking knowledge) is not only a religious obligation but also the most effective pathway to escape poverty. The respondents also mentioned during the interviews that they would do almost anything to provide a better education for their children, so that the next generation will not be poor like their parents. The importance of education has been emphasized by numerous studies (see, for instance, Doyal & Gough, 1991; Finnis, 1980; Qizilbash, 1996). With this mindset and support of *zakah* institution, the children have enjoyed a better education in terms of continuing to higher education and avoiding school drop-out, attending classes regularly, improving reading and maths skills and eventually achieving a higher performance in school. Overall, around 85-90% of them suggested that there have been significant improvements in all of the aforementioned education indicators after receiving *zakah* assistance.[310]

The *mustahik* viewpoint is consistent with the preference of *zakah* agencies for providing educational assistance to many beneficiaries, as suggested by the findings of this study.[311] This preference might be further associated with several perspectives. From *fiqh* perspective, there was no dispute at all regarding the disbursement of *zakah* for educational purposes. This is different from the utilization of *zakah* for productive purposes, which was stated as the last priority in the distribution of *zakah* according to the existing regulations in Indonesia discussed earlier (Ministry of Religious Affairs, 2003). Moreover, in terms of program

[310] See Table 7-12.
[311] See Table 6-14.

administration, managing the educational program is relatively easier than the other programs. The risk of misuse of funds was also low since, in most cases, they were provided in the form of cash (tuition fees) paid directly to schools. Moreover, for some reasons, many *muzakki* like to contribute specifically to this cause (Kasri, 2013). Consequently, as reflected in the compositions of *zakah* recipients by types of assistance mentioned earlier, many *zakah* agencies engaged in providing this kind of assistance. The figure was particularly high for the government agencies, which presumably related to their responsibility to support the government's universal basic education program.

Second, the lowest score for a positive change was found with regard to the economic dimension. This result may have been affected by a number of factors, in which unfavourable economic conditions marked by high inflation and high unemployment rates (Badan Pusat Statistik, 2013)[312] were probably the most important factors responsible for the conditions. In this respect, as frequently mentioned during the interviews and confirmed by the survey results, price increases have caused a deterioration of purchasing power and subsequently lowered the household's spending. Moreover, the conditions made it more difficult to find a new job and/or seek a relatively formal job with a decent income.[313] Furthermore, while it is acknowledged that *zakah* organizations are not business institutions with unlimited (economic) resources, another factor cited as responsible for this disappointing result is the relatively small amount of *zakah* assistance received if compared to their business need.[314] Consequently, the recipients' businesses could not grow properly and reach maturity conditions, which were necessary to achieve business excellence.

Third, there is an indication that the largest poverty reduction impact was primarily experienced by the respondents associated with the non-profit *zakah* agencies (see Table 9-4 below).[315] Significant differences across the organizations, however, were only found in three wellbeing dimensions, namely the educational, economic and social dimensions.[316] These results imply that the *mustahik* from the non-profit agencies have higher reduction of poverty in the aforementioned aspects.

[312] It is notable from Table 4-1 that the inflation rate in Greater Jakarta was 3.35%, whereas the unemployment rate in the area was 11.23% in 2011.
[313] These are confirmed from the *mustahik's* interview (see Section 6.4) and the survey results (see Table 7-12).
[314] See Table 6-15.
[315] See also Table 7-13.
[316] Note that if the 10% significance level is considered, the Kruskal-Wallis tests suggest that there are significant differences across the three types of *zakah* agencies in all wellbeing dimensions (see Table 7-14).

Table 9-4: Ranking the Impact of *Zakah* on Multidimensional Poverty Changes, by Type of *Zakah* Organization

Poverty/Welfare Indicator	Rank		
	Government	Corporate	Non-Profit
Multidimensional Poverty Score			
Health Dimension	3	1	2
Education Dimension	3	2	1
Religious/Spiritual Dimension	3	2	1
Economic Dimension	3	2	1
Social Dimension	2	3	1
Average	*3*	*2*	*1*

Note: 1 = Most positive change, 3 = Least positive change

There are a number of possible reasons for this interesting finding. Firstly, it may be related to the fact that the *zakah* utilization programs implemented by the non-profit organizations are relatively more comprehensive than similar programs conducted by other agencies. This can be seen, for instance, from the comprehensive/integrated economic programs, which were managed only by the non-profit agencies.[317] Secondly, they have provided the highest amount of economic, education and social assistance to the beneficiaries.[318] These have understandably contributed positively to the highest welfare improvement. Thirdly, the *zakah*-related activities organized by the agencies including Islamic/Qur'anic study and health advocacy have the highest participation rates compared to the others.[319] Given all these factors, not surprisingly that the households' satisfaction with the non-profit *zakah* organizations was relatively high at 91.8%.[320]

Fourth, as shown in Table 9-5 below, the recipients of economic assistance have enjoyed the highest welfare improvement.[321] This implies that the recipients of *zakah* under the economic program have experienced the largest poverty reduction. While the result is similar to the earlier finding based on the analysis of the monetary measure of poverty and thereby corroborates the earlier finding, the multidimensional poverty approach allows a richer interpretation particularly of the mechanisms used to achieve the exhilarating results through assessment of the decomposed economic wellbeing indicators. [322]

[317] Examples of the programs are Independent Society and Integrated Community Development programs implemented by some of the non-profit agencies. For more details of the programs, see Appendix 8A.
[318] See Table 6-16.
[319] See Table 6-17.
[320] See Table 6-18.
[321] See Table 7-15 and 7-16.
[322] See table 7-12.

Table 9-5: Ranking the Impact of *Zakah* on Multidimensional Poverty Changes, by Type of *Zakah* Assistance

Poverty/Welfare Indicator	Rank			
	Economic	**Education**	**Health**	**Social**
Multidimensional Poverty Score				
Health Dimension	2	3	1	4
Education Dimension	2	1	4	3
Religious/Spiritual Dimension	1	2	3	4
Economic Dimension	1	2	3	4
Social/Family Dimension	2	1	3	4
Average	***1***	***2***	***3***	***4***

Note: 1 = Largest decrease, 4 = smallest decrease

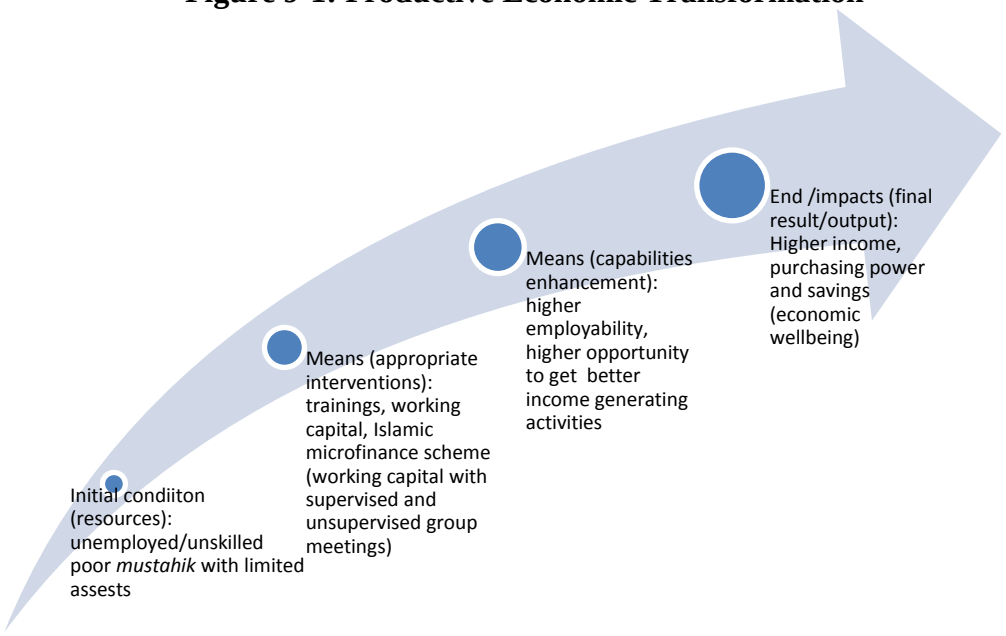
It is also notable that the economic wellbeing improvement was mainly felt in relation to business/technical skills and employability. The skills improvements were presumably related to the training and meetings regularly conducted under the economic empowerment programs, as has been noted earlier by Ahmed (2004) in the case of Bangladesh. The improvement subsequently increased employability and the chances of finding a better job and a higher income. Indeed, it was mentioned during the interviews that some of the training courses were followed by job placement opportunities linked with the institutional *muzakki* that provide the *zakah* assistance.[323] Furthermore, 'rewards' in terms of working capital provision after successful graduation from the training courses were also found. Better occupation and/or business progress subsequently contributed to higher income and spending for the households.

It is believed that the positive income generation capabilities (or improvement in own-labour entitlement, in Sen's terminology), are made possible through the activities that support the transformation of relatively unskilled persons into those with skills and motivations to improve their conditions and eventually escape poverty (Figure 9-1). This transformation is consistent with the capability approach to development, which emphasizes the process and opportunities (i.e. the 'means') to achieve valuable combinations of human functioning instead of just the end result (Alkire, 2005). In this context, economic wellbeing is seen as being not only about income to fulfil essential needs but also, more importantly, about the

[323] For example, it was mentioned during the interviews that a telecom company (i.e. corporate *zakah* payer) has requested that the *zakah* proceeds paid through the agencies be used to conduct technical training (i.e. workshops on electronic and mobile phone repairs) directed to the unemployed poor *zakah* recipients. Upon successful completion of the program, the recipients were given the chance to work as technicians/mechanics in the company and/or given capital to extend their (existing) reparation workshop. Another example is business/motivational training followed by provision of working capital needed to run the business.

transformation of economic resources (human and physical assets) into economic outcomes (income and savings) through opportunities provided by the Islamic social institution.

Figure 9-1: Productive Economic Transformation



Source: Author's Own

Similar transformations have been discussed by other studies, such as in the productive transformation of village women in Bangladesh through training, provision of basic needs[324] and subsequently better working opportunities (Choudhury *et al*., 2008). The transformative impacts or 'empowerment' were also felt by a number of poor women discussed in the case-studies of Oxfam-supported participatory income generation activities (i.e. goat rearing and rose cultivation) in Pakistan (Alkire, 2005).[325] It is also in line with the composite approach to Islamic microfinance where several institutions provide different supports for micro entrepreneurs (Obaidullah, 2008a). Nevertheless, most of the other related studies only discussed the end results (i.e. increase/change in income) for the recipients (Arif, 2006; Ibrahim, 2006; Jehle, 1994; Kusuma & Sukmana, 2010; Toor & Nasar, 2001) without specifically referring to the process of generating such results.

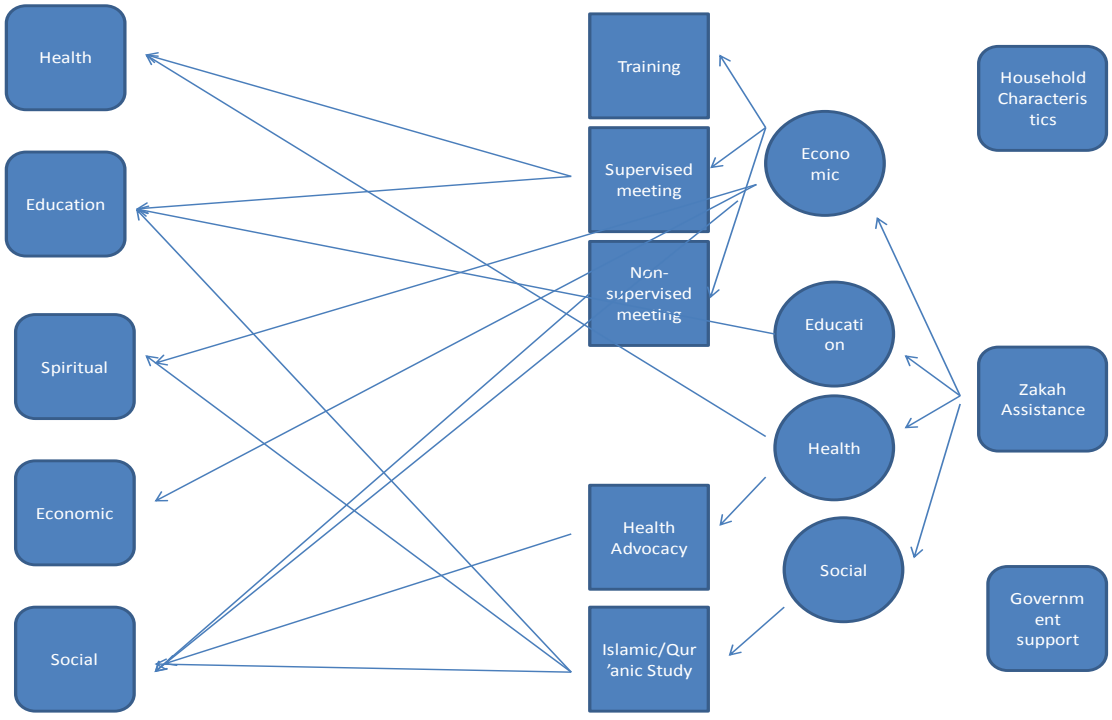
Despite the results, the study discovered the issue of misusing the *zakah* proceeds. The problem occurs when *zakah* recipients used the assistance money for purposes other than the original purpose. This tends to happen with regard to the economic assistance provided in

[324] The basic needs were provided through provision of stipend during the period of training.
[325] It is also notable from the research that the women studied also strongly felt the positive impacts on their knowledge, life/health/security and religion.

form of cash, in which the money was used to pay for emergency health costs and education related expenses.[326] It is also notable that the recipients who misused the *zakah* proceeds seemed to have improper access to public/government health and education facilities primarily due to administrative purposes. This should be a concern for the management of *zakah* agencies.

Fifth, the above finding is generally consistent with the results of the logistic regression models associated with multidimensional poverty and wellbeing. The estimated model suggested that the recipients of *zakah* under the economic program are around 15% less likely to be poor compared to the recipients of the social program.[327] The positive impact of economic assistance on the economic dimension of the household's wellbeing is quite predictable due to direct connections between the assistance and higher skills, employability and income generation activities explained earlier.

Figure 9-2: The Impacts of *Zakah* Institution on Multidimensional Poverty Dimensions[328]

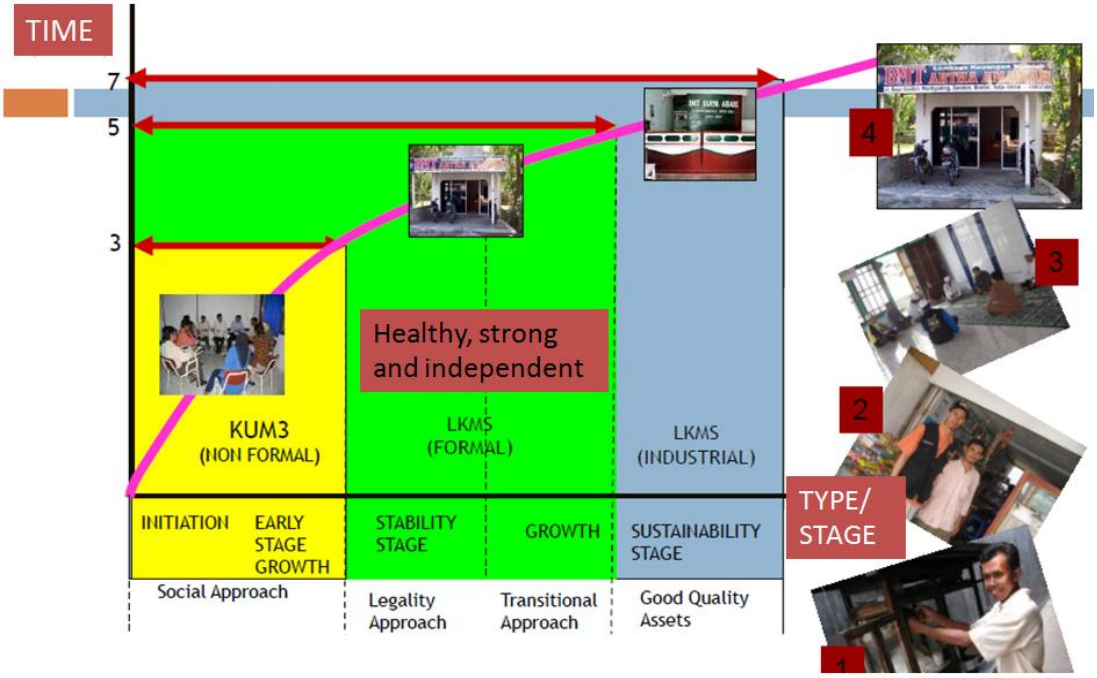


Source: Author's Own

[326] Examples of the expenses are child's tuition fee and school supplies.
[327] See Table 7-21 and 7-22.
[328] Note that the relationship between the household characteristics (age, education, occupation, etc.) and the wellbeing dimensions are not shown in the figure to simplify the illustration. The impact of government supports, however, was not significant in this study and is therefore not shown in the figure.

Interestingly, the impacts of economic assistance (including the activities under the program such as trainings and group meetings) actually influence almost all the household wellbeing dimensions. This general conclusion is inferred from the regression results suggesting that it was positively correlated with higher wellbeing improvement in economic, spiritual and social dimensions.[329] The recipients who actively participated in the supervised meetings under the Islamic microfinance (economic empowerment) program were also less likely to be poor in the educational (non-economic) dimension. The improvement was also weakly associated with the changes in the health and social dimension.[330] Given these results, as illustrated in Figure 9-2, it seems that the economic assistance has been implemented quite effectively and has positive 'multiplier' effects on the non-economic dimensions of the household's wellbeing.

Figure 9-3: Road Map of Economic Empowerment involving KUM3 Program



Source: BMM (2012:2)

A possible explanation for the multiplier effects is the 'unique' design of the economic empowerment program. Although most of the programs are relatively simple, such as the provision of working capital for micro entrepreneurs, some of the other economic programs (comprehensive Islamic microfinance, integrated community development programs, etc.) have a wider coverage which enables the non-economic 'messages' to be delivered.

[329] See Table 7-22.
[330] The supervised meeting activity is also associated with the health dimension; however, it is only significant at the 10% significance level.

Compared with the other types of assistances, it is also notable that the programs are usually provided with the highest amount of *zakah* assistance.

For example, under a comprehensive Islamic microfinance program called KUM3 or Mosque-based Micro Enterprise Community of Muammalat (see Figure 9-3)[331], a number of activities have contributed to the success of the program. Supervised meeting was mentioned as a compulsory activity that gathers the group members (the poor) four times a month and enables the delivery of non-economic (religious, educative and health) materials. In some cases, the meetings were conducted in mosques or recipients' houses and started with congregational prayers. Furthermore, due to closer interaction with the supervisor (i.e. who is usually employee of the *zakah* agency), it was easier for the members to obtain additional assistance such as educational support for their children (Erlangga, 2012). Once the micro entrepreneurs 'graduate' from the KUM3 program, they can apply for more formal assistance from Islamic banks (BMM, 2012). Similar activities also characterized the comprehensive microenterprises financing program called KUKMI, which has been implemented by one of the non-profit *zakah* agencies. Indeed, the program formally provided educational assistance for the children of the *mustahik* (Rumah Zakat, 2011). Given all these interactions, it is likely that the impacts of *zakah* were also felt in non-economic aspects and thereby had a strong impact on wellbeing changes.

Another possible reason is the high rate of participation in activities related to the economic programs, particularly the supervised group meetings attended by 23.7% of the respondents.[332] This occurs not only because of the *mustahik*'s voluntary attendance but also because the participation is often 'tied' to the assistance given. For example, economic assistance in the form of cash for working capital was usually distributed in mosques and after religious speeches organized by *zakah* organizations. This implies that attending the sermons is almost obligatory for the recipients, which is considered to be acceptable by the agencies to achieve the intended results. In some cases, however, the participation may also be related to social pressure. It was revealed during the *mustahik* interviews that they attended the social/religious gatherings not only because they were required to do so but also because non-attendance was thought to decrease the likelihood of receiving *zakah* assistance

[331] This program was named by IMZ (Indonesia Magnificence of *Zakat*), a non-profit organization and management consultant related to *zakah*, as the best economic *zakah* utilization program in Indonesia in 2011 (Erlangga, 2012).
[332] This is the second most attended activity after Islamic/Qur'anic Study (*pengajian*). For detailed results, see Table 6-17.

in the future. In the case of the Grameen-style Islamic microfinance, passive participation was also seen to impact future relationships with other group members. Thus, a 'social pressure' mechanism seems to take place in ensuring that the group objective of welfare improvement is achieved. Such linkages, however, are rarely mentioned in existing poverty studies.

Sixth, it was found that the multidimensional poverty reduction impacts are generally consistent with the types of *zakah* assistance provided. This is reflected, for instance, in the wellbeing enhancement in educational and health dimensions following the provision of similar *zakah* assistances. [333] Therefore, there is an indication that the *zakah* assistances have been implemented effectively and have achieved the intended results in terms of higher household welfare in the associated dimension.

Specifically, in relation to educational wellbeing, the positive changes were also consistent with the capability approach to poverty. As argued by Walker (in Walker & Unterhalter, 2007), the value of the capability approach in education is that it is concerned with educational opportunities that enable people to do and to be something valued by society. In this respect, *zakah* organizations have provided many opportunities for the poor to gain access to proper education (for example through tuition fee support and free schools), gain knowledge (literacy) and eventually achieve high educational performance. Thus, the institution has played an important role in ensuring social justice in the educational dimension, a dimension of wellbeing that is highly valued by the poor not only because of the expected impacts (i.e. reducing poverty) but also because of the importance of education in Islamic teaching.

Seventh, based on the logistic regression results, it was revealed that the overall impacts of the *zakah* institution on various wellbeing dimensions are *not* strongly associated with the types of *zakah* organizations providing the assistance. Despite that, a relatively weak relationship[334] was found between the corporate agencies with higher household welfare in economic dimensions. This is not surprising considering that the corporate *zakah* agencies, which are affiliated with Islamic banking institutions, have vision/missions related to economic empowerment and thereby focus on implementing economic programs.[335]

[333] See analysis in Section 7.2.3 and the summary results in Table 7-22. For the health dimension, however, the result was only significant at the 10% significance level.
[334] Weak association implies association significant at 10% significance level.
[335] See the mission statements of the organizations in Table 8-1 and the quotations in Section 8.5.2.2.

Meanwhile, a lower likelihood of being poor in the education dimension was also found amongst the *zakah* recipients linked with the non-profit organizations.

Eighth, the households' characteristics found to be primarily influencing the poverty and wellbeing conditions are occupation and possession of assets. In particular, there was a tendency for those working in more formal occupations (i.e. traders or employees) and having private houses to be poor compared to their other counterparts. As discussed earlier, this is presumably related to the higher income generation opportunities directly related to occupations and indirectly related to the supportive living and working conditions contributed by the ownership of a decent house in which to live (and, in some cases, run business from home).[336] Similar results are confirmed by a number of previous studies (Coulombe & McKay, 1996; Jalan & Ravallion, 1998; Sumarto, *et al.*, 2008)

Finally, it was evident from the estimated results that government support did not significantly influence the living conditions of the households in all dimensions investigated. While detailed analysis of the supports is beyond the scope of this study, this may be an indication that the supports have not been fully and properly implemented as indicated in other studies (Nazara, 2012).[337] In relation to this, some of the poor households mentioned that the *zakah* assistances have been very helpful to 'complement' the support that they should have received from the government. From this point of view, it seems that the *zakah* institution may reach the poor better than the government programs.

The analyses generally suggest that the *zakah* institutions have contributed positively in reducing poverty and improving welfare of the recipients in the multiple dimensions. The poverty reductions impacts, particularly in education and economic aspects, are mostly felt by the most disadvantaged groups and those associated with non-government *zakah* organizations. A high poverty reduction impact is also arguably related to higher amount of assistance, higher participation rate in *zakah* assistance related activities and a comprehensive program design which enable capabilities enhancements (i.e. positive transformation, particularly in education and economic aspects) of the recipients. Despite that, issue such as misuse of *zakah* proceeds was also discovered in this study. The overall impacts of *zakah* institution based on monetary and non-monetary (multidimensional) poverty analysis would

[336] In Indonesia, it is very common to find the frontage of a house being used as a kiosk which sells, for example, daily essentials such as food, beverages and toiletries.

[337] A number of problems have been identified in the implementation of government poverty reduction programs, including corruption of the assistance (smaller quantity of cheap rice, lower amount of unconditional cash transfer, etc.) and poor targeting of the recipients (obtained by all people instead of just the poor).

provide important implications in designing an effective of the *zakah* institutions, which are elaborated after discussing the current model of *zakah* management in Indonesia.

9.3. Current Model of *Zakah* Management in Indonesia

The third research question of the study is related to the model of *zakah* management in Indonesia. In this respect, primarily based on the results of the semi-structured interviews discussed in chapter eight, a number of approaches in the strategic and operational management practices of the organizations are identified and their contributions to a successful *zakah* organization are critically assessed. Capacity and efficiency of the institutions are also estimated and linked with the management approaches adopted to provide more insights into the current model of *zakah* management in the world's largest Muslim country.

9.3.1. Strategic Management

Three aspects of strategic management have been discussed in this study, namely vision/mission, governance and planning approach adopted by the *zakah* organizations. First, with respect to the organizational vision/mission, social missions are evident from the vision/mission statements of the *zakah* organizations. [338] This is mainly indicated by the words frequently mentioned in the mission statements such as 'empowerment', 'prosperous', 'welfare', 'poverty alleviation' and 'justice'. While the missions are strongly consistent with Islamic values, as they should be, they are also geared towards improving the quality of life and subsequently reducing poverty, which has been noted by earlier studies as the main characteristic of a socially-driven organization (Vakil, 1997). Additionally, self-concepts such as 'professional,' 'trustable' and 'accountable' were also recurrently cited.[339] Clear social missions and self-concepts to achieve the missions considered key to a successful voluntary organization (Moore, 2003) are thus shown by the institution. These are important 'ingredients' and management aspects that, arguably, are often overlooked by *zakah* organizations in many Muslim countries, at least as documented by the existing literature related to the *zakah* institution.[340]

[338] See Table 8-1 and Table 8-3
[339] See Table 8-2 and Table 8-3
[340] As reflected in the literature review sections, most studies related to *zakah* are concerned with the *fiqh* aspect (for instance, Al-Qardawi 2000) and the administrative aspect (see, for example, Kahf 2000 and Imtiazi 1995).

The content analysis also suggests that the institutions generally have the same foundations, core activities and objectives in what they want to be and achieve through their activities.[341] This is reflected in, among other things, the focus on 'trustable' and 'professional' as self-concepts. Nevertheless, slightly different orientations were shown with regard to the organization's targets/outcomes. More 'philosophical' concepts such as 'pious' and 'justice' were frequently mentioned by the government agencies. In contrast, more technical terms such as 'optimized' collection of *zakah* proceeds were favoured by the corporate agencies. Moreover, empowerment and international orientations seem to be opted for only by the non-profit organizations.

In the context of *zakah* management, the focuses above could potentially influence the management direction and programs implemented. [342] The focus on the philosophical-religious concepts, for instance, seems to have a direct relationship with the implementation of numerous socio-religious programs by the government *zakah* bodies.[343] Similarly, an emphasis on the economic empowerment program shown in the mission statement is presumably related to the link between the corporate agencies and the (Islamic) financial institutions. Indeed, as will become clearer later from the overall analysis, the foundations also influence the management practices, particularly the operational aspects of *zakah* implementation in reducing poverty in the country.

The next important aspect of an organization is governance. In this respect, the study found relatively similar governance structures in the three types of *zakah* organizations. In general, the governance consists of a Board of Trustees, an Advisory Board and an Executive Board. These compositions are hardly surprising, as also noted by other studies (Alfitri, 2006; Salim, 2008), since they are required by the Indonesian *Zakah* Law No. 38/1999. The result is also consistent with common practice, particularly in countries where *zakah* is regulated by the state, where the governance structure usually follows the law's prescription (Ahmed, 2004; Al-Adi, 1995; Jamjoom, 1995; Kahf, 2000; Mohammad, 1995).[344] However, it was noticeable that the government agencies have a higher number of board members compared

[341] See Table 8-3 and Table 8-4
[342] See Appendix 8A regarding the profile and programs of the *zakah* organizations.
[343] See Appendix 8A.
[344] See explanations in section 3.2.2 and Appendix 3A for a brief survey of *zakah* management in 19 countries worldwide.

to the others.[345] The structure and size of the boards could potentially affect the planning and decision-making process in the Islamic organizations. [346]

It was also found that *shariah* scholars' position was honoured only by the non-profit agencies. Such a position did not exist in the other organizations, although some of the board members in the government agencies were known as *shariah* scholars outside the organization. As indicated during the interviews, the establishment was aimed at ensuring *shariah*-compliant practices and enhancing their credibility, which in turn increased the trust of *muzakki* and eventually resulted in higher *zakah* collections. This belief is quite rational and in line with the existing literature suggesting the importance of trust in maintaining supportive long-term relationships with donors (Anheier & Kendall, 2002; Sargeant, 2001; Sargeant & Lee, 2004; Tonkiss & Passey, 1999). This is particularly relevant for the organizations associated with religious institutions (Kasri, 2013; Mottner, 2008). While the studies noted that many factors might be contributed to the trust, ensuring *shariah* compliance is indeed an important start for a religious body such as a *zakah* institution.

The final element which is seen as an important aspect of the decision-making process is strategic planning. Two planning approaches were recognized from the analysis presented in chapter eight, namely the by-design approach and the by-flow approach. These terms were specifically mentioned by some of the respondents. Nevertheless, the approaches taken were similar to the general characteristics of the design school and the environmental school of strategic planning proposed by Mintzberg (1994). As far as this study is concerned, such approaches are barely recognized in *zakah*-related studies even though some studies mentioned that the general planning process was in place (Ahmed, 2004; Kahf, 2000).

Specifically, the former approach was usually adopted by the government and corporate agencies. Although this issue was not deeply explored during the interviews, the adoption of the model is presumably related to the organizational format and organizational culture, which relies heavily on a relatively structured process. Meanwhile, the use of both models in the non-profit strategic planning process seems to be associated with the flexibility inherent in the organization.

[345] It is notable that the mean numbers of board members are 9, 6 and 3 for the government, corporate and non-profit *zakah* organizations respectively. See detailed results in Table 8-5.
[346] The relationship is discussed in the next subsection.

Table 9-6: Planning Approach

Planning Approach	Methods for Program Generation
By-design	Adopting and modifying similar programs implemented by other organizations; improvement of the current programs; inspirations/analogies from religious stories particularly stories of the Prophet Muhammad (pbuh)*;* poverty and social mapping.
By-flow	Responding to the need of *mustahik;* input from *muzakki* and other external (third) parties.

Further investigation revealed a number of methods of generating program ideas associated with each approach (Table 9-6). While most of the methods have been discussed in chapter eight, it is noticeable that, under the first approach, the ideas sometime come from religious stories *(sirah nabawiyah)* as well as poverty and social mapping. The religious 'inspiration' is unique in the sense that it emphasizes the stories of the Prophet (pbuh) and the Islamic values inherently hold by *zakah* agencies -- something that distinguishes it from other institutions -- in the planning process. In most contemporary cases, few *zakah* organizations seemed to 'internalize' and use Islamic narratives in the management process in this way, as far as one can judge from the existing studies on *zakah* administration. It is believed that this process has a positive and important role in increasing the quality and capabilities of *amil*, which in turn contributes to higher satisfaction of employees and eventually to a successful *zakah* organization. In this context, the success of the non-profit agencies in collecting higher *zakah* proceeds[347] and, to some extent, the higher satisfaction of *zakah* beneficiaries in dealing with the agencies[348] may be associated with the human resource factor.

The use of poverty and social mapping as a planning mechanism implies that 'modern' economic tools have been utilized to identify concentrations of the poor and subsequently to design programs suitable for meeting their needs. Although this practice might not be new for the Muslim countries incorporating *zakah* in their macroeconomic policies, such as Pakistan and Malaysia (Arif, 2006; Hasan, 1987), this mechanism is arguably a relatively new practice amongst *zakah* organizations in Indonesia. During the interviews, it was mentioned as something that had emerged after economic crisis hit the country in 1998. As the government launched a national poverty reduction campaign in the face of massive poverty following the crisis, it also prepared comprehensive strategies and tools such as poverty mapping to pursue the objective. At the same time, Indonesian Muslims tried to find a solution to poverty through the *zakah* institution (Effendy, 2003). These 'coincidences' had presumably triggered

[347] See Table 4-7.
[348] See Table 6-16.

the focus on poverty alleviation as a social mission for the institution. Accordingly, the poverty/social mapping prepared by the government was utilized to achieve the socio-religious mission.

Other interesting methods are the input from *mustahik* and *muzakki* under the by-flow approach, which was commonly implemented by the non-profit *zakah* organizations. It is argued that the adoption of such mechanisms is an important factor for successful *zakah* organizations due to the higher flexibility inherent in the method. As suggested by previous studies, flexibility allows the introduction of innovation to the systems/processes, which eventually helps to achieve social objectives such as poverty alleviation (Ahmed, 2004). It may also help to enhance the institution's accountability practices since it enables the donors (and stakeholders in general) to participate in the decision-making process, which in turn increases the trust and loyalty of the benefactors (Sargeant, 2001). In accountability literature, this mechanism is known as participation mechanisms of accountability and has been associated with higher performance by non-profit organizations (Ebrahim, 2003a).

Additionally, an investigation linking the planning model with the size of the board suggests that larger boards seem to be correlated with the by-design approach. In other words, a larger board is positively associated with a more structured and relatively bureaucratic planning process. Such 'rigidity' was confirmed from the interviews with the management personnel from the government and corporate *zakah* agencies, which revealed, among other things, that longer stages (and amounts of time) are required to disburse *zakah* proceeds under the model.[349] In contrast, a smaller board size seems to enable a more flexible approach in the program planning and, subsequently, its implementation. Accordingly, accepting ideas from external parties in the program planning, as practised by the non-profit agencies, has been possible under this approach. Similarly, new and specific fundraising/distribution programs have also been created when events such as natural disasters or wars/conflicts occur. In line with the thinking that flexibility is an important factor in an effective voluntary organization (Ahmed, 2004; Moore, 2003), it seems that the non-profit organizations' approach to planning could contribute to a more effective model for poverty-focused *zakah* administration.

[349] Specifically, while referring to the internal guidance (SOPs) book, R11 (C2-1) mentioned that the disbursement of amounts above IDR 2 million (USD 222) requires approval only from the manager. However, if the amounts above IDR 10 million (around USD 1111) are disbursed, approvals from three board members are needed in addition to the manager's approval.

9.3.2. Operational Management

The next most important aspect of the management of the *zakah* institution relates to operations. Results of the thematic analysis suggested that each type of *zakah* organization has adopted somewhat different operational approaches (see Table 9-7). In collecting and communicating the programs and activities, the partnership/community-oriented approach has been adopted by the government and corporate *zakah* agencies. However, in terms of the distribution of *zakah* proceeds, similarities were found between the corporate and non-profit organizations, which have implemented the productive utilization approach. The distribution models are generally recognized by earlier studies (Beik, 2010; PEBS-FEUI & IMZ, 2010; Yumna & Clarke, 2011). However, the collection and communication approaches seem to have been barely documented in the current *zakah* studies.

Table 9-7: Comparing Operational Approaches of Different *Zakah* Administrations

Operational/Logistic Aspect	Government *Zakah* Organizations	Corporate *Zakah* Organizations	Non-Profit *Zakah* Organizations
Collection	Partnership (fundraising) approach	Partnership (fundraising) approach	Retail (fundraising) approach
Communication	Community-oriented approach	Community-oriented approach	Individual-oriented approach
Distribution/Utilization	Consumptive distribution approach	Productive utilization approach	Productive utilization approach

Under the partnership fundraising approach primarily implemented by the government and corporate agencies, the funds were mainly collected from partner organizations such as the government's working units and the corporation's business partners. These collaborations were quite intuitive considering their affiliation with the institutions. With their connections, they were able to influence the partners to channel *zakah* through their organizations. Indeed, for the government bodies, 'encouragement' through regulations (and automatic salary deductions) was even in place. This seems to be the most efficient and effective way of collecting *zakah*, as also practised in countries adopting the obligatory *zakah* system, such as Saudi Arabia, Malaysia and Pakistan (Ahmed, 2004; Kahf, 2000).

In contrast, the retail fundraising approach that relies on *zakah* paid by the general public was adopted by relatively independent institutions (i.e. not formally affiliated with any institution) such as the non-profit organizations. Similar conditions are commonly experienced by *zakah* organizations in Muslim minority countries such as South Africa and the USA (Manjoo, 2008; Zakah Foundation of America, 2012). While the potential amount of *zakah* generated

from the public is likely to be high, the costs of collecting the funds are usually high as well. Factors such as trust and credibility, which may be costly to establish, could also play important roles in the fundraising style (Anheier & Kendall, 2002; Sargeant & Lee, 2004). Therefore, the effectiveness of this method depends on many factors, particularly external factors that may be beyond the organization's influence.

The communication models are strongly related to the collection approaches. Indeed, consistent with the collection models, the government and corporate agencies have adopted the community-oriented communication model. Under this model, communication was primarily targeted to specific audiences or communities, particularly those affiliated with the agencies. As such, the communication media were commonly limited and used on a less frequent basis. This is arguably the most efficient way of promoting the *zakah* institution. In contrast, the individual-oriented or retail model focuses on communicating the message to individuals and the general public through mass communication. It was predominantly implemented by the non-profit *zakah* organizations and is considered to be a relatively expensive communication method.

The other important operational task is the distribution of *zakah* proceeds. In this respect, the results generally suggest that the government *zakah* agencies tend to implement the consumptive distribution approach whereas their non-government counterparts implement the productive utilization approach. The consumptive model was primarily associated with educational, healthcare and social programs. Meanwhile, the productive model was marked by an emphasis on economic empowerment and integrated programs. These models have been recognized in some studies (Beik, 2010; PEBS-FEUI & IMZ, 2010) although there was no clear explanation of the reasons for the adoption of the models.

This study, however, contends that there are at least three possible explanations for the approaches. First, the distribution model is strongly affected by the agencies' affiliation. The director of a corporate *zakah* agency, for example, mentioned that the focus on the economic program was primarily based on the fact that it is a social unit of an Islamic bank.[350] Similar experiences were indicated by the *zakah* units of Islamic banks in other countries such as Faisal Islamic Bank and Nassir Social Bank in Egypt (Kahf, 2000). Likewise, the focus on social/education programs implemented by the government institution was related to the attempts to contribute to the authority's countrywide social program, which is mostly

[350] See quotations in section 8.5.2.2.

consumptive in nature. This style is predominantly implemented in countries where *zakah* is controlled by the government (Imtiazi, 2000). Furthermore, in all cases, the affiliated institutions enjoy a good reputation when their social units provide support to the poor/needy. This provides an additional incentive to contribute to the welfare-oriented program conducted by the *zakah* organizations.

Second, the specific adoption seems to be a reflection of the targets/outcomes mentioned in the mission statement.[351] At the outset, it was quite obvious from the mission statement that the government agencies were not focused on distributing the funds through productive activities. Rather, they emphasized the outcomes such as pious and prosperous societies as well as characteristics such as becoming coordinators of *zakah* organizations. Therefore, not surprisingly, the consumptive style was predominantly adopted by the institutions. In contrast, economic and empowerment orientations were clearly described in the mission statements of the non-government agencies. This is presumably the main reason for the utilization of the productive model.

Third, it is also possible to link the distribution models with human resource management of the institutions. Intuitively, the consumptive model involves simpler tasks such as directly distributing money or in-kind support to *zakah* beneficiaries. Consequently, the human resource requirement will also be simpler in the sense that a relatively small number of staffs with some basic technical and/or communication skills will be sufficient for the tasks. These requirements match the profile of human resources of the government agencies.[352] Therefore, the tendency to implement the consumptive model could be justified. With a similar rationale, the productive utilization programs requiring more human resources with more/higher competencies could be associated with the non-profit and corporate agencies, which typically have many employees, who were required to have attended various training courses, and volunteers/partners with specific skills. Accordingly, it is possible to manage a relatively complex program under the productive distribution model.

The empirical investigations also identify some critical issues that potentially influence the operational activities in pursuing the poverty reduction objectives.[353] Firstly, although collection of *zakah* has increased significantly in the last few years, it was acknowledged that

[351] See again Table 8.1.
[352] As discussed in section 8.5.1, the government *zakah* organizations usually have a relatively small number of employees with simple compensation packages and relatively less frequent annual trainings.
[353] The overall findings have been discussed in section 8.7. The most important issues, however, are further discussed in this section.

the potential is yet to be achieved. However, unlike in other countries, where low *zakah* collections have been linked with limited types of *zakatable* assets based on the current *fiqh* interpretation (Kahf, 1989) or less effective methods of *zakah* collection (Abdu, 2009; Faridi, 1993), the inability to achieve the potential was mostly associated with the lack of knowledge and awareness of Indonesian *zakah* payers about paying anything other than *zakah al-fitr,* as was also found in Jordan (Benthall, 1999). To a lesser degree, the low collection rate may also be related to the administrators' ineffective communication with the 'captive market', which was also experienced in Malaysia (Othman, 1990).

Secondly, poor targeting of *zakah* recipients and the existence of *mustahik's* 'brokers' were identified. These problems have been documented in other countries such as Pakistan, Kuwait and Saudi Arabia (Al-Ajeel, 1995; Al-Sakran, 2001; Arif, 2006) and is said to be one of the main reasons for the ineffectiveness of the *zakah* institution in those countries. To solve the issue satisfactorily, systematic efforts i.e. from careful identification of the poor -as discussed earlier in this chapter- to monitoring/evaluating the performance of *zakah* organizations and eventually implementing a more effective *zakah* institution are needed. Furthermore, it is notable that the use of *zakah* for 'secondary' purposes such as financing activities related to (military) *jihad,* 'terrorism' and the political agenda found in other countries (Faridi, 1993; Pereire, 2007b; Wahab, *et al.*, 1995) was not in evidence in the case of Indonesia.

Thirdly, the importance of monitoring and evaluation has been overlooked primarily due to the lack of expertise required to conduct the activities. This issue presumably limits the ability of the *zakah* institution to have an impact, which in turn reduces the poverty alleviation effects expected from such an institution. Although very limited research on *zakah* has scrutinized the issue from this perspective (Farooq, 2008), such a problem has been experienced by many voluntary organizations worldwide (Anheier & Seibel, 1990). Despite this, the management of *zakah* organizations acknowledged that demonstrating the impacts would probably increase support for the organizations. The positive association between measuring and/or showing the impacts of voluntary organizations and higher support for them has been suggested by the existing literature (Anheier & Kendall, 2002; Sargeant, 2001; Tonkiss & Passey, 1999).

Fourthly, and slightly related to the previous issue, is the problem of increasing organizational capacity due to bureaucracy and lack of quantity/quality of human resources. Both issues have been noted in relation to the management of *zakah* by government

institutions (see, among others, Abdullah, 2010; Helal, 2012; Imtiazi, 2000). However, in the case of *zakah* administration in Indonesia, the problem appears to be more severe as senior human resources were often persuaded to move to other organizations by offering higher positions with higher salaries and benefits. Indeed, as reflected in the comments of one of the *zakah* management personnel interviewed, the 'competition' spirit seemed to be rather unhealthy and appeared to have discouraged the (potential) synergies between *zakah* organizations. This condition seems to contradict Islamic business ethics (Beekun, 1996). After all, *zakah* institutions are not profit-seeking institutions that must compete in a 'free market' to obtain the highest returns/revenues. This issue may indicate an urgent need to invest more in developing human resources to leverage the future potential of the *zakah* institution. Ignoring this issue, arguably, could weaken the position and potential of the *zakah* institution in achieving poverty reduction and other noble objectives.

Lastly, with respect to financial management, obstacles in cash/assets management and surplus of *zakah* were identified. Similar issues have been pointed out before and are believed to be responsible for the underdevelopment of the *zakah* institution in many Muslim countries (Shehata, 2000). In relation to this, higher administration costs, which decreased efficiency, were also mentioned by most of the management personnel interviewed.[354] This problem were also found in other countries (Hasan, 1987; Salama, 1990). These critical issues need to be addressed to increase the organizational performance and achieve the poverty alleviation mission.

9.3.3. Organizational Capacity and Efficiency

Capacity and efficiency are the widely used measures of organizational performance. In this study, the highest capacity for collecting *zakah* proceeds was demonstrated by the corporate agencies, with a recorded growth of 86.03%. The fundraising capacity shown is significantly higher than the national average of 44.44%.[355] Additionally, in terms of *zakah* distribution, the fastest growth of 240.69% was recorded by the non-profit organizations. [356] The capacities seem to be generally related to the operational management approaches adopted by the non-government organizations, which confirm the findings of earlier studies regarding worldwide *zakah* administration (Ahmed, 2004). Despite that, it appears that the existing *zakah* organizations have not optimized their potential capacities. This is resulted in, among

[354] This issue will be elaborated in the next sub-section.
[355] The national average is calculated and presented in Table 4-7.
[356] Detailed results are presented in Table 8-34.

other things, collection of *zakah* proceeds below their potential of around IDR 217 trillion suggested by a recent study (Firdaus, *et al.*, 2012), and a relatively moderate poverty reduction impacts shown by the recipients of *zakah* in 2011.

The corporate agencies were also found to be the most efficient *zakah* organizations. This is indicated by the efficiency ratio of 0.05, implying that IDR 1.0 has been collected for every IDR 0.05 spent on fundraising activities.[357] In other words, for every IDR collected, around 0.94 was allocated to program services. This amount is quite impressive and only slightly below the efficiency ratio of the largest *zakah* agency in the USA discussed earlier (Zakah Foundation of America, 2012). As for the non-profit and government agencies, the average fundraising efficiency ratios were 0.14 and 0.17 respectively. Relatively higher management costs shown by the government institutions were also documented in countries such as Sudan and Malaysia (Hasan, 1987; Salama, 1990).

The high collection capacity and efficient fundraising implemented by the corporate agencies is presumably related to the low administrative and overhead costs incurred by these institutions. It was revealed during the interviews that some crucial costs, such as rent and maintenance expenses, were borne by the parent companies. Indeed, all of the corporate *zakah* agencies have their headquarters in the building/property belonging to the parent institutions. As such, they did not have to pay any rental costs. Basic maintenance activities and the corresponding expenses[358] were also commonly paid by the parent companies. Thus, the agencies were able to maintain reasonably lower overhead costs which, in some other agencies, may have accounted up to half of the organizational expenditure.

The corporate agencies also seem to have implemented effective human resources management through the separation of managerial tasks from other specialized tasks. Indeed, the specialized tasks were usually carried out in collaboration with third parties. A small number of employees, just ten in one of the corporate organizations studied, and a few strategic partnerships were therefore sufficient to run the organization effectively.[359] Such 'specialization' seems to be in line with the spirit of the *al-Ashirin* concept and the administration of *zakah* implemented during the time of Caliph Umar bin Khattab (Al-Qardawi, 2000). Accordingly, human resource expenses could be managed efficiently, which in turn contributes to higher efficiency.

[357] Detailed results are presented in Table 8-35.
[358] These include, among others, the salaries of cleaners and office boys.
[359] See Table 8-9.

Moreover, the low cost of collecting *zakah* funds seems to be related to effective collection methods implemented by the corporate agencies. As explained earlier, the majority of the *zakah* payers were employees of the parent company and business partners of the agencies. The employees usually paid *zakah* by having it automatically deducted from their monthly pay. Similarly, the business partners commonly paid *zakah* online or through direct debits from their bank accounts. With this system, collecting *zakah* became easier and less costly compared to other methods such as home collections and opening counters in public places, as practised by the other agencies. Similar methods have been practised by many *zakah* institutions worldwide (Ahmed, 2004; Majelis Ugama Singapura, 2013b).

The other possible explanation is the effective communication approach. As the *zakah* payers have been clearly identified, presumably though appropriate identification tools suggested by the existing literature (Burnett, 2002; Kasri, 2013; Sargeant & Shang, 2010), the communication methods most suitable for them and most efficient for the organization (such as bulletin and SMS) can be specifically tailored.[360] These methods were significantly cheaper than utilizing other media such as television and newspapers commonly used by the other agencies. This communication method has been implemented by numerous *zakah* organizations, particularly the non-government agencies (Ahmed, 2004; Majelis Ugama Singapura, 2013b; Zakah Foundation of America, 2012).

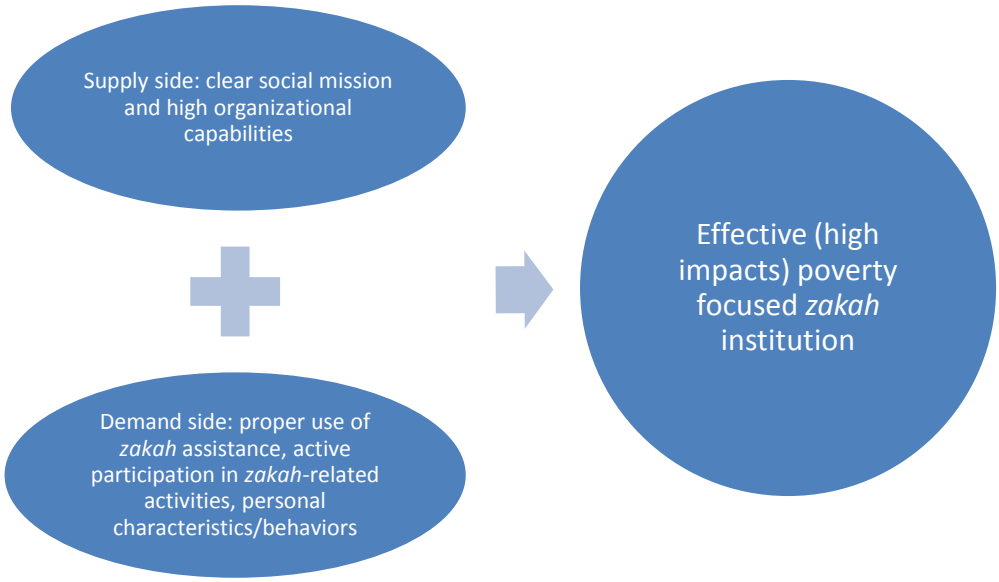
Overall, the findings of the study generally suggest that a capable and efficient *zakah* organization must be able to plan and subsequently maintain reasonable (low) overhead expenses. It should also implement effective methods to collect *zakah*, most notably through the use low-cost and targeted communication media. Finally, it should also able to maintain sensible costs for human resources through specialization and partnership strategies with other organizations.

[360] For example, since the major type of *muzakki* was employee communities, the communication media used were primarily low-cost mass media such as trimester bulletins. For the individual *muzakki*, short message service (SMS) was used to directly spread any necessary (promotional) message.

9.4. A Framework for Effective *Zakah* Management towards Poverty Alleviation: A Synthesis

Explanations and justifications regarding the conditions of the poor (*zakah* beneficiaries) as well as the impacts of the *zakah* institution in reducing poverty given the current management models of *zakah* in Indonesia have been discussed in the previous sections. Social missions to alleviate poverty and organizational/operational capabilities to achieve the missions, two key success factors for an effective *zakah* organization suggested by the literature (Ahmed, 2004), have also been critically assessed, and their implications for an effective *zakah* implementation have been briefly discussed. This section, therefore, attempts to reflect and provide a synthesis from the overall findings.

Figure 9-4: Interactions between Demand Side and Supply Side in *Zakah* Implementation



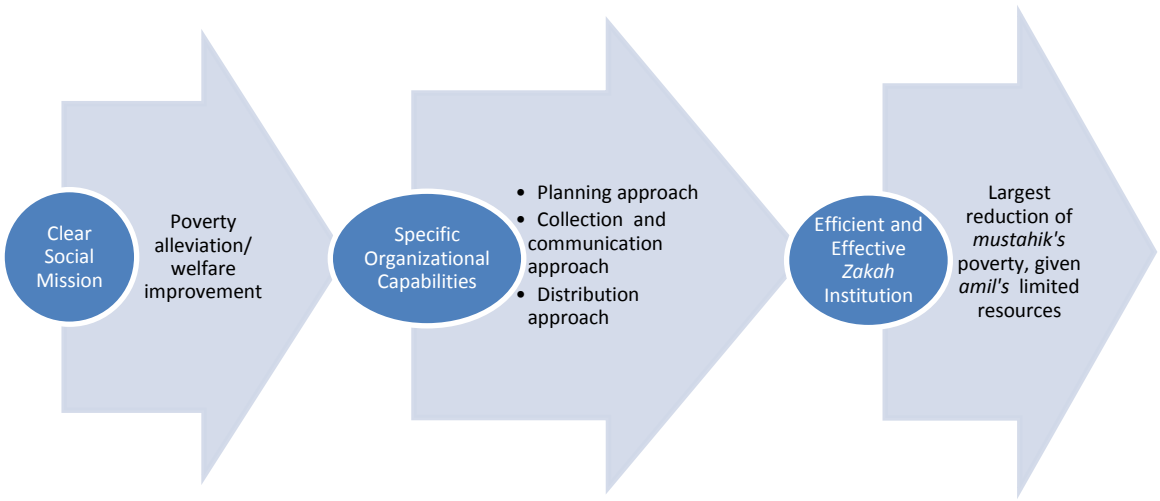
Source: Author's Own

Based on the analyses, the interactions between *mustahik* (demand side) and *amil* or *zakah* organizations (supply side) which lead to the largest poverty reduction impact and the highest improvement in the household multidimensional wellbeing/poverty can be portrayed in Figure 9-4. It is argued that an effective framework for poverty-focused *zakah* implementation relies on two critical and interrelated factors, namely high organizational/operational capabilities and positive characteristics/behaviour of *zakah* recipients. The organizational capabilities are reflected in its approaches to implementing and achieving the social mission. Meanwhile, primarily based on the survey results, the positive behaviours include, among others, proper use of *zakah* assistance for the intended purposes,

active participation in *zakah*-related activities, and positive attitudes related to personal/household characteristics and conditions.

While the two aspects seem to be obvious critical factors to the success of any voluntary organizations in realizing their goals, it is believed that the approaches adopted by the *zakah* management (i.e. the first critical factor) as well as the characteristics of *zakah* recipients in Indonesia (i.e. the second critical factor) are relatively distinctive. The differences happened as they are shaped by the conditions of society in world's largest Muslim country. Not only that, they seem to be interrelated and influenced by the 'dynamic' government policies with respect to *zakah* management in the country. Accordingly, they need to be understood properly prior to designing and implementing an effective *zakah* institution in Indonesia.

Figure 9-5: Key Success Factors for an Effective *Zakah* Management



Source: Author's Own

Figure 9-5 describes the framework outlining the key success factors for an effective poverty-focused *zakah* management.[361] A clear social mission is of the utmost importance due to its role in directing the organizational resources to achieve specific objectives. In this context, the main objective is the alleviation of poverty and suffering of disadvantaged people. Once the mission is understood, organizational capabilities need to be improved to suit the organization's limited resources and adjusted with the society's cultures/conditions. It is also

[361] While it is realized that external factors indeed play important roles in the livelihoods of poor households, they are not shown in the illustrated figure for simplification purposes.

believed that the poverty reduction impacts will be higher if external factors such as favourable economic conditions and government support can be maintained.[362]

Specifically, in relation to the organizational capabilities, the following conditions are suggested as important dimensions for an effective poverty-focused *zakah* organization aiming to deliver the highest welfare improvements for the recipients.

- Structured planning with a considerable degree of flexibility in certain critical processes/procedures. This approach allows the management to make proper planning for their regular programs, while at the same time preparing for incidental programs particularly in response to the urgent needs of *mustahik*. It also takes advantage of some specializations in the human resources management as well as proper monitoring/evaluation and accountability processes that consider appropriate poverty reduction measures.
- A partnership fundraising approach with the capability to raise a large amount of *zakah* proceeds from a relatively small number of institutions or communities with a large number of members. In this way, fundraising efficiency could be achieved.
- A community-based communication approach that employs educational campaigns and promotional messages targeted at specific communities with a large number of members. This approach is suited to the nature and culture of Indonesian societies, who like to establish interest groups and tend to be more responsive to the 'news' from their community members. It is also relatively less costly to maintain.
- A productive utilization approach that focuses on the integrative/comprehensive economic empowerment program, which combines economic assistance with the provision of basic necessities such as education for children and healthcare assistance. With this approach, as has been empirically proved in this study, the impacts would be felt not only in the economic dimension but also in other wellbeing dimensions.
- Efficient and prudent financial management according to the existing conditions and the relevant regulations.

It is also worth noting that the highest poverty reduction impacts expected from a *zakah* institution do not seem to be strongly depending on a specific type of *zakah* organization or specific management approaches. As is evident in this study, different structures of *zakah*

[362] Although these do not form the main focus of the study, some perspectives on how to limit the negative influence of the external factors will be discussed and/or recommended in the last chapter.

organizations have implemented effective management in different aspects. For example, in collecting *zakah* proceeds, the partnership approach adopted by the corporate *zakah* agencies has successfully increased the organizations' fundraising capacities. However, in terms of *zakah* distribution, the productive utilization approach implemented by the non-profit organizations has had the largest poverty reduction impacts on the recipients. Thus, a *zakah* organization could perform very well in one management aspect yet achieve relatively standard performances in other aspects.

Nevertheless, if the non-government (i.e. corporate and non-profit) organizations are compared with the government organizations, there are some indications that the former has provided larger poverty reduction impacts in Greater Jakarta in 2011. This is shown by, among others, the lower probability of being poor in education dimensions among the beneficiaries of the non-government agencies. Similarly, the recipients of economic assistance from the corporate organizations are less likely to be poor than the others. These results are in line with the findings of Ahmed (2004) in Malaysia, which lead to a conclusion that the management of *zakah* by non-government organizations tend to be more effective than the government *zakah* administration.

Furthermore, in relation to the *muzakki* characteristics/behaviours, the productive transformation process is arguably the key to reducing household poverty. The mechanism enables positive resources or endowments (assets, good education, good health conditions, large household size, etc.) to be 'leveraged' through the provision of appropriate *zakah* assistances ('interventions'), or at least provides access to the appropriate assistances (from government and other relevant agencies), such that the capabilities to improve wellbeing (high motivation, spiritual support, technical/business skills, etc.) can be enhanced and severe poverty conditions can eventually be reduced. This is believed to be the essence of the capability approach applied to alleviate the poverty of the *zakah* recipients.

All in all, it is believed that the implementation of the framework proposed above would lead to an effective *zakah* institution which is able to provide the largest poverty reduction impacts to the recipients. Accordingly, the existing *zakah* organizations need to evaluate their current management practices -including those directly related and potentially contribute to improve the behaviours of *zakah* recipients- and subsequently consider modifying the approaches which have proven to be ineffective to reach their missions. In other words, considering the current capacities of the organizations, there is a room for the *zakah* management to enhance

their management practices and achieve better results in each of the management aspects scrutinized. Despite that, a number of obstacles need to be addressed by the organizations. Further contextualization and future challenges faced by the Indonesian *zakah* institution is discussed in the next section.

9.5. Further Reflections on *Zakah* and Poverty Alleviation in Indonesia

Given the current approaches in managing the *zakah* institution in Indonesia, discussions in the previous sections have discussed the characteristics of the poor *zakah* recipients and the impacts of *zakah* on their poverty/wellbeing. This section, therefore, provides further contextualization and reflection of the findings.

9.5.1. Identification of the Poor and Measurement of Poverty: Implications to Enhance the Effectiveness of Poverty Focused *Zakah* Institution

The overall findings of the study, particularly those related to the identification of the poor and the measurement of poverty/wellbeing changes,[363] provide at least three broad implications for enhancing effectiveness of *zakah* institutions in Indonesia. First, the identification of the poor and the measurement of poverty/wellbeing provide direct and valuable information to increase the effectiveness of *zakah* targeting. This is quite intuitive considering that proper identification of the poor would enable the institution to design and target appropriate programs and 'interventions' to the recipients. Without a proper targeting, problems such as provision of *zakah* to undeserving recipients or rich people –as documented in this study- might happen again in the future. Indeed, it is advocated that understanding the determinants of poverty (i.e. identification of the poor) is an integral process to find the most workable solutions to the problem.

Furthermore, information from the poverty index calculated overtime (i.e. usually before/without and after/with the interventions) is also important to increase efficiency of the resources allocated to the programs and evaluate the effectiveness of the program implemented. By way of illustration, the finding that the *zakah* supports has enabled an average decrease in the household nominal poverty gap from IDR 393,835 (USD 43.76) to IDR 320,467 (USD 35.61) on a monthly basis[364] implies that the latter figure is actually the monthly amount needed to move a poor household above the poverty line. Thus, this is the

[363] See Section 9.1 and 9.2.
[364] See Table 7-2.

amount that should be allocated for the program. Accordingly, proper identification/targeting of the poor and accurate measurement of poverty/wellbeing could enhance the institution's effectiveness in achieving the poverty alleviation mission.

Second, once the poor has been correctly identified, it is necessary to provide the supports most appropriate with the condition of the households and the communities where they live. Providing the supports not needed and/or not requested by the recipients would arguably trigger the problem of misuse of *zakah* assistance and subsequently reduce the poverty reduction impacts expected from the assistances. Recognizing whether the communities where they live would be supportive for the implementation of particular *zakah* disbursement programs is also important, most notably for programs such the group-based Islamic microfinance whose success is partially determined by the environmental factor. Providing the appropriate support is therefore important not only in its own right, but also to ensure that the misuse of *zakah* assistance could be prevented in the future.

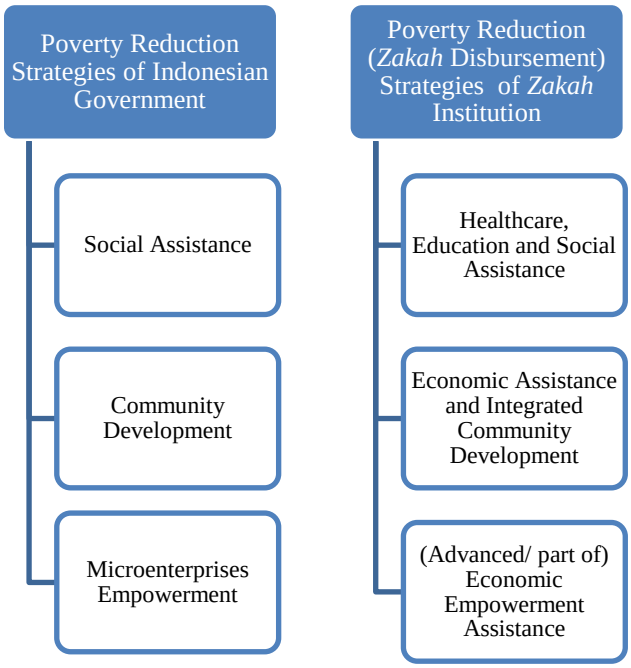
Finally, it is also notable that the poor *zakah* recipients are relatively vulnerably to poverty due to various internal and external factors such as death of family member and loss of job. This implies that any sudden changes in the critical factors could make the non-poor to be poor, and *vice versa*. *Zakah* institutions could help addressing some of the problems by providing –or at least opening access to- appropriate (emergency) assistance to relief the short term need of the poor. Thus, while the elimination of poverty is important, it is equally important to prevent the near-poor and vulnerable households from being poor (again) through the *zakah* assistance. Such interventions could be done effectively if proper identification and targeting of the poor *zakah* recipients could be conducted by the institution.

9.5.2. Capacities of *Zakah* Institution and Their Implications for Poverty Alleviation Strategies in Indonesia

It has been discussed earlier that the poverty reduction impacts enabled by the assistance provided by the *zakah* institution were slightly higher than the impacts of government poverty alleviation programs.[365] It was also found that such impacts were influenced by the capacities of *zakah* organizations, which were obtained as a direct result of the current management approaches adopted by the agencies.[366] The main findings of this study provide several implications and lesson learnt for poverty alleviation strategies in Indonesia.

[365] See Table 9-1.
[366] See Section 9.3.

Figure 9-6: Comparison of Government and *Zakah* Institution Poverty Reduction Policies



Source: Author's Own

At the onset, as illustrated in Figure 9-6, it is evident that the strategies and programs implemented by the *zakah* organizations have many similarities with the government poverty alleviation strategies. The government's social assistances in terms of cash assistance, provision of cheap rice and scholarship for children of poor families are relatively similar to the healthcare, education and social assistance provided by the agencies. Albeit not entirely identical, the government's community development programs aimed to increase income and purchasing power of the poor also resemble with the economic and integrated community development programs implemented by the *zakah* institutions. Likewise, the government's microenterprise empowerment –mainly executed in form of the cheap credit for poor people program- is comparable and consistent with the Islamic microfinance program under the advanced economic *zakah* assistance.

An important implication of the findings would be a potential synergy between *zakah* organizations and government institutions. The synergy could be done in many aspects, ranging from identification/targeting and provision of assistances to the poor to monitoring/evaluating of the implementation of the poverty reduction programs. Collaboration in the targeting aspect, for example in terms of creating and using the same

database of the poor, may avoid potential problems (such as not providing assistance to the poor or providing multiple assistances to the same household) and thus increase effectiveness of the policy targeting. During the policy implementations, it is also possible to provide more supports to the poor by combining the resources (financial, human resources, etc.) possessed by both institutions and distribute more assistance to the poor. Furthermore, since *zakah* institutions usually have fewer facilities than government, the synergy could be done by opening more access to the government's facilities for the poor who cannot be fully supported by the former. In contrast, since the latter tends to be more bureaucratic in administering the poverty reduction policies, *zakah* officers could be expected to assist in checking and ensuring that the programs are properly implemented in the field. Overall, the synergy could potentially improve the effectiveness of poverty targeting, enhance the quantity and quality of the assistance provided to the poor and ultimately increase the poverty reduction impacts expected from the poverty alleviation policies.

Despite the potentially significant benefits offered by the synergy strategy, it appears that such synergies were not easy to be implemented. Instead, most of the management personnel of *zakah* organizations interviewed implicitly suggested that a favourable future strategy would be to pursue a 'specialization' strategy. The specialization strategy, which tends to minimize collaborations with government institutions, is preferable than the synergy strategy for several reasons. First, the specialization strategy would enable an easier/simpler administration of *zakah* programs which is critical to ensure proper implementation and achievement of the poverty alleviation mission. It is widely known that government agencies tend to be bureaucratic in many aspects, including in the formulation/implementation of its strategic management. Indeed, some of the *zakah* agencies (including the government *zakah* bodies) have reported that they experienced many difficulties in dealing with and meeting the government's requirements which in turn have led to the failure of implementing potentially beneficial collaborative programs for the poor.[367] Thus, implementation of the specialization strategy could avoid such problems in the future. Second, the specialization strategy is believed to result in a more accountable and trustable *zakah* institution. As it primarily involves the resources managed/controlled by the *zakah* agencies, it is intuitive that the organizations could be held more accountable for the strategies and programs conducted as well as the results achieved. These are expected to create a more trustable *zakah* institution. Lastly, considering the constant changes in various aspects related to government institutions

[367] See the analysis presented in Section 8.4.

in Indonesia,[368] it seems that the specialization strategy is 'saver' and could minimize the risk of failing to satisfactorily ease the burden and supports the poor.

While both strategies have several advantages and disadvantages, it seems that in the short run the specialization strategy is more appropriate in the current context of *zakah* implementation in Indonesia. The strategy is also more 'do-able' than the synergy strategy, which theoretically offers many benefits yet in realities -based on past experiences- tend to be problematic in the implementation. Thus, it could be suggested that the specialization strategy would enable the institution to maximize its capacities and successfully achieve its poverty alleviation mission in the short run. Furthermore, at the moment, this is arguably the most workable solution and strategies for the institution to achieve its poverty reduction objectives. Nevertheless, considering that there have been constant changes in the Indonesian political/legal and economic aspects, this is not a fixed option that could not be altered. Therefore, in a longer run, the synergy strategy must be pursued to enable greater impacts for the poor.

[368] A notable change in the government related aspect is the change in the *zakah* law, which is briefly discussed in chapter 4 and chapter 8. Another important and most recent change is the election of new Indonesian president in July 2014. The elected president, Joko Widodo (to be inaugurated in October 2014), is known in the past to be a successful businessman and mayor in one of Indonesia's city. He is also seen as a pro-poor and less bureaucratic person. Therefore, people have speculated that he would not favour to more state/government involvement in matter such as *zakah*.

Chapter 10 Conclusions and Recommendations

The final chapter aims to summarize the overall findings and analysis discussed in the previous chapters as well as establishes the implications and recommendations of the study. This chapter begins with a brief overview of the study. Alongside the summary, the implications and relevant recommendations for various stakeholders of *zakah* institution are also discussed. The final sections offer brief directions for future research and contemplate the overall research work.

10.1. Overview of Research Findings

This study explores and systematically analyzes the contributions of the *zakah* institution in alleviating poverty in the context of *zakah* implementation in Indonesia. To address the issue comprehensively, it started by addressing the research questions in the introductory chapter. Afterwards, it reviewed numerous items of literature related to the concepts of poverty and *zakah* in order to form the foundations of the study. The aspects of poverty such as definitions, measurements and determinants of poverty as well as global poverty alleviation strategies were evaluated from both conventional and Islamic perspectives. Similarly, in addition to discussing the technical/law (*fiqh*) concepts and impacts of the *zakah* institution, the study briefly surveyed the worldwide implementations and management of *zakah* from historical and contemporary points of view. Linking the two broad concepts in chapter four, the study subsequently reviewed the profile of poverty and the development of the *zakah* institution in Indonesia as the research area.

Given the conceptual frameworks and knowledge of the research context above, the research methodology was elaborated in chapter five. In this regard, the mixed method research design, which allows triangulation of the results from quantitative and qualitative methods, was selected as the most appropriate method to achieve the research objectives. Under this method, the research instruments utilized were questionnaires (interview-administered questionnaires) for the *zakah* recipients and semi-structured interview guidelines for the management personnel of *zakah* organizations. The questionnaire-based survey was conducted through the multistage cluster random sampling method, whereas the interview data were collected using the purposive sampling methods. As for the data analysis, both quantitative and qualitative methods were employed. Under the former, the main methods

used were descriptive statistics, inferential statistics (analysis of variance and logistic regression), poverty index and financial ratio analysis. Meanwhile, under the latter, thematic and content analyses were performed. The mixed and rich analytical methods were expected to generate high-quality data and comprehensive analysis which would address the research questions satisfactorily.

The empirical findings were systematically explained in three chapters. The first empirical chapter explained the demand side of *zakah* implementation through the identification of the recipients' characteristics and the determinants of their poverty conditions. In general, most of the poor households were led by someone relatively young, female, married, relatively uneducated and not working. The households were also relatively large in size, had members with poor health problems and suffered from a lack of assets (including low incomes). More formal examination of the determinants of poverty prior to the receipt of *zakah* assistance, which was conducted in the next chapter, generally confirmed the descriptive results and suggested that the likelihood of being poor was related to younger age, lack of education, less formal occupation and smaller household size. However, mixed evidence was found regarding significant differences in the above characteristics amongst the recipients of *zakah* from different agencies. Towards the end, a number of issues related to poverty conditions mentioned by the *mustahik* during the fieldwork were discussed. The issues included, among others, vulnerability due to internal shocks (debt, poor health, death of family members, etc.) and external shocks (inflation, accidents, etc.). Some concerns over aspects of *zakah* assistance (application process, sustainability of *zakah* assistance, etc.) were also briefly discussed.

The impacts of *zakah* institution on the household's poverty and wellbeing were carefully examined in chapter seven. Assessments of the economic/monetary impacts suggest that the institution has contributed significantly to reducing the incidence, depth and severity of poverty as well as the time needed to escape poverty. Empirical evidence was also found on the roles of *zakah* institutions in improving the wellbeing of households in health, educational, spiritual, economic and social dimensions particularly in improving school attendance (education), harmony amongst family member (social) and health awareness (health). While the impacts of *zakah* assistance-related factors seem to vary in different wellbeing dimensions, there were some indications that the households receiving economic assistance as well as actively participating in Islamic/Qur'anic study and supervised meetings are less likely to be poor compared to the others. There was also some initial evidence that

the improvements in health and educational conditions felt by the households are related to the healthcare and educational assistance provided by the institutions. Overall, these results imply that the highest poverty alleviation impacts were associated with the (integrated) economic *zakah* assistance rather than the types of organizations providing the support.

The last empirical chapter examined the supply side of *zakah* implementation through an exploration of the management practices of *zakah* organizations in Indonesia. Based on the semi-structured interviews with the management personnel, the study identified the management approaches related to strategic planning (by-design and by-flow approaches), collection (partnership and retail fundraising approaches), communication (community-oriented and individual-oriented approaches) and distribution of *zakah* proceeds (consumptive and productive utilization styles). The investigation also suggests that different types of *zakah* organizations have adopted different approaches to the management aspects above with considerable degrees of success. Furthermore, some areas of concern such as the existence of *zakah* 'brokers', poor targeting of *zakah* recipients, misuse of *zakah* proceeds and inefficient financial management were identified. Lastly, the capacity and efficiency of the organizations were estimated. The results suggest that the corporate *zakah* agencies have the highest fundraising capacity as well as the most efficient type of *zakah* organization, whereas the non-profit organizations have the highest distribution capacity.

In light of the research questions addressed in this study, chapter nine provides rationales for the empirical results by contextualizing the findings of this research. The findings were also compared with previous key literature in order to determine the similarities or differences with the existing key literature. Broadly speaking, the findings of this study are generally consistent with the previous literature, particularly regarding the determinants of poverty and the economic impacts of *zakah* on the aggregate welfare of the beneficiaries. Nevertheless, the study also produced a number of interesting results including the productive transformative or capability enhancement process in relation to wellbeing changes and the 'multiplier effect' associated with integrated economic *zakah* assistance.

Towards the end, the overall analyses were synthesized into a framework for an effective poverty-focused *zakah* management in Indonesia. From an organizational perspective, it was argued that an effective poverty-focused *zakah* management is characterized by (i) a structured planning with considerable degrees of flexibility in certain critical processes/procedures, (ii) a partnership fundraising approach with the capability of raising a

large amount of *zakah* proceeds from a small number of *zakah* payers, (iii) a community-based communication approach that employs educative campaigns and promotional messages targeted at specific communities with large numbers of members, (iv) a productive utilization approach that combines economic assistance with provision of basic necessities, and (v) efficient and prudent financial management.

10.2. Implications of Research

This study carries multiple implications and recommendations for various *zakah* stakeholders, particularly the management of *zakah* organizations and the relevant policy-makers. As each stakeholder is expected to contribute to the yield, the following discussions identify the potential contributions of the stakeholders in strengthening the roles of *zakah* in poverty alleviation, particularly in the context of Indonesia.

10.2.1. Implications for Management of *Zakah* Organizations

Findings and analyses of this study highlight a number of research implications directly related to the management of *zakah* organizations. These issues should be carefully considered by the *zakah* management in order to enhance the effectiveness of a poverty-focused *zakah* administration.

1. **Paradigm shift and higher commitments towards poverty alleviation mission**

   It is generally believed that the *zakah* institution is the main Islamic instrument for poverty alleviation. However, in practice, this belief is not shared by the general public including some of the *amil* (personnel of *zakah* management). Some *zakah* agencies also doubt this idea, as reflected in the vision/mission statements, programs and interview results. Without this 'paradigm' and commitment to implement the belief, it is unlikely that *zakah* will contribute significantly to poverty reduction even on a micro scale. Therefore, it is crucial to 'inculcate' the idea that the institution can and should be used to fight the problem of poverty. As a starting point, the paradigm shift can be set in motion through the setting of clear, poverty-focused vision/mission statements which becomes a part of the organization's strategic management.

   The doubts expressed by the public may be related to a number of factors, one of which is the lack of empirical evidence that the *zakah* institution has been successfully contributing to the alleviation of poverty including in Indonesia. In this respect, the management are recommended not only to strategically plan more poverty-focused

programs for the poor but also to evaluate the impacts of such programs on the lives of the beneficiaries. Thus, emphasis should be placed on the outcomes of the programs (i.e. the impacts) rather than the outputs (i.e. the number of programs, number of beneficiaries, etc.). In relation to this, although there are many methods of deriving the appropriate program ideas, reflections from religious stories have proved to be an inspiring and effective way of strategically planning the programs. Furthermore, it is necessary to gradually increase the share of resources, particularly financial resources, for poverty-focused programs. Once the programs are in place, it will be necessary to properly evaluate the impacts of *zakah* in reducing poverty and increasing the welfare of the poor. Finally, it will be necessary to publish the impacts/results to the general public not only as part of the accountability practices but also as a way of inducing the paradigm shift.

2. **Enhance quality of human resources**

High-quality human resources are the key to success for any institution. Indeed, this factor is particularly important for *zakah* institutions which believe that their human resources (*amil*) are not only employees but also spiritual friends of *mustahik* and *muzakki* and even role models in a Muslim society. Nevertheless, it is acknowledged that enhancing such quality to meet those expectations is not a simple task.

While there are many ways of addressing the issue, at least two broad strategies can be inferred from the findings and analyses of this study. One way is to improve the employee's compensation package. In this respect, it is possible to offer various benefits according to the employee's needs. For example, as has been implemented by some agencies studied, housing loans could be offered to those who do not yet have their own houses. Health insurance could also be provided to employees and their families as this is a basic need that is directly related to work performance. It is also possible to provide educational support for those interested in pursuing higher qualifications. These strategies might also be expected to reduce the high employee turnover problem reported by some *zakah* organizations.

Another possible strategy is to increase the quality and quantity of training courses as a major part of employee improvement programs. In addition to the existing technical training (i.e. accounting, IT, etc.), it is recommended that additional training be conducted related to evaluating the impacts of *zakah* in reducing poverty among the recipients which potentially increases donors' trust in the institution. Training related to soft skills (i.e. communication, motivation, negotiation, etc.) is also increasingly important to encourage positive attitudes and increase the motivations of the *amil*, which will in turn influence

the fundraising results positively. Thus, there is a need to provide more diversified and perhaps more frequent trainings to increase the skills and capabilities of the employees. However, the implementation may need to be adjusted according to the organization's resources.

3. Maximize potential of *zakah* collections

It was acknowledged that the current collections of *zakah* are well below their potential both nationally and specifically for each *zakah* organization studied. Thus, it is necessary to maximize the potential of *zakah* collection. At the macro level, this could involve more frequent and widespread campaigns to educate and increase awareness among *muzakki* to pay *zakah* through formal *zakah* agencies. The national campaigns should not only persuade Muslims to pay *zakah,* but should also aim to educate and inform the public about the positive contributions of *zakah* to attacking poverty – which is seen as a threat to the Islamic way of life – and improving the wellbeing of the beneficiaries. It should also be possible to identify the behaviour of *zakah* payers, perhaps through a national-scale survey, and publish the information for the use of the public (including *zakah* organizations). This has been done in many countries, including the US, UK and Canada, and has brought great benefits to many charities by improving the effectiveness of their marketing strategies. Finally, regulations and law enforcement could make an additional contribution to increasing the fundraising.

Similar campaigns could also be conducted at the micro level by each *zakah* organization, although the national programs outlined above could presumably help the agencies to bring down the fundraising costs. More practically, *zakah* collections can be increased by (i) maximizing the potential of the existing *muzakki* communities, such as employees of the parent and partner companies, (ii) increasing the scope of *muzakki* and donors to include more communities and institutions, (ii) employing more synergies with relevant institutions/units primarily within the parent/affiliated company,[369] and (iv) maintaining trust and long-term supportive relationships with *muzakki* through greater transparency and better accountability practices. Thus, a partnership fundraising approach and better accountability practices are recommended as essential to achieve the desired results.

4. Improve effectiveness of *zakah* campaigns/communication

It is notable from the findings that communication has been an important issue in *zakah* management due to its role in enhancing people's awareness to pay *zakah* through formal

[369] These include, among others, branch office, marketing, communication, and corporate social responsibility (CSR) units.

organizations and subsequently in increasing *zakah* collections. However, communication requires a lot of resources and is very costly if conducted all around Indonesia by individual *zakah* organizations. Therefore, collective actions through the national programs mentioned above[370] are necessary to educate *zakah* payers and spread imperative messages such as the importance of *zakah* for poverty alleviation.

In relation to this, it is possible to run the campaigns through a centralized organization. A possible institution that might be asked to perform this task is the government's National *Zakah* Board (BAZNAS). Indeed, according to the *zakah* law, one of its duties is to educate the public about their *zakah* obligation. Another institution suitable for this task is the *Zakah* Forum (FoZ). Institutional commitments, however, are presumably needed before the collective actions can be implemented.[371]

5. Improve effectiveness of *zakah* distribution

While the main finding of the study suggest that *zakah* organizations in general have been relatively effective in distributing the assistance, it is possible to improve the current practices in several aspects as follow.

a. Allocate more resources to the integrated programs

This study shows that integrative economic assistance programs are likely to be the most effective programs and will have the greatest poverty reduction impacts on the wellbeing of poor households. Under these programs, economic incentives usually work alongside assurances that essential needs such as education and healthcare will be fulfilled. As such, maximum effects on the recipients' welfare could be generated not only in the economic dimension but also in other dimensions (health, education, spiritual and social). Acknowledgement of these impacts should provide a stronger justification for the management of *zakah* organizations to allocate more resources to such programs.

b. Improve effectiveness of *zakah* targeting

Another important part of the *zakah* distribution process is identification of the poor. In this respect, the study revealed poor targeting of *zakah* recipients which in some

[370] See explanation in point (3) above.

[371] It was revealed during the interviews that, on the one hand, the national body received a very limited budget to perform the task and was therefore rather reluctant to spend too much of the *zakah* payers' money on such campaigns, particularly through the (expensive) mass media. On the other hand, the non-government *zakah* agencies, which have relatively more flexible budgets, were afraid to join the collective campaign due to the belief that the targeted campaigns would reveal their donor databases and subsequently reduce their fundraising results. A common consensus and perhaps some adjustments are, therefore, needed before taking this kind of collective action.

cases involved the so-called 'brokers' of *zakah*. Some of the *zakah* beneficiaries also suggested that the *zakah* application process was relatively complex and time-consuming. In regard to these interrelated issues, it is necessary to improve the effectiveness of the *zakah* targeting by addressing the problems above. For example, the application process could be simplified in order to reduce the 'need' for the services of the *zakah* 'brokers' and subsequently increase the satisfaction of *mustahik*. Should, for some reasons, the organizations have insufficient resources to conduct the process satisfactorily, it would be possible to collaborate with a trustworthy third party officially appointed to perform the selection process.

Additionally, as this study discovered the main characteristics of the poor (i.e. the recipients of *zakah* are the households led by someone relatively young, female, married, relatively uneducated and not working; have a large household size, poor health conditions and a lack of assets), attention should be focused on these people. On the basis on these findings, it is suggested that the aforementioned groups of people be prioritized for receipt of *zakah* assistance. The results also imply that the identification could be put to practical use as additional criteria for selecting *zakah* recipients. For example, productive and unemployed poor *mustahik* could be prioritized as recipients of economic assistance programs as they are more vulnerable to poverty than the others.

Another method of improving the targeting mechanism is to adjust the assistance provided according to the conditions of the households and the communities in which they live. For example, productive economic programs are suitable for households with unemployed members and living in communities supportive of the program. Thus, the group-based (Grameen-like) Islamic microfinance program is presumably more suitable for those living in communities that enable such a group to establish itself and flourish. Similarly, social assistance should be primarily directed to those who really cannot afford to work, such as old people or people with disabilities. However, if for some reasons they prefer to work, it would be better to provide them with appropriate jobs/activities that would enable them to retain their dignity while earning income for the household.

c. Provide more and better access to the needed services, including in coordination with government

The fieldwork discovered that many of the *zakah* recipients were vulnerable to poverty due to internal and external factors. In this respect, it is important that the

near-poor households are prevented from being poor (again) such as by providing them with more access to the services they need. For example, since vulnerability is related to poor health conditions, it is possible to provide a wider range of health assistance. It may also be necessary to provide more information on health facilities, not only those provided by the organizations but also those provided by the government. In certain conditions, advocacy and informative assistance such as support to gain better access to the government's health facilities may be necessary since the government usually has better health facilities than other institutions. The poverty-oriented programs and activities appropriate for the conditions of the poor will provide more effective means of improving their welfare.

6. Improve effectiveness of monitoring/evaluation

Most of the organizations studied have implemented some kinds of monitoring/evaluation tools in their organizations. However, problems such as leakage and misuse of *zakah* proceeds still occurred. Moreover, the impacts of *zakah* on poverty/wellbeing of the recipients were rarely measured. Therefore, it is necessary to improve the monitoring/evaluation practices of the institutions.

While there are many ways of improving the practices, at least three strategies can be inferred from the findings and analyses of this study. First, the leakage problem due to existence of the brokers of *zakah* and unofficial volunteers could be prevented by distributing the assistance directly by *zakah* officers or official third party. This is expected to minimize the possibility that the brokers involve in the distribution of *zakah* and subsequently take personal gain from their activities. Furthermore, as the new accounting standard for *zakah* management which addressed the project expenses issue is already in place, implementation of the standard should also reduce the administrative problem found to trigger the leakage.

Second, to prevent the issue of misuse of cash *zakah* proceeds, it might be necessary to clearly explain the purpose of the assistance provided at the time the cash assistance is provided. If needed, it is possible to ask the recipients to commit themselves in using the assistance/money according to the intended purposes. In a group setting, such as under the Grameen-style Islamic microfinance program, the commitment could be enhanced through 'monitoring' by other group members. Although simple, the 'commitment-seeking' method has been mentioned by one of the agencies as an effective way of reducing such problems. This attempt is also consistent with Islamic ethics that emphasize honesty and trust as the basis of any relationship. Furthermore, it is possible

to design programs in a way that reduces the possibilities of misuse. This has proved to be successful in relation to educational support where the assistance is primarily given in-kind or given through/directly to schools. The same method could be applied to economic assistance, for example, by directly providing the equipment/goods needed or providing vouchers to buy the productive goods instead of giving cash assistance. In this way, the transaction costs involved in acquiring the necessary items and the potential of corruption could also be reduced.

Finally, in a broader perspective and in addition to the existing monitoring/evaluation tools used, it is important that the organizations enhance the monitoring/evaluation procedures for the programs and strategies implemented. The tools should also include the measurement of the impacts of *zakah* on the poverty/wellbeing of the beneficiaries, which is useful in increasing the effectiveness of *zakah* targeting and implementing *zakah* disbursement programs. This is an area where the *zakah* management has lack of expertise, as mentioned during the interview. The impacts should later be informed and communicated with other *zakah* stakeholders, particularly *zakah* payers, such that they could be convinced that the *zakah* money they paid have been used properly and make a difference in the poor's life. Overall, these efforts are expected to enhance the trust towards the agencies, the institution's reputation and fundraising results and ultimately accelerate the achievement of poverty alleviation objectives.

7. Increase financial efficiency

Financial efficiency is an important indicator directly related to the performance and sustainability of any organization. There are many possible ways of increasing financial efficiency, from cutting unnecessary expenses to increasing the number of *zakah* payers so that per capita fundraising costs can be minimized. Although this study did not explore the financial aspect in detail, it is important at the onset to understand the source of the inefficiency. If, for example, the inefficiency is related to high communication costs due to advertisements in expensive media or in too many public places, it may be necessary to review the effectiveness of the current communication policies. Subsequently, if the existing strategies appear to be unsuccessful and/or inefficient, it might be necessary to replace them with more suitable strategies. Another example would be to adjust the administrative expenses to the needs of the organization, such as renting operational cars rather than buying new ones or renting properties (such as operational branch) instead of building a new property. Therefore, it is possible to avoid wasting the *zakah* payers' money on unnecessary costs.

8. **Improve cooperation with other institutions**

   Alleviation of poverty is a difficult mission that requires many resources and long-standing commitments. Thus, it might be necessary to collaborate with other institutions with similar objectives. An obvious partner would be other *zakah* organizations, particularly those with relatively similar characteristics. Other possible institutions would be government bodies responsible for or related to poverty alleviation, such as the Indonesian National Team for the Acceleration of Poverty Reduction (TNP2K) and the Ministry of Social Affairs. Given that the current three-cluster government poverty alleviation strategies have many similarities with the *zakah* utilization programs, it would be quite possible to collaborate with the government. One of the potential partnership dimensions is identification of the poor/recipients in order to prevent problems such as 'leakage' or corrupt use of public funds. International institutions such as the World Bank, international *zakah* agencies and multinational corporations could also be strategic partners for such purposes. Although it is recognized that building such synergy is not an easy task, it is worth trying due to potentially greater benefits to public generated from such collaborations.

9. **Implement an effective poverty-focused *zakah* management framework**

   Based on the findings and analyses of this study, a framework for an effective poverty-focused *zakah* organization has been proposed.[372] The framework essentially suggests that appropriate management approaches, particularly in relation to the operational aspects of *zakah* management, could be utilized to achieve the highest poverty reduction impacts expected from the *zakah* institution. In addition to the existing studies, which tend to focus on the linkages between various stakeholders of *zakah* implementation in Indonesia, this framework could be an alternative model to be considered and implemented by the management of *zakah* organizations not only in Indonesia but also in other Muslim countries.

10.2.2. Implications for Regulators and Policy-makers

Although this study did not specifically address regulatory issues, a number of implications for regulators and policy-makers can be derived from the research findings. First, in relation to regulators, it was explained in the *Zakah* Law No. 38/1999 that the National *Zakah* Board is responsible for collecting/distributing *zakah* proceeds and coordinating *zakah* agencies in its activities. In other words, it has a dual role as a regulator and operator of *zakah*

[372] See discussion in section 9.5 and summary in section 10.2.

implementation. This arrangement is arguably ineffective, not only in terms of trying to create a supportive environment for *zakah* institution but also in attempting to increase its contributions to achieve the poverty alleviation mission. As such, it is important to clarify and strengthen the regulatory functions within the *zakah* implementation in Indonesia.

Second, the policy-makers are strongly recommended to consider the *zakah* institution as a partner in fighting poverty in Indonesia. Despite currently having fewer resources, particularly in the financial aspect, the institution appeared to have high-quality and strongly motivated human resources who are committed to the poverty alleviation mission. Additionally, since the government's poverty reduction programs have many similarities with the *zakah* distribution programs, it will be easier for both institutions to create a partnership in fighting poverty in the world's largest Muslim country. Finally, it is important that the government maintain economic stability which potentially helps to reduce poverty. This can be done by, among other things, reducing inflation or at least maintaining stable aggregate price levels, creating more jobs or a low unemployment rate and establishing favourable business conditions, particularly for micro entrepreneurs.

10.2.3. Implications for Other *Zakah* Stakeholders

It was clear throughout the analysis of the study that performances of *zakah* organizations are affected not only by the managerial efforts but also by the contributions of other *zakah* stakeholders. In this regard, the research has identified a number of possible contributions by other stakeholders (*muzakki*, *mustahik*, media, academics and other relevant interest groups) to strengthening the contribution of *zakah* to poverty alleviation in Indonesia.

First, in addition to paying *zakah* and other Islamic charitable donations through formal organizations, *muzakki* could contribute by providing more inputs or ideas related to the utilization of *zakah* proceeds. This has been practised by some *muzakki* and is greatly appreciated by the *zakah* management studied here. They could also participate in ensuring that the agencies maintain a high standard of transparency and accountability as well as channel the *zakah* money efficiently to reduce the poverty and hardship of the poor. This can be done in many ways, including 'small' actions such as allowing their names to be recorded as *zakah* payers or requesting the receipts of *zakah* paid to the organization to ensure proper recording/accounting, and visiting or participating in the utilization programs to see first-hand how the money is spent and how it impacts on the recipients.

Second, *mustahik* could increase the poverty reduction impacts expected from the *zakah* institution by implementing positive and supportive attitudes. In a broader sense, these attitudes include hard work, eagerness to learn (new/relevant) skills, positive work ethics and generosity in helping others. In relation to *zakah* assistance, they should use the *zakah* money according to the intended purposes and actively participate in the relevant activities/programs required or recommended by the organization. They should also avoid negative behaviour such as consumerism, consumption of addictive goods (particularly alcohol and cigarettes), taking on excessive debt, laziness and dependence on *zakah* (and other social) assistance. These positive attitudes are believed to be important ingredients in transforming the poor (*mustahik*) into those who might eventually pay *zakah (muzakki)*.

Third, the media could support *zakah* campaigns by broadcasting more positive, educative and constructive news regarding the *zakah* institution. They should also promote the contributions of *zakah* organizations to reducing poverty in the country. On a more practical side, they could contribute by partnering *zakah* organizations to promote *zakah*-related messages, including lowering the costs of such social campaigns.

Lastly, other stakeholders could also contribute in their respective fields. Academics, for instance, could conduct and disseminate more research related to *zakah* and poverty alleviation. Local communities and religious/interest groups could support *zakah* campaigns by spreading the relevant messages to their communities. The general public, including the international community, could at least give moral support according to their capacities. Such collective supports might be expected to enhance the role of the *zakah* institution in fighting poverty problems worldwide.

10.3. Limitations of Study and Directions for Future Research

It is acknowledged that this study is far from perfect. First of all, the literature on the empirical impacts of *zakah* institution on poverty is relatively limited, and to the best of the author's knowledge most of it has been discussed in this study. Given the existing knowledge, the study has collected a relatively large data set consisting of around 685 *mustahik* (sample) questionnaires from around 5605 households (population) receiving *zakah* assistance in Greater Jakarta, Indonesia in 2011. It has also conducted 22 semi-structured interviews with management personnel of seven large *zakah* organizations that provide *zakah*

assistance in the region. As such, the findings of this study mainly apply to the *zakah* organizations investigated and therefore have limited generalizability.

Given these limitations, it is possible to extend the study in a number of aspects. The scope of the data, for example, could be enlarged to cover several main cities/provinces or more *zakah* organizations in Indonesia to gain a more general picture. Time series analysis could be performed were the longitudinal data available. The number of respondents could also be increased to the extent that the power of the predictions would be maximized and the sampling error would be minimized. Additionally, there is scope to expand the discussions to include more perspectives, such as those of *zakah* payers (including those living abroad) and regulators, or more dimensions, such as the legal aspects of *zakah* management in Indonesia. Lastly, it is also possible to conduct similar studies in other Muslim countries and communities. By engaging with different cultures and historical trajectories, such studies could potentially enrich the understanding of the implementation of the *zakah* institution in modern Muslim societies and subsequently improve the effectiveness of policies designed to fight poverty through the *zakah* institution.

10.4. Epilogue

This study has explored and systematically analyzed the contributions of the *zakah* institution to alleviating poverty in the context of *zakah* implementation in Indonesia. The analyses of the relevant data provided the necessary evidence to argue and conclude that the *zakah* institution has contributed positively to reducing the incidence, depth and severity of poverty as well as the average time required to escape poverty among the recipients of *zakah* in the Greater Jakarta Metropolitan Area of Indonesia. It has also documented empirical support for the positive role of the *zakah* institution in improving the wellbeing of households in health, educational, spiritual, economic and social dimensions. In addition, insights into the current practices of the *zakah* administration in Indonesia were presented. Based on the overall analyses, it has proposed a framework for an effective poverty-focused *zakah* management that is believed capable of delivering the greatest welfare improvement impacts to the recipients. The findings, analyses and proposals are expected not only to contribute to the *zakah* literature but also to optimize the impacts of *zakah* on poverty alleviation in the Muslim world.

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Appendix

Appendix 2A: Choices of Welfare Indicators

Indicator of Welfare	Strengths	Weaknesses
Income	• Measures degree of household "command" over resources • Easy to measure, given limited number of income sources	• Likely to be underreported • May be affected by short-term fluctuations of income • Some types of income are sometimes hard to observe
Consumption	• Show actual material standard of living • Smoothens out irregularities and thereby reflects long-term average wellbeing • Easier to recall and less understated than income	• Household may not be able to smooth consumption • Consumption choices made do not necessarily reflect the household wellbeing status. For example, if a rich household chooses to live simply, that does not mean that it is poor • Some expenses are not incurred regularly, so data may be noisy • Difficult to measure some components of consumption, particularly durable goods

Source: Albert (2004), in Haughton and Khandker (2009:60)

Appendix 2B: Technical Notes on Measurements of Poverty

This appendix briefly explains various measures and technical calculations of the income/consumption-based poverty index explained in Section 2.2.1.[373]

1. The Headcount Index

The simple Headcount Index (P_0 or H) measures the proportion of population counted as poor. It is the most widely used measure of poverty due to its simplicity, both in construction/calculation and interpretation. Nevertheless, it does not reflect the magnitude, depth and severity of poverty.

The Headcount Index is calculated as the percentage of population with income/consumption below the poverty line and basically shows the incidence of poverty in a society. Formally, by using expenditure as the welfare indicator, it can be written as follows:

Equation 1 $$P_o = \frac{N_p}{N}$$

Equation 2 $$P_0 = \frac{1}{N}\sum_{i=1}^{N} I\,(y_i < z)$$

where N_p is the number of the poor, N is the total number of people in the population (sampling frame), I is income function, y_i is expenditure and z is the poverty line. $I(\cdot)$ is an indicator function that takes on a value of 1 if the bracketed expression is true and 0 otherwise. This formulation implies that, if expenditure (yi) is less than the poverty line (z), $I(\cdot)$ equals 1 and the household will be counted as poor. In contrast, if expenditure (yi) is more than the poverty line (z), $I(\cdot)$ equals 0 and the household will be counted as non-poor. In general, a higher index reflects a higher proportion of poor households among those living in income or consumption poverty.

2. The Poverty Gap index

The Poverty Gap Index (P_1) is a measure that captures the magnitude of poverty by considering both the number of poor people and how poor they are. The index is a combined measure of incidence and depth of poverty, which adds up the extent to which individuals or households on average fall below the poverty line (as a percentage of the poverty line).

More specifically, defining the poverty gap (Gi) as the poverty line (z) less actual income or expenditure (yi) for poor individuals/households and zero for others (those with income equal to or above the poverty line), the Poverty Gap Index can be written as follows:

Equation 3 $$P_1 = \frac{1}{N}\sum_{i=1}^{N}\frac{G_i}{z}$$, where

Equation 4 $$G_i = z - y_i (y_i < z)$$

[373] The main references of this section are Haughton and Khandker (2009), Morduch (1998) and Deaton (1997).

Alternatively, on the understanding that the index is actually a combined measure of incidence and depth of poverty, it can be rewritten as follows:

Equation 5 $$P_1 = P_0 . I$$, where

Equation 6 $$I = \frac{z - y_p}{z}$$

in which *I* denotes the income gap ratio or the difference between poverty line *z* and the average income/consumption level of the population living under the poverty line y_p *(*expressed as a fraction of the poverty line). Thus, it gives an idea of the depth of poverty and how far the poor are below the poverty line. Generally speaking, a higher index suggests a higher gap between the poor's income/consumption and the poverty line.

In addition, the nominal poverty gap is often seen as the minimum cost of eliminating poverty (relative to the poverty line) because it shows how much (money) should be transferred to the poor to bring their incomes/expenditures up to the poverty line. Assuming that the transfer can be made perfectly efficient, the minimum cost of eliminating poverty using targeted transfers is simply the sum of all the poverty gaps in a population. This feature could be useful for policy-makers or institutions focusing on poverty alleviation programs. However, it cannot show inequality and severity of poverty in a population.

3. The Poverty Severity Index

The Poverty Severity Index (P_2), also known as the Squared Poverty Gap Index, is the average values of the square of poverty's depth measure discussed above. Squaring the P_1 implicitly puts more weight on observations that fall well below the poverty line; i.e. it gives more weight to the very-poor than to the less-poor. Thus, it is basically an 'improvement' of the P_1 as it captures the severity and a notion of 'inequality' in the society.

The Poverty Severity Index is calculated as the mean squared income/consumption shortfall of the poor households (as a percentage of the poverty line). It is formally defined as:

Equation 7 $$P_2 = \frac{1}{N}\sum_{i=1}^{N}\left(\frac{G_i}{z}\right)^2$$

It is worth noting that the Poverty Headcount Index (P_0), the Poverty Gap Index (P_1) and the Poverty Severity Index (P_2) are also known as the members of the Foster, Greer, and Thorbecke (FGT) class of poverty measures. Each of them captures different aspects of poverty, namely incidence, depth and severity of poverty respectively, and they can be generally formulated as follows:

Equation 8 $$P_\alpha = \frac{1}{N}\sum_{i=1}^{N}\left(\frac{G_i}{z}\right)^\alpha, \qquad (\alpha \geq 0)$$

where α is a measure of the sensitivity of the index to poverty, *z* is the poverty line, G_i is the poverty gap for the individual *i* ($G_i = z - x_i = 0$, when $x_i > z$) and x_i is the value of expenditure or income per capita for the i_{th} person's household. When parameter $\alpha = 0$, P_0

is simply the poverty headcount index. When α = 1, the index is the poverty gap index P_1. Meanwhile, when α = 2, P_2 is the poverty severity index (Foster, *et al.*, 1984).[374]

4. The Sen Index

The Sen Index (P_s) combines the effects of poverty incidence, poverty depth and the distribution of poverty within a particular group. Although this index, which has the virtue of taking the income distribution among the poor into account, has been widely discussed, it is almost never used outside academic literature. This is primarily because it lacks the intuitive appeal of some of the simpler measures of poverty (Haughton & Khandker, 2009) and cannot be used to decompose poverty from different subgroups (Deaton, 1997).

The index could be generally defined as:

Equation 9 $$P_s = P_0\left[1-(1-G^P)\frac{\mu^P}{z}\right]$$, or

Equation 10 $$P_s = P_0 G_p + P_1\left(1-G_p\right)$$

where P_0 is the Headcount Index, μ^P is the mean income/expenditure of the poor, P_1 is the Poverty Gap Index and G_P is the Gini coefficient that shows income inequality among the poor. The value of Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). The last equation suggests that the index can also be written as the average of the headcount and poverty gap measures with the Gini coefficient of the poor as the weight (Sen, 1976).

5. The Sen-Shorrocks-Thon Index

The Sen index discussed above has been modified by a number of researchers, leading to the introduction of the Sen-Shorrocks-Thon (P_{SST}) Index which gives more insights into the intensity and sources of poverty over time (Osberg & Xu, 1999). It is the product of the headcount index (P_0), the poverty gap index applied to the poor only (P_1^P) and the Gini coefficient of the poverty gap ratios among all people (G^P). It can be formulated as:

Equation 11 $$P_{SST} = P_0 P_1^P\,(1+G^P)$$

The index could also be decomposed into three aspects of poverty by transforming the equation above into a logarithm form which suggests that the percentage change in the index equals to the percentage change in headcount index + percentage change in poverty gap index (among the poor) + percentage change in (1 + Gini coefficient of poverty gaps).

Equation 12 $$\Delta \ln P_{SST} = \Delta \ln P_0 + \Delta \ln P_1^P + \Delta \ln\left(1+G^P\right)$$

[374] Also note that, for all α > 0, the measure is strictly decreasing in the living standard of the poor (i.e. the higher one's standard of living, the less poor one is deemed to be). Moreover, for α > 1, the index also has the property that the increase in measured poverty due to a fall in one's standard of living will be deemed greater the poorer one is. The measure is then said to be "strictly convex" in incomes (and "weakly convex" for α = 1).

Nevertheless, like the earlier (original) version of the Sen Index, this index is relatively seldom used outside academic literature as compared to the FGT index.

6. The Watts Index

The Watts Index (W), proposed by Watts (1968), is probably the first distribution-sensitive poverty measure that seeks to explain both the intensity of poverty and inequality in a way that satisfies all properties essential to constructing a good poverty index (Zheng, 1993). It is increasingly used by researchers in poverty studies because it satisfies all theoretical properties essential to a good poverty index, such as continuity, weak-transfer and monotonic-sensitivity axioms (Ravallion & Chen, 2003; Zheng, 1993).

In its discrete version, the index takes the following form:

Equation 13

$$W = \frac{1}{N}\sum_{i=1}^{q}[ln(z) - ln(y_i)] = \frac{1}{N}\sum_{i=1}^{q} ln\left(\frac{z}{y_i}\right)$$

where the N individuals/households in the population are indexed in ascending order of income/expenditure and the sum is taken over the q individuals/households whose income or expenditure y_i falls below the poverty line z.

7. The Time Taken to Exit Measure of Poverty

The time taken to exit poverty measure (t_g or T_g) is an index showing how long it would take for an average poor person to exit poverty or to 'reach' the poverty line, given different potential economic growth rates. The statistic is decomposable by population subgroups and, like the Watts index, is also sensitive to the distribution of expenditure/income among the poor (Morduch, 1998).

The time taken to exit measure is essentially the Watts index divided by the expected growth rate of income/expenditure of the poor. Formally, given that consumption per capita grows at a positive rate g per year, the expected time to 'exit' poverty for the j^{th} person living below the poverty line could be defined as follows:

Equation 14

$$t_g^j \approx \frac{\ln(z) - \ln\left(x_j\right)}{g} = \frac{W}{g}$$

In practice, it is widely recognized that it takes more than just economic growth to rapidly improve the lives of the very poor (especially by raising their income or consumption level). Thus, policy-makers are strongly recommended to 'complement' the growth with targeted poverty reduction strategies for the poor. It is within this framework that the measure above is expected to provide 'guidance' on the time needed to deliver benefits of focused poverty reduction programs to the poor and needy.

Appendix 3A: Survey of *Zakah* Management in Contemporary Muslim Societies

No	State/ Country	*Zakah* Laws/Regulations	Governance/Organization	Collection	Distribution	Other Features
1	Saudi Arabia	• *Zakah* is regulated and made compulsory for the Muslims based on Ministerial Resolution No. 393/1950 and Royal Decree No. 17/1951.	• *Zakah* is collected and distributed by different government agencies. • *Zakah* collection is managed by the Department of *Zakah* and Income Tax under the Ministry of Finance.	• Assessment and collection of *zakah* is done by the Ministry of Finance. • *Zakah* is paid by individuals and corporations (joint stock-company) • Only *zakah mal* (*zakah* on income) is compulsory. • *Zakah* is imposed on land produce, livestock, wheat, *rikaz*, real estate and professional incomes. • The law does not impose penalties or fines on *zakah* payers failed to submit and pay their due *zakah.*	• Distribution is done by the social security unit of the Ministry of Labour and Social Affairs based on Royal Decree No. 22/1385H. • Disbursement is at the discretion of the ministry.	• *Zakah* collectors receive salary from public treasury. • Although there are no penalties for corporate *zakah* payers who fail to submit/pay their due *zakah*, the government applies 'disincentives' such as banning them from operating in the country.
2	Sudan	• *Zakah* is regulated and made compulsory for the Muslims based on the *Zakah* Act 1990. • Prior to the 1990 Act, 20% of *zakah* could be distributed personally by *muzakki*. However,	• *Zakah* policies are planned by *Diwan al-Zakat* of Sudan. • Daily operation is conducted by the *Zakah* Chamber under the Ministry of Social Care. • The Chamber has 4 divisions: (i) Finance and administration	• *Zakah* is imposed on trading goods, livestock, gold/silver and incomes. • Method for collecting *zakah* is provided in Bulletin No.1/89, such as cash and deduction at sources (for crops). • *Zakah* payments are deducted from tax due.	• Prioritized *zakah* disbursement programs include Ramadan program, health insurance and support for students. The programs are entirely decided by *Diwan al-Zakah* of Sudan. • Considering the widespread poverty in the country, around 63% of	• No *zakah* imposed on financial assets • The Chamber's staffs are state employees and thus their salaries (and benefits) are paid by the state. • Problems of inexperienced

		under the new law, *zakah* must be fully paid to/via the state.	affairs, (ii) Spending planning, (iii) Collection planning, and (iv) Information centre and strategic planning. • The Chamber has three units: (i) State *zakah* secretariat, (ii) federal treatment planning and (iii) emergency office. • It also has a *shariah* control organ (*Fatwa* Committee) comprising leading *shariah* scholars.		*zakah* revenue was distributed to the poor and needy in 2006. • *Zakah* proceeds should be disbursed in the same area where they are collected. • High administrative cost (22.5% of revenue), of which 10% is dedicated to administrative cost and 12.5% to *zakah* collectors.	staffs.
3	Yemen	• *Zakah* is regulated and made compulsory for the Muslims based on Republican Decree No. 31/1974 and Prime Minister's Decree No 8/1984.	• *Zakah* is managed by Department of *Zakah*/ Duties under the Ministry of Finance. • Department of *Zakah* has three departments and 11 branch offices. It is also supported by *Zakah* Training Institute. • The department is responsible for assessing, collecting (listing and follow-up the levy) and distributing *zakah*.	• *Zakah* is imposed on agricultural product, livestock, gold and silver, incomes and merchandise.	• *Zakah* should be spent on all the eight *ashnaf*.	

4	India	• No regulations for *zakah*. • Most *zakah* agencies are NGOs/NPOs which are established under the Indian Trust Law. • Most of them operate under the 'supervision' of an apex body known as the *All India Council of Muslim Economic Upliftment* (AICMEU). • AICMEU also has its own *zakah* fund, known as *Baitul Mal* of AICMEU.	• AICMEU has a Board of Trustees and Management Team in its governance/ organizational structure.	• Revenues are generated not only from *zakah* but also from other Islamic charitable donations (*waqf, sadaqah,* etc.). • *Zakah* are usually collected by private individuals (*imams*, etc.) and socio/religious organizations. • In AICMEU, *zakah* could be paid by cash or bank transfer. • In the last 20 years (1989–2009), AICMEU *Bait Al Zakah* collected around Rs. 11,433,382.	• Around 50%-66% of *zakah* proceeds is distributed privately to relatives, poor and needy, religious schools and *da'wah* organizations. • *Zakah* proceeds are mostly disbursed in the same areas in which they are collected. • *Zakah* collected through AICMEU is mostly used for capital provision, education and medical assistance. • During 1989–2009, AICMEU has provided assistance to over 13,876 poor/needy and many community organizations. • *Zakah* is mostly disbursed to the poor/needy (around 60%) and *Riqab* (in forms of scholarship, around 20%). While the average share of *amil* was 3.8%.	• Tax exemption is possible. • However, *zakah* payers seem to be less concerned and bothered about it.
5	Kuwait	• *Zakah* is regulated under *Zakah* Law No. 5/1982. • Law No. 46/2006 on '*Zakah and Contribution of Public and Closed*	• *Zakah* is managed by a semi-government organization called Kuwait *Zakah* House (KZH). • KZH consists of voluntary committee	• Revenues come from *zakah* proceeds, government aid, general and specific donations, and returns from invested funds. • *Zakah* can be paid in cash and in kind.	• *Zakah* proceeds are disbursed on many projects, such as orphans' social security, rehabilitation training, student support, loans, Qur'an publication, etc.	• No tax concessions, because there is no income tax imposed in the country. • KZH employs

		Shareholding Companies in the State's Budget' requires Kuwaiti companies to collect 1% of their net profits and pay *zakah* from the collected amount to the state or directly spend it on public services.	and *shariah* consultative body. • KZH has several units, namely research and planning, social services, public relations and overseas activities.	• To increase awareness of muzakki, publications/ communications are regularly conducted. • *Zakah* on corporations' income has been implemented since 2006.	• Government bears all administrative expenses of KZH. • *Zakah* beneficiaries are selected based on their applications.	male and female social workers. • KZH is helped by several voluntary committees for collecting and distributing *zakah* across the country.
6	Jordan	• *Zakah* is regulated and made compulsory for the Muslims under the 1978 *Zakah* Fund Act. • The law also becomes the legal basis for establishing autonomous National *Zakat* Fund (NZF) under the Ministry of *Waqf.*	• The Directorate of *Zakah* comes under the Ministry of *Waqf* and follows the same organizational structure as the ministry (i.e. central management in the capital and sections in the provinces) • Voluntary *zakah* committee (43 persons) and *shariah* experts exist.	• In addition to revenues from *zakah*, NZF accepts other donations. • *Muzakki* may designate *zakah* to specific beneficiaries. • Many common people have perception that *zakah* is the same as *zakah fitr* only and thereby they only pay *zakah* during the holy month of Ramadan.	• *Zakah* are prioritized for the poor/needy, the orphans and for human development. • *Zakah* beneficiaries must apply for *zakah* assistance (and pass the interview and verification processes) or be recommended by *zakah* payers/committee. • NZF run seven major programs namely Cash assistance, Occasional in-kind assistance, Orphan Cash Assistance, Rehabilitation Assistance Project, Emergency Cash Transfer, Medical Care Programmes and Student cash assistance.	• *Muzakki* could get tax concessions. • In addition to *zakah* fund, there is a National Assistance Fund (NAF) that provides emergency aid for the needy. • NZF has collaboration with the NAF. • Around 10% reserve fund is provided to build infrastructure such as hospitals for the poor. • There is a plan for annual activities.

					• In 2010, NZF provided assistance to around 75,111 families; 1,300 orphans and 13,000 other individuals.	
7	Egypt	• *Zakah* law does not exist, yet *zakah* regulations can be issued and implemented in specific institutions. • Existing networks of voluntary committee (VC) of *zakah* institutions: (i) voluntary committee unaffiliated with any public body, (ii) VC of the Ministry of *Awqf*, (iii) VC of Nasir Social Bank (NSB), and (iv) VC of Faisal Islamic Bank (FIB).	• NSB, which is a government bank, has Directorate of *Zakah* in the headquarters and large branches. • NSB maintains close collaboration with Ministry of *Awqf* which provides it with *shariah* experts. • The establishment of voluntary committee is flexible, i.e. it can be established by anybody willing to volunteer and cooperate with NSB. • Committee members recommend potential recipients and projects to the NSB's Directorate of *Zakah*	• Revenues come from *zakah* proceeds, donations and charities. • Main methods of *zakah* payment are cash and bank transfer.	• Distribution is entirely at discretion of the NSB's *zakah* committee • In NSB and FIB, *zakah* are disbursed according to programs, such as Qur'an competition, education, medical services, burial services, etc. • In NSB, administrative costs are paid by the Headquarters of the Directorate of *Zakah*. • In FIB, administrative cost is around 8.2% in 2010. • Volunteers are used by NSB to implement its programs.	• Private agencies could make *zakah* payment compulsory within their organization. Example: Act No. 48/1977, which obligates FIB to deduct *zakah* from the capital/profits of the shareholder and offer *zakah* payment service to the customers. • Recently, as new *zakah* agencies were established, competition in collecting *zakah* funds arose.
8	Pakistan	• *Zakah* is regulated based on *Zakah* and *Ushr* Ordinance of 1980. • The law allows the federal government	• At federal level, Central *Zakah* Council (CZC) headed by a judge from the Supreme Court is responsible for making	• *Zakah* on savings, shares and agriculture is collected by government. • *Zakah* on gold and livestock is left to *nisab* owners to distribute.	• *Zakah* funds are disbursed for: (i) regular programs (for living allowances, tuition fees, healthcare, social welfare, and marriage allowance), (ii)	• Amount of the disbursement is usually lower than the collection, such that there is

		to deduct *zakah* on certain assets. • The law also requires the government to plan and implement *zakah* management in the country.	overall policies regarding *zakah*- and *ushr*-related issues *(nisab*, annual budget, disbursement, head of *zakah*, etc.). • The *zakah* and *ushr* wing of the Ministry of Religious Affairs acts as the secretariat of CZC and is responsible for implementing policies set up by CZC. • Provincial *Zakah* Council and *Zakah* Administration are responsible for setting policies and implementing them in their areas. Meanwhile, the disbursement is done by the committees formed at different administrative divisions. • At the district level, District *Zakah* Committees and Local *Zakah* Committees are responsible for collecting and distributing *zakah.*	• Mandatory *zakah* is deducted from bank accounts on the first day of Ramadan and directly deposited in Central *Zakah* Fund (CZF) maintained by the State Bank of Pakistan.	permanent rehabilitation scheme of *zakah* and (iii) educational stipends (technical). Priorities are usually given to living allowance program (cash assistance). • Government bears the administrative expenses of collecting and disbursing *zakah*. • *Zakah* is distributed to different provinces in proportion to their populations. • Number of beneficiaries is clearly recorded at all levels. In 2002-2003, the number amounted to 1.7 million people. • Distribution of *zakah* is supported by a large number of volunteers (around 250,000 persons).	surplus in the budget. • A district *zakah* agency usually has employees who are government officers and those employed by the agencies (and paid from the *zakah* funds)

9	Kuala Lumpur (FTKL), Malaysia	• *Zakah* is regulated by the federal state.	• Islamic Religious Council selects Board of Directors to oversee the activities of the management team i.e. *Zakah* Collection Centre (ZCC) • ZCC gets 1/12 (around 8.3%) of the total *zakah* revenue collected	• *Zakah* is collected by ZCC (corporation). • *Zakah* can be paid through a wide range of methods such as cash, cheques, money order, salary deduction, bank transfer (through ATM, internet and phone banking) and counters in public places (shopping centre, mall, etc.) • ZCC employs professional management team (52 people) who are supported by modern IT system. • ZCC also uses proactive and customer-oriented system to collect *zakah*	• *Zakah* (and other Islamic funds, such as *waqf)* is disbursed by *Baitulmal* Department of Islamic Religious Council. • To disburse the funds, budget is prepared and cleared by the Fatwa Committee and then approved by Islamic Council and the King. • *Zakah* is disbursed with (i) direct disbursement for scholarship, medical aid, as cash, etc., and (ii) indirect disbursement for financing and building public infrastructure. • In 2003, the largest shares were given to *fisabilillah* (29.9%) and *amil/baitulmal* (29%)	• ZCC provides periodic reports to collectors and published them through media. • ZCC received MS-ISO 1994 certification for its quality management • *Baitulmal* keeps the surplus of *zakah* to be spent on large projects such as hospitals, schools and orphanage centres.
10	Negeri Sembilan, Malaysia	• *Zakah* is regulated based on the Administration of Muslim Law Enactment 1960. • The law also stipulates that *Zakah* administration be managed by *Baitulmal* of	• Sultan (head of the State) is the Chairman of IRC, while the Chief Minister acts as the Executive Chairman. • The Council has several divisions including *Shariah* Court, *Fatwa* Committee, Islamic Administrative Offices,	• *Zakah* is collected by corporation called *Zakat* Office (ZO). • ZO gets 1/8 (around 12.5%) of the total *zakah* collected • *Zakah* can be paid in various ways, including through ZO and banks.	• *Zakah* (and other revenues) is distributed by the *Zakat* Department of *Baitulmal* • Expenses include, among others, disbursement, administrative, finance, investment and development expenses and costs of managing district offices.	• The *Zakat* Department of *Baitulmal* has 30 employees (two of them are field officers). • The affiliated corporations include, among others, property development

		Islamic Religious Council (IRC) of the State.	Affiliated corporations and the *Baitulmal*. • *Baitulmal* coordinates its activities with other government bodies in a Committee of Development to avoid overlapping activities.		• Operational cost is covered from non-zakah revenues. • In 2002, *zakah* was spent on all eight *mustahik*, in which the largest share was spent on *riqab* (28%), *amil* (22%) and the poor/needy (21%). • *Mustahik* is selected based on (i) their application or (ii) recommendation of *imams.* • *Zakah* application process takes around 2-4 weeks.	agency, hospitals and plantations.
11	Selangor, Malaysia	• *Zakah*, including the payment of *zakah* through corporations, is regulated based on the Companies Act 1965.	• *Zakah* is collected by corporation called *Zakat* Office Selangor (ZOS), which is fully owned by the Islamic religious Council of Selangor • Usually, members (employees) of ZOS also become *zakah* committees in local mosques.	• *Zakah* is collected by ZOS. • *Zakah* is collected on income, revenue from trading, savings, shares and crops. • *Zakah* payments can be made in ZOS counters, banks, internet, post offices, and deducted from salaries. • ZOS gets 1/8 (12.5%) of the total *zakah* revenue collected. • To collect *zakah*, ZOS operates 18 service counters and employs 50 personnel. • To raise *muzakki*'s	• *Zakah* is distributed by ZOS. • Beneficiaries could be classified into (i) non-productive beneficiaries (the elderly, handicapped, etc. who need permanent income support) and (ii) productive beneficiaries (application must be renewed annually; usually get assistance in form of education and financial capital for entrepreneurs) • Identification of beneficiaries is done by around 2,200 volunteers at the local level, who	• In 2000, ZOS was awarded MS ISO 9002 for its quality and excellence in operation. • ZOS has two approaches to reducing poverty: (i) eliminate poverty among the productive recipients, and (ii) increase collection to service the non-productive recipients so that

				awareness and increase *zakah* collection, various communication media such as preaching at conventions, workshops, sermons, printing billboards and websites are used.	usually include the local *imams*. • The volunteers collect *zakah fitr* and get *amil's* share of 1/8 of the revenue collected. • *Zakah* proceeds are spent on all eight *mustahik*, with the largest share given to *fisabilillah* (42%), the poor/needy (31%) and *amil* (14%).	their children can live better lives by providing them with free education and training. • ZOS conduct planning in their management practice.
12	South Africa	• No *zakah* law • *Zakah* organizations are usually established as NPOs under the 1997 Non-Profit Organizations Act. • The Act provides administrative and regulatory framework for *zakah* organizations.	• Governance structure consists of Board of Trustees (elected; serves voluntarily; frames the policy and oversees the Operation), Executive Committee (voluntary, making management decisions) and manager/administrator.	• Sources of funds include *zakah*, *sadaqah* from businesses and individuals and other incomes (donation for special schemes, returns from investment, etc.). • Methods of collection include direct collection (cash), salary deduction, fund-raising, debit order system and payment in *zakah* offices.	• *Zakah* proceeds are disbursed for welfare programs such as building religious schools, child-care centres, training centres, orphanages, drug rehabilitation, water projects and burial services. • *Zakah* is distributed to six *ashnaf* (all, except *riqab* and *fisabilillah).* • In most cases, *mustahik* came to apply for *zakah* assistance. • Expenditures usually include payments for salaries, operational activities (rent, transport, utilities, etc.), and media/advertisement.	• Tax exemption is enabled by the Income Tax Act 2001, provided that the NPOs do not have businesses that give more than 75% income • In some cases, the NPOs collaborate with government in implementing government welfare programs. • More recently, to get more tax advantages, *zakah* organization was established as a Public Benefit

					• In 2003, the expenditure share amounted to 17% of the total costs.	Organization (PBO).
13	Singapore (Kadir, 2006; Majelis Ugama Singapura, 2013a)	• No *zakah* law. • An independent body called *Majelis Ugama Singapore* (MUIS, or Islamic Religious Council of Singapore) is established to manage *zakah* and other Islamic matters based on the 1968 Administration of Muslim Law Act (AMLA) • Under Section 14(1)(g) of the Income Tax Act, *zakah* contribution is an allowable expense which is deductible against the contributor's income.	• Members of MUIS Council are appointed by the President and must advise the President on all Islamic matters. • Performance of MUIS, including collection and disbursement of *zakah* proceeds must be audited and presented annually to the Parliament. • Organizational structure: MUIS Council and MUIS Directorate (religious development cluster, religious education cluster, capacity building and strategic engagement cluster, asset cluster, mosque and social development cluster and organizational development cluster).	• Types of *zakah*: *zakah* on savings, CPF, business, shares, gold, insurance and *zakat fitrah.* • The application to calculate the amount of *zakah* is provided on MUIS website. • Payment modes: Authorized Collection Centre, ePayment (via MUIS website), AXS (via ATM, such as ATM of DBS), cheque, giro and telepoll (MUIS hotline).	• MUIS distributes *zakah* to all eight *ashnaf*s, although in 2012 priority was given to *fisabilillah* (39.6%) and the poor/needy (36.3%). • Disbursements to the poor and needy are given in forms of financial assistance, Empowerment Partnership Scheme (EPS) and community programs. • Other programs include religious and mosque development, *madrasah* (religious schools) development, *da'wah* and community development, converts (*muallaf*) administration, youth programs, *ibnussabil* assistance, a*mil* administrative training and public education.	• MUIS has a website and TV channel in YouTube. • All collection/ distribution data are published in MUIS website. • By 2012, around 403 out of 610 recipients (families) have successfully graduated from EPS and no longer need MUIS financial assistance.
14	United	• *Zakah*	• Like other NPOs, an	• Revenues are mostly	• *Zakah* proceeds are	• The impact of

	Kingdom	organizations are usually established as NPOs or charities under the Charities Act 2006. • The Act provides the framework to ensure legal compliance, enhance accountability, encourage effectiveness and impact as well as promote the public interest, trust and confidence in charity.	Islamic charity (*zakah* organization) usually has a Board of Trustees and a Management Team (headed by a Director). • The Board is responsible for designing and authorizing the policies as well as supervising the management team which is responsible for daily operations of the Islamic charity.	generated from *zakah* and special donations/programs. • *Zakah* is collected in many ways, such as cash, online (via website or phone and through fundraising (concert, gala dinner, etc) and through social networks. • *Zakah* is usually collected in *Ramadan*.	mostly distributed into humanities programs, such as water programs, supporting children, helping people in crisis areas and microfinance. • *Zakah* is usually disbursed outside the UK, although recently there has been a movement encouraging *zakah* distribution to poor Muslims living in the UK.	*zakah* is usually measured by individual Islamic charity. • Tax exemption is available. • Tax incentive (Gift Aid) is available, such as in form of doubling donation collected i.e. government adds the amount of donation collected by up to 5 million pound sterling.
15	Thailand	• No *zakah* law. • However, in 2007, a draft of *zakah* law was being prepared by the Social Development and Human Security Ministry.	• *Zakah* is usually managed traditionally by Islamic institutions such as mosques. • Governance structure consists of mosque council and management team.	• *Zakah* collection is usually done by respected individuals *(imams*) and religious institutions.	• *Zakah* proceeds are distributed to the eight *ashnaf*s. • *Zakah* is usually distributed in the locality (i.e. in the place where it is collected).	• The Muslims mainly live in Southern Thailand. • *Zakah* has been linked with 'terrorist' activity.
16	Brunei Darussalam	• *Zakah* is regulated and made compulsory for all Muslims. • *Zakah* is managed by the Division of *Zakah* Collection	• The *Zakat* division has four units namely Administration, Collection, Application and Disbursement Unit. It also has a Meeting Secretariat.	• *Zakah* collected includes z*akah* on wealth and *zakah fitr*. • *Zakah* is mainly collected from individuals. • *Zakah* on wealth is collected from savings,	• *Zakah* proceeds are only distributed to six *ashnaf*s, thus excluding *riqab* and *fisabilillah* which according to the *Mufti Fatwa* do not exist in the country.	• Division of *Zakat* Collection and Disbursement only has 18 staffs. • Employees are working full-time. • *Amils* are selected

		and Disbursement of Islamic Religious Council of Brunei Darussalam (MUIB) under the Ministry of Religious Affairs. • MUIB is given the authority by the Laws of Brunei, 1/1984 as well as Religious Council and *Kadi* Courts, Chapter 77, Section 114.	• The Application and Disbursement Unit is involved in the process of receiving applications for *zakah*, investigating the applicants and making the recommendation for submission to the higher committee for their approval and subsequent disbursement of the *zakat* fund.	business, gold and silver. • *Zakah* on paddy was introduced in 2008. • *Zakat fitrah* is paid according to the market value of 2.3 kg of rice. • *Zakah* can be paid in cash or bank transfer to MUIB.	• *Zakah* are prioritized for meeting basic needs of poor people (73% in 2006). • In 2008, a total of $11.6 million of *zakat funds were* distributed to 16,000 poor people (around 4000 families). • It is also used for medical assistance, disaster relief, providing training and capital assistance.	individuals including *imams*, members of the mosque committee, community leaders and those working in Islamic financial institutions.
17	Palestine	• *Zakah* is regulated based on the 2012 *Zakat* Law of Palestine. • The Palestinian Ministers Council passed Law No. 144 /2008 to form the Board of Trustees of the Palestinian *Zakat* Committee (PLC).	• Governance of PLC: Board of Trustee and management team, which includes a number of specialists in religious affairs, economics and management, businessmen and charity workers. • PLC also has financial, administrative and legal independence.	• *Zakah* is collected from individuals and companies.	• *Zakah* proceeds are distributed to eight *ashnaf*s • *Zakah* is mostly distributed inside Palestine.	• In the past, *Zakah* Committee of West-Bank Palestine was established under the Jordan *Zakah* Law 1978 and operates under the Central *Zakat* Fund (the Ministry of *Awqaf*).
18	Victoria, Australia	• No *zakah* law. • Zakah organization is established under the Trust Law.	• Islamic Council of Victoria has a Board of Management (executive committee),	• *Zakah* is mostly collected from incomes. • *Zakah* are mostly collected from individual Muslims.	• *Zakah* proceeds are only distributed to the poor, needy and indebted who reside in Australia	

		• *Zakah* organizations are usually established as Foundations or NPOs/NGOs such as Islamic Council of Victoria State (ICV).	management team, in-house *imams* and religious service coordinator. • The Board is responsible for the governance of the council. • In consultation with the ICV's constituent members and external bodies such as the Victorian Board of *Imams*, the Board determines the broad policies and directions of the ICV. • The Board members are elected every two years.	• *Zakah* can be paid in person to ICV office or through bank transfer.	(particularly in Victoria). • ICV seeks to aid and empower people through provision of welfare services and sponsorship to Australian Muslims. • The focus is empowerment and helping people to achieve self-sufficiency and independence, such that in the future they will be contributors of *zakah* rather than the recipients. • *Mustahik* must apply on-line or via fax to ICV. The application will be assessed by the ICV's *Zakah* Committee and the decision is usually given in 10 days. Maximum cash assistance is AUD 1,000.	
19	America	• No *zakah* law. • *Zakah* organizations are usually established as Foundations or NPOs/NGOs such as *Zakat* Foundation of America (ZF).	• Governance consists of Board of Trustees, local Management Team and International Team (Ghana, Bangladesh and Lebanon).	• *Zakah* is mostly collected from incomes. • *Zakah* are mostly collected from individual Muslims. • *Zakah* can be paid in person, on-line, over the phone, via mail and other methods (matching gift, i.e. doubling the donation value by corporations;	• Main programs include orphan sponsorships, education, healthcare, development (microfinance, etc.), relief and seasonal programs. In 2012, the program implementation covers 46 countries. • Since 2003, ZF has served	• Since its establishment in 2001, ZF has progressed from mostly offering immediate emergency aid and seasonal programs to a focus on severing

				endowment gift; bequest gift; and donating cars)	approximately 2.5 million people, including 532,905 people in 2012. • In 2012, around 94.5 cent of every dollar donated went directly into program services. The rest, i.e. around 2.4 cent and 3.1 cent went to fundraising and administration cost.	the roots of poverty, utilizing *zakah* and s*adaqah* donations to develop long-term, sustainable solutions.

Source: Summarized from various literature (see, among others, Abdullah, 2010; Ahmad & Mohamad, 2012; Ahmed, 2004; Al-Adi, 1995; Al-Ajeel, 1995; Al-Qardawi, 2000; Al-Sawory, 1985; Benthall, 1999; Faridi, 1993, 1995; ILO, 2012; Jamjoom, 1995; Kadir, 2006; Kendall, 2003; Khan, 1985; Majelis Ugama Singapura, 2013a; Manjoo, 2008; Mohammad, 1995; Pereire, 2007a; Rababiah, 2009; Rahmatullah, 2005; Schäublin, 2009; Wahab, *et al.*, 1995)

Appendix 5A: Research Strategies

Research Strategies	Use/Definition	Characteristics, Advantages and Disadvantages
Experiment	Study causal links or to determine whether any changes in one/more independent variables cause or affect one/more dependent variables	• Generally associated with deductive approach and quantitative data. • Usually used in exploratory and explanatory research to answer 'why' and 'how' questions. • Mostly used in natural science disciplines. • Research output usually has high internal validity (i.e. high control over the research process, able to study causal relationship between variables), but external validity is low (i.e. results cannot be generalized to a larger population). • Usually costly, time-consuming and often encounter ethical problems
Survey	Involves the structured collection of data from a sizeable population to answer research questions	• Usually associated with deductive approach and quantitative data. • Mostly used in exploratory and descriptive research to answer 'who', 'what', 'where', 'how much' and 'how many' questions. • Commonly employed in business and management studies. • Allow the collection of a large amount of data from a sizeable population in an economical way • Research output usually has high internal and external validity (i.e. results can be generalized to a larger population, provided that appropriate sampling method is used). • Can be done in manageable time and budget, and usually have fewer ethical problems
Case-study	An empirical investigation of a particular contemporary phenomenon within its real-life context by triangulating or using multiple sources of evidence.	• Generally associated with inductive approach. • Has a considerable ability to generate answers to the questions 'why', 'what' and 'how', and thereby usually used in exploratory and explanatory research. • Enables a rich understanding of the research context and the process being enacted. • Pure case-study strategy usually has low external validity, although it is often emphasized that generalizability is not the main objective of the research. • It is likely to be used in combination with other research strategies, based on triangulation of multiple sources of data. When the triangulation method is used, advantages of other research designs could be captured in a case-study research strategy.
Action Research	An interactive inquiry process that balances problem-solving actions with data-driven to understand underlying causes which enabling future predictions about personal and organizational change.	• Generally associated with inductive approach and qualitative data. • Particularly useful for answering 'how' and 'what next' questions. • Explicit focus on actions, in particular in promoting change within an organization. Thus, the researcher usually has low control over the research process due to the changing nature of the research environment. • Involves the iterative process of diagnosing, planning, taking action and evaluating within a specific context and with a clear purpose. • Can be costly and time-consuming. • Also known as Participatory Action Research, Participatory Learning and Action, Participatory Rapid Assessment and several other names/concepts

Grounded theory	Theory is developed from data generated by a series of observations or interviews principally involving an inductive approach.	• Generally associated with inductive approach and qualitative data. • Particularly helpful to predict and explain behaviours, with emphasis on building theory. • Focuses on answering the questions 'what' (what is going on or what is the problem) and 'how' (how are they/participants trying to solve the problem). Thus, it does not aim to find the 'truth' but to conceptualize what is going on by using empirical research. • Usually judged by fit, relevance, workability and modifiability instead of standard criteria in social research. • Usually time-consuming.
Ethnography	Focused on describing and interpreting the social world through first-hand field study.	• Rooted firmly in the inductive approach. • Main purposes are to describe and explain the social world researched in which the researcher is immersed in the community's social setting for an extended period of time. Thus, it focuses on answering the question 'what' and is associated with explanatory and descriptive study. • The research process needs to be flexible and responsive to change; thus, the researcher has minimum control over the research process. • Usually very time-consuming. • May encounter ethical problems, especially if the researcher assumes a covert role (i.e. not disclose the fact that he or she is a researcher to the participants/community being researched).
Archival research	Uses administrative records and documents as principal sources of data.	• Allows research questions which focus upon the past and changes over time to be answered, be they exploratory, descriptive or explanatory. • Ability to answer research questions could be constrained by the nature of the administrative records/documents which might be collected with very different purposes from the research objectives. • The researcher has no control over actual behavioural events. • Access to the data/documents is often problematic. • Could be time-consuming, especially in obtaining and analyzing the data.

Source: summarized from various sources (Bryman, 2008; Bryman & Bell, 2007; Glaser & Strauss, 2012; Hakim, 2000; Reason & Bradbury, 2008; Robson, 2002; Saunders, *et al.*, 2009; Yin, 2003, 2009)

Appendix 5B: *Zakah* Organizations and Respondents of Semi-Structured Interview

No. and Types of *Zakah* Organization	ID No.	Code of Respondent	Position	Gender
1 – Government (G1)	R1	G1-1	Finance Manager	M
	R2	G1-2	Vice Chairman	M
2 - Government (G2)	R3	G2-1	Chairman	M
	R4	G2-2	Public Relation (PR) Officer	F
	R5	G2-3	PR Officer	F
	R6	G2-4	Customer Service Officer	F
	R7	G2-5	Executive Director	M
	R8	G2-6	Program Staff	M
3 - Corporate (C1)	R9	C1-1	Executive Director	M
	R10	C1-2	Planning, Communication and Operational Standardization Manager	M
4 - Corporate (C2)	R11	C2-1	General Manager (GM)	M
	R12	C2-2	Finance Manager	F
	R13	C2-3	Communication Officer	F
6- NGO (N1)	R14	N1-1	GM Corporate Secretary	M
	R15	N1-2	Executive Director	M
	R16	N1-3	Finance & Operation Director	F
	R17	N1-4	Finance Manager	F
	R18	N1-5	Quality Management System officer	F
	R19	N1-6	Education Program Director	F
	R20	N2-1	Chief Executive Officer (CEO)	M
7 - NGO (N3)	R21	N3-1	Deputy CEO	M
	R22	N3-2	Human Resource manager	F

Appendix 5C: Sampling Methods

Impact of Various Factors on Choice of Probability Sampling Techniques

Sampling technique	Sampling frame required	Sample size needed	Suitable Geographical area	Relative cost	Advantages (compared with simple random sampling)
Simple random	Accurate and easily accessible	Better with over a few hundred samples	Concentrated, if face-to-face contact required	High, if large sample size or sampling frame not computerized	-
Systematic	Accurate, easily accessible and does not contain periodic patterns. Actual list not always needed	Suitable for all sizes	Concentrated, if face-to-face contact required	Low	Normally no difference
Stratified random	Accurate, easily accessible, divisible into relevant strata	Better with over a few hundred samples	Concentrated, if face-to-face contact required	Low, provided that lists of relevant strata are available	Better comparison and representation across strata.
Cluster	Accurate, easily accessible, relates to relevant clusters	As large as practicable	Dispersed if face-to face contact required, geographically-based clusters used	Low, provided that lists of relevant clusters are available	Quick but reduced precision
Multi-stage	Initial stages: geographical division; Final stage: sample is needed only for the areas selected	Initial stages: as large as practicable. Final stage: see comments for simple random and systematic as appropriate	Dispersed, if face to-face contact required	Low, as sampling frame for actual survey population required only for final stage	Difficult to adjust for differential response rates. However, this is often the only practical approach when sampling a large complicated population

Source: Saunders *et al.* (2009:224)

Impact of Various Factors on Choice of Non-Probability Sampling Techniques

Sample type	Likelihood of sample being representative	Types of research in which useful	Relative costs	Control over sample contents
Quota	Reasonable to high representation, although it is highly dependent on selection of quota variables	Research where costs constrained or data needed very quickly, so an alternative to probability sampling is needed	Moderate to reasonable high	Relatively high
Purposive	Low, although dependent on researcher's choices and objectives	Research with small samples	Reasonable	Reasonable
Snowball	Low, but cases will have characteristics desired	Research with difficulties in identifying cases	Reasonable	Quite low
Self-selection	Low, but cases self-selected	Exploratory research	Low	Low
Convenience	Very low	Research with very little variation in population	Low	Low

Sources: Developed from Kervin (1999); Patton (2002), in Saunders *et al*. (2009:236)

Appendix 5D: Questionnaire for *Zakah* Beneficiaries

CONFIDENTIAL	**IDR : [ ] - [ ] - [ ] - [ ] [ ]** **City OPZ TA HH Number**
INTERVIEWER :_____ [ ] [ ]	**SUPERVISOR : _____ [ ]**
EDITOR : _____ [ ]	**PUNCHER : _____ [ ]**

QUESTIONNAIRE
***ZAKAH* AND *MUSTAHIK* WELLBEING IN GREATER JAKARTA**

Type of Assistance (TA) :
1. Education
2. Economic
3. Health
4. Social/Others

	1st VISIT	2nd VISIT	3rd VISIT
DATE	**[ ][ ] / [ ][ ]** Date/Month	**[ ][ ] / [ ][ ]** Date/Month	**[ ][ ] / [ ][ ]** Date/Month
START OF INTERVIEW	**[ ][ ] / [ ][ ]** Hour /Minute	**[ ][ ] / [ ][ ]** Hour /Minute	**[ ][ ] / [ ][ ]** Hour /Minute
END OF INTERVIEW	**[ ][ ] / [ ][ ]** Hour /Minute	**[ ][ ] / [ ][ ]** Hour /Minute	**[ ][ ] / [ ][ ]** Hour /Minute
INTERVIEW STATUS:	1. Finished 2. Unfinished [ ]	1. Finished 2. Unfinished [ ]	1. Finished 2. Unfinished [ ]
	Reason for Unfinished Interview Status		
	1. Respondent refused to continue interview 2. Respondent refused to be interviewed 3. Others (please mention) _____		

INFORMED CONSENT – MUST BE READ TO RESPONDENT

Assalamualaikum wr.wb

My name is .... (*please mention interviewer name*).We are conducting a survey for households receiving assistance from *zakah* organizations in 2011 and your family is selected to be interviewed. We would like to ask several questions related to your household's experience during and after receiving assistance from the organization. Information from you will be very helpful for us and for the organization to improve their performance in the future.

The interview is voluntary. Information from you is confidential and will not be shown to others. We hope you could participate because your experience and participation are very important for us. Thank you.

I. LOCATION

		CODE
101	Name of residential city: 1. Jakarta Utara (North Jakarta) 2. Jakarta Timur (East Jakarta) 3. Jakarta Pusat (Central Jakarta) 4. Jakarta Selatan (South Jakarta) 5. Jakarta Barat (West Jakarta) 6. Depok 7. Tangerang 8. Bogor 9. Bekasi	[ ]
102	Name of *Zakah* Organization (OPZ) 1. G1 2. G2 3. C1 4. C2 5. N1 6. N2 7. N3	[ ]
103	Type of Assistance: 1. Education 2. Economic 3. Healthcare 4. Social/Other	[ ]
104	Household Number	[ ][ ]
105	Name of Interviewer	[ ]
106	Name of Editor	[ ]
107	Name of Supervisor	[ ]
108	Name of Respondent (Head of Household)	
109	Address and Phone Number (if any)	

II. SOCIO-DEMOGRAFIC BACKGROUND

201	What is your gender?	1. Male 3.Female
202	How old are you in the last birthday?	[ ][ ] Year
203	What is your marital status? 1. Married 2. Not-married (separated, divorced, widow/widower, single)	 1. 2.
204	What is the highest education level that you attended? 01. Not going to school 02. Elementary School 03. Junior High School 04. Senior High School 05. College/University	 01. 02. 03. 04. 05.
205	What is your main activity in the last month? 01. Not working (unemployed/retired) 02. Trader/small-businessman 03. Employee (formal sector) 04. Labor (informal sector worker) 95. Others (please mention):……	 01. 02. 03. 04. 95.

III. HOUSEHOLD MEMBER AND CONDITION OF HOUSE

301	How many household members live in this house?	[ ][ ] person
302	How many household members worked for money/profit in the last month?	[ ][ ] person
303	Do any household members suffer from disabilities, chronic illness or permanent disease? If yes, how many are they?	[ ][ ] person
304	What is the status of your house? 01. Privately owned 02. Not own the house (owned by parent or rented)	 01. 02.
305	What is your main source of drinking water? 01. Own source of water (well-water) 02. Not-own or purchased water (pipe and mineral water)	 01. 02

IV. MONTHLY HOUSEHOLD INCOME

401	What is the <u>average monthly income</u> of your household in the past year from the following sources: A. Wage/salary/bonus/benefits B. Profits (from business) C. Rent (of property/land/equipment) D. Transfer from families and relatives **V.** Others: ……..	 A. Rp [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] B. Rp [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] C. Rp [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] D. Rp [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] V. Rp [ ]. [ ] [ ] [ ]. [ ] [ ] [ ]

V. ASSISTANCE RECEIVED

Now, I would like to ask about the types and amounts of ***<u>monthly assistance</u>*** received by your household ***<u>from this zakah organization</u>*** *in the last year*.

501	Did your household ever get the following economic assistance in the past year? A. Non-loan capital (cash for working-capital) B. *Qardul Hasan* loan (revolving fund) C. Provision of equipment D. Skill-building/business trainings V. Others (please mention): ……..	1 Yes 3 No A. 1. 3. B. 1. 3. C. 1. 3. D. 1. 3. V. 1. 3.
501a	INTERVIEWER CHECK If all answers in 501 are No (3), go directly to 503	1. Yes 3. No→ 503
502	How much monthly assistance (money) did your household receive last year? A. Non-loan capital (cash for working-capital) B. *Qardul Hasan* loan (revolving fund) C. Provision of equipment D. Skill-building/business trainings V. Others (please mention): ……	 A.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] B.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] C.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] D.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] V.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ]
503	Did your household ever get the following *zakah* assistances in the past year? A. Education assistance B. Healthcare assistance C. Social assistance (other than above):	1 Yes 3 No A. 1. 3. B. 1. 3. C. 1. 3.
503a	INTERVIEWER CHECK If answers in 503 are all circled (3), go directly to 505	1. Yes 3. No → 505
504	How much monthly assistance (money) did your household receive last year? A. Education assistance B. Healthcare assistance C. Social assistance (other than above)	 A.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] B.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ] C.Rp. [ ] [ ]. [ ] [ ] [ ]. [ ] [ ] [ ]

505	After receiving assistance from the *zakah* agency (OPZ), did you attend any activities organized/supported by the agency: A. Islamic/Qur'anic Studies (*Pengajian*) B. Healthcare advocacy C. Skill-building/business trainings D. Group meeting supervised by OPZ staff V. Others (please mention):.....	1 Yes 3 No A. 1. 3. B. 1. 3. C. 1. 3. D. 1. 3. V. 1. 3.
505a	Did your household, after receiving assistance from this OPZ last year, ever attend a group meeting *without* supervision of the OPZ staff?	1 Yes 3 No

The next questions are related with government assistance:

506	Did your household ever receive government support?	1 Yes 3 No
507	If yes, what kind of government support did you receive last year? A. Unconditional Cash Transfer (BLT) B. Subsidized Rice (Raskin) C. Health Insurance (Jamkesnas/Jamkesda) D. Conditional Cash Transfer (PKH) V. Others (please mention):.....	1 Yes 3 No A. 1. 3. B. 1. 3. C. 1. 3. D. 1. 3. V. 1. 3.

VI.*ZAKAH* AND WELLBEING OF MUSTAHIK

Now, I would like to know your opinion regarding the *changes in your household wellbeing from last year* seen from *education, healthcare, economic, spirituality and social aspects*.

NO.	STATEMENT	PERCEPTION					
601	In the scale of 1-6 and if compared to last year's condition, what do you think of your household's **general health** condition in the following aspects:	**WORSEN** ←					**BETTER** →
	A. Consumption of nutritious food *(consume at least rice/carbohydrate, side-dish such as meat/fish/chicken and vegetable/fruits)*	1	2	3	4	5	6
	B. Access to healthcare services (*hospital/clinics, doctor/midwives, medicine, etc)*	1	2	3	4	5	6
	C. Awareness to maintain health and cleanliness	1	2	3	4	5	6
	D. Staying healthy *(less frequent health problems)*	1	2	3	4	5	6
602	In the scale of 1-6 and if compared to last year's condition, what do you think of your children's **education** in the following aspects:	**WORSEN** ←					**BETTER** →
	A. Continue to higher class/level of education	1	2	3	4	5	6
	B. Attend class regularly	1	2	3	4	5	6
	C. Read and do simple calculations	1	2	3	4	5	6
	D. Ranking (academic achievement) in class/school	1	2	3	4	5	6
603	In the scale of 1-6 and if compared to last year's condition, what do you think of your household's **religious activities** in the following aspects:	**WORSEN** ←					**BETTER** →
	A. Perform prayers and fasting regularly	1	2	3	4	5	6

	B. Attend Islamic/Qur'anic study (*pengajian*) regularly	1	2	3	4	5	6
	C. Make charitable donations (*sadaqah/infaq*) regularly	1	2	3	4	5	6
	D. Savings for hajj	1	2	3	4	5	6
604	In the scale of 1-6 and if compared to last year's condition, what do you think of your household's **economic** condition in the following aspects:	**WORSEN** ←					**BETTER** →
	A. Expertise and work/business skills	1	2	3	4	5	6
	B. More hours and/or more regular/permanent job (job condition/status)	1	2	3	4	5	6
	C. Income earned	1	2	3	4	5	6
	D. Purchase of electronic goods (TV, fridge, gas-stove, etc.) and/or motorcycle	1	2	3	4	5	6
	E. Make savings	1	2	3	4	5	6
605	In the scale of 1-6 and if compared to last year's condition, what do you think of your household's conditions in the following **social** aspects:	**WORSEN** ←					**BETTER** →
	A. Provide better future for family (spouse and children)	1	2	3	4	5	6
	B. Maintain harmony amongst family members	1	2	3	4	5	6
	C. Use of alcohol/drugs, gambling and conduct of anti-social behaviours	1	2	3	4	5	6
	D. Participation/involvement in social and community activities	1	2	3	4	5	6

VII. SATISFACTION WITH ASSISTANCE FROM THE OPZ

Lastly, how satisfied are you with the overall support/assistance and interactions with this *zakah* organization?

1. Very dissatisfied
2. Not satisfied
3. Satisfied
4. Very satisfied

FIELDWORK NOTES

FINISH INTERVIEW AND SAY THANK YOU

Appendix 5E: Variables used in Logistic Regression Models

Name of Variable		Type	Description	Unit/Categories
Dependent variable				
Ys	Poverty status of household	Binary	Poverty status	In relation to the income-based poverty: 0 = not poor, 1 = poor
				In relation to the multidimensional poverty: 0 = poorer (not improved) 1 = less poorer (improved)
Main Independent Variables				
Socio-demographic characteristic of head of household				
X1	Age	Numeric	Age of head of household	Year
X2	Gender	Binary	Gender of head of household	0 = female, 1 = male
X3	Marital status	Binary	Marital status of head of household	0 = unmarried (divorced, widow/widower, separated, single)
				1 = married
X4	Education	Categorical	Highest education attended by head of household	0 = Not going to school
				1 = Elementary school
				2 = Junior high school
				3 = Senior high school
				4 = College/university
X5	Occupation	Categorical	Occupation of head of household	0 = Not working
				1 = Informal sector labour
				2 = Small trader/businessman
				3 = Formal sector employee
				4 = Others
Characteristics of household				
X6	Household size	Numerical	Total number of household members	Number/head
X7	Disabilities	Numerical	Total number of household members with disabilities and/or permanent disease	Number/head
X8	Location	Categorical	Residential location of the (urban) household	0 = NO (Not/outside Jakarta (Bogor, Depok, Tengerang, Bekasi))
				1 = Yes (Jakarta)
X9	House (asset)	Binary	Status of house ownership	0 = No (Not own a house)
				1 = Yes (Own a house)
X10	Water (asset)	Binary	Source (status) of water	0 = No (Not have own-source of water)
				1 = Yes (Have own source of water)
Involvement with zakah organizations				
X11	Types of *zakah*	Categorical	Types of *zakah* agencies that	0 = Government

	organizations		contributed to the household income in the last 12 months	1 = Corporate
				2 = Non-profits
X12	Types of *zakah* assistances	Categorical	Types of *zakah* assistance received by the household in the last 12 months	0 = Economic
				1 = Education
				2 = Healthcare
				3 = Social/others
X13	Islamic/Qur'anic study	Binary	Participation in Islamic/Qur'anic *(pengajian)* study	0 = No, 1 = Yes
X14	Healthcare advocacy	Binary	Participation in healthcare advocacy activities	0 = No, 1 = Yes
X15	Training	Binary	Joining skills/business training	0 = No, 1 = Yes
X16	Supervisory meeting	Binary	Participation in the group-based supervisory meeting (i.e. regular meeting supervised by someone from or appointed by the *zakah* agency, as part of the economic program)	0 = No, 1 = Yes
X17	Non-supervisory meeting	Binary	Participation in the group-based non-supervisory meeting. This is usually a later stage of the economic (Islamic microfinance) program where the group is expected to be more independent and ready for the 'exit' stage	0 = No, 1 = Yes
X18	Other *zakah*-related activities	Binary	Participation in other *zakah*-related activities, such as environmental activities	0 = No, 1 = Yes
Other external factor				
X19	Government support	Binary	Receive government supports in the last 12 months	0 = No, 1 = Yes

Appendix 5F: Calculation of Household Poverty Line

No	City/Province	Individual Poverty Line, Urban Area, 2011*	Household Poverty Line, Urban Area, 2011**
1	North Jakarta (DKI Jakarta)	361,948	1,845,932
2	East Jakarta (DKI Jakarta)	361,948	1,845,932
3	Central Jakarta (DKI Jakarta)	361,948	1,845,932
4	South Jakarta (DKI Jakarta)	361,948	1,845,932
5	West Jakarta (DKI Jakarta)	361,948	1,845,932
6	Depok (West Java)	231,512	1,180,709
7	Tangerang (Banten)	242,124	1,234,830
8	Bogor (West Java)	231,512	1,180,709
9	Bekasi (West Java)	231,512	1,180,709
	Simple average		1,556,291

**Source:* Indonesia Statistical Yearbook 2012 (Badan Pusat Statistik, 2013)

Note: ** Calculated based on assumption that the average household size is 5.1 persons (i.e. the result of this study).

Appendix 5G: Semi-Structured Interview Guideline for Management Personnel of *Zakah* Organizations

A. Introduction

- Researcher introduces herself, background and objectives of study
- Confidentiality statement
- Profile of respondent and *zakah* organization

B. Vision/Mission, Governance and Planning

1. What are the vision/missions of your organization? What are they focused on?
2. How do you structure your organization?
3. How do you generate and plan the policies and program ideas?

C. Organizing

Human Resource Management

4. How many employees do you have? What are their qualifications? How much is the salary of a new employee (compared to the minimum regional wage)?
5. What is the status of the employees?
6. How often do they get training in 2011?

Operational Management: Collection (Fundraising) Model

General question/idea: How do you collect zakah proceeds? In other words, what is the model of fundraising implemented in your organization?

7. From whom/where do you collect *zakah* proceeds? In other words, who are the *zakah* payers? How much do they contribute to the total revenue?
8. Are there special programs for collecting *zakah*? If yes, what are the fundraising methods? What are the methods of *zakah* payment provided?

Operational Management: Distribution Model

General question/idea: How do you distribute the zakah proceeds? What are the models of zakah distributions implemented in your organization?

9. To whom (which head of *zakah*) do you distribute the *zakah* proceeds? How much do you distribute to each of them?
10. What distribution programs do you implement?
11. How do you distribute it?

Operational Management: Communication Model

General question/idea: How do you communicate your programs? What models of communication are implemented in your organization?

12. What media of communication do you use in your organization?
13. How frequently do you use the communication media?

Financial Management

14. Do you use *zakah* proceeds to finance activities of *amil* (*zakah* organization)? If yes, how much is the percentage/share of *amil*?

15. Do you conduct internal and external audits? If yes, what is the opinion of the external auditor?

D. Controlling (Monitoring and Evaluation)

16. Do you conduct any monitoring and evaluation? If yes, what kinds of monitoring and evaluation have been conducted? In other words, what method of evaluation have you used?

E. Financial Performance

17. How much *zakah* proceeds have you collected in 2011? How much have you disbursed?

F. Current Issues and Areas of Concern

18. What are the issues and areas of concern for management of *zakah* organizations?
19. To what extent has *zakah* institution played an important role in reducing poverty in Indonesia, both from the macro and micro perspective?
20. What do you think about the new *zakah* law? (*Optional, if time/conditions permit)

Appendix 7A: Descriptive Statistics of the Variables in Logistic Regression Models

Variable		N	Mean	Std. Dev.	Min	Max
Poverty Status						
Y1	Income-based poverty level ***without zakah assistance*** (0=Not Poor, 1=Poor)	685	0.62	0.48	0	1
Y2	Income-based poverty level ***with zakah assistance*** (0=Not Poor, 1=Poor)	685	0.53	0.50	0	1
Y3	Changes in aggregate multidimensional poverty/wellbeing measure after receiving *zakah* assistance (0=Negative/not improved, 1=Positive/improved)	69	0.66	0.23	0.1	0.96
Y4	Changes in health poverty/wellbeing measure after receiving *zakah* assistance (0=Negative/not improved, 1=Positive/improved)	677	0.78	0.32	0	1
Y5	Changes in education poverty/wellbeing measure after receiving *zakah* assistance (0=Negative/not improved, 1=Positive/improved)	581	0.87	0.26	0	1
Y6	Changes in spiritual poverty/wellbeing measure after receiving *zakah* assistance (0=Negative/not improved, 1=Positive/improved)	297	0.71	0.26	0	1
Y7	Changes in economic poverty/wellbeing measure after receiving *zakah* assistance (0=Negative/not improved, 1=Positive/improved)	466	0.56	0.35	0	1
Y8	Changes in social poverty/wellbeing measure after receiving *zakah* assistance (0=Negative/not improved, 1=Positive/improved)	90	0.73	0.22	0.25	1
Socio-Demographic Characteristics of Head of Household						
X1	Age (years)	685	42.31	13.48	15	95
X2	Gender (0=female, 1=male)	685	0.27	0.45	0	1
X3	Marital status (0=not married, 1=married)	685	0.62	0.48	0	1
X4	Education (0=not going to school, 1=SD, 2= SMP, 3=SMA, 4=College/University)	685	1.79	1.11	0	4
X5	Occupation (0=not working, 1=labor, 2=small traders, 3= employee, 4=others)	685	1.03	1.13	0	4
Socio-Economic Characteristics of Household						
X6	Household size	685	5.1	2.01	1	15
X7	Number of HH members with disabilities	685	0.17	0.41	0	2
X8	Type of house/asset (0=not own a house, 1=own a house)	685	0.39	0.49	0	1
X9	Source of water/asset (0=not own private source of water, 1=own private source of water)	685	0.5	0.5	0	1
X10	Location (0=Outside Jakarta, 1=Jakarta)	685	0.55	0.5	0	1
***Zakah* and Non-*Zakah* Assistance**						
X11	Types of *zakah* organizations (0=Government, 1=Corporate, 2=Non-profits)	685	1.28	0.8	0	2
X12	Types of *zakah* assistance (0=Economic, 1=Education, 2=Healthcare, 3=Social)	685	1.25	1.08	0	3
X13	Participate in Islamic/Qur'anic study (0=No, 1=Yes)	680	0.3	0.46	0	1
X14	Attend healthcare advocacy activity (0=No, 1=Yes)	680	0.15	0.36	0	1
X15	Attend skill/business training (0=No, 1=Yes)	680	0.17	0.37	0	1
X16	Attend supervisory meeting activity (0=No, 1=Yes)	680	0.24	0.43	0	1
X17	Attend non-supervisory meeting activity (0=No, 1=Yes)	684	0.13	0.34	0	1
X18	Attend other related activities (0=No, 1=Yes)	685	0.04	0.19	0	1
X19	Receive government supports (0=No, 1=Yes)	685	0.56	0.5	0	1

Note: Unmarried consist of single parents (due to death, divorce and separation) and a few single; SD = Elementary school, SMP = Junior High School, SMA = Senior High School

Appendix 7B: Correlation Matrix

Variable	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	X11	X12	X13	X14	X15	X16	X17	X18	X19
X1	1.00																		
X2	-0.18*	1.00																	
X3	0.08*	-0.01	1.00																
X4	-0.40*	0.21*	-0.02	1.00															
X5	0.06	0.13*	0.05	0.13*	1.00														
X6	-0.03	-0.03	0.06	0.03	0.04	1.00													
X7	0.03	-0.09*	0.06	-0.08*	0.06	0.09*	1.00												
X8	0.20*	0.00	-0.08*	-0.13*	-0.08*	0.07	-0.03	1.00											
X9	0.08*	0.02	0.12*	-0.25*	0.01	-0.05	0.02	0.12*	1.00										
X10	0.17*	-0.16*	-0.07	0.01	0.01	0.01	0.04	-0.16*	-0.25*	1.00									
X11	-0.10*	0.12*	0.04	-0.04	-0.03	-0.09*	-0.04	0.00	0.01	-0.31*	1.00								
X12	0.15*	0.08*	-0.12*	-0.08*	-0.04	-0.04	0.05	0.06	0.00	0.07	-0.11*	1.00							
X13	-0.10*	0.01	-0.10*	0.05	-0.01	-0.03	-0.06	-0.05	-0.04	-0.20*	0.21*	-0.19*	1.00						
X14	-0.09*	-0.01	0.02	0.09*	-0.04	0.02	-0.07	0.00	-0.05	-0.08*	0.19*	-0.14*	0.38*	1.00					
X15	-0.17*	0.01	0.00	0.03	0.01	-0.06	0.04	0.02	-0.03	-0.27*	0.30*	-0.21*	0.37*	0.31*	1.00				
X16	-0.16*	0.02	0.00	0.05	0.03	0.01	-0.04	0.00	0.02	-0.22*	0.33*	-0.21*	0.38*	0.28*	0.55*	1.00			
X17	-0.07	-0.04	0.02	0.04	-0.03	0.00	0.00	0.05	0.01	-0.21*	0.24*	-0.13*	0.29*	0.24*	0.32*	0.49*	1.00		
X18	-0.06	0.14*	-0.01	0.00	0.02	0.04	0.00	0.05	-0.02	-0.15*	0.17*	0.05	0.02	0.14*	0.14*	0.11*	0.09*	1.00	
X19	0.08*	-0.16*	0.04	-0.29*	-0.11*	0.05	0.05	0.15*	0.13*	-0.20*	0.01	0.00	0.06	-0.01	0.05	0.05	0.01	-0.05	1.00

Note:* denotes significance at 5% level. Source: Author's calculation

Appendix 8A: Brief Profile and Programs of *Zakah* Organizations

No	Aspect	Government *zakah* organizations		Corporate *zakah* organizations		Non-profit *zakah* organizations		
		G1	G2	C1	C2	N1	N2	N3
	Organizational Aspects							
1	Date/year of establishment	1968, Dec. 5th	2001, Jan. 17th	2000, June 16th	2001, August 10th	1994, Sept. 4th	1998, July 2nd	1999, Dec. 10th
2	Current affiliation	Government	Government	Islamic bank	Conventional bank	none	None	none
3	Number of domestic offices	1	36	1	1	23	45	34
4	Number of international offices	0	31	0	0	3	2	12
	Operational Aspects (Main Programs)							
5	Economic program	Training and procurement of sewing machines for poor widows	*Baitul Qiradh* (BQB) – providing *qard hasan* loan	Mosque-based Micro Enterprise Community of Muammalat (KUM3)	Capital for small business	Independent Society (MM)	Comprehensive microenterprises financing support (KUKMI)	Economic empowerment synergy program
		Assistance to enable poor people to get driving licences		*Shariah* micro finance institution		Healthy Agriculture Institute (LPS)	Local economic potency empowerment (cake house, batik sewing, etc.)	Vocational training centre
				a. *Shariah* revolving Fund (DBS)		Livestock Village (KT)	Equipment provision *(Sarana Usaha Mandiri)*	
				b. BMT *Shar-e*		BMT Centre (Islamic microfinance)	Business supervisory and E-market	
				Mushroom village (productive village)			Integrated Community Development (ICD)	
							Technical training for *mustahik*	
							Tutoring for *mustahik*	
							Supervisory meeting	
6	Education program	Scholarship for PAUD (nursery school) teachers	Free tutoring	Orphan *kafala* (education)	Scholarship	*Smart Ekselensia Indonesia* (free high school)	General scholarship (scholarship for children of the poor/needy households)	Community-based education program
		Scholarship for high schools (SMP and SMA) students from poor families	One Family One Scholar program (SKSS)	Islamic solidarity school (ISS)		*Beastudi* Indonesia (scholarship)	Development of champion child (scholarship for outstanding student)	Teacher allowance program
		Procurement of educational toys/games for PAUD (nursery school)	Intelligent House (establishment of library)	*Madinah al Munawwara* Solidarity School (MMS)		School for Indonesian Teacher (SMI)	Development of child potency	Foster parent program
		Scholarship for students (SD-S1) from poor families	Smart Vehicle (mobile library)	Scholarship		*Makmal Pendidikan* (Education Centre)	Champions' school	Orphan education voucher

		Scholarship for young Muslim scholars and preachers	*Dinnar* scholarship			Independent Institute (IK)	Champion's car (mobile public library)	Reconstruction of school and library
							Champion's tent	
							Direct education support	
							Nursery school (PAUD)	
							Education care (non-program)	
							PAUD's champion	
7	Healthcare Program		Healthy House (RSB)	Medical/healthcare assistance	Medical assistance	Free Healthcare Services (LKC)	Free Maternity Hospital Services (RBG), including:	*Budarzi* (Nutrition Awareness for Mothers)
						Integrated Healthy House (RST)	Dentist services	*Prosmiling Terpadu* (Mobile community health program)
							Healthcare examination	
							Ambulance services	
							Medical surgeries	
							Circumcision services	
							Baby food	
							Direct healthcare support	
8	Social and other programs	Distributing staple food (rice) to poor people	*Mustahik* Service Counter (KLM)	Procurement of prayer facilities for public	Emergency living allowance	*Lembaga Pelayan Masyarakat* (Public Service Inst.)	Ramadan Program	Clean water supply
		Livelihood support for *Muallaf, Gharimin and Ibnu Sabil*	General supports for religious institution	*Ramadan* charity	Cash assistance for mosque warden	Disaster Management Centre	Food gift for breaking the Ramadan fasting *(ifthar*)	Orphan (Ramadan) shopping voucher
		Build *Nurul Wihdah* Islamic secondary school	Creating 1000 Muslim Scholars *(Kaderisasi 1000 Ulama)*	Socio-religious assistance for orphans/poor children			*Eid Mubarak* gift for orphans and the poor	Community-based disaster risk management
		Providing funeral facilities	Disaster relief (Caring Indonesia)	Renovation of socio-religious public facilities			Qur'anic propagation (syiar)	Green community program
		Islamic propagation		*Qurban* (Share the spirit of *Qurban*)			Super *Qurban*	
		General supports for religious institutions		Disaster relief (Quick Response of Muammalat Program)			Environment and disaster management	
		General supports for socio-religious activities		Go-green			Youth and environment development program	
							Wisdom circle (*majelis hikmah* or Islamic study circle)	
							Clean Village	
							Direct distribution	

Appendix 8B: Structure of Management

Zakah Organization	Structure of Executive Boards (Management Team)
G1	Chairman, vice-chairman, secretary and three divisions (collection, disbursement and finance)
G2	Three chairmen (general chairman, chairman of program and chairman of networks), two secretaries, two treasurers and four divisions (collection, distribution, disbursement and development)
C1	Executive director, secretary, treasurer, general manager and six departments (general and administration; fundraising; planning, communication and operational standardization; economic empowerment; non-economic utilization; and special program department)
C2	General manager, internal audit and five divisions (accounting and finance, operational, socialization and publication/communication, utilization, and secretary/logistic)
N1	President director, executive director and four technical departments (program, finance, communication and business development)
N2	Chief executive officer, corporate secretary and three departments (program, operating and fundraising)
N3	Executive director and four technical departments (utilization, finance and IT; collection; network and strategic alliance; and human resources and supporting services)

Appendix 8C: Communication Media

Media of Communication	Types	Used by	Frequency
Print Media	Brochure/Pamphlet/ Poster/Banner	All organizations	All year round (general communication) and occasional (depends on activities, for specific communication/program)
	Bulletin/Newsletter/ Magazine	All organizations	Every month (G2, N1, N2), every 2 months (G2), every 3 months (C1, C2), every 6 months (N3)
	Newspaper (national)	All organizations	Every week (G2, N1), Occasional (G1, C1, C2, N2, N3)
	Annual Report	G2, C1, N1, N2	Annual; no online/public publication (except N2)
Electronic Media	Television (national)	G2, N1, N2, N3	Mostly during *Ramadan*
	Radio	G2, N1	Daily (N1), weekly (G2)
Online Media	Website	All organizations	Continuous (regular and all year round)
	Online newspaper	G2, N1, N2	Mostly during *Ramadan*
	Facebook	All organizations	Daily (all year round)
	Twitter	All organizations	Daily (all year round)
	Emails (personal)	G2, N1, N2	Occasional
	SMS (personal)	C1	Weekly (every Friday)
Other Media	Sermon/speech/talk show	G2, N1, N2, N3	Occasional
	Ceremonial events	All organizations	Occasional

Appendix 8D: Revenue and Distribution of *Zakah* Proceeds

No	*Zakah* Agency	Year	Total Revenue (Output)		Total Distribution		Fundraising Expenses (IDR million)	Fundraising Efficiency (FE/TR)
			Nominal (IDR million)	Growth (%)	Nominal (IDR million)	Growth (%)		
1	G1	2009	509,686		30,436		6,846	0.13
		2010	615,824	20.82%	39,295	29.11%	10,298	0.17
		2011	756,586	22.86%	53,082	35.08%	11,035	0.15
2	G2	2009	263,771		17,620		3,872	0.15
		2010	331,259	25.59%	30,038	70.47%	7,917	0.24
		2011	441,686	33.34%	39,770	32.40%	9,026	0.20
3	C1	2009	341,486		18,882		2,016	0.06
		2010	277,091	-18.86%	20,231	7.14%	2,004	0.07
		2011	329,635	18.96%	29,867	47.63%	2,512	0.08
4	C2	2009	125,935		8,426		661	0.05
		2010	115,188	-8.53%	10,891	29.26%	726	0.06
		2011	521,302	352.57%	41,919	284.89%	1,299	0.02
5	N1	2009[a]	1,097,324		109,520			
		2010	1,917,066	74.70%	161,247	47.23%	14,359	0.07
		2011	1,868,727	-2.52%	172,220	6.81%	13,244	0.07
6	N2	2009	1,073,264		117,395		23,554	0.22
		2010	1,350,817	25.86%	151,346	28.92%	34,563	0.26
		2011	1,458,713	7.99%	164,835	8.91%	35,231	0.24
7	N3	2009	225,288		5,179		402	0.02
		2010	783,451	247.76%	64,905	1153.17 %	12,982	0.17
		2011	796,298	1.64%	68,591	5.68%	10,794	0.14