



THE EFFECT OF UTILIZING *ZAKAT* FUND ON FINANCING PRODUCTION TO ACHIEVING SOCIAL WELFARE: IN INDONESIA AS A CASE STUDY

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ABSTRACT

Indonesia has tremendous potential for the development of Islamic social finance. Besides having the largest number of Muslims in the world, Indonesia is also the most generous country in the world (World Giving Index 2018). However, the reality in the field of management of Islamic social finance, especially *Zakat*, is still far from expectations. It was projected that in 2018, Indonesia would be able to collect only 28% of the total potential *Zakat* funds. This situation was compounded by the fact that only 84% of the collected funds were distributed (BAZNAS 2019). One of the reasons was the absence among the *Zakat* institutions of efficient *Zakat* programs that are in line with the needs of the community. Therefore, there is an urgent need for synergy between *Zakat* institutions and Islamic microfinance institutions that are experienced in developing SMEs, which are mostly under-funded. This paper will discuss the synergy scheme between *Zakat* institution and Islamic microfinance in maximizing the distribution of productive *Zakat* to the public. This paper uses qualitative methods, analyzing references from journals, *Zakat* institutions' reports and other related literature. From this current research it is found that the management of productive *Zakat* funds in Indonesia is still not unsatisfactory, as evidenced by the low distribution rate of *Zakat* funds. This paper provides recommendations so that *Zakat* and Islamic microfinance institutions can work together in the management of productive *Zakat* that reaches the targeted poor and alleviates poverty and enhance community welfare.

Keywords: *Zakat* Institution, Islamic Microfinance, Productive *Zakat*, SMEs
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1. Introduction

The Indonesian economy is one of the sound economies that has registered impressive growth in recent years and attributable to several factors the economic policy of the government, the emerging workforce and the abundant natural resources in Indonesia that have contributed to the development of various competitive industries (Noone, 2011). Nevertheless, the Indonesian economy faced significant challenges in 2018, which naturally raised global uncertainties. The challenges were related to the contraction of foreign capital flows in emerging market countries, including Indonesia, due to increases in U.S. monetary policy rates and uncertainty about global financial markets (Purbasari, 2018).

Figure 1 shows the tremendous economic growth in Indonesia despite the severe economic downturn that occurred during the Asian financial crisis from 1997-1998. This pace of significant economic growth enabled Indonesia to compete strongly in the global economy. As such, Indonesia is now the fourth-largest economy in East Asia after South Korea, Japan and China. Despite the economic growth, economists are still skeptical about the strength of the Indonesian economy to grow, due to some obstacles due to some impediments to economic growth, chief among them the government's failure to spend on infrastructural projects (Routledge, 2014).

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	1960–67	1968–82	1983–96	1997–99	2000–10
Growth^(a)					
Real GDP	2.0	7.5	7.2	–6.4	5.2
Real GDP per capita	–0.5	4.9	5.3	–7.7	4.0
GDP deflator	291	25	8	34	12
Population	2.5	2.4	1.7	1.3	1.2
Share of world^(b)					
GDP ^(c)	0.4	1.0	1.4	1.2	1.4
Population	3.2	3.4	3.5	3.5	3.5

(a) Average annual rate

(b) End of period

(c) On a purchasing power parity basis

Sources: IMF; Penn World Table Version 7.0; World Bank

Figure 1.1 Indonesia – G.D.P. and Population (%)

On the other hand, the Indonesian economy contains an excellent combination that qualifies it to continue in success and growth as the country is rich in natural resources such as oil, coal, timber, among others., which contribute to the availability of industrial tools and increased competitiveness. Also, the population of Indonesia is large, and provides human resources at reasonable prices, as a professional workforce is one of the essential ingredients for a thriving industry (Tabor, 2015).

Among the pillars on which the Indonesian economy stands for financing individuals and increasing public spending is the Islamic economic system that includes several things that contributed to the economic and social development of the country. for example, *Zakat* and Endowment Institution, as well as the Islamic microfinance which provides job opportunities and decent living standards, as well as spending on financing and professional skills. All of the above contributed to the increase in the value of the individual and his production and leading to increased economic growth (Nurzaman, 2010).

On the other hand, the Indonesian economy faces many challenges that may contribute to slowing economic growth. For example, the high pressure on the rupee, which causes pressure on exchange rates in addition to the weak government spending on infrastructure that would contribute to high economic growth, as well as the Sanctions imposed the Indonesian industry by the United States of America as well as high-interest rates, which have negatively affected the credit appetite. Therefore, the government is required to find quick solutions to ensure that the economy is not affected in the future (Haryo, 2000).

The factors of successful economic development are a group of well-developed institutions to coordinate comprehensive resources for better development with better outcomes. The cumulative effect of these factors that influence growth is reflected in the level of local development. Investment is one of the channels that lead to the adoption and development of technology and innovation in any country. Accordingly, the development of the *Zakat* Fund contributes significantly to advancing the economy and even mitigating the impact of economic crises on society, as it applies to such Scenarios the *hadith* of the Prophet Muhammad, may Allah bless him and grant him peace. A believer to another believer is like a building the different parts of which enforce one another." The Prophet then clasped his hands with the fingers interlaced (while saying that). Therefore, it is necessary to develop the *Zakat* Fund to support the middle class through financing production, which entails supporting the welfare of members of society.

Zakat from an economic perspective distributes money appropriately between the poor and the rich, but using the *Zakat* Fund wisely and knowingly would help support the economy by Supporting projects in addition to achieving a decent life for the poor and the needy. Even though the distribution of *Zakat* is consistent in every year, but poverty levels in Indonesia are still challenging to reduce. This means there is a problem in the *Zakat* distribution system in Indonesia. This paper will propose productive *Zakat* models that are suitable for application in Indonesia.

2. Literature Review

Madani (2013) describes *Zakat* as growing, increasing, blessing, and it can be interpreted as "plants have tithe," plants are getting bigger, "income has tithe." Meanwhile, according to the *Shari'ah*, *Zakat* is taking certain assets, based on specific procedures, and giving them to certain people. In its implementation, *Zakat* can be interpreted as "an object capable of channeling wealth owned by a group of people who can afford to contribute to groups of less fortunate people.

Various assets that can be issued as *Zakat* are agricultural produce, plantations, livestock, fisheries, mining, gold, silver, money, income and services, *rikaz* (found goods), trade and companies, as well as other sources of income (Indonesian Law. No.38 of 1999 regarding *Zakat* Management). As for *ashnaf* (people who are entitled to receive *Zakat*) are needy, poor people, *amil* (*Zakat* managers), *muallaf* (people who have just converted to Islam), *gharimin* (people in debt), *ibnu sabil* (people who are on their way to study), *fi sabillillah* (people who strive in the path of Allah), *riqab* (slave) (Surat At-Taubah: 60).

From a conceptual perspective, according to Hendri and Suyanto (2015), *Zakat* can be used as an instrument in the economic empowerment of the people by using it for productive efforts. This has been regulated in the Decree of the Minister of Religion of the Republic of Indonesia, No. 373 of 2003 in Article 28, paragraph 2 and Article 29, concerning the Implementation of Law No.38 of 1999 concerning the Management of *Zakat*. Article 30 of the decree emphasizes that the *Zakat* Collecting Organization (OPZ) operates in the form of *infaq*, *sadaqah*, grants, wills, inheritance, and *kafarat* which are utilized primarily for productive efforts after fulfilling the requirements as referred to in Article 29. However, *Zakat Infaq* and Alms funds have not played an optimal role in overcoming poverty as expected.

2.1 The Potential of *Zakat* Fund in Indonesia

Most of the population in Indonesia are Muslim, so the government takes care of and protects Muslims following the constitution that states the state's religion is Islam. Thus, Muslims have complete freedom to perform the rituals of their Islamic religion. Also, the state is based on meeting the religious needs of Muslims, such as sponsoring pilgrims, organizing lawful and unlawful, and many legal duties. Therefore, Muslims are among the duties of their Islamic religion, the Pillar of *Zakat*, which God commanded in the Qur'an and the Sunnah. Muslims have taken care of the *Zakat* Fund, as many scholars and researchers have written many scientific and research messages that have contributed to developing and improving the *Zakat* Fund to become more effective and meet the needs of the largest possible number of people' for which God imposed *Zakat*, which is to help the poor, the needy and debtors until they obtain a decent life. The *Zakat* Fund has expanded to include many tools such as microfinance (Purbasari, 2018).

One of the most critical factors that affect the effectiveness of *Zakat* is the correct and accurate information about the *Zakat* capabilities because the availability of data will affect the developmental planning of *Zakat* in achieving the actual collection of *Zakat* and distribution programs. According to research conducted by the BAZNAS Strategic Study Center, the potential for national *Zakat* in 2019 has reached Rp233.8 trillion (Puskaz BAZNAS, 2020), but, the potential of *Zakat* in Indonesia indicated in the study has not enjoyed the expected support in terms of the collection of *Zakat* funds on the ground. Recent data indicate a significant gap exists between the potential for *Zakat* and the reality of the collection, which is substantially lower. This was evident in the teal data of *Zakat* collection in 2018, which only amounted to Rp8,117,597,683,267 or around 3.47% of its potential. The collection of Indonesian national *Zakat* funds in 2009 and 2018 are presented in table 1 below.

Table 2.1 Total Indonesian *Zakat* Funds collected in 2009-2018

Year	<i>Zakat</i> Fund (RP Billion)	<i>Zakat</i> Fund (\$)	Growth
2009	Rp1.200.000.000.000	\$81.600.000	-
2010	Rp1.500.000.000.000	\$102.000.000	25%
2011	Rp1.729.000.000.000	\$117.572.000	15%
2012	Rp2.212.000.000.000	\$150.416.000	28%
2013	Rp2.639.000.000.000	\$179.452.000	19%
2014	Rp3.300.000.000.000	\$224.400.000	25%
2015	Rp3.650.000.000.000	\$248.200.000	11%
2016	Rp5.017.293.126.950	\$341.175.933	37%

2017	Rp6.224.370.000.000	\$423.257.160	24%
2018	Rp8.117.597.683.267	\$551.996.642	30%

Source: Baznas Report, 2015-2018

In the past decade, the receipt of *Zakat* funds in Indonesia has experienced a very positive development. In the period from 2009-2018, the receipts of *Zakat* funds increased more than six times, with the smallest increase in 2015 of 11% and 2016 recorded the most significant increase in *Zakat* receipts of 37%. This was partly due to the campaigning of income *Zakat* targeted at people working in the formal sector, such as government employees, private sector employees and professional workers whose income had passed the *Zakat* threshold. Also, with modern technology, the payment of *Zakat* to official institutions has become more accessible, and all it takes is to make a simple bank for the public to fulfil their *Zakat* responsibility.

Currently, *Zakat* still does not work to its true potential as it did in the past because *Zakat* was considered part of the work of the state and not individuals or associations. For example, after the death of the Prophet Muhammad, Peace be upon him, Abu Bakr Al Siddik waged war on the apostates who refrained from paying *Zakat* even though they were paying it to the Prophet Muhammad before he died (Malcolm, 1977). Although it can be seen how governments currently collect taxes and even enact laws that criminalize tax evasion and fight it, some of these laws may be disastrous as they involve huge and crippling fines that threaten bankruptcy of the parties concerned who may also face imprisonment, which leads us to ask why the Islamic countries do not care to collect *Zakat* instead of taxes (Nurzaman, 2010).

2.2 The Problem of *Zakat* Distribution in Indonesia

One of the goals of *Zakat* is to distribute wealth from wealthy people to predetermined *Zakat* recipients. According to Mubassirun (2013), the *Zakat* distribution system can be categorized into two; consumptive and productive. Consumptive means *Zakat* property is distributed directly to beneficiaries, to be used consumptively, while *Zakat* assets are distributed productively to generate income and not to be used consumptively by individual beneficiaries or alms institutions. In Indonesia both governmental (BAZNAS) and private (L.A.Z.) *Zakat* Institutions have the right to distribute *Zakat* funds that have been collected. The level of distribution in Indonesia is presented in Table 2.

Table 2.2 Total distribution of *Zakat* Funds in Indonesia (2015-2018)

Year	<i>Zakat</i> Collection	<i>Zakat</i> Distribution	Efficiency
2015	\$248.200.000	\$152.942.934	62%
2016	\$341.175.933	\$199.322.288	58%
2017	\$423.257.160	\$330.490.562	78%
2018	\$551.996.642	\$462.409.461	84%

Source: Baznas 2020

Besides facing obstacles in collecting *Zakat* funds, Indonesia also has problems in distributing *Zakat* funds. The distribution of *Zakat* funds in Indonesia decreased in 2016 to only about 58% of the total *Zakat* funds collected. However, it increased in the following year, until 2018 when the level of distribution of *Zakat* funds in Indonesia was around 84%. One of the problems with the distribution of *Zakat* funds in Indonesia is the collected data of beneficiaries, which are not yet good, resulting in many needy and poor people not receiving *Zakat* assistance just because poor data collection fails to record deserving beneficiaries. Also, *Zakat* institutions sometimes have the same programs and areas in the distribution of *Zakat* funds, which see some regions getting *Zakat* funds more than once, and some regions not receiving any *Zakat* funds. So, a clear division of authority between *Zakat* institutions is needed in the *Zakat* distribution chain.

2.3 Productive *Zakat*

According to Qardhawi (2005), Islam views poverty as one thing that can endanger faith, morals, logical thinking, family, and society. A most significant crime of capitalism is the monopolistic control and ownership of production resources by a small group of individuals who enjoy substantial economic benefits, which has implications for ignoring those who are less fortunate. *Zakat* is a distinct system that aims to eradicate anything arbitrary since it obligates rich Muslims to contribute towards the betterment of the poor and needy.

Zakat can be applied to bridge this gap between the haves and the have-nots. The productivity referred to here is that after they receive productive capital assistance in working capital or training, the *Zakat* recipient can produce something that has added value. This is intended to be able to raise the level of welfare of the *Zakat* recipient. As an effort that aims to maximize profits, with the assistance given, maximizing these profits can be achieved with production efficiency from an economic point of view. This can be achieved if the capital assistance provided does not burden production costs (Wulansari

& Wawan, 2014).

There is no interest factor in Islam, so this will not burden the cost of production, and the revenue from additional capital can be fully used. Besides, *Zakat* can also play a role in providing business capital and business training for *mustahik* to solve poverty problems. This will create the economic empowerment of the *ummah*. On the micro-level, *Zakat* functions to facilitate meeting the requirements of *mustahik*. Therefore, the *mustahik* must get the facilities, management, and skills to motivate them towards achieving economic independence (Garry, 2011).

Productive *Zakat* is described by Yasir (2014), as a mechanism and a way in overcoming (Pratama, 2015) the problem (Bahri et al., 2019) of poverty (Asnaini, 2008). Productive *Zakat* is described as *Zakat* in the form of funds or properties provided to the beneficiaries who are not expended directly on the consumption of specific needs but used and developed to assist their businesses. Therefore, productive *Zakat* is the provision of *Zakat*, which can make the beneficiaries produce something regularly with the *Zakat* properties they receive (Firmansyah, 2013).

Productive *Zakat* has functions and roles, among others: as a source of funds for poverty alleviation (Atabik, 2015), as working capital (Sartika, 2008), to increase income, create employment (Rozalinda, 2014), meet their daily needs (Atabik, 2015), and get a steady income, develop business, increase business, and they can set aside (Sartika, 2008), their income to save, economic stabilizers and allocative functions (Beik, 2019).

2.4 Islamic Microfinance

Obaidullah (2008) mentioned that “Islamic microfinance functions according to two methods, generate and develop business projects to eradicate poverty in the member countries of the Islamic development bank. It determines the strategies of microenterprises to be *Shariah*-compliant as well as emphasize the thematic issues impacting nations such as Bangladesh, Indonesia, and Turkey. In Bangladesh, there is a better concentration on poverty eradication with a focus on rural development. Indonesia continues to try and eradicate poverty by developing microenterprises in society. The Turkish government, on the other hand, has decided to concentrate on the financial and non-financial contributions of KOSGEB (SMEs) for the eradication of poverty in the country). Islamic microfinance is the most useful approach to address the process of national social development (Khan, 2008). It is concentrated on the novel microfinance paradigm, i.e., Islamic microfinance, which drives both the development of society and eradication of poverty (Smolo & Ismail, 2011).

Obaidullah (2008) claims that at the fundamentals of the Islamic soul in resolving the issue of poverty is the inclusive nature, which must be connected to Islamic financial development, meaning that Islamic finance must be concerned with poverty eradication as an essential social obligation to achieve *Al- maqashid A- shari'ah* (*Shari'ah* objectives) as well as preventing poor from falling into debt when they are tricked into accepting loans based on compound interest rate.

Ahmed (2004) states that Islamic finance modes are appropriate in designing Islamic microfinance products and financial contracts. Generally, Islamic microfinance offers *murabahah*, *ijarah* (sales-based contracts) or *musyarakah* and (project/equity partnership contract). Islamic microfinance can help the poor by making financing available to them through Islamic charity and *Zakat* fund. This special financing is delivered by way of microinsurance for the Islamic SMEs (ISMEs) through *Qardhul Hassan* (non-interest loan/grant contract). Furthermore, sMFIs have their inherent attributes that facilitate the reduction of the financial risks faced by conventional microfinancing (H. Ahmed, 2002). Significant attributes of IsMFIs are illustrated in Table 2.3 below.

Table 2.3. Attributes of Islamic Microfinance Institutions (IsMFIs)

Item	Islamic Microfinance Institutions
Sources of funds (Liabilities)	Islamic charity funds (<i>Sadaqah</i> , <i>Zakat</i> , Cash Waqf and Infaq), external funds, members, clients, and savings
Basis of financing (Assets)	Trading, Profit and loss-sharing (P.L.S.) method as well as Leasing.
Class of por	Two levels: <ol style="list-style-type: none"> 1. Deeply poor who do not need a loan but <i>Zakah</i> (charitable fund), <i>Qardhul-Hassan</i> (benevolent loan) as well as social welfare net. 2. Comparatively low who will be better off if they attain developing their MSMEs or financing for their operations.

Transfer Funds	Goods transferred
Deduction at the inception of the contract	No deduction at inception
Target group/ approach	Domestic households and the poorest
When given to women (Liability of the loan)	Spouse and recipient
Worker motivations	Religious and monetary
Dealing with default	Islamic ethics as well as Centre/ group/ guarantee/ spouse
Social development program	Skill empowerment (comprises marketing consultation for small and micro enterprises, as well as management, business mentoring) and religious (comprises social welfare, ethics as well as behavior)

Source: (Quraisy et al., 2017)

2.5 Social Welfare

The welfare can be placed as the output/result of an available input management process (resources), where the welfare is the output at a point that can be input or a resource to be processed to produce the welfare outflow at a later phase. At the same time, economic welfare is the level of fulfilment of inputs financially by the family. The inputs mean incomes, expenditures, and family asset values, whereas output indicators give an overview of the direct advantages of the investment at the population level, family as well as the individual. The economic welfare of a family is generally defined as satisfaction level/ needs fulfilment level obtained by households (Sunarti, 2006).

The welfare theory adopted in this paper is the Theory of Prosperity, which, according to Islam, is *Al-Falah*. According to Imam al-Syatibi from Jalaludin (2012), human needs in Islam comprise three levels:

1. *Daruriyyat* includes five things: *dien* (religion), *nafs* (soul), *aql* (intellectual), *nasl* (family and descendants) as well as *maal* (material).
2. *Hajiyyat*: This level is a supplement that tightens, strengthens, as well as preserves the levels or needs of *Daruriyyat*.
3. *Tahsiniyat*: is the supplementary need to form beauty and pleasure of *Daruriyyat* as well as *Hajiyyat*. The three levels of human needs above, consider the *Mustahiq* conditions faced by the needy and poor, then the level of human needs used to measure the *Mustahiq* welfare is the level of *Daruriyyat* needs, which could be satisfied with five things: *dien* (religion), *nafs* (soul), *aql* (intellectual), *nasl* (family and descendants) as well as *maal*/wealth (material).

3. Data and Methodology

This study adopts the qualitative approach, clearly utilizing substance analysis, and efficient perusal of content, numbers and tables. In this way, the clarification of phenomena here is directed sequentially to incorporate scholarly opinions, *Shariah* guidelines, country regulations and practical application of productive *Zakat* in Indonesia. There are Various documents considered in the collation of this paper, including previous studies, articles and reports of *Zakat* and Islamic microfinance in the extraordinary form. Indonesia was chosen for this study as it is the country with the largest number of Muslims in the world, and importantly, the *Zakat* management in Indonesia is unique compared to other countries. Moreover, Micro-Enterprises in Indonesia are extensive and are a dominating force, economically, socially and religiously. In general, many Micro-entrepreneurs in Indonesia involve poor people, and they are struggling and quite a number of them face difficulty in getting the share as capita to start up or continue their business. So, using *Zakat* fund to finance production to achieve social welfare has a very significant Impact on the poor and needy in society. In a broader context this would have an indirect impact on both Indonesian society and economy.

4. Findings and Discussion

4.1 Zakat Management System in Indonesia

Indonesia only had a formal legal basis in the management of *Zakat* in 1999, when Law Number 38 of 1999 was issued. Through this law, *Zakat* management in Indonesia is better and more official. The law requires the government to facilitate the formation of *Zakat* management institutions that are well-organized, transparent, and professional, and implemented by officials appointed by the government.

Management of *Zakat* in Indonesia is unique compared to other countries. In Indonesia, *Zakat* management organizations are divided into two types, namely, the National Amil *Zakat* Board (BAZNAS) owned by the government and the Amil *Zakat* Institution (L.A.Z.) which is privately-owned. The main task of BAZNAS / LAZ is to collect and distribute

Zakat following religious provisions. In Law No. 23 of 2011 concerning *Zakat* management, the government encourages *Zakat* management organizations to manage *Zakat* based on Islamic law, trustworthiness, expediency, justice, legal certainty, integrity, and accountability (Eka Nuraini Rachmawatia, Azmansyahb, 2019).

According to research conducted by Firdaus (2012), Indonesia's *Zakat* potential reached 217 trillion rupiahs. However, the potential for *Zakat* in Indonesia is not yet in line with the actual collection of *Zakat* funds. Recent data indicate that there is a wide gap between the potential for *Zakat* and the actual collection of *Zakat* funds. This is evidenced in the actual data of *Zakat* collection in 2017, which was only Rp. 6,224,371,269,471 or around 2.8% of its full potential. More serious problems can be seen in the distribution of *Zakat* that was recorded for the same year showing that distribution was only Rp. 4,860,155,324,445 or 78.08% (BAZNAS, 2018). This statistic suggests that the distribution of *Zakat* in Indonesia is still not optimal. Even though the conditions of poverty are so great in Indonesia, the total collected *Zakat* funds must be fully and efficiently distributed to the targeted beneficiaries of Indonesian society.

One of the problems with distribution is the lack of innovation by *Zakat* institutions in making programs for beneficiaries. So far, in practice, according to Nopiardo (2016), *Zakat* distributed to the public is more dominated by consumptive *Zakat*, so that when the *Zakat* is distributed, the benefits received by *Mustahik* will only be used in a short period. However, the purpose of *Zakat*, according to Qadir (2001), is not merely to consumptively conserve the poor, but also to have a more permanent goal, namely, poverty alleviation. Qardawi (2005) states that the role of *Zakat* is not only limited to poverty alleviation but also for overcoming other social problems. This, according to Fitri (2017), is intended to improve the people's economy, especially for the development of micro-businesses and employment.

For this reason, in the distribution of *Zakat*, there must be cooperation of many parties and community participation, which involves the functions of motivation, guidance, collection, planning, supervision and distribution. If all the concerned parties can work well together, poverty alleviation can be realized by making the beneficiaries new *muzakki*. This is because according to Asnaini (2008), productive *Zakat* is the giving of *Zakat*, which can help the recipients produce something of added value, with the *Zakat* assets they receive.

4.2 Potential and Problems of SMEs in Indonesia

The criteria were used to define Micro in the Law of the Republic of Indonesia Number 20 of 2008 as "The value of wealth net or the value of assets not including land and building, a place of business, or the proceeds of sales yearly." In addition to using the value of money as one of the criteria, some institutions of government, such as the Ministry of Industry and the Central Bureau of Statistics (B.P.S.), as long as it also uses the number of workers as a measure to distinguish the scale of effort between the Micro businesses such as, small businesses, medium business, and a major business. For instance, according to the B.P.S., the business of Micro (or in the sectors of industrial manufacturing (commonly called industrial house stairway) is a unit of business, with the number of workers limited to four people; small business has between five and 19 workers; and medium business from 20 to 99 people. Companies with more than 99 people are categorized as large businesses (Tambunan, 2009).

According to Fahrudin (2012), the majority of micro-businesses are in the informal sector and are not registered. For this reason, many institutions are not prepared to extend any form of funding to them. Characteristically, the founders/owners of these micro-businesses are not highly educated these Micro businesses usually produce for a target group of customers (Gina & Effendi, 2015).

The role of SMEs, in particular, the Micro businesses is collectively substantial and they promote the economy of Indonesia. A Micro Enterprises is a form of economic democracy that has many benefits, such employment opportunities, increasing the growth of product lines, a contributing to the Gross Domestic Product (GDP) and enhancing the national economy. The relevant data are presented in Table 4.1 below.

Table 4.1 Employment statistics in of SMEs 92016-20170

Indicator	Year 2016	Year 2017	2016 share	2017 share
	Number (people)	Number (people)	%	%
Total MSMEs	112 828 610	116 673 416	97.04	97.02
Micro Business	103 839 015	107 232 992	89.31	89.17
Small business	5 402 073	5 704 321	4.65	4.74
Medium Business	3 587 522	3 736 103	3.09	3.11
Big Business	3 444 746	3 586 769	2.96	2.98

Source: Ministry of Cooperatives and MSME 2018

Table 4.1 shows the visible growth rate of employment of SMEs recorded from the year 2016 to 2017. The increases in the ability of the SME sector to absorb labor is at a rate of 3.41% with the most in the small businesses at 5.60%. However, in percentage personnel work effort increased by only 3.27%, but for the proportion of the absorption of

the work effort of Micro business is still the largest based on the number of more than 107 million workers or 89.17% of the total work force in Indonesia.

Table 4.2 Contribution of MSMEs to Indonesia's GDP (2016-2017)

Indicator	Year 2016 (Rp. Billion)	Year 2017 (Rp. Billion)	2016 share %	2017 share %
Total MSMEs	7 009 283	7 704 636	59.84	60.00
Micro Business	4 292 288	4 727 989	36.65	36.82
Small business	1 128 057	1 234 211	9.63	12.54
Medium Business	1 588 938	1 742 436	13.57	14.49
Large Business	4 703 168	5 136 223	40.16	42.92

Source: Ministry of Cooperatives and MSME (2018)

Micro Enterprises collectively contribute substantially to the GDP in Indonesia. In the year 2017 Indonesia's GDP derived from Micro businesses was four trillion rupiahs, an increase of 10.15% from the year earlier. However, the contribution to GDP by micro business is still small compared to be contribution from major businesses which constituted 42.92%.

One of the core problems of MSMEs in particular micro-businesses is the limited capital due to their unbankable status which limits their ability to obtain funding to maintain and grow their business (Riyadi, 2019). There are several instruments in *shari'ah* economics so that micro-business practitioners, mostly poor people, can get capital assistance, one of which is by providing productive *Zakat* assistance. This is evidenced from research conducted by Prahesti and Putri (2018) which indicated the capital provided by the *Zakat* House to the beneficiaries has a strong relationship with the turnover obtained by the beneficiaries, and the amount of capital spent has a positive influence of 44.7% of turnover obtained by the beneficiaries.

4.3 Scheme of Productive *Zakat* in Indonesia

The application of productive *Zakat* in Indonesia has several challenges, one of which is that *amil* must be able to distribute productive *Zakat* to beneficiaries that are worthy of business assistance, besides that, *amil* must also be able to provide empowerment programs to beneficiaries so that they can manage the productive *Zakat* funds that are well-received. The concept of empowerment as revealed by Sulistiyan (2004), in particular the concept of empowering Micro, Small and Medium Enterprises (MSMEs) can be explained that the core of MSME empowerment includes three things, namely the development (enabling) of businesses, strengthening the potential or power (empowerment) in the framework of development and the creation of independence.

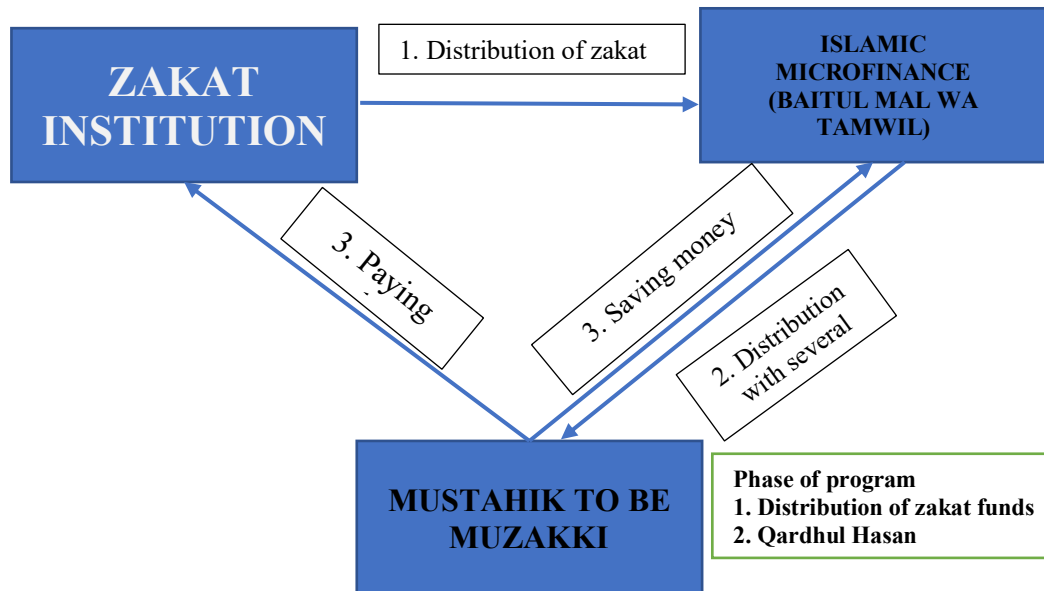
In the concept of empowerment, the community is seen as a subject that can make changes; therefore, according to Rofiah (2011), an "ACTORS" approach and assistance is needed. This is what Islamic Microfinance can do for the poor and SMEs, namely:

1. Authority carried out by giving trust to the community to make changes that lead to improving their quality and standard of living. The poor are given the belief that life must change for the better.
2. Confidence and competence, empowerment can be initiated by generating and fostering self-confidence and seeing the ability that the community itself can make changes.
3. Truth, to be empowered, the community or a person must believe that he has the potential to be developed.
4. Opportunity, which provides the opportunity for people to choose everything they want so they can develop themselves following their potential.
5. Responsibility, the intention is to emphasize the existence of a sense of responsibility to the community for the changes made. One form of responsibility is always to maintain trust with Islamic Microfinance.
6. Support, there is support from various parties so that the process of change and empowerment can make the community better.

Characteristically, the existence of this financial institution has a close relationship with the business sector, because the targets and targets of Islamic Microfinance and business scale have a micro sector financing orientation. The most well-known Islamic Microfinance model in Indonesia is Baitul Maal wa Tamwil (BMT). Chairman of the Indonesian BMT Association (Asbisindo) Aries Muftie estimates that there are 5,000 BMT in Indonesia. Within the framework of developing this BMT, there are five main activities, namely character building, community development to start micro-businesses, fostering synergy and tolerance, developing funds and investment which is realized by forming village financial institutions, as well as product and market development.

For this, there needs to be synergy between the two institutions in the form of Z.I.S. fund distribution cooperation to be maximal. BAZNAS or L.A.Z. has a sizable *Zakat* fund, and BMT also has an MSME financing and empowerment program. The following is a synergy scheme between *Zakat* institutions and Islamic microfinance:

Figure 2. Synergy mechanism between *Zakat* institutions and Islamic microfinance



The synergy mechanism of the *Zakat* fund for Islamic microfinance program is as follows:

1. Part of *Zakat* funds in *Zakat* institution is distributed to Islamic microfinance / *Baitul Maal Wa Tamwil* (BMT)
2. Then BMT. can manage and distribute it to the poor and micro and small business entrepreneurs in three stages. An important note here is that BMT.s can make agreements with beneficiaries for a commitment to improve their standard of living and make BMT a partner for their efforts. BMT can carry out the following three stages:
 - a) Distribution of *Zakat* funds
The first stage is the provision of *Zakat* funds aimed at beneficiaries (poor people). BMT and *Zakat* institution collaborate and provide *Zakat* funds for consumptive and productive purposes. This gift is the first step for beneficiaries to open a productive business with the assistance and monitoring of BMT. This is one of the social missions that *Zakat* funds are not only intended for consumption. The poor must be empowered because they have the ability.
 - b) *Qardul Hasan*
The *Qardul Hasan* fund is the second stage after the beneficiaries can be productive, but not yet maximized. These funds will also be distributed to small and medium micro economic actors with limited capital. They will receive *Qardul Hasan* funds which later they will only return the principal.
 - c) Profit-loss sharing
In this third level, they are expected to have received several benefits from their businesses, both initially the poor and micro-entrepreneurs. In this stage, BMT can implement a profit-loss sharing system for their efforts.
3. After going through several phases, *Mustahik* is expected to be able to have enough income. With this income, their welfare will automatically improve and make them advance to *muzakki*. The peak of their welfare can be actualized in the form of saving to B.M.T. and fulfilling their religious obligations by giving Z.I.S. (*Zakat, Infaq, Sadaqah*) funds through *Zakat* institutions.

This scheme is made with the hope that *Zakat* and Islamic microfinance institutions can work together to overcome the problem of poverty. With this mechanism, it is expected that *Zakat* funds can be channeled to the maximum and can make *mustahik* a *muzakki*.

5. Conclusion and Recommendations

From the result of the study, the conclusion is that BMT has a positive effect on the members' Physical Well-Being (PWB), Social Well-Being (SWB) and Quality of Life (QoL) which is measured by Satisfaction with Life (SWL). As an Islamic microfinance institution, BMT has effectively played its role in enhancing the participants' socio-economics status by

providing access to financing and social development programs to the poor and low-income households. Consequently, this contributes to the improvement of the participants' physical and social well-being as well as the quality of life. Meanwhile, despite the government formulating numerous policies and establishing numerous agencies to tackle the poverty issue, there is still a group of people living below the poverty line. In contrast, as a community-based Islamic microfinance institution, BMT uses the bottom-up approach in serving these unfortunate segments of society. Thus, the government can synergize with BMT which knows precisely how to handle the low-income households by providing small-scale financial services and social development programs such as business mentoring and consultancy; bookkeeping, management and marketing training; and social, religious meetings. This will provide a positive effect on members' PWB and SWB, which will lead to enhance their QoL (measured by SWL).

The government also needs to motivate other donor organizations to aid these institutions financially and formulate with rules and regulations to prevent default risk. Alternatively, *Zakat* institutions must improve their management ability and make the effort to reach needy people to eradicate poverty and promote the welfare of society.

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