

# The Role Of Zakat In Poverty Reduction In Indonesia

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## Abstract

Indonesia is a developing country and is the fourth most populous country in the world and has a Muslim majority population. For developing countries, poverty is a problem that becomes homework for which a solution must be found. Several government programs that have been launched in the context of poverty alleviation need to be relied on more to be the solution to this problem, instead of being successful, the poverty rate in Indonesia is getting higher. In Islamic economics, zakat is a concentrated discourse as an alternative solution to the problem of poverty. The majority of Indonesia's Muslim population provides a great opportunity to achieve the mission of alleviating poverty. It is believed that the more Muslims are aware of the obligation to pay zakat, the greater the potential for zakat collected. Wise zakat management and fair and equitable distribution are certainly one of the conditions that must be met so that all levels of society can feel the function of zakat. This paper uses a literature approach and draws the conclusion that the potential for zakat in Indonesia reaches fantastic figures. Zakat can be used as an alternative solution to the problem of poverty in Indonesia. With professional management, the people of Indonesia must be optimistic that the poverty rate will soon be reduced.

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## 1. INTRODUCTION

Islam, through its holy book, explains the necessity of harmony in life, including economic matters. The Quran advises capable individuals to pay zakat, which is the fourth pillar of Islam, to complete the self-purification of a Muslim. Beyond its material dimension, the command to pay zakat also contains a spiritual dimension. When zakat is applied well and comprehensively, it plays an essential role in spiritual development, leading to social justice and fostering a healthy and rapid economic growth. Zakat is a form of cooperation between the wealthy and the less fortunate. It empowers and protects the public from economic disasters like poverty and scarcity of goods.

In this context, zakat institutions distribute wealth and fulfill a collective obligation for the Muslim economy. Zakat is calculated separately to purify wealth, relieving the burden on the rich and providing a sustainable source of capital for the poor. In Islamic economics, this concept is known as a poverty alleviation tool to promote income equality (Rahman, 2019; Romdhoni, 2017). In Islam, the way to overcome poverty is through Zakat. Therefore, Zakat is mandatory to be

managed productively and professionally to realize Islamic ideals for the well-being of society.

Zakat plays an important role in poverty alleviation and economic growth and development. Recognizing that the potential of Zakat has not been fully utilized in Indonesia, the government needs to implement specific policies to improve its collection and distribution. Zakat has a significant macroeconomic role, as seen in the history of the caliph Umar bin Khattab, where Zakat served as a source of income for the Islamic State alongside other taxes.

Zakat holds a central role in Islamic economics, impacting not only individuals but also a country's economy by serving as another source of state income (Atabik, 2016; Hafidhuddin, 2004). However, the fact remains that the number of people living in poverty in Indonesia stands at 26.363 million, which is 9.57% of the total population of Indonesia (Central Statistics Agency; National, 2022). This indicates that the true purpose of zakat, which is to alleviate poverty among the people, has not been fully realized. Instead of being a mere religious symbol, zakat is often considered limited because many members of



the Islamic ummah are unaware of it. Even among those who are aware of the obligation to pay zakat, some may not know how to fulfill it. As a result, there is a need to raise awareness and understanding of zakat to promote its collection and distribution effectively (Central Statistics Agency; National, 2022).

Based on various studies, zakat has the potential to reduce the number of poor families, alleviate poverty inequality, and mitigate the severity of poverty. Zakat is an instrument that can be used to address inequality and enhance the well-being of society. The national zakat potential in Indonesia is estimated to be IDR 327 trillion, a substantial amount given the large Muslim population in the country. However, only IDR 14.1 trillion in zakat funds were collected (Baznas, 2022).

This stark contrast between the potential and the actual collection highlights that zakat management is not fully optimized. Hence, the purpose of this study is to explore the correlation between the Quranic concept of zakat and the existing economic phenomena. It aims to investigate how the potential of zakat can play an active role in alleviating poverty among the ummah, which remains a persistent issue in the country. This article seeks to describe the chronology of the Quranic concept regarding poverty alleviation through zakat obligations. By doing so, it is expected to contribute to creating a harmonious social and economic life for people in Indonesia.

## 2. LITERATURE REVIEW

### 2.1 Zakat

Zakat in Islam is one of the five main pillars and functions as a financial obligation for every capable Muslim individual. Zakat has significant material and spiritual dimensions. On the material side, zakat plays an important role in the distribution of wealth among individuals in Muslim societies. When zakat is managed professionally, it can contribute to equitable income redistribution and improve social welfare. Several studies show that zakat

has the potential to reduce the number of poor families, reduce inequality and reduce poverty levels (Rahman, 2019; Romdhoni, 2017).

Zakat has a rich history in Islam, and its role as a source of state income has been recognized since the time of Caliph Umar bin Khattab. This history shows that zakat not only has an impact on individuals, but also on the country's economy. Zakat is also a source of state income that can be used for development projects and general welfare. However, despite the enormous potential of zakat, Indonesia still faces significant levels of poverty, with millions of people living below the poverty line (Central Statistics Agency; National, 2022).

In the context of zakat management in Indonesia, there are problems that need to be overcome. Even though there are laws regulating zakat management, implementation still has obstacles. There are many zakat institutions operating privately, and this creates overlap and difficulties in collecting zakat regularly. To optimize the role of zakat in reducing poverty, there needs to be government efforts to regulate and supervise zakat management more effectively (Atabik, 2016).

Zakat is not only an economic instrument, but also has social and religious implications which in Islam are related to the concept of "social justice." This is related to development policies and strategies that aim to achieve income equality in society. With zakat, there is a shift in the direction of consumption and ownership of economic resources, which in turn provides opportunities for low-income people to increase income and improve economic welfare. The management and distribution of zakat, as well as the potential of zakat as a tool for alleviating poverty, is an important issue in Islamic economics (Qadir, 2001; Rahman, 2019; Romdhoni, 2017).

## 3. RESEARCH METHODS

Literature Approach: This research will use a literature approach to collect relevant data and information regarding the role of



zakat in reducing poverty in Indonesia. It involves collecting and analyzing written sources such as books, journal articles, official documents, and related research reports. Using this approach, the research will integrate previous findings and existing conceptual frameworks to discuss the topic.

**Data Analysis:** Data found through a literature approach will be analyzed to identify the relationship between zakat and poverty reduction in Indonesia. Data analysis will include understanding the concept of zakat, the history of zakat management in Indonesia, problems in zakat management, and the potential for using zakat as a tool for alleviating poverty. The results of this analysis will help in forming research conclusions.

**Historical and Contextual Study:** This research will also analyze the history of zakat management in Indonesia and the current economic and social context. This will help in understanding the evolution of zakat in the Indonesian context and the challenges faced in zakat management. This analysis will support research arguments about the potential of zakat in reducing poverty.

By using this research method, research will be able to investigate the role of zakat in reducing poverty in Indonesia by detailing the concept of zakat, the history of zakat management, obstacles in zakat management, and the potential for using zakat as a tool for poverty alleviation in Indonesia. Through a literature approach, this research will look for solutions to improve zakat management more effectively and contribute to reducing poverty levels in Indonesia.

## **4. RESULT AND DISCUSSION**

### **4.1 Zakat and Islamic Economics**

The payment of Zakat in Islam begins after the migration and the formation of the government in Medina. Believers are recommended to give a portion of their wealth in the form of Zakat. Zakat payment is a religious obligation and is one of the five pillars of Islam. This obligation applies to every Muslim who is mature, independent, sensible, and possesses wealth that meets the

Nisab threshold. Zakat is imposed on various types of property, including gold, silver, merchandise, certain types of livestock, minerals, treasures, and plants. In the economic context of the time, it is more dependent on the industrial and service sectors rather than agriculture and animal husbandry. Many types of wealth are mentioned in the text, such as vehicles and luxury houses. The text does not mention acquired assets from expertise and professional services. This absence is because society during the time of the Prophet had not yet developed the kinds of riches we see today. The current times demand the discovery of new sources of wealth.

This has led to the emergence of new terms not found in classical jurisprudence and economics, such as professional Zakat and productive Zakat (Hafidhuddin, 2004; Ridlo, 2014; Romdhoni, 2017). The obligation of Zakat is firmly stated in the Quran. At the beginning of Islamic governance, Zakat served as the primary and most important source of state revenue. Zakat is not a typical source of income for Muslim countries worldwide, although it is considered a primary source of funding. The state is responsible for collecting and using Zakat correctly. The income from Zakat must be kept separate from other public revenues. The Zakat system differs from conventional fiscal policies. In conventional fiscal systems, the government can influence economic activities through incentives, tax rates, and the size of the tax base. In contrast, the Zakat system specifies the Zakat rates based on the instructions of the Prophet, and all provisions are determined accordingly. (Hafidhuddin, 2004; Ridlo, 2014; Romdhoni, 2017).

Therefore, the concept of Zakat in jurisprudence states that the Zakat system aims to reconcile the surplus among Muslims with the deficit among Muslim parties. This system is intended to project the distribution of income between surplus and deficit Muslims or even transform a deficit group (mustahiq) into a surplus (muzakki). From a social philosophical perspective, Zakat is



linked with the principle of 'social justice' and is viewed in the context of development policies and strategies that promote income equality in society and equal participation in economic activities. With Zakat, there is a shift in the direction of consumption and ownership of economic resources, while on the other hand, it leads to an expansion of productive activities at the grassroots level.

This scenario provides an opportunity for the grassroots public to increase their income and accumulate capital as a source of economic power and productive activities. The collection and distribution of Zakat, as well as the potential of Zakat as an instrument for poverty alleviation, are important issues in the field of Islamic economics (Qadir, 2001; Rahman, 2019; Romdhoni, 2017). In addition to being a primary component of the public finance system and a main fiscal policy in Islamic economics, Zakat is also a religious obligation for all Muslims. There are other components that can serve as alternative sources of state revenue. These components are not mandatory but are related to the level of an individual's devotion. The higher the level of dedication, the more significant the trend of contributing to these voluntary components.

Zakat is not merely an activity with worldly objectives, such as achieving income equality or economic stability, but it also holds implications for the afterlife. This distinction is what sets Islamic fiscal policies apart from conventional economic systems. Islamic economics is a science that studies economic behavior based on the rules of the Islamic religion and is founded on the principles of monotheism, faith, and the pillars of Islam. Work is considered an obligation because it is ordered by Allah SWT, as explained in Surah At Taubah, verse 105:

وَقُلْ اَعْمَلُوا فَسَيَرَى اللّٰهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ وَسَتُرَدُّونَ اِلَىٰ عِلْمِ  
الْغَيْبِ وَالشَّهَادَةِ فَيُنبِّئُكُمْ بِمَا كُنْتُمْ تَعْمَلُونَ

And say, 'Work, for Allah will see your work, and [so will] His Messenger and the believers. And you will be returned to the

Knower of the unseen and the witnessed, and He will inform you of what you used to do." (Department of Religion, 2020)

The verse above demonstrates that Islam instructs people to engage in worldly matters, not solely focusing on the affairs of the afterlife. Work is considered a purposeful activity for earning a livelihood, and in Islam, it is also viewed as a form of worship.

#### 4.2 Concept Poverty

The number of poor people in Indonesia has decreased over the years, but the purchasing power of society has not necessarily increased. According to data from the Central Statistics Agency, the number of poor people in Indonesia has fluctuated over different presidential eras. During President Suharto's era, it was 34.71 million people, during President BJ. Habibie's era, it rose to 47.97 million, during President Abdurahman Wahid's era, it decreased to 37.87 million, in the era of President Megawati, it was 36.15 million, at the end of President SBY's government, it decreased to 27.73 million, and under President Jokowi's government, it further reduced to 26.36 million. (Central Statistics Agency; National, 2022) According to UNICEF, poverty is the lack of material resources required to meet minimum human needs, including health, education, and other services that can prevent people from falling into poverty.

Ravalion in the 1970s formulated the poverty line to determine the minimum income necessary to fulfill basic physiological needs such as food, clothing, and housing to ensure the continuity of life. It elaborated on the characteristics of local environments and policies that influence poverty levels, including natural surroundings, economic structures, institutions, and the characteristics of the local population. The World Bank identifies several characteristics of poor people, including poor nutrition, low education levels, limited life expectations, and inadequate housing standards. A decade later, the World Bank emphasized other poverty-related characteristics, such as weak



representation in decision-making processes and vulnerability to economic uncertainties.

The National Development Planning Agency (Bappenas) explains that poverty is a condition that occurs not because poor people want it, but because they lack the means to avoid it. Ali, as mentioned by Setiawati, suggests that poverty is the gap between the accumulated main values and the fulfillment of basic needs, and this gap can be bridged by the right means. According to Chambers, there are five overarching disadvantages that affect the lives of poor people (Setiawati, 2015):

1. **Economic Poverty:** This is characterized by decrepit housing, low-quality building materials, minimal household equipment, tangled family finances, and uncertain income.
2. **Vulnerability:** Poor families often struggle to cope with emergencies due to their limited financial resources, making it difficult to cover the costs of significant health issues.
3. **Helplessness:** Poor individuals may face difficulties in dealing with bureaucratic elites and often lack the opportunity to determine their own fate.
4. **Physical Weakness:** Poor nutrition results in low food consumption, which affects both the quality and quantity of food intake, leading to low productivity.
5. **Isolation:** Poverty can lead to social and physical isolation, making it challenging for poor people to access necessary services or integrate into wider society.

#### 4.3 Economic Review of Problem Poverty

Poverty is a classic economic problem and remains a significant challenge for developing countries, including Indonesia. From 2012 to 2022, the poverty figures have experienced fluctuations from year to year. The lowest recorded number of poor people in the last ten years occurred in 2019 when the population living in poverty was 24.79 million. However, this number increased in 2020 to 27.55 million and then decreased again in 2021 and 2022 to around 26 million (Central Statistics Agency; National, 2022). Despite

potential issues with data accuracy, it is evident that a substantial number of people in Indonesia continue to live below the poverty line. This persistent issue poses significant economic and social challenges for the country.

Table development poor population in 2012 - 2022



Source : National Central Bureau of Statistics, 2022

The formation of a poor population in a country does not occur spontaneously but is often the consequence of errors in development strategies. To put it differently, adequate capacity deprivation is a necessary condition to describe poverty in Indonesia. The national development strategy, which is solely based on economic growth, tends to provide opportunities primarily for elite business groups or those in positions of power to access natural resources (the Source of Natural Power). Consequently, the broader society loses its capacity in various aspects, including politics, economics, and social and cultural domains.

The well-being of a country's inhabitants serves as an indicator of its prosperity. Ensuring prosperity and freedom from poverty in a fair manner for the public is a critical task for the government. Here, "fair" does not mean that everyone should be rich, but rather that income distribution must be genuinely equitable, reaching even the most disadvantaged in society. Wealth should not be exclusively concentrated in the hands of the powerful, as this would perpetuate poverty for many others. Instead, wealth should be distributed equitably through a systematic



approach. With equal income distribution, the number of people living in poverty can be reduced (Andriyanto, 2011; Romdhoni, 2017).

#### 4.4 Management in Indonesia

In terms of regulations, Indonesia has a legal framework in place for zakat management, beginning with Law No. 38 of 1999, which later was revised as Law No. 23 of 2011. However, within the legal framework, there is no provision for zakat's contribution to state finances, nor does it address the flow of zakat funds as internal capital to alleviate poverty. The existing regulation primarily focuses on the proper distribution of zakat to the mustahiq (the eligible recipients) without specifying whether this should serve a consumptive or productive function. Consequently, the potential for zakat to serve as a source of state funding and its expected impact on the economy have not been fully realized.

Furthermore, Indonesia has numerous private institutions that have been historically involved in managing zakat, such as the Zakat Forum, an association of zakat managers across the country. Members of this forum include the Amil Zakat Agency (BAZ), established by the government, and the Amil Zakat Institution (LAZ), formed by civil society. The presence of these private institutions has led to a division of responsibilities and authority in zakat management, and the government needs to assess their contributions (Atabik, 2016; Chaniago, 2015; Rahman, 2019). The Zakat Forum recommends amending zakat laws to emphasize standardization in zakat management, particularly in terms of accounting and supervision. Rather than reinventing the wheel, the focus should be on improving the existing system.

This approach aligns with the principles of Islamic finance institutions like Islamic banking, with the key distinction being that while Islamic banking is profit-oriented, zakat institutions are primarily oriented toward social and financial management (Madani, 2016). Currently, zakat management in

Indonesia has not produced significant results. This can be attributed to the lack of clarity in the implementation of the authority to manage zakat as stipulated in the 2011 law. Furthermore, the proliferation of private zakat institutions has created inefficiencies and overlaps in the system, where multiple institutions may provide assistance to the same mustahik. This uneven distribution can lead to perceived unfairness among the beneficiaries. The predominance of private zakat institutions also makes it challenging for the government to collect zakat consistently, as some muzaki (those who owe zakat) may be reluctant to pay (Hafidhuddin, 2004; Romdhoni, 2017).

#### 4.5 Internal Zakat Function Alleviate Poverty

In the conventional economic discourse, the root problem is scarcity, which occurs when there are needs but insufficient production or consumption to fulfill those needs. According to microeconomic theory, two factors with mutual characteristics and contradictory principles play a central role in addressing this issue. Most world economists believe that a market-based economic system is the appropriate solution, as it can bring balance (equilibrium) between these two factors (Hafidhuddin, 2004; Romdhoni, 2017). However, the development of economic knowledge has led to some modifications in economic theory, with the recognition that government intervention is sometimes necessary.

This is because the concept of a free market, if left unchecked, can lead to chronic issues such as inflation in the financial sector and unemployment in the real economy. In such cases, the government is viewed as a "faithful doctor" that accompanies the ailing economic system to ensure its survival and prosperity, although this may have side effects, such as poverty. Islamic teachings, based on the Quran and hadith, have the goal of "mercy lil-' alamin," which means benefiting all people. Islam emphasizes a factor often



overlooked by economists, which is the factor of wealth distribution.

This is conveyed through the obligation to pay zakat, which serves as a tool for wealth distribution because prosperity requires zakat payment. Zakat is calculated based on a specific percentage rather than a fixed nominal value, creating economic stability. It stabilizes prices, reduces inflation when aggregate demand exceeds aggregate supply, and stabilizes total income and production when aggregate demand is insufficient compared to aggregate supply (Haidir, 2019; Madani, 2016; Ridlo, 2014). For example, zakat income is calculated proportionally, which can help establish stability in the macroeconomy.

This stability affects prices and quantities offered because zakat is based on the results of one's efforts. This is different from the current value-added tax (VAT), which is calculated based on the price of goods, causing price increases and a smaller increase in supply. Islamic livestock zakat, in particular, uses a progressive system to incentivize increased production. The more livestock produced, the lower the required zakat payment, encouraging larger-scale and more efficient production. This progressive system applies specifically to cattle zakat due to the perishable nature of excess cattle supply.

The Islamic concept emphasizes well-being by maintaining a balance between the welfare of the muzakki (those who pay zakat) and the needs of the mustahiq (the recipients) (Pujianto & Asrori, 2015; Rifqi, 2008). As discussed earlier, poverty often arises due to errors in development strategies. However, there is a positive discourse suggesting that well-being can be achieved through the right strategies. Poverty can have various root causes, including misfortune and lack of education.

Therefore, zakat can serve two objectives: a consumptive objective for those who are unable to work and a productive objective for those who are capable of working. This aligns with the Islamic principle

that values productive work and discourages begging. With both government and private zakat institutions in place, the zakat management system in Indonesia should have clear operational standards, ensuring that funds are collected from muzakki and distributed to mustahiq. This system aims to provide support to those in need, similar to the principles governing Islamic banking, with a focus on the sharia while maintaining a social orientation. These efforts are aimed at reducing poverty in Indonesia in the future (Atabik, 2016; Chaniago, 2015; Haidir, 2019; Qadir, 2001; Rahman, 2019; Romdhoni, 2017).

## 5. CLOSING

### 5.1 Conclusion

Based on the analysis of the problems discussed above, several conclusions can be drawn:

1. The message of Zakat in the Quran has a positive correlation with economic growth. Zakat serves as a tool for wealth distribution that can boost both consumption and production in a balanced manner. It doesn't burden the muzakki (those who pay Zakat) excessively because the amount is determined as a proportion of their wealth, adjusted to the needs of the mustahiq (recipients).
2. The potential for Zakat in Indonesia on a macroeconomic level can be optimized through the government's role as a regulator and supervisor of Zakat management in the country. However, at the micro level, there is a need to raise awareness about Zakat, starting from individuals and families and extending to society as a whole. Given that the majority of Indonesia's population is Muslim, the potential for Zakat is significant, and it could ideally become a powerful instrument in poverty alleviation.
3. The concept of Zakat, as outlined above, has the potential to become a special source of state income allocated for poverty alleviation. This means that the income derived from Zakat should be directed to mustahiq, whether it is for consumptive or



productive purposes, depending on the needs and capabilities of the recipients. This approach can help address poverty in a targeted and effective manner (Chaniago, 2015; Haidir, 2019; Madani, 2016; Rahman, 2019; Romdhoni, 2017).

## 5.2 Suggestion

1. The Indonesian government needs to regulate and oversee zakat management more effectively. Existing zakat laws should be clarified to ensure that zakat can play a role in reducing poverty.
2. Efforts should be made to raise public awareness of zakat. Educational campaigns and socialization about the importance of zakat in poverty reduction can help increase zakat collections.
3. Zakat should be managed professionally and transparently. The collection and distribution of zakat should be carried out effectively to ensure that its benefits reach all layers of society.
4. Zakat should also be directed towards productive goals, such as assisting those capable of working to increase their income. This will help reduce poverty in a more sustainable way.
5. Collaboration between private zakat institutions and the government needs to be enhanced. These efforts can help avoid overlapping in zakat distribution and improve the efficiency of fund collection..

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