ASSESSING THE ROLE OF ZAKAT FOR POVERTY ALLEVIATION IN INDONESIA

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ABSTRACT

This paper analyzes, the role of zakat as an effective program to eradicate poverty. First, this paper examines the conventional approach to dealing with poverty, in particular it analyses the role of economic growth in relation to poverty and inequality. Then there is an analysis of the role and scope of zakat in dealing with the problem of poverty. Given the pervasiveness of poverty in Muslim countries, it is important to investigate how the institution of zakat can be used in contemporary times to alleviate poverty. The result of this study shows that although Indonesia began tackling poverty in the 1970s, its achievements in poverty reduction have been inadequate. This study also found that Indonesia still has serious problems in reducing poverty although the role and management of zakat in Indonesia is essentially successful in terms of the capability of zakat institutions to create pragmatic variations in zakat utilisation.

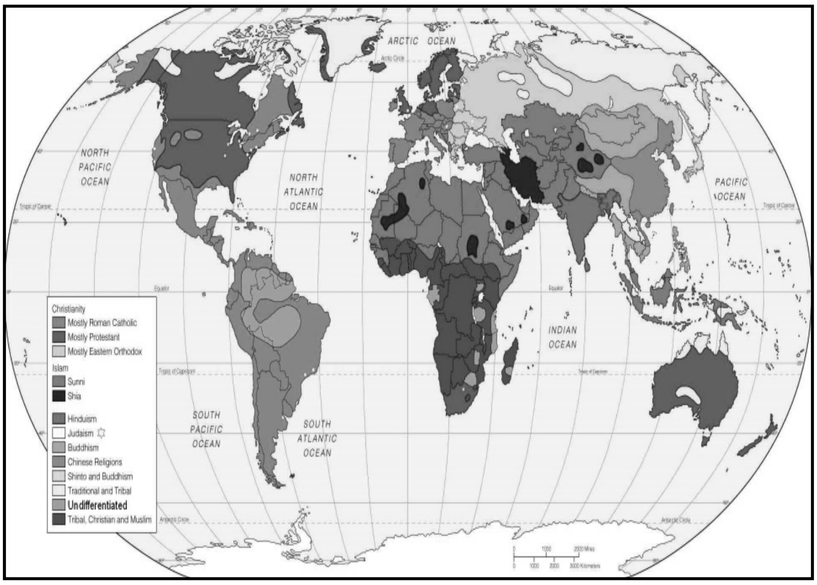
Keywords: *Poverty Alleviation, Zakat, Islam, Indonesia, Malaysia*

JEL classification: *I320 and I380,*

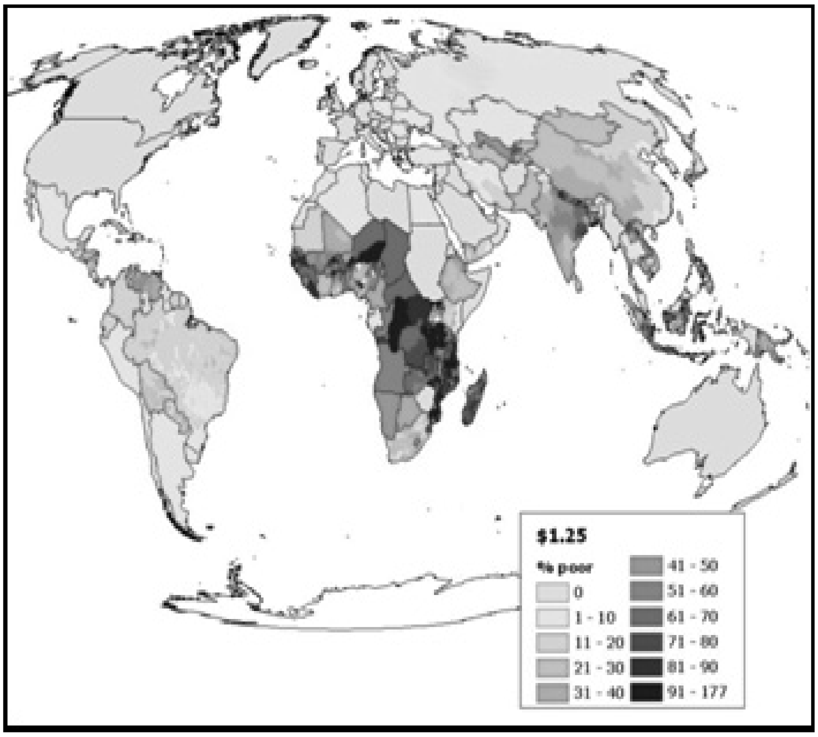
I. INTRODUCTION

The World Bank has reported that global poverty has continued to fall; from 1.25 billion people living in poverty in 1990 to 985 million people in 2004. This estimate is based on the number of people living on less than US$1 a day. As well, it was asserted in the World Bank report that poverty rates are falling too when using US$2 as the criterion. Almost half the population of the developing world was living below that poverty level (US$2 a day) in 2004 (World Bank; 2007).[1]

[1] It is arguable whether these data describe accurately the real situation; some authors argue that the official World Bank measure of poverty is erroneous. The difficulty with any poverty criterion that is established is that poverty is to a large extent contextual. Therefore, in August 2008, the World Bank presented a new definition and measure for poverty. The World Bank's long-held estimate of the number of people living on the equivalent of US$1 a day has now been changed to one based on US$1.25 a day. The World Bank also added that the previous estimate, using the criterion of US$1 a day, would have been US$1.45 a day at 2005 prices if adjusted for the effects of inflation (World Bank, 2007).



Sources: www.jonathantan.org/342, 2010
Figure 2. World religion maps, 2009



Sources://labs.harvestchoice.org/povertymaps/
Figure 1. Percent of population living on under $1 per day, 2010

Moreover, a large number of the poor lived in countries with a Muslim majority; see Figures 1 and 2. With the total population of Muslim-majority countries being 21.01% of world population (of more than 1.7 billion), these countries have poverty rates that range from 10% to more than 50% (CIA–the World Factbook, 2010).

Most of the improvement in poverty rates has occurred in East and South Asia (Chen and Ravallion, 2007). For East Asia, the World Bank (2007) reported that 'the poverty head-count rate at the US$2-a-day level is estimated to have fallen to about 27% (in 2007), down from 29.5% in 2006 and 69% in 1990'.

It is arguable that the success developing countries have had in reducing poverty is owed to the high economic growth in China, which has made a huge contribution to the reduction in numbers of poor people in East Asia. High national growth rates may be a necessary factor but it are not sufficient to alleviate poverty. The World Bank also reported that,

> *poverty reduction was not always or everywhere commensurate with income growth. In some countries and regions, inequality worsened, as poor people did not reap the fruits of economic expansion, because of a lack of job opportunities, limited education or bad health.*[2]

[2]According to Bourguignon (2007), 'Growth is essential to reducing poverty, but it isn't the only factor. The World Development Indicators go beyond growth and poverty rates to ask how income is distributed, whether health care and education are improving, and to assess the business environment. These factors all affect the quality of people's lives.'

Turning to this country's performance, Indonesia's poverty rate has returned to a level similar to what it was before the monetary crisis of 1997–98. (In 1996 the poverty rate was 17.47% , and it rose to 24.23% in 1999.) It has not fallen further partly because economic growth has been slow (BPS, 2004). The higher rates of poverty continued for a period after the financial crisis (from 2000 to 2007). By 2005, the poverty rate had reduced to 15.97% , but in 2006 there was a change for the worse when the poverty rate jumped to 17.75%. High price inflation for staple commodities was an important reason for this retrograde change (BPS, 2007).

The economic crisis of 1998 did not have much effect on Malaysia's economic performance nor on the incidence of poverty. In 1970, as reported in Malaysia: achieving the Millennium Development Goals (UNDP, 2005), Malaysia had more than 50% of its population living below the poverty line but, by 2002, the incidence of poverty had been reduced to only 5.1%. This track record shows that Malaysia has been successful in attacking absolute poverty, enabling it (well before 2015) to reach the Millennium Development Goal (MDG) of halving poverty. Malaysia's impressive poverty reduction has been, in a large part, because of sustained, albeit variable, economic growth—the average annual growth rate of real GDP has been 7% over the past three and a half years.

Islam puts equal emphasis on spiritual and on worldly affairs (Chapra, 1980). In Islamic thinking, poverty is assumed to have been eradicated when the basic minimum standard of living for everyone has been met. This concept would be absolute if looked at in terms of a fixed amount of basic material needs that have to be satisfied. However, Islam does not define a fixed criterion for poverty that applies to all; the concept of poverty in Islam is broader and covers more than just food and services. Moreover, Rahman (1974, cited in Ahmed, 2004) asserts that in Islam, individuals can enrich their spiritual life by improving the conditions of their material life.

On this point, it has been posited that the social transfer payments that are promoted by religious institutions might contribute to reducing the number of poor people in Islamic countries. Zakat is one of the fundamentals of Islam that has direct economic implications.[3] Zakat requires Muslims to distribute a part of their wealth to alleviate poverty and achieve economic emancipation for the poor (Ahmed, 2004). However, as Ahmad (2000) states, the zakat contributions by Muslims are not part of the state's public revenues nor are they a part of the sovereign revenue from taxes in the state budget. Zakat is a recognised right of those deserving it and it comes from the assets of those Muslims who qualify as contributors. Therefore, zakat and the increasing of wealth is a question of profound significance to an Islamic economy and its public finance (Ahmad, 2000).

Hence, this essay investigates zakat institutions' performance in tackling poverty in Malaysia and Indonesia. These countries have been chosen because they have similar cultures, but different economies and public policies for the management of zakat.

II. LITERATURE REVIEW

2.1 The Concept of Poverty in Islam

2.1.1 Definition of poverty

Poverty is multidimensional and it could be said that there is no single, 'correct' definition. However, most researchers are of the opinion that any definition of poverty has to be understood in relation to social, cultural and historical contexts (Lister, 2004). Ravallion (1994) defines poverty as a condition of society when one or more persons do not attain a level of economic wellbeing deemed to constitute a reasonable minimum by the standards of that society'. This definition is used by many researchers in their studies on poverty.

In addition, Haq (1996) states that…poverty, in the Islamic perspective, is the state of inadequacy of goods, means or both that are necessary for continued physical well-being of the human being. And in terms of economic categories, it encompasses the unemployed poor, the underemployed poor, the unemployables, and all others who face destitution and want.

[3] Zakat is defined as 'a determined portion taken from wealth and allocated to those deserving it, by a Qur'anic injunction'.

There are three main approaches to understanding poverty that have been used in poverty research: the money metric perspective, the basic needs perspective, and the capability perspective. Because this study is very much concerned with Islamic views on poverty, it is Islamic scholars' definition of poverty that will be presented. The Islamic definitions take into account the three approaches just mentioned, but are more comprehensive and include human needs, necessities, wealth, convenience and refinements[4]. The Islamic concept of poverty implies that all these five foundations or needs must be fulfilled; if only one is not fulfilled, then a person is still considered poor. However, in the doctrine of tasawuf, which accepts zuhd (the ignorance of the worldly life) as a worldview, poverty has a special meaning and place.[5] On the one hand, the authentic al–hadith narrated by the prophet Muhammad sees poverty as a danger and threat from which people in the community should escape. On the other hand, some schools of Islamic mysticism fear that prosperity may move people far from the wishes of Allah and believe that those who live a virtuous life based on Islam accept poverty as a blessing from Allah. Therefore, it is not surprising that many poor people who accept their poverty, live in countries with an Islamic majority.

2.1.2 Poverty measurement

The concept of poverty in Islam has been traditionally related to the question of determining the poor as the beneficiaries of zakat. Islamic jurists have laboured to determine where to draw the line in order to correctly distribute zakat funds; however, they have not been unanimous. Al-Qardawi (1969) has summarised the opinions of the classical scholars into three distinct groups. First, those who base the poverty line on the nisab (the minimum exemption limit) of zakat. Second, those who consider sufficient possessions (mulk al-kifayah) to be the criterion for determining the poverty line. Third, there are those who regard a particular amount of money to be the dividing line between the poor and other members of the community. Based on how these scholars define poverty, we can consider the first and the third views (similar to those of conventional economists) as the money metric perspective and representing an absolute poverty line (with which we are concerned). The second group is much closer to a relative poverty line because they consider non-material goods such as empathy and participation in the work of the community.

[4] Refinements include activities and things that go beyond the limits of conveniences (i.e. things that complement and brighten life)

[5] In the sufi view, the concept of poverty has acquired a philosophical and spiritual meaning. For example, to be poor means to have no need of anything or anyone except Allah. With this meaning, a poor person is not one who is without material things and without daily food, but one who lives constantly aware of only needing Allah (Güner, 2005).

a. Poverty line based on the nisab of zakat

The rationalisation of nisab to make more resources available for the purpose of redistribution of income should be taken seriously by syari`ah scholars. There is a consensus that all types of wealth that are not for personal use and that remain in the possession of the owner for one lunar year, are subject to zakat, provided they exceed nisab (Mannan, 2000).

Similar to the conventional economic perspective, the choice of unit of measurement to define the poverty line is important. According to Mannan (2000) the choice of income unit as a basis for measurement has not been thoroughly analysed. However, in the past, many scholars, such as Ibn Abbas, Hasan Basri, Imam Abu Hanifa and others, have tried to identify the economic characteristics of the poor or destitute.

Taib (1988) noted that the poverty line based on the nisab of zakat is attributed to Abu Hanifah and his school. They defined faqir (the poor) as those who possess something less than the value of the lawful (shar'i) nisab of zakat, but who might possess a nisab value or more in the form of household furniture, clothing, books and other possessions. Al-Qardawi (1969) summarises this view as follows.

1. Those poor who possess nothing (miskin).
2. Those who possess a house, household effects and furniture, which are basic necessities, no matter what their value, but who do not have a nisab in terms of money.
3. Those who have money but less than the nisab, that is less than 200 dirham of silver, or 20 mithqal or dinar of gold.
4. Those who own less than the nisab for non-money assets, like four camels, 39 goats or 29 cows or buffaloes, if their value does not exceed 200 dirham or 20 dinar.

The rich, according to Abu Hanifah, are those who are prohibited from accepting zakat funds and they are of two kinds. First, are those who possess nisab of zakat from any kind of zakat payable properties or wealth such as five camels or at least 200 dirham or 20 dinar. However, according to some of Abu Hanifah's followers, only the nisab in term of money should be considered. Thus, according to this thinking, if one possessed forty goats (the nisab of goats), but their value was less than 200 dirham or 20 dinar (the nisab of money), he is still to be considered poor. He is eligible for zakat funds but at the same time has to pay zakat for his goats.

Second, the rich are those who own property such as clothing, household effects, house, books, stores, etc. in excess of personal requirements if the value of those properties reaches the nisab of money. In contrast, according to Mannan (2000), these properties are exempt from zakat, as the result of a different standard quality of life in the past compared to nowadays.

b. The poverty line based on a specific sum of money

This view is attributed to Sufyan al-Thauri, Ibn al-Mubarak and Ishak ibn al-Rahuyah. They hold the view that a person is considered rich, and hence prohibited from receiving zakat, if they own fifty dirham or its value in gold, that is, one quarter of the nisab of money. They based their view on the hadith that states that those who possess fifty dirham or its value in gold are considered rich. It is to be noted that this view only considered possessions in terms of money. If, for instance, one has wealth or property other than money, worth more than fifty dirham, but which does not support him, he is not considered rich.

Most jurists did not accept this view. Some jurists opined that if the hadith is used as authentic evidence, it is possible that the Prophet (pbuh) was addressing a specific group of people, who were doing business with only fifty dirham to fulfil normal needs. Another more acceptable opinion is that whoever possesses fifty dirham is forbidden to beg, but is still eligible for zakat funds. It was not the intention of the hadith to prohibit those who have fifty dirham from taking zakat but rather to forbid them to beg because begging would be allowed only under exceptional circumstances, and those who have fifty dirham or more were not considered eligible. The value of fifty dirham, nowadays, is approximately 13 Saudi riyal or 3 US dollars. It is absurd to think of this as the poverty line (Al-Qardawi, 1969).

2.2 Poverty Reduction Programs

Some Muslim economists like Metwally (1981) argue that zakat will have two effects on total consumer expenditure in an Islamic economy. First, the average and the marginal propensities to consume would be higher in an Islamic economy than in one that does not have a similar fiscal measure. Secondly, the investment gap at each level of income would be smaller in an Islamic economy. But according to other Muslim economists, the consumption pattern of society is determined by a host of factors other than the transfer of purchasing power to poorer sections of society through zakat, which does tend to reduce the inequality of income and wealth. It is also argued that the overall propensity to consume would not necessarily be higher in an Islamic economy.

It can be said that the abolition of interest and the functioning of the zakat system can be expected to provide a powerful stimulus to growth. The interaction between the incentive and disincentive effects from these two basic features of an Islamic economy serves to promote growth. By penalising idle resources, the zakat system discourages hoarding and stimulates investment. The demand for investment at a given expected rate of profit will be higher in an Islamic economy compared with other economies. Because investment is one of the most important determinants of the rate of growth, an Islamic economy would have a pronounced growth orientation. But one has to bear in mind that a fully fledged Islamic economy does not exist anywhere in the world at present. Many of the propositions advanced by Muslim economists are therefore in the nature of hypotheses rather than definitive conclusions from observed behaviour of an Islamic economy.

III. METHODS

3.1 Measuring Poverty

The simplest measure and most commonly used to quantify poverty is the head count index of poverty. This index can be formulated as:

$H = q/n$, where q is the proportion of the number of poor and n is total population.

The simple head count poverty rate gives some indication of the extent of income poverty. It does not tell the whole story; some of the poor are worse off than others. A useful additional indicator therefore is the poverty gap index, which indicates the distance between the average income of the poor and the poverty line. The first measure is called the squared poverty gap index, also called the Foster-Geer-Thorbecke measure, and takes into account the severity of poverty among the poor. It is a weighted sum of the normalised poverty gaps. The weights are the proportionate poverty gaps themselves. A bigger emphasis is given to the poorest of the poor. The general formula can be written:

$$P_a = \frac{\sum_{i=1}^{q}\left(\frac{z-y_i}{z}\right)^a}{n} \; where \; \mathrm{a} \geq 0$$

If a=0, the formula is in fact the head count ratio. If a=1, it is the poverty gap ratio. The squared poverty gap is not easy to interpret and is not widely used.

The second poverty measurement is called the poverty gap (PG). This is based on the aggregate poverty income gap of the poor relative to the poverty line. The formula for this measure is defined as follows:

where z is the poverty line, y_i is income or expenditure of the poor household i, q is poor population and g is total income gap.

To calculate poverty, we used PovcalNet, a Web-based computational tool provided by the World

$$PG = \frac{\sum_{i=1}^{q}\left(\frac{z-y_i}{z}\right)}{n} = \frac{g}{nz}$$

Bank, which can be used to estimate the extent of poverty in the world.[6] However, data in the World Bank database are not up to date. Thus, we also used data from Badan Pusat Statistik (BPS-Statistics Indonesia). The result is quite similar although BPS uses a different approach to choose the poverty line. BPS used a severity gap index based on the national poverty line.[7]

[6] All the measurement then follow the PovcalNet rule on how to define poverty line, that is, US$38 as a limit of poverty line which is equal to US$1.25 a day. (PovcalNet is the on-line tool for poverty measurement developed by the Development Research Group of the World Bank, see http://iresearch.worldbank.org/PovcalNet/povDuplic.html.)

[7] The method used is to calculate the poverty line, which consists of two components: food

Therefore, the BPS national poverty line criterion is higher (US$1.55 per day) than the World Bank criterion of US$1 per day.

3.2 Estimating Potential Zakat Collection and the Resources Shortfall to Poverty Alleviation

3.2.1 Estimating the potential zakat collection

Kahf (1989) estimated the zakat potential for eight Muslim countries in 1989. His estimates of potential zakat amounts were based on three different opinions by jurists regarding zakat payable items. Those three definitions were named Z1, Z2 and Z3. Z1 was estimated in accordance with the traditional view according to which zakat is levied on agriculture, livestock, stock in trade, gold, silver and money. Z2 was based in accordance with the views of contemporary Muslim scholars where zakat can be deducted from net returns of manufacturing concerns and building rents, and from net savings from wages and salaries. Z3 was based on Malikite views, where the zakat base includes buildings and other fixed assets except those assigned for personal and family use. According to these definitions, under Z1, zakat can be collected in the range of 1.0 to 2.0%; under Z2, from 3.1 to 4.9%; and under Z3, from 3.2 to 7.5% of the GDP for the eight Muslim countries (Shirazi, 2006).

Following the Kahf estimation, the percentage of GDP required for potential zakat collection (Z) is worked using the following steps.

1. Defining Z1, Z2, Z3 as the value of GDP at current prices by sector of economy. This approach is more relevant compared with Kahf's approach, which multiplies the total production of zakat objects by the price of the product. It is time consuming to play with data mining because the price for any one commodity fluctuates year by year.
2. Deciding the zakat amount to be levied, based on the views of contemporary Muslim scholars (see Table 1).
3. GDP adjustment is needed because paying zakat is obligatory for Muslims only, and it is only imposed on people who are not categorised as poor. Then, current GDP adjustment for Indonesia should be calculated as current GDP is reduced GDP that resulted from only Moslem citizen (current GDP multiply by proportion of the Moslem population), then it will reduced again by the percentage of the poor (head count ratio). For example; Indonesia's GDP at current prices in 2009 is Y_i = Rp5,613,441.7 billion; 0.89

poverty line and non-food poverty line. The food poverty line is the value of the minimum food expenditure requirements comparable to 2100 kilo calories per capita per day. Package of basic needs of food commodities is represented by 52 types of commodities (grains, tubers, fish, meat, eggs and milk, vegetables, nuts, fruits, oils and fats, etc.). The non-food poverty line is the minimum requirement for housing, clothing, education and health.

(proportion of Muslim population); and 0.133 (head count poverty). So GDP (Yi) adjustment should be = Rp5,613,441.7 billion –(Rp5,613,441.7 billion x 0.89) x (0.133) = Rp4,948,979.60 billion

Table 1. Zakat Levied and Zakat Payable Items

Item for zakat	Zakat levied
Agriculture	5%
Money	2.5%
Mining and quarrying	2.5%
Manufacturing, construction, real estate	2.5%
Forestry	10%

3.2.2 Measuring resources shortfall to poverty

Following Ahmed (2004), the total amount needed to raise their income to US$1.25 per day for all the poor is expressed as a percentage of GDP. The percentage of GDP required for poverty alleviation, x, is worked out using the following steps.

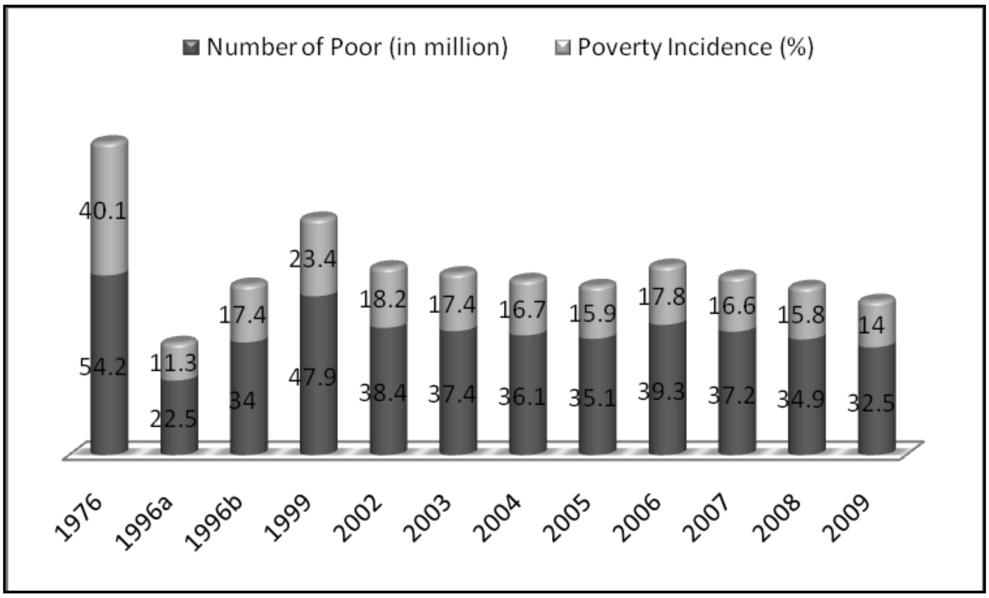
1. The total number of poor people, N, is determined by multiplying the percentage of population under the poverty lines in each group by the total population.
2. The total amount needed for one year for poverty alleviation, X, by transferring US$1.25 a day to each person in the group is arrived at by multiplying the number of poor people, N, by 365.
3. The percentage of GDP required for poverty alleviation, x, is derived by finding the total annual amount needed to raise the income levels of the poor by US$1.25, X, as a percentage of the GDP for each group (that is, x=X/GDP*100).

IV. RESULTS AND DISCUSSION

4.1 Poverty Profile

Figure 3 shows the poverty rate in Indonesia remained high after the economic crisis of 1997–98. By 2002, however, it had fallen back to 18%, that is, 38 million people. It should also be emphasised that income poverty has been consistently higher in rural areas than in urban areas; in 2002, the rate was 21% in the rural areas but only 15% in the urban areas. In 2004, there were 36.1 million poor people living under the poverty line, a slight decrease compared with 37.3 million the previous year. When the government announced it would remove the oil subsidy and change it to an income transfer in 2005–06, one effect was to cause the number of poor people to be slightly higher than in 2004. Meanwhile, one government strategy was to shift funds that would have gone to an oil subsidy to programs that are more pro-poor such as free school and health facilities for the poor.

As Table 2 shows, the poverty gap index rose steeply after the monetary crisis, indicating that, although the proportion of people living in poverty has fallen to almost the pre-crisis level, those who are poor nowadays are worse off (BPS, 2004). Another poverty measure is the ‘severity of poverty’, an index that includes a measurement of the



Sources: BPS, various publications.

Figure 3. Indonesia: Number of Poor and Poverty Incidence Based on National Statistics, 1976–2009

distribution of income among the poor, also greater in 1999 than it was in 1996 in rural areas (0.17% in 1999 and 0.14% in 1996). Overall, the effect of the monetary crisis on poverty was a significant widening of the distribution income gap among the poor (0.55% in 1996 and 1.70% in 1998). Therefore, the poorest became poorer, and among the poor, the absolute and relative poverty is more significant after the financial crisis, which seems to have reduced inequalities at other income levels. After 1999, there was a decrease in poverty rate, even in 2002 the poverty gap and severe poverty gap reached the lowest point since observations began (0.91% (P1) and 0.18% (P2)) (BPS, 2004).

Moreover, there has been a shift from rural poverty to urban poverty since 2009. The gap index for rural areas has become smaller than that of urban. Thus, urban poverty, which is usually related to spatial poverty traps[8], should have more attention given to it in the current year.

There will usually be a group of more or less permanent or hardcore poor, and others drift in and out of poverty. It is important therefore to

[8] Spatial poverty traps are where 'geographic capital' (the physical, natural, social, political and human capital of an area) is low and poverty is high, partly as a result of geographic disadvantage. Spatial poverty traps may be geographically remote (areas that are far from the centres of political and economic activity), 'low potential' or marginal (ecologically disadvantaged areas that have low agricultural or natural resources), 'less favoured' (politically disadvantaged areas) or 'weakly integrated' (areas that are poorly linked both physically and in terms of communication and markets) (CPRC, 2004).

consider not just those who are currently poor but also those who are vulnerable to poverty, those capable of falling below the poverty line at any point. This is a much larger group of people, variously estimated at between one-third and one-half of the population (Dhanani and Islam, 2002), who are vulnerable to many different kinds of economic shock, such as sudden price increases, loss of employment, or family sickness. Women appear to be the most vulnerable because they earn less than men do and those working in agriculture (men and women) tend to be in a more precarious position (BPS, 2004).

Turning to the severity poverty gap index based on BPS data, we can see that year by year there is a significant decrease of the P1 and P2 indexes (see Table 3). This indicates that the distribution income gap has been narrowing, so government policies have been effective in preventing vulnerable people falling below the poverty line. According to BPS, in contrast to the World Bank data, Indonesia's poverty in rural areas is still greater than in urban areas. The choice of poverty line definition is one of the reasons, as the BPS points out, that the poverty line in rural areas is lower than in urban areas.

4.2 Review of anti-poverty developments

Poverty alleviation programs have existed in Indonesia from colonial times when lumbung (rice barns) were built to help the poor. These lumbung were established by the government or by the local community. To support this scheme, village banks were established to help the poor escape the debt trap. These paved the way for the Bank Rakyat Indonesian (BRI) or Indonesian People's Bank, which still maintains a service for the poor (Kaluge, 2001).

After independence, the local authorities and the government did little to alleviate poverty, they were more concerned with overcoming domestic rebellions and restoring political stability. However, economic development and poverty issues then became a concern of the New Order during the Suharto presidency from 1967 to 1998. Under Suharto's leadership, the first Five-year Development Plan (REPELITA) was promulgated in 1971.

As commonly known, poverty is more a rural phenomenon than urban, thus most anti-poverty programs were established to help poor people in the agricultural and related sectors. There were many rural development programs, including microcredit schemes, to help the poor. Some of the more important government schemes are shown summarised in Table 4.

INMAS is similar to BIMAS but excluded government credit. Both programs helped to encourage the application of new technology to rice production. Furthermore, the government launched a policy package in January 1990 (Pakjan '90), which was to overcome the liquidity difficulties of small enterprises. Based on the policy, all banks became free to provide any amount of credit to applicants. Unfortunately, the deregulation only

Table 2. World Bank Poverty Measurements, Indonesia Rural and Urban, 1984–2009

Survey Year	Urban					Rural				
	Mean$	PL[1]	H[2](%)	PG[3](%)	SPG[4](%)	Mean$	PL	H(%)	PG(%)	SPG(%)
1984	42.82	56	19.03	8.64	0.2617	36.72	65	22.15	9.88	0.3016
1987	39.53	62	21.76	9.92	0.3052	34.75	71	23.67	10.18	0.3159
1990	49.85	48	14.71	5.97	0.1976	40.5	57	16.02	6.03	0.2092
1993	51.07	47	14.32	5.74	0.1916	39.84	58	16.36	6.18	0.2088
1996	60.95	38	10.66	4.01	0.1404	46.06	47	11.89	4.2	0.148
1999	56.85	39	10.29	3.74	0.1286	41.24	53	14.05	5.12	0.1777
2002	71.12	24	5.12	1.53	0.0599	52.53	33	6.76	1.98	0.0797
2005	89.1	19	4.06	1.29	0.048	62.79	24	5.03	1.61	0.0605
2006	71.96	25	5.72	1.94	0.0711	55.6	31	7.36	2.58	0.0927
2007	79.5	23	5.08	1.52	0.0638	62.25	27	5.5	1.63	0.0659
2009	83.96	19	3.88	1.17	0.0467	68.37	19	3.34	0.91	0.0394

Sources: PovcalNet, World Bank, 2010. http://iresearch.worldbank.org/PovcalNet.html

1. PL Poverty Line
2. H Head Count Poverty
3. PG Poverty Gap
4. SPG Squared Poverty Gap

Table 3. Indonesia: Rural and Urban Poverty Severity Gap Index, 2006–2010

Year	P1 (%)			P2 (%)		
	Urban	Rural	Urban + Rural	Urban	Rural	Urban + Rural
2006	2.61	4.22	3.43	0.77	1.22	1.00
2007	2.15	3.78	2.99	0.57	1.09	0.84
2008	2.07	3.42	2.77	0.56	0.95	0.76
2009	1.91	3.05	2.50	0.52	0.82	0.68
2010	1.57	2.80	2.21	0.40	0.75	0.58

Sources: BPS, 2010. www.bps.go.id

benefited the urban sector and not the rural poor.

After this deregulation, the government introduced the 'social safety net', an anti-poverty program. The main focus of this program is job creation, education and health care. Its funding was increased in the government budget from 0.1% to 0.3% of GDP between 1994–95 and 1997–1998. Daly and Fane (2002) note that programs to benefit the poor can be any of the following.

1. Cash transfer schemes in which the net receipts are phased out as income rises.
2. Benefits in kind of rationed and subsidised amounts of 'essential' goods to people below some specified

Table 4. Anti-Poverty Programs in Indonesia, 1959–60 To 1990

Year	Programs	Initiative
1959–60	Rice intensification (padi sentra)	Government
1963–64	Self-sufficiency of food (swasembada pangan)	Government
1964–65	Mass Demonstration (DEMAS-Demonstrasi Massal)	The Bogor Agriculture Institute
1965–66	Credit package deal offered by government (BIMAS-Bimbingan Massal)	Government
1967	Mass Intensification (INMAS-Intensifiasi Massal)	Government
1968–69	Mutual Self-help (BIMAS Gotong royong)	Government
1970	Completed BIMAS (BIMAS yang disempurnakan)	Government
1972	BIMAS palawija	Government
1982	Special rice intensification (INSUS)	Government
1973–90	Kredit Investasi Kecil (KIK) Kredit Candak Kulak (KCK) Kredit Modal Kerja Permanen (KMKP)	Central Bank, with BRI as distributor

Source: Kaluge, 2001

poverty line. ('Essential' goods are those that make up a relatively large proportion of the total consumption expenditure of the poor, such as kerosene, rice, health care and primary education.)

3. Job creation schemes for unskilled workers.
4. Universally available price subsidies, with no rationing, for essential goods.

They also note that there have been three phases in the development of Indonesia's anti-poverty programs: the pre-crisis period, the crisis, and the subsequent period of slow recovery. Table 5 shows that the relative importance of the different types of anti-poverty programs varied in the three phases.

> *In the pre-crisis period, Indonesia spent very little on anti-poverty programs, although their importance gradually increased between their introduction in 1994/95 and 1997/1998, when total spending on them still accounted for only 0.3% of GDP. The importance of these programs increased abruptly in 1998, when the SSN was introduced in response to fears that the economic crisis might cause poverty to climb back to the levels of the 1980s, or even the 1970s. These fears turned out to have been exaggerated, and total spending on antipoverty programs has been reduced subsequently, although it still far exceeds the pre-crisis level. (Daly and Fane, 2000)*

This study found that anti-poverty programs in Indonesia after the economic crisis raised government spending to 1.4% of GDP in 1998–99 and changed its main focus from job creation schemes, financed mainly by loans and grants to small firms and community groups, to in-kind subsidies for rice, public health care, scholarships for children in poor families and grants to schools in poor areas.

Table 5. Expenditure on Anti-Poverty Programs as a Percentage of Total Central Government Expenditure, 1994–1995 To 2000

	94–95	95–96	96–97	97–98	98–99	99–00	2000[b]
Cash transfer							0.11
Benefits in kind			0.49	0.69	5.73	5.14	2.96
Subsidised rice (OPK)					3.70	3.14	1.22
Health care and nutrition			0.16	0.34	0.97	1.16	0.99
Education			0.33	0.36	1.06	0.84	0.75
Job creation (including infrastructure and loans)	0.61	1.37	1.2	1.27	3.94	1.87	2.58
IDT	0.59	0.61	0.53	0.13			
KDP					0.22	0.33	0.29
UPP						0.04	0.28
PDM–DKE					1.16	0.40	0.24
Village and urban infrastructure		0.33	0.26	0.61	0.61	0.51	0.43
Labour intensive (Padat Karya)					1.01		0.22
Loan schemes	0.02	0.43	0.43	0.53	0.46	0.48	0.92
Other					0.49	0.12	0.20
Total	0.61	1.37	1.70	1.96	967	7.01	5.65
Memo items							
Total anti-poverty programs (Rp trillion)	0.43	1.07	1.54	1.98	14.24	13.95	10.35
Total anti-poverty programs (% of GDP)	0.1	0.23	0.28	0.29	1.39	1.23	1.05

Source: Daly and Fane, 2002.
Notes: Usaha Pemberdayaan dan Peningkatan Kesejahteraan Sosial (UPPKS) The household income improvement program; Inpres Desa Tertinggal (IDT); The development program for undeveloped rural areas; Operasi Pasar Khsusus (OPK); Special Market Operation PDM–DKE; Regional Empowerment Program to Alleviate the Crisis; Kecamatan Development Program (KDP).

The most accurately tailored program was health care, which covered twice as many people in the two poorest deciles as it did for the remaining eight. For most other programs, this targeting ratio was only about 1.5. We argue that the education and health care programs were the most successful, and doubt that the rice subsidy, job creation and loans schemes were worthwhile (Daly and Fane, 2002).

It seems that anti-poverty programs did not achieve satisfactory results; they made slow progress in reducing the numbers of the poor. It could be argued that the small amount of funding for anti-poverty programs was not enough. Another reason is the definition of 'anti-poverty'. Daly and Fane (2002) argue that

> *cross-country comparisons, and Indonesia's own history since the 1960s, suggest that, while they are outside the present definition of anti-poverty programs, the liberalisation of trade and foreign investment are also very important ways of reducing poverty. Similarly, although improving the quality of universal primary education and public health are also outside the present definition of anti-poverty programs, they are probably also effective ways of reducing poverty.*

Relying on government budgetary measures alone to alleviate poverty without engaging private sector partners is not the best way of meeting Millennium Development Goals. Poverty eradication requires that the government be in charge to design the policies and set the goals but also it requires the help and cooperation of other entities and organisations to ensure that the long-term goal of eradicating poverty is met. Malaysia, for example, invites NGO participation in designing and implementing anti-poverty programs. Complementing the government's efforts, they provide, inter alia, small business loans to the poor, industrial training and job opportunities, educational support for children of the poor and better housing. Among the NGOs, the Amanah Ikhtiar Malaysia, the largest Malaysian microcredit organisation, was the most active. Based on the Grameen Bank, Bangladesh, it provided interest and collateral-free loans to poor and hardcore poor households to assist them in micro and small-scale businesses, such as, for example, poultry and livestock rearing businesses.

The Indonesian government is committed to continue the anti-poverty programs. The name of the program, the organisation and the strategy may be changed, but the result will not be far from the previous programs (see Tables 6 and 7). Generally, anti-poverty programs after economic crises, are of two main categories (rural and urban). Although they have used different names they are similar in strategies and concepts; for instance, PNPM Mandiri Perdesaan (for rural communities) and PNPM Mandiri (for urban communities). First are programs designed to empower rural–urban social institutions and organisations (empowerment programs). This kind of program is mainly directed at strengthening rural–urban communities and social organisations to enable them to take part in development projects. Second are programs for stimulating rural–urban economic activity; these are intended to provide greater opportunities for people living in urban–rural (coastal) areas to sell their products, and to increase entrepreneurship among low-income rural–urban communities (employment programs).

The national Poverty Reduction Strategy (PRS) was finalised in late 2004 and incorporated in the National Medium Term Development Plan (RPJM) for 2005–09. The PRS and the RPJM have been the cornerstones in the preparation of annual budgets and for programming to reduce poverty. Nevertheless, despite increased economic growth and poverty reduction spending, poverty has not been reduced as a percentage of the total

Table 6. Anti-Poverty Programs in Indonesia, 2000–2009

Program	Description	Target	Institution
Rural development	This program is heavily focused on the development of rural infrastructure by involving rural communities.	Suitable social economic rural infrastructure	Local government
Sub-district development	The main program is to empower non-profit organisations at the sub-district and village levels in a rural development process.	Non-profit organisations at sub-district and village level	Local government
Poverty alleviation in urban area	Empowerment of urban communities by developing capacity and resources among second-class citizens (urban marginal community).	Second-class citizens	Urban Development Bureau
Rural microfinance	Aimed at improving rural community participation and in creating entrepreneurship.	Rural communities and organisations	Local government and Ministry of Cooperative and Small Medium Enterprises
Partnership for local economic development	Designed to develop local economic activity through which farmers and small to medium enterprises are able to sell their goods in local commodity markets.	Farmers, fishermen, SMEs and other groups	Local government
Economic empowerment for coastal area communities	Designed to ease credit access for small fishermen groups.	Small fishermen groups	Ministry of Fisheries

Source: Lukman (2010)

population and the number of poor households has increased nationally. The intention of PRS and RPJM to reduce poverty to 8.3% by 2009 was not achieved. Therefore the Deputy for Poverty Reduction, Manpower and SMEs in Bappenas (Badan Perencanaan Nasional) proposed in 2006 that a National Poverty Reduction Action Plan be prepared that would focus more on growth programs to benefit the poor and to improve programming to reduce poverty (ADB, 2009).

By mid September 2006, Bappenas had prepared a National Poverty Reduction Action Plan. There were 50 source documents that dealt with poverty reduction in Indonesia, which mainly focused on direct and indirect effects on poverty groups; ease of implementation; current degree of effort by the government; and what would be achievable by the end of 2009. In 2007, the program for the National Poverty Reduction Action Plan was reduced to 15 to 20 key priorities that were coordinated with the assessment of macro-economic policies related to poverty reduction and on the role of micro, small and medium enterprises.

Logically, the more money that is used to alleviate poverty, the more significant

Table 7. Expenditure on Anti-Poverty Programs and Poverty Reduction, 2000–10

Year	Budget (Rp trillion)	Number of poor people (million)	Poverty change (million people)	Average budget to reduce poverty per person (Rp million)	Programs
2000	18.0	38.70 (19.14%)			Askeskin[1], P4K[2], P2KP[3], PDM-DKE[4], Raskin[5]
2001	25.0	37.90 (18.41%)	Decrease 0.80	22.5	Idem
2002	21.5	38.40 (18.20%)	Increase 0.50	0	Idem
2003	24.5	37.30 (17.42%)	Decrease 1.10	19.5	Idem
2004	28.0	36.10 (16.66%)	Decrease 1.20	20.4	Idem
2005	23.0	35.10 (15.97%)	Decrease 1.00	28.0	Idem, UCT[6], BOS[7]
2006	42.1	39.30 (17.75%)	Increase 4.20	0	Idem, UCT, BOS
2007	51.2	37.17 (16.58%)	Decrease 2.13	19.8	Idem, UCT, CCT[8], BOS,
2008	60.6	34.96 (15.42%)	Decrease 2.21	23.2	CCT, UCT, Jamkesmas[9], PNPM[10], Raskin
2009	71.0	32.53 (14.15%)	Decrease 2.43	24.9	Idem
2010	64.6	31.02 (13.33%)	Decrease 1.51	47.0	Idem

Sources: Adam (2010), United Nation MDG's Report (2010)

1. Askeskin Health insurance for the poor (Asuransi Kesehatan Masyarakat Miskin)
2. P4K Income generating program for marginal fishermen and farmers (Pembinaan Peningkatan Pendapatan Petani dan Nelayan Kecil)
3. P2KP Urban Poverty Project (Proyek Pengentasan Kemiskinan Perkotaan)
4. PDM-DKE Regional Empowering to Overcome the impact of Economic Crises (Pemberdayaan Daerah Mengatasi Dampak Krisis – Ekonomi)
5. Raskin Subsidised rice price for the poor
6. UCT Unconditional cash transfer
7. BOS Operational school books for elementary schools
8. CCT Conditional cash transfer (PKH=Program Keluarga Harapan)
9. Jamkesmas Health insurance for the poor (Jaminan Kesehatan Masyarakat)
10. PNPM The National Community Empowerment Program

should be the poverty eradication. Table 7 shows, however, the government's budget for poverty reduction almost doubled in 2006 from the previous year but, from 2005 to 2010, the number of poor people reduced by 4.42% only. The government's goal is to reduce the incidence of poverty to 8 to 10% by 2014. However, many academicians argue that with an average poverty change of only 0.54% a year, this goal will not be attained and the poverty rate will be approximately 11% by 2014 (Adam, 2010).

4.3 Review of Zakat Programs for Poverty Eradication

Zakat management in Indonesia has been in existence since Dutch rule, when the zakat collection was legalised by the Dutch government's Act on Religious courts (priesteraad). Further, Indonesian law 38 of 1999, articles 6 and 7, states that the zakat institution is Badan Amil Zakat (BAZ, National Zakat Collection), which is administered by the government from district to national level. In addition, this law also stated that the public can manage zakat funds by forming what is called Lembaga Amil Zakat (LAZ, Local Zakat Collection). Technically, guidance for zakat management can be found in the Directorate General for Islamic Guidance and Hajj regulation D/291/2000.

In accordance with presidential decree 8 of 17 January 2001, Badan Amil Zakat Nasional (Baznas) comprises three elements; an operational board, an advisory board and a supervision commission with each element having its own structure. The simplest structure is the supervision commission, which consists of the chairman, vice-chairman, secretary and seven members. The advisory board also has the same structure, but it has nine members.

In its operation, zakat disbursement is allocated to any activity that supports an economic program such as small enterprise empowerment. This disbursement can be done directly by the Unit Salur Zakat (USZ, Zakat Distribution Unit), which is available in every office of Baznas or USZ partner. This economic program has been planned systematically to ensure that the benefits of this empowerment are not only for individuals but also for their community. Therefore, it can encourage community development between Baznas partners and their community.

Basically, the difference between BAZ and LAZ is the way in which they are formed. BAZ is formed by the government with society participation (top-down model). LAZ is a bottom-up model, which is initially driven by society. Consequently, the way the organisations operate may also be different, but they have the same functions and objectives.

With regard to disbursement of zakat, Baznas has used three models to achieve the economic goals. The zero-level-channel aims at direct empowerment through mustahik (zakat recipients) ; the two-level-channel uses coordinators to oversee the mustahik turn; and the three-level-channel involves third parties and other coordinators.

Even when the recipient of zakat is an individual, the use of the money should not only be for consumption. Prophet Muhammad (pbuh) teaches us that to distribute zakat for productive activities would be advantageous not only for the mustahik but also for their community. Thus, the main purpose of zakat allocation is for poverty eradication. There have been some success stories in generating funds to alleviate poverty using zakat funds by empowering small-scale enterprises based on local initiatives.[9] In the Indonesian case,

[9] Again, zakat revenue can be spent for raising the productivity of the poor; such as financing various development projects in education, health care, safe water and other social welfare activities that are designed exclusively for the benefit of the

the disbursement of zakat is more likely to follow the same patterns. For example, if one LAZ or BAZ were successful in managing zakat, say, to empower women in pesantren (Islamic boarding schools), this success would be emulated by other zakat institutions. There is no single pattern for zakat disbursement.

System of collection and potential of zakat

Zakat collection can be direct or indirect. Direct collection is where muzaki (one who is obliged to pay zakat) come to an operational unit of BAZ or LAZ, whereas indirect collection is where the muzaki pay their zakat at a post office, by bank transfer, or salary deduction. Although, the zakat law has led to an increase in zakat institutions, it has been challenging to improve coordination, consultation and information dissemination among institutions.

The other way to see the potential of zakat collection is as a percentage of GDP, about 2% (see Table 8), with an average range 0.76 for Z1 criteria, 0.86 (Z2) and 0.38 (Z3). In 2009, for instance, the total amount possible to be collected for the zakat fund was Rp111,064 billion. According to Baznas, which quoted an Asian Development Bank research finding, the potential for zakat should reach Rp100,000 billion (Harian Neraca, 2010). In reality, Baznas collected Rp1200 billion for the zakat fund in that same period, or only 1.08% of the potential. The sector that Baznas targeted for collecting zakat funds in 2010 was the private sector. It is noted that from 141 state-owned enterprises, only 30 already had 'zakat consciousness'.

Using zakat for alleviating poverty is the main focus of this paper and it is necessary to know by how much the zakat funds fall short, in other words, how much is needed to supplement zakat funding if poverty is to be eliminated. Table 9 presents the percentage of GDP that would be required for poverty elimination from 2000 to 2009. Specifically, these numbers indicate the percentage of GDP that is needed to be transferred during the year to the poor to raise their income levels to US$1.25 and to US$2 per day. Evidently, there was a decline in the percentage of the poor and an increase in the per capita income over time.

However, compared to the potential zakat collection, the amount of money for alleviating poverty is higher (for example in 2009, potential zakat collection is about 1.9% of GDP but the funding needed for poverty reduction is 2.7% of GDP). Many economists agree that alleviating poverty to any great extent in Indonesia using zakat funds is limited. According to Hamidiyah (2004), there are several reasons for this.

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poor. It is expected that such programs can have a multiplier effect for welfare of the poor. However, it is intuitively plausible that an increase in income from zakat investment might be expected to have a multiplier effect larger than an increase in income from non-zakat funds investment because, in addition to the leakage into saving, some portion of income over the successive rounds of income and spending would be siphoned off by other leakages such as taxes and imports, mostly in case of the income of the rich (Mannan, 2000).

Table 8. Proportion of Potential Zakat Collection to Indonesia's GDP

Year	Z1	Z2	Z3	Total zakat (percentage of GDP)
2004	0.73733	0.88671	0.42125	2.04530
2005	0.73961	0.87419	0.41151	2.02531
2006	0.73581	0.88140	0.39909	2.01631
2007	0.76370	0.86045	0.39565	2.01980
2008	0.77633	0.86684	0.37007	2.01324
2009	0.79417	0.82927	0.35509	1.97854

Sources: BPS, Author's calculations.

Table 9. Amount Needed and Percentage of GDP Required to Poverty Reduction 1990–2009

Year	GDP (US$ current)	Total population	Head count poverty	Number of poor people	Amount needed to reduce poverty		GDP percentage required to reduce poverty	
					US$1.25	US$2	US$1.25	US$2
2000	165,021,047,883	205,843,600	19.14	39,398,465	17,975,549,675	28,760,879,479	10.89288	17.42861
2001	160,446,947,638	208,643,100	18.41	38,411,195	17,525,107,586	28,040,172,138	10.92268	17.47629
2002	195,660,611,034	211,438,900	18.2	38,481,880	17,557,357,659	28,091,772,254	8.97337	14.35740
2003	234,772,458,818	214,251,300	17.42	37,322,576	17,028,425,510	27,245,480,816	7.25316	11.60506
2004	256,836,883,305	217,076,600	16.66	36,164,962	16,500,263,712	26,400,421,939	6.42441	10.27906
2005	285,868,610,017	219,898,300	15.97	35,117,759	16,022,477,320	25,635,963,712	5.60484	8.96774
2006	364,570,525,997	222,746,900	17.75	39,537,575	18,039,018,480	28,862,429,568	4.94802	7.91683
2007	432,105,253,653	225,642,000	16.58	37,411,444	17,068,971,143	27,310,353,828	3.95019	6.32030
2008	510,501,774,123	228,523,300	15.42	35,238,293	16,077,471,117	25,723,953,788	3.14935	5.03895
2009	540,273,507,315	231,370,000	14.15	32,738,855	14,937,102,594	23,899,364,150	2.76473	4.42357

Sources: World Bank; BPS; ADB Key Indicator country database (2010); and author's calculations

1. The amount of the real zakat distributed is smaller than the amount of money needed to help people out of poverty.
2. Recently, the distribution of zakat for economically productive programs has been sporadic, inconsistent, subjective, and without coordination and comprehensive planning between zakat institutions and local governments.
3. There is no program for assessing needs in society. The mustahik do not actively participate in zakat distribution, they only follow the directions from the coordinators of zakat institutions.

The above discussion reveals two difficulties related to poverty and its mitigation using zakat. It is difficult to mitigate poverty in Indonesia: the amount needed for poverty alleviation, as a percentage of GDP, decreases as the GDP per capita increases and amount needed increases as the percentage of people living under the poverty line increases. In other words, the burden of poverty alleviation, in terms of the percentage of GDP that has to be transferred, is greater in relatively poor countries and these countries are the ones that have a smaller GDP for distribution.

V. CONCLUDING REMARKS

Several conclusions can be drawn from this study. First, although Indonesia began tackling poverty in the same period as Malaysia, in the 1970s, there has been slow progress in poverty reduction. Second, in terms of the achievement of policies on how to deal with poverty, Indonesia's only success in managing the capability of zakat institutions has been to create variations in zakat utilisation but it has been less effective in zakat collection. It can be seen from the inadequacies of zakat organisations that it would be better to enlist, or get support from, organisations in the private (business) sector to participate in zakat collection. Managing zakat collection and its disbursement more effectively and efficiently is a key requirement for zakat officials. Studying and using the experience of other countries, such as Malaysia, which are successful in managing zakat collection and disbursement, as well as poverty alleviation, is a must.

Last, it can be concluded that Indonesia has a problem of chronic poverty and has limited resources to attack it. Therefore, domestic revenue sources, including zakat, are inadequate for anti-poverty programs. It is recommended that Indonesia elaborate the waqf (some scholars call it awqaf) scheme, as well as using a progressive tax and other funding resources. Waqf is is used in Islam in the meaning of holding certain property and preserving it for the confined benefit of certain philanthropy and prohibiting any use or disposition of it outside that specific objective. Therefore waqf widely relates to land and buildings. However, there are waqf of books, agricultural machinery, cattle, shares and stocks and cash money. It is evident that the use of waqf, along with zakat, will more effective in tackling poverty than zakat alone.

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