



ZAKAT AND HUMAN WELFARE: AN ANALYSIS OF
PRODUCTIVE-BASED ZAKAT
IN JAKARTA, INDONESIA

BY

MOHAMAD SOLEH NURZAMAN

A thesis submitted in fulfilment of the requirement for the
degree of Doctor of Philosophy in Economics

Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia

SEPTEMBER 2015

ABSTRACT

This study aims to evaluate the importance of productive-based zakat on the welfare of zakat recipient (*mustahiq*) in the perspective of human development. The focus area of this study is to estimate the human development index (HDI) at the household level, particularly at the deserving household. The second focus area is to explore whether the human development index status of *mustahiq* is affected and improved by productive-based zakat. In doing so, two repeated questionnaires were distributed to productive-based zakat beneficiaries who received funding from zakat institutions in Jakarta, Indonesia. The samples were obtained through two-stage cluster sampling, while the methods were employed through a human development index disaggregation approach, t-test and panel data regression. By using two periods of observation, a proposed result of human development index disaggregation at household level has been demonstrated. It is found that the level of human development index of household who receives productive-based zakat is significantly higher than that of the first period. The underlying distribution of household human development index also improves in the second period. Furthermore, by evaluating the detailed results of the human development index components, the education index and income index are found statistically higher in the second period, while the life expectancy index is not that significant. Meanwhile, the results of panel data regression show that the variable of productive-based zakat is positively correlated with the level of human development index. The magnitude of the relation is 0.00000706. This can be interpreted that the household of *mustahiq* needs about Rp 10,000,000 (\$909) of productive-based zakat fund to increase 0.07 point of human development index. Therefore it can be concluded that zakat, particularly productive-based zakat, can play important role to improve the welfare of poor households. However, a significant amount of zakat is required to achieve such positive result.

خلاصة البحث

تهدف هذه الدراسة إلى تقييم أهمية الزكاة ذات الأساس الإنتاجي علي رفاهية متلقي الزكاة (المستحقين) من منظور التنمية البشرية. و تركز هذه الدراسة على وجه التحديد على تقدير قيمة مؤشر التنمية البشرية (HDI) على المستوى الأسري، وبالأخص أسر المستحقين، وللبحث عن ما إذا كان مؤشر التنمية البشرية لأسر المستحقين يتأثر تأثراً إيجابياً من تلقى الزكاة ذات الأساس الإنتاجي. وللحصول على هذا التقييم، تم توزيع الإستبيان المسحى مرتين للمستفيدين من الزكاة ذات الأساس الإنتاجي من مؤسسات الزكاة في جاكرتا، اندونيسيا. تم الحصول على عينات من خلال نهج العينة العنقودية التي أجريت على مرحلتين، في حين تم توظيف طرق البحث من خلال مقارنة تصنيف مؤشر التنمية البشرية واختبار t وانحدار مطالة البيانات. باستخدام فترتين من الرصد، تمكنا من الحصول على نتيجة تصنيف مؤشر التنمية البشرية على المستوى الأسري. و قد وجد أن مستوى مؤشر التنمية البشرية الأسري للذين يتلقون الزكاة ذات الأساس الإنتاجي في الفترة الثانية أعلى بكثير من الفترة الأولى. و قد تحسن التوزيع الأساسي لمؤشر التنمية البشرية المنزلية أيضاً في الفترة الثانية. و من ناحية أخرى، فمن خلال تقييم النتائج والتفاصيل لمكونات مؤشر التنمية البشرية، وجد أن مؤشر التعليم ومؤشر الدخل العالي قد إرتفعا إحصائياً في الفترة الثانية، في حين لم يظهر مؤشر متوسط العمر المتوقع ناتج ذو أهمية. وفي الوقت نفسه، نتيجة انحدار مطالة البيانات تبين أن متغير الزكاة ذات الأساس الإنتاجي يرتبط ارتباطاً إيجابياً مع مستوى مؤشر التنمية البشرية. و حجم العلاقة هو 0.00000706 ، والتي يمكن أن تفسر بأن أسرة المستحق تحتاج إلى حوالي $10,000,000$ روبية (909 \$) من الزكاة ذات الأساس الإنتاجي إذا كانوا يريدون زيادة مؤشر التنمية البشرية 0.07 نقطة. وبالتالي فإنه يمكن استنتاج أن الزكاة، وخاصة الزكاة ذات الأساس الإنتاجي، يمكن أن تلعب دوراً هاماً في تحسين رفاهية الأسر الفقيرة. ومع ذلك، يتطلب كمية كبيرة من الزكاة لتحقيق هذه النتيجة الإيجابية.

APPROVAL PAGE

The thesis of Mohamad Soleh Nurzaman has been approved by the following:

Gairuzazmi Mat Ghani
Supervisor

Mohd Mahyudi Mohd Yusop
Co Supervisor

Saim Kayadibi
Co Supervisor

Norma Md Saad
Internal Examiner

Ismail Bin Ahmad
External Examiner

Patmawati Binti Ibrahim
External Examiner

Imad Fakhri Taha Alshaikhli
Chairman

DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Mohamad Soleh Nurzaman

Signature

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION
OF FAIR USE OF UNPUBLISHED RESEARCH**

Copyright © 2015 by Mohamad Soleh Nurzaman All rights reserved.

**ZAKAT AND HUMAN WELFARE:
AN ANALYSIS OF PRODUCTIVE-BASED ZAKAT
IN JAKARTA, INDONESIA**

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below.

1. Any material contained in or derived from this unpublished research may only be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieval system and supply copies of this unpublished research if requested by other universities and research libraries.

Affirmed by Mohamad Soleh Nurzaman

.....
Signature

.....
Date

This thesis is dedicated to:

My beloved mother and father, my wife, my children, and all my teachers and mentor

ACKNOWLEDGEMENTS

In the name of Allah, the Most Compassionate and the Most Merciful.

First and foremost, (*Alhamdulillah*) all Praises be upon Allah, Lord of the Universe for all blessings that He has given His' creatures. And may His blessings, peace and favours descend in perpetuity on our beloved Prophet Muhammad (PBUH), who is mercy for all the words. Truthfully, without Allah's blessing, gracing and guiding, this thesis could not have been written.

I would like to express my sincere gratitude to my main supervisor Dr. Gairuzazmi for his wisdom, patience, understanding, insight, knowledge, attention, kindness, encouragement and for always having time to provide guidance and monitoring throughout my Phd dissertation. Words alone cannot express my greatest appreciation and gratitude, InsyaAllah, Allah will reward her abundantly. My thanks also go to my co-supervisor Dr. Mohd Mahyudi and Dr Saim Kayadibi, who he had assisted me in personal ways that shall always inspire me in the times ahead. They were there during the crucial periods of my research and guided me until the completion of this dissertation. Their dedication and effort in supervising me are very much appreciated.

I would like to thank all colleagues in Centre for Business and Islamic Economics, Faculty of Economics University of Indonesia who contributed to this study. I am wishes to acknowledge the help of Yusuf Wibisono for his collaboration and constructive criticisms during preliminary investigations, and to my Research Assistant, Fenny Rosmanita, who greatly assisted with data collection and data entry.

I am grateful to Pos Keadilan dan Peduli Umat, Baitul Qiradh BAZNAS, and Rumah Zakat Indonesia for their support in collecting the data. Thank you to my colleagues in the PhD Program who were always there to give support and confidence to me, Specifically to M.Arif Budiman and M. Fany Alfarisi for helping me in the administration matters. I also thank to all my Indonesian housemates at Batu 8.5 who were always give contributive discussions and interesting inspirations when I stayed at that house in KL.

Last but not least, I would like to express my sincere appreciation to beloved my father and mother in low who are really support me and encourage me. I would say that without your help and praying I could not finish this work. Also, I would like to convey my deepest appreciation to my wife for the love, patience, understanding and unflinching faith.

Finally, if this modest effort is successful, it is by Allah grace and guidance and if it is falls short of the readers' expectations, we can only pray and hope that Allah will forgive me.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page	iv
Declaration	v
Copyright Page	vi
Dedication	vii
Acknowledgements	viii
List of Tables	xi
List of Figures	xii
List of Abbreviations	xiii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of The Study	1
1.1.1 Indonesia's HDI	3
1.1.2 Utilization of Zakat in Indonesia	4
1.2 Statement of the Problem	7
1.3 Research Objectives	10
1.4 Research Question and Hypothesis	11
1.5 Limitation and Scope of the Study	11
1.6 Significance of the Research	12
1.7 Organization of the Study	13
CHAPTER TWO: HUMAN DEVELOPMENT INDEX AS WELFARE MEASURE	14
2.0 Introduction	14
2.1 Welfare Measure	14
2.2 Human Development Index (HDI)	17
2.3 General Estimation of HDI	20
2.4 Summary	22
CHAPTER THREE: ZAKAT AND WELFARE	23
3.0 Introduction	23
3.1 Definition of Zakat	23
3.2 The Importance of Zakat for Improvement of Welfare	27
3.3 Empirical Findings	31
3.4 Productive-Based Zakat	46
3.5 Summary	48
CHAPTER FOUR: RESEARCH METHOD	49
4.0 Introduction	49
4.1 Sources of Data	49
4.2 Data Collection	50
4.2.1 Population and Sample	50
4.2.2 The Type and Procedure of Sampling	51
4.3 Estimation Techniques	52

4.3.1 Method to Estimate Human Development Index.....	53
4.3.1.1 Life Expectancy Index.....	54
4.3.1.2 Education Index.....	56
4.3.1.3 Income Index.....	59
4.3.2 Method to Analyze the HDI.....	61
4.3.2.1 Comparative Analysis: HDI of Mustahiqs.....	61
4.3.2.2 Determinants of HDI.....	62
CHAPTER FIVE: RESULTS AND DISCUSSION.....	67
5.0 Introduction.....	67
5.1 Respondents' Profile.....	67
5.1.1 Variables Explanation.....	69
5.1.2 Variables Profile.....	72
5.2 Result of HDI Estimation.....	75
5.2.1 Descriptive Statistics.....	76
5.2.2 The Result of t-test.....	79
5.2.3 The Result of Panel Data Regression.....	81
5.4 Discussion of Results.....	87
CHAPTER SIX: CONCLUSION.....	94
6.1 Summary.....	94
6.2 Policy Recommendations.....	97
6.3 Suggestion For Further Studies.....	102
REFERENCES.....	104
APPENDIX A: THE ESTIMATED HDI.....	112
APPENDIX B: OUTPUT OF PROCESSED DATA.....	116
APPENDIX C: RESEARCH QUESTIONNAIRE.....	126

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
1.1	HDI of ASEAN Countries (2010 – 2013)	3
1.2	Zakat Collection in Indonesia (Billion Rupiah)	6
4.1	Minimum - maximum value of HDI indicators	54
4.2	Conversion of Education Level	58
4.3	Food Expenditure Items	60
4.4	Non - Food Expenditure Items	60
5.1	Numbers of Respondents	69
5.2	Descriptive Statistics for Size of Financing	72
5.3	Mean, Maximum, and Minimum for Total Income of Household (Rp.Million, Monthly)	73
5.4	Distribution of Empowerment Program, House Facilities, and Size of Household	74
5.5	Quantile Distribution of HDI Estimation (For Household of <i>Mustahiq</i>)	77
5.6	Descriptive Statistics of HDI Estimation (For Household of <i>Mustahiq</i>)	79
5.7	Skewness/Kurtosis Test for Normality	79
5.8	Non-Parametric Test for HDI Between 1 st and 2 nd Period	80
5.9	The Summary of All Panel Data Approaches (HDI as dependent variable)	82
5.10	The Result of Regression (POLS)	84
5.11	The Result of POLS Regression (Components)	86

LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
3.1	The productive-based zakat mechanism	46
5.1	The Distribution of HDI	78

LIST OF ABBREVIATIONS

ADP	Annual Development Plan
ASEAN	Association of South East Asian Nation
BAZ	<i>Badan Amil Zakat</i>
BAZDA	<i>Badan Amil Zakat Daerah</i>
BAZIS	<i>Badan Amil Zakat Infak dan Sadaqah</i>
BAZNAS	<i>Badan Amil Zakat Nasional</i>
BMT	<i>Baitul Maal waTamwil</i>
BPS	Indonesia Statistical Office
CDC	Community Development Circle
ECOSOC	United Nations Economic and Social Council
FE	Fixed Effects
FGT	Foster Greer Thorbecke
FOZ	<i>Forum Zakat</i>
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HDR	Human Development Report
ILO	International Labor Organization
IZDR	Indonesia Zakat Development Report
LAZ	<i>Lembaga Amil Zakat</i>
LSDV	Least Square Dummy Variable
MUI	<i>Majelis Ulama Indonesia</i>
NGO	Non Government Organization
OECD	Organization for Economic Cooperation and Development
OIC	Organization of Islamic Countries
OLS	Ordinary Least Squares
OPZ	<i>Organisasi Pengelola Zakat</i>
PEBS-FEUI	<i>Pusat Ekonomi dan Bisnis Syariah – Fakultas Ekonomi Universitas Indonesia</i>
POLS	Pooled Least Squares
PPP	purchasing power parity
PQLI	Physical Quality of Life Index
RE	Random Effects
SUSENAS	National Socio-Economic Survey
UNDP	United Nation for Development Program
UNRISD	United Nations Research Institute for Social Development

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The United Nations Development Program (UNDP), through its first annual publication of Human Development Report (HDR) in 1990, introduced the human development index (HDI) as a new way to measure development. The HDI was inspired by Sen (1990) who questions concepts of development that have focused exclusively on economic measures such as GDP, and GDP per capita. He proposes a measure which focuses on “human capability” where it is defined as an aggregation of choices that an individual enjoys. Influenced by Sen, Mahbubul Haq (1995) explains further that while economic measures focus exclusively on the expansion of only one choice, i.e. income, human development comprises the expansion of all human choices, i.e. including economic, social, cultural and political. These characteristics become the essential difference between the economic measures and the human development schools.

The HDI as indicator of human development comprises 3 basic components that can generate a measure for reflecting the efforts of human development in a region, namely:

- i. Longevity which is measured by average life expectancy;
- ii. Access to knowledge as measured by the percentage of literacy for adults and school participation rates obtained from the ratio of combined enrollment in school from primary school to the school level continued upward; and

- iii. A decent standard of living as measured by revenue per capita in purchasing power parity in U.S. dollars or local currency¹.

Achievements reflected through the HDI are correlated with different dimensions of welfare. HDI illustrates the level of quality of life and human capability. Indicators of life expectancy represent the dimensions of a long and healthy life; indicators of literacy rate and average length in school portray the output of the dimensions of knowledge; and purchasing power indicator reflects the ability to buy basic needs.

Currently Muslim countries are ranked lowly in terms of HDI, although most of the countries have abundant natural resources. In the perspective of human development, Muslim countries are categorized as low and less developed. A report analysis from Organization of Islamic Countries' Standing Committee on Scientific and Technological Cooperation (COMSTECH) shows that Organization of Islamic Cooperation (OIC) members possess 72 % of the world's energy resources, 62% of crude oil and 76% of gas reserves². However, the economic condition and human development attainment of Muslim countries do not reflect the resources they are having. Human Development Report (HDR) 2011 indicates that only about 4 out of 57 OIC members are categorized as very high in terms of human development³. In this category, the highest ranking of OIC members stood at 30th out of 38 countries categorized very high. On the other hand, 28 members and 10 members of OIC are categorized at medium and low level human development. The worst of it is that the three lowest positions of 182 countries included in this report are members of OIC.

¹ US Dollar is used as international standard, while for local-level comparison some countries use their local currency

² <http://www.comstech.org/docs/SWOT%20ANALYSIS%20%202013.pdf>

³ Countries are categorized as very high, high, medium and low level human development

1.1.1 Indonesia's HDI

Indonesia, the most populous Muslim country, is also experiencing problem in human development achievement. UNDP reported that Indonesia's position in Human Development Index in 2013 was at 108th position from 182 countries, which is slightly higher than that of 2012, that is at 121th. With an HDI value of 0.684⁴, Indonesia is a Country that stands in the middle of the HDI ranking. However, compared to ASEAN countries, Indonesia's position is not very encouraging. Indonesia is only better than Vietnam and some poor countries in ASEAN such as Laos, Cambodia and Myanmar.

Table 1.1 HDI of ASEAN Countries (2010 – 2013)

Countries	Value of HDI				Rank (2013)
	2010	2011	2012	2013	
Brunei Darussalam	0.844	0.846	0.852	0.852	30
Singapore	0.894	0.896	0.899	0.901	9
Malaysia	0.766	0.768	0.770	0.773	62
Thailand	0.715	0.716	0.720	0.722	89
Philippines	0.651	0.652	0.656	0.660	117
Indonesia	0.671	0.678	0.681	0.684	108
Vietnam	0.629	0.632	0.635	0.638	121
Laos	0.549	0.560	0.565	0.569	139
Myanmar	0.514	0.517	0.520	0.524	150
Cambodia	0.571	0.575	0.579	0.584	136

Source: UNDP : Human Development Report 2014

⁴ This HDI value is estimated at national level by using standard method for international comparison, thus would not be comparable to the household HDI in this study. It is used for the illustration at national level achievement.

The relatively low HDI of Indonesia shows that the quality of human welfare in Indonesia is still at an alarming level. In fact, because the HDI indicators refer to the concept of basic human capabilities, it can be said that Indonesians are still having difficulty in meeting basic needs. In other words, instead of having sufficient quality of life, many Indonesians are in the poverty cycle (Suharto 2002).

The dimensions of development issues in Muslim countries, particularly Indonesia, require a comprehensive evaluation. Efforts to overcome the problem of human development are not only on how to accelerate the reduction in the number of the poor, but more importantly how to improve the welfare of the poor. While social security systems have been well established in many developed countries to reduce poverty to a minimum level, in developing countries such comprehensive social security systems are still lacking. In many Muslim countries, there exist the institutions of zakat, as part of the socio-economic framework that could play a role in minimizing poverty, supplementing the social security system as established in developed countries.

1.1.2 Utilization of Zakat in Indonesia

The utilization of zakat funds in Indonesia, based on the Zakat Act No. 38/1999, which was then amended by Zakat Act No. 29/2011, can play a role in reducing poverty in Indonesia, thereby helping to improve the level of human development in Indonesia. The uses of zakat can be grouped into two major activities, namely consumptive and productive activities. Consumptive activities aim to resolve problems that are related to daily needs and immediately used or consumed. Included in this group are zakat for food consumption, educational activities, health, and social aspects (religious, humanitarian, etc.). Meanwhile, productive activities are intended

for productive enterprises. Thus, by receiving productive zakat, the recipients are required to have microenterprise and use the fund to expand their business, or at least to start a business instead of spending it for daily consumption. The impact of productive activities is expected to be felt in the long term, even though the zakat provided has been used.

As collection of funds grows significantly, the utilization of zakat funds has now been transformed from the charity purpose into social empowerment and economic development⁵. Nationally, the amount of zakat funds that have been collected in Indonesia by all *Organisasi Pengelola Zakat (OPZ)*, or Zakat Institution, has significantly increased. zakat funds collected increased from approximately 80 billion rupiah in 2002 to 414 billion rupiah in 2006, or an average annual growth of 51.65% during the period of 2002-2006.

BAZNAS⁶ (2013) recorded that national zakat collection in 2012 reached Rp2.2 trillion (US\$207 million). The data combine total collected zakat from both the government board of zakat and private zakat institutions. This figure depicts a 27.24% increase compared to the previous year, or 31 times greater compared to 2002. Though there is a big gap between the realization and the potential of zakat⁷, the data indicate substantial increases in zakat collection within a decade, which is 48% per year. Table 1.2 depicts the data of for the collection of zakat in Indonesia.

⁵ PEBS-FEUI 2009:12.

⁶ Badan Amil Zakat Nasional (National Board of Zakat), the authority that manages the zakat collection and distribution in Indonesia.

⁷ Firdaus, M. et al. (2012) predict the potential of zakat in Indonesia reached Rp217 Trillion (US\$19.7 million) in 2012.

Table 1.2 Zakat Collection in Indonesia (Billion Rupiah)

Year	Total Amount of Zakat	Annual Growth (%)
2002	68	
2003	85	25.00
2004	150	76.47
2005	295	96.67
2006	373	26.44
2007	348	-6.70
2008	920	164.37
2009	1200	30.43
2010	1500	25.00
2011	1729	15.27
2012	2200	27.24

Source : BAZNAS 2013, PEBS-FEUI 2010

In order to strengthen the institutions of zakat and to further optimize the management of zakat in Indonesia, the Directorate of Zakat was established in 2001, under the purview of the Ministry of Religious Affairs, which issues Regional Level Regulation (Perda) of Zakat in local areas. The establishment of this directorate gives positive impact on the rapid growth of OPZ, both government and privately-owned institutions. In 2006, there were government-run institutions of zakat in all 33 provinces, 277 numbered at district level institutions, and approximately reached 3160 units at sub-district level. On the other side, *Lembaga Amil Zakat* (abbreviated as

LAZ), or the privately-owned institution of zakat, amounted to around 200 organizations⁸.

The Indonesian government has also begun to accommodate the implementation of Zakat Act by establishing *Badan Amil Zakat Nasional* (BAZNAS), or National Board of Zakat, as an authority that manages the zakat collection and distribution in Indonesia. Positive political situation on zakat issues have resulted in Zakat Act No. 38/1999, which was then amended by Zakat Act No. 23/2011. This new Act mandates a stronger integration of zakat management in the country.

According to the Act, zakat institutions are divided into two categories: (i) government board of zakat or BAZNAS; and (ii) private zakat institutions or LAZ. BAZNAS is given a mandate to lead the integration process and to coordinate all other zakat institutions comprising BAZNAS at the Provincial and City/Regency levels and LAZ.

With all these characteristics, zakat is now one of the important instruments to improve the welfare of the poor in Indonesia. This study, therefore, aims to evaluate the importance of zakat, specifically productive-based zakat, to the welfare of zakat's recipient (*mustahiq*) in the perspective of human development measured based on the HDI.

1.2 STATEMENT OF THE PROBLEM

The importance of zakat in Islam is indicated by the number of times it is stated in the Holy Quran and how it is made clear that *salat* (prayer) is not accepted without zakat. The Prophet Mohammad (SAW) then further emphasizes the important of zakat, as one of the five pillars of Islam. The sayings and the practice of the prophet

⁸ IZDR 2009: 9.

Mohammad (SAW) and the opinion of *fuqaha* have put a lot of emphasis in the poor and needy in terms of disbursing zakat. Although the eight recipient categories include some non-poor, it is overwhelmingly believed that giving to the poor and needy has first priority (Kahf 2006: 13).

The impact of zakat on human welfare is significant and built-in in the Islamic system. Al-Qur'an mentions the needy and the poor as the first two groups from eight groups within the recipient list of zakat (*mustahiq*). They are given priority by al-Qur'an to receive zakat. This shows that addressing the problem of poverty is the main aim of zakat (Qardhawi 1997). Furthermore, with the distribution characteristics mentioned above, zakat becomes a very effective instrument to reduce poverty level, as it is inherently pro-poor and self-targeted. Consequently, it is well established that zakat is a mode of transfer payment to the poor for the purpose of redistribution of wealth in the society.

From empirical perspective, zakat has a small impact on improving the welfare of the poor due to the weaknesses of the state in regulating and managing zakat particularly after the collapse of caliphate⁹. Still, since the growth of Islamic financial and economic institution and its contribution in the economy in most Muslim countries, attention to zakat as a part of Islamic economic institutions has increased. Consequently, both at micro and macro levels, tremendous studies have been made to analyze the significant of zakat to increase the economic welfare of the poor. Such studies are very important since the claim of zakat's effectiveness on welfare needs to be evaluated.

In the case of Indonesia, some related researches have been done by Abdullah (1991), Susanto (2002), Susanto (2002), Khatimah (2004), Sina (2005), Arif (2006),

⁹ See explanation at IZDR 2010 :52– 56.

Muhtada (2008), and Beik (2009). Nevertheless, except for Beik (2009) who uses a large sample, majority of these literatures are either limited in scope or methodology. Another shortcoming is the evaluations of zakat are mainly based on income in determining the impact of Zakat on economic wellbeing.

Several other related studies have also conducted in other Muslim countries with broader scope and better methods. For example, Shirazi (1994); Hussain and Shirazi (1994); Shirazi (1996); Patmawati (2006) focus on the relationship of zakat with poverty and income distribution empirically at micro level. Some other researches try to simulate at macro level the effectiveness of zakat to economic indicator (see Billah (1996), Hossain (2005), Hassan and Khan (2007), and Ahmed (2008)). Yet most of these studies only use income as the object of analyzes, thus examination on the impact on overall human welfare is not possible. There are studies that also analyze the impact of zakat by using politico-socio-economic variables, but no standardized measures are used.

Specifically, one can identify the following shortcomings in the existing literatures to which this study will try to contribute:

1. Most studies on zakat contribution have not measured the impact on human welfare. Human welfare indicators are very important because positive change in income alone may not indicate improvement in the quality of life. Furthermore, better education and improvement in health condition should be considered as part of improvement in welfare.
2. Majority of studies, specifically those with micro level empirical analysis only investigate welfare indicators on *mustahiq* in utilizing the zakat fund at one point of time, i.e. in one year only. In other word, they do not take and analyze the indicators in the following periods. By

providing the indicators for at least two periods, one could provide a more consistent result on assessing the effectiveness of zakat in improving the welfare of the poor.

3. The method to calculate human development index (HDI) is generally done at national level by taking a sample of the population and estimate the value of the index in aggregate estimation. Previous studies using HDI have only used secondary data to perform the analysis and they are done at the aggregate level. This study contributes to the literature by providing some basis measurement for HDI estimation at the household level.

1.3 RESEARCH OBJECTIVES

Based on the above mentioned shortcomings, this study attempts to examine the productive-based zakat, conducted by zakat institution for poverty alleviation purposes, in the perspective of human development approach. Human development can be simply defined as a process of enlarging choices. In principle, human choices and their outcomes can be infinite and change over time. However, the three essential ones at all levels of development are for people to lead a long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living. The Human Development Index reflects these three elements.

Indicators of achievement of human development index (HDI) and all of its component will be expected to provide better success parameters of the zakat productive scheme that organized by zakat institutions. Furthermore, this study collects and analyzes the data for two consecutive years for a majority of the *mustahiqs*. These goals are broken down as follows:

- a) To estimate Human Development Index at the household level of productive-based zakat's recipients.
- b) To compare the obtained household level HDI of the first year and the second year
- c) To analyze whether productive-based zakat impacted the household level HDI of *mustahiqs*.

1.4 RESEARCH QUESTION AND HYPOTHESIS

To have a better understanding on the relationship between zakat, and human development, this research targets the following general research question:

Does productive-based zakat improve *mustahiq*'s welfare?

The hypothesis related to the above question is:

By receiving productive-based zakat, the *mustahiq* is able to improve household welfare which is indicated by the improvement in the household level of Human Development Index.

1.5 LIMITATION AND SCOPE OF THE STUDY

This study limits the scope of the study to analyzing the productive-based zakat program in Jakarta, Indonesia only. Jakarta as capital city is selected because the zakat institutions in this region are well developed in terms of accountability report, level of received zakat fund, and particularly in managing productive-based zakat scheme¹⁰. Zakat Act No 38/1999, which was then amended by Zakat Act No 23/2011, allows zakat disbursement in the form of consumptive or productive scheme. Productive scheme is aimed as poverty alleviation program adopted by the zakat institution by

¹⁰ PEBS - FEUI 2010 : 31