

The Effectiveness of Zakat in Alleviating Poverty and Inequalities in Indonesia: A Measurement using a Newly Developed Technique

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Abstract: Zakat is one of important tools in eradicating poverty in Indonesia. Zakat will be collected from fortunate people and delivered to unfortunate people. This is obligation for Muslim people to contribute a certain amount of their wealth for unfortunate people as written in the Holy Al-Qurán. The concept of zakat is concentrate on social and economic justice in Muslim countries with the purpose to reduce the gap between rich and poor. As far as we know that poverty is still big matters in Indonesia. Thus, the role of zakat is very crucial in helping the Indonesia government in reducing poverty level in Indonesia. Furthermore, half of the Indonesian population remained within the national poverty line which is capped at Rp 292,951/month or USD 24.4 (World Bank, 2015). This situation is quite consistent with the Gini coefficient for Indonesia that was reported to have increased from 0.36 in 2005 to 0.42 in 2015, implying that the gap between the rich and the poor families had broadened. This study aims to measure the effectiveness of zakat institution in Indonesia by applying new technique measurement called Zein (Zakat Effectiveness Index). This study is expected to provide solution for policy maker, especially for zakat Institution and Government in Indonesia.

1 INTRODUCTION

Poverty is still one of the biggest issues in Indonesia. There was a population of around 28 million out of 252 million Indonesians whose standard of living was below the poverty line. Furthermore, half of the Indonesian population remained within the national poverty line which is capped at Rp 292,951/month or USD 24.4 (World Bank, 2015). This situation is quite consistent with the Gini coefficient for Indonesia that was reported to have increased from 0.36 in 2005 to 0.42 in 2015, implying that the gap between the rich and the poor families had broadened. As a result, the Indonesian government has taken some measures to address this issue, one of which includes creating job opportunities for the poor people. By doing so, it is expected that the standards of living of the poor can be improved.

Such measures taken by the government have been fruitful. For instance, the World Bank (2016) has indicated that the poverty rate had declined by 1% annually from the year 2007 to 2011. It then has continued to decline with an average of 0.3 % since 2012 until now. Given that the recently published

figures show the poverty line at Rp 330,776/capita or USD 22.60, approximately 40% of the Indonesian population remained defenceless as their earnings are floating just above the national poverty line (World Bank, 2016). At the same time, as the population growth is higher than the employment growth, there are around 1.7 million youths who have entered the labor force but are left unemployed. That, by itself, has further aggravated the poverty problem. Meanwhile, even though the Indonesian government has provided basic public services to the people, the quality of health clinics and schools is below par for lower income standards. This has resulted in 126 maternal deaths per 100,000 live births, which is higher than the Millennium Development Goal (MDG) of 102 maternal deaths per 100,000 live births.

In contrast, most developed countries provide social security funds to eradicate poverty. In a way, this has enhanced the standard of living of the poor and eased the rate of unemployment in the country. Although not all developing countries, and Muslim countries in particular, have a similar system of social security fund, the establishment of zakat institution in

various Muslim countries, including Indonesia, can be regarded as a socio-economic strategy to overcome poverty as well as enhance the well-being of the poor people.

Poverty from the conventional perspectives

Most scholars define poverty based on per capita income measures. While some of them define poverty within the political context, some others define it in terms of economic and psychological contexts or more specifically in terms of basic needs context. There are numerous discussions and debates centered on the definition of poverty over the past several decades. These scholars have contradicted each other on how poverty should be appropriately-defined. The disagreement was mainly due to the definition of poverty that runs deep and is closely-associated with disagreements over both the causes of and solutions to it. In stark contrast to it, in practice all issues related to the definition, measurement, cause and solution are bound together and an understanding of poverty requires an appreciation of the interrelationship among all of them.

In this relation, Alcock (1993) states that poverty is a complex problem and is a product, in part at least, of political process and policy development. It is also a political and moral concept. As such, it requires action. He further suggests that poverty is, to some extent, created by or at least recreated by social and economic policies which have been developed over time to respond to or control poverty and those who are poor. Macpherson et al. (1998) argued that poverty is about exclusion. It is a wide ranging and complex phenomenon, profoundly affecting individuals and households. The emphasis on exclusion directs us to the heart of poverty. That is to say, the lack of resources prevents participation in the normal life of the community. Sinha et al. (2003) defines poverty as a multifaceted condition that combines the income/expenditure factors with many other dimensions of well-being, namely basic needs. Basic needs in turn consists of several items. They are: food, water, shelter, physical capital or access to infrastructures such as paved road, electricity, clinic, schools, and police office. Others are capabilities, which consists of human capital, health, education, employment, social capital or access to local networks and institutions. Finally, the last item included is vulnerability or the ability to cope with risk.

Meanwhile, the Swedish International Development Cooperation Agency or SIDA (2002) defines poverty from many perspectives. It says that poverty is widespread but dynamic where its pattern

changes over time. Besides, the agency continues to argue that poverty also deprives people of the freedom to decide and shape their own lives. Moreover, poverty robs them of the opportunity to choose matters of fundamental importance to themselves. As such, the essence of poverty is not only that it lacks material resources but also lacks the power and choice. Indeed, it is because of lack of power and choice that often makes it difficult for the poor to obtain adequate material resources. SIDA also defines poverty as a manifestation in different ways such as hunger, ill-health, denial of dignity, etc. In particular, it argues that poverty is context-specific, its precise features are derived from and prevailed under varying (but each case is unique) political, economic, environmental and socio-cultural situations.

In the early 1970s, two broader definitions of poverty, namely *absolute and relative poverty* were coined. *Absolute poverty* is defined in terms of subsistence and is concerned with the provision of the minimum needed to maintain health and working capacity. The primary focus is meeting basic human needs. Meanwhile, Steidmeier (1987) defined three definitions of *relative poverty*. They are:

- a. Policy definition that defines poverty line based on income

Policy definition of poverty represents a pragmatic effort to set social priorities and to implement policies that is meant to meet the set of social goals. Such policies represent what is desired by those who exercise an effective social voice and they usually result in the establishment of poverty lines which serve as guideposts to various social welfare benefits.
- b. Relative disparities between income groups

Poverty is defined in terms of inequalities between income groups. Specifically, it is concerned with the relative position of the income groups. The composition of society is seen as a strata of income layers, and relative poverty compares how those on the bottom fare with respect to those who are on the top. In this case, the focus is in social inequalities rather than on basic human needs.
- c. The dynamically changing nature of human needs

The relative notion of poverty is that human needs are dynamic, changing, and always reconstituting themselves. It follows that what is considered necessary or adequate to meet those needs is also always in flux.

Poverty from the Islamic perspective

The Islamic point of view of poverty does not only represent deprivation of goods and services, but also lack richness and poverty in spirit (Mannan, 1988, as cited in IDB reports). Furthermore, according to Rahman (1974, as cited in IDB reports), individuals can improve their spiritual lives by improving their material life. Poverty makes people unable to perform their individual, social and moral obligations and, therefore, man is asked to seek Allah's protection from poverty, scarcity and ignominy. In fact, poverty is declared undesirable as much as Kufr (apostasy) is abhorred (Sadeq, 1987).

As far as the causes of poverty are concerned, there are eight, all of which exist in present-day Muslim countries (Mannan, 1986). They are: (1) colonial exploitation in the past; (2) colonial legacy (the continuation of unsuitable development policies in the post-independence period); (3) Regional disparities and discrimination; (4) Neglect of human resources; (5) Economic dualism; (6) Financial dualism; (7) Inadequacies of the market system; and (8) low labor productivity. In this case, Mannan suggests some policies to eradicate poverty such as restructuring development policies to fulfill the needs of the rural population, providing extension services and necessary credit facilities to the farmers, land reforms and progressive taxation in addition to reactivating the tools of the Islamic redistributive policy.

The Development of Zakat in Indonesia

Zakat is one of the five pillars of Islam. There are eight (8) categories of zakat recipients, namely: fuqara (needy), masakin (poor), amilin (the zakat's manager), muallafat al-qulub (the person whose heart is being tamed), fi al-riqab (freed slaves), gharimin (people who are in debt), Fi sabilillah (fighting in Allah's way), and ibn al-sabil (people who are on the way).

In Indonesia, zakat is significantly considered as the best tool to eradicate poverty. This is evident because with a total population of 216.66 million, and of which 85% are Muslims, (BPS, 2015), Indonesia can easily utilize the zakat fund to eradicate poverty. Table 1 illustrates the development of zakat, infaq, sadaqah or ZIS collection funds from 2002 to 2015.

Table 1 Indonesia: Collection of Zakat, Infaq and Sadaqah in 2002-2015

Year	Rupiah (million)	USD (million)	Growth (%)	Growth GDP (%)
2002	68.39	4,98	-	3.7
2003	85.28	6,21	24.70	4.1
2004	150.09	10,92	76,00	5.1
2005	295.52	21,51	96.90	5.7
2006	373.17	27,16	26.28	5.5
2007	740	53,86	98.30	6.3
2008	920	66,96	24.32	6.2
2009	1200	87,34	30.43	4.9
2010	1500	109,17	25.00	6.1
2011	1729	125,84	15.30	6.5
2012	2200	160,12	27.24	6.23
2013	2700	196,51	22.73	5.78
2014	3300	240,17	22.22	5.02
2015	3700	269,29	21.21	4.79

Table 1 depicts that the amount of ZIS collected has increased from Rp53.30 million in 2002 to Rp 3,7 billion in 2015. It shows as well that the amount of ZIS collected has increased to approximately 39.28 per cent since year 2002. Hence, we could conclude that as people's consciousness on the religious obligation to pay zakat improved, the amount of ZIS collected had also simultaneously increased significantly. In one way or the other, this could also mean that the society continues to put their trust in zakat institution (BAZNAS - Badan Amil Zakat Nasional) to manage the zakat fund. As can also be seen from the table, the yearly growth of zakat fund is higher than the GDP growth. Specifically, the growth of zakat fund reached around 39.28% in 2002 to 2015 compared to the growth in GDP which was only 5.42%. Zakat institutions in Indonesia have been recognised not only nationally but also globally. At the national level, the zakat institution through BAZNAS (National Board of Zakat) has a great potential to fund national development, while at the international level, the zakat institution in Indonesia has been well recognized as one of the best performers in terms of zakat collection and distribution (IZDR, 2012). Figure 1 shows the collection and disbursement of the zakat fund increase from year 2014 to year 2015.

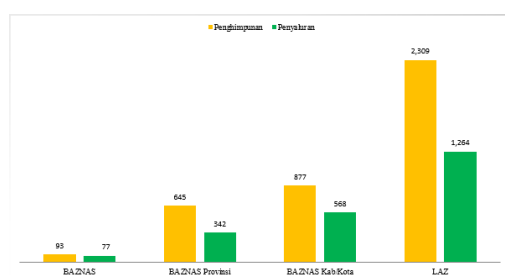


Figure 1: Collection and Disbursement of ZIS in Indonesia

Owing to the initiative taken by the government to replace the Zakat Act No.38/1999 with the Zakat Act No.23/2011, all private zakat collectors are placed under one single management called the National Board of Zakat (BAZNAS). In fact, the Zakat Act No.23/2011 acts as the centre for the whole zakat operation in Indonesia with the sole purpose to “improve the effectiveness and efficiency of the management of zakat services, and to optimise the benefits of zakat for public welfare and poverty alleviation”. There are two main responsibilities of BAZNAS, namely, (1) to manage the zakat system including planning, implementation, controlling the process of collection, distribution and use of zakat and reporting the operational performance of zakat management; and, (2) to coordinate all zakat institutions in the country.

The other regulations are PP No. 14/2014 and Inpres No. 3/2014. These regulations required BAZNAS’s new Board members to be appointed by the President. It is interesting to note here that (1) the Inpres No.3/2014 has clearly specified that the zakat collection from the ministries, Indonesian state-owned enterprises, and other government bodies have to pay their zakat dues through BAZNAS; and, (2) the decision of the Minister of Religion Affairs (Keputusan Menteri Agama) No. 333/2015 states that LAZ is the Amil. It classifies three categories of LAZ such as the national LAZ (if the zakat collection fund reaches Rp 50 billion), the province LAZ (if the zakat collection fund exceeds Rp 20 billion), and the regional LAZ (if the zakat collection fund reaches Rp 3 billion).

2 LITERATURE REVIEW

There are various studies focusing on the role and the impact of zakat on zakat recipients (asnaf), particularly on poor asnaf. Nurzaman (2016) indicated that zakat can improve the welfare of the zakat recipients in Indonesia. He employed the HDI (Human Development Index) measurement. Due to

the fact that the zakat recipients (the poor and needy) used the zakat fund that they received from the zakat institutions for productive consumption, which in turn has enabled them to fulfil the basic needs, obtain the proper training, send their children to schools and be involved in empowerment programs for female, the HDI has improved quite significantly.

Meanwhile Saidurahman (2013) showed that there are many opinions raised on the status of private and semi-governmental zakat management. The findings show that private zakat management has performed better in terms of reaching the target groups (the poor and needy) as compared to the semi-governmental zakat management. Hence, he suggested that zakat institutions in Indonesia need to be run efficiently regardless of the status of the zakat institutions. Sari et Al. (2013) argued that there are two main dimensions of the objective of zakat, namely, (1) spiritually (individually); and, (2) social-economically, to empower and improve the status of the ummah (community). As far as the zakat collection and disbursement is concerned, the study has segregated the Indonesia’s zakat institution into, namely government approach and non-government approach. While the government approach is composed of Badan Amil Zakat (BAZ) and Baitul Mal, the non-governmental approach is composed of Lembaga Amil Zakat (LAZ) such as Dhuafa Wallet and Zakat home, Mosques, Islamic Boarding School (pesantren) and individuals.

Febianto et Al. (2010) showed that the performance of the zakat institution in managing the zakat fund in Indonesia has improved. In particular, according to them, the approach has changed from what was used to be known as individual-traditional approach to what is known as collective-professional approach. As a result, it gives a positive impact on the development of the Indonesian economy in terms of job creation. They observed that if the amount of zakat collected and distributed is efficient, the Marginal Propensity to Consume (MPC) of the poor people will improve, especially the percentage that is spent on basic needs.

Jaelani (2015) focused on zakat management for poverty alleviation in Brunei and Indonesia. His study found that poverty is one of the main economic development problems faced by the Indonesian government mainly due to the large population. Thus, zakat institution that is managed by the stakeholders, and under the government regulations, is a solution to overcome this poverty problem. This is in stark contrast to Brunei Darussalam which has a small population and large government revenues, and the disbursement of zakat in terms of cash grants, capital

of commerce, and others has significantly resolved the poverty problem.

A study done by Firdaus et Al. (2012) indicated that the potential total amount of zakat collected in Indonesia from numerous sources is around Rp 217 trillion. This number is equal to 3.4% of Indonesia's 2010 GDP. Their findings also indicated that education, occupation and income are crucial factors which influence respondents or zakat payers' frequency and choice of place when paying zakat. Furthermore, Athoilah (2008) and Alim (2015) claimed that zakat can be used for productive purposes (i.e. related to loans or revolving funds) and hence, is capable of enhancing the standard of living of the poor.

Lastly, Lessy (2013) focused on the perception of zakat recipients on Rumah Zakat (charitable institution) located in Yogyakarta. He showed that many zakat recipients were benefiting from health care services and learning facilities that resulted in positive impacts on their economies, health, and social lives. Thus, the integrative program of zakat with the assistance of microcredit, healthcare, food security, and education can enhance the lives of the poor and destitute.

Mathematical Expositions of the ZEIN

The index, ZEIN, is a pioneering work of Abdullah and Al-Malkawi (2009) and further refined by Abdullah et al. (2012). While a detailed description of how the index is derived is available in previously-mentioned articles, in this paper, we will only reproduce the modified version of the mathematical model with most of the important equations remaining intact.

To begin with, the Zakat Effectiveness Index is derived as follows: first, the expenditures on basic needs (E_B) of the poorest population of a Muslim country (which in this case is Indonesia) Group 1 ($G1$ -the needy), are mathematically expressed as:

$$E_B = \sum_{i=1}^m \sum_{j=1}^n E_{Bit}^{G1j} \quad (1)$$

where: $i = (1,2,\dots,m)$ are the basic needs (B), which, in this study, include food, clothing, shelter, medical and education; $j = (1,2,\dots,n)$ are states or provinces or regions or countries; and, $t =$ time period.

Second, government spending on safety nets (G), which, in this study, is confined to zakat disbursement (Z), to the poorest population of the country, $G1$, can be computed as follows:

$$G_Z = \sum_{j=1}^n G_{Bit}^{G1j} \quad (2)$$

where: $j = (1,2,\dots,n)$ and t remain as in equation (1).

Third, the number of zakat recipients (Z_R) associated with $G1$ can be expressed as:

$$Z_R = \sum_{j=1}^n Z_{Bit}^{G1j} \quad (3)$$

where: $j = (1,2,\dots,n)$ and t remain as in equation (1).

Fourth, Zakat Index (ZI) is obtained by subtracting equation (2) from (1) and then dividing IT with equation (3), as shown below:

$$ZI = \frac{E_B}{Z_R} - \frac{G_Z}{Z_R} \quad (4)$$

While, the first term of the right side of equation (4) implies the average expenditures of the zakat recipients are associated with $G1$ on basic needs, the second term implies the average government spending in terms of zakat to $G1$.

Finally, the Zakat Effectiveness Index ($ZEIN$) is derived by dividing equation (4) with the first term of the right side of the equation. Specifically:

$$ZEIN = \frac{E_B / Z_R}{E_B / Z_R} - \frac{G_Z / Z_R}{E_B / Z_R} \quad (5)$$

A further refinement to equation (5) will give rise to equation (6), the final equation:

$$ZEIN = 1 - \frac{\hat{G}_Z}{\hat{E}_Z} \quad (6)$$

In general, \hat{G}_Z is smaller than \hat{E}_Z , otherwise poverty would not be a problem or there is no zakat deficiency. As such, the index measures the shortfall of the amount of government spending devoted to zakat as compared to the total consumption/expenditure on basic needs that is required for people in poverty to have a decent minimum livelihood. As in the case of other indices, the $ZEIN$ has a wide-range scale. It ranges from negative, zero, one and positive values. While a large index implies poor performance, a small index indicates the opposite. Perhaps, a simple example using four different hypothetical cases may illustrate the point at hand more distinctly. We note in passing that the same steps but with different notations can be used to compute the $ZEIN$ for Group 2, namely the poor.

Case 1: If $\hat{G}_Z = 1$ and $\hat{E}_Z = 1$, then the $ZEIN$ is 0, which implies that there is no deficiency in zakat, and that the amount of zakat received by the poor and needy is just sufficient to cover their basic needs.

Case 2: If $\hat{G}_Z < 0$ and $\hat{E}_Z = 1$, then $ZEIN$ is > 0 , which implies that the zakat deficiency exists. In this case, not only did they not receive any amount of zakat from the government but they also had to

borrow money to make their ends meet (to meet the basic needs).

Case 3: If $\hat{G}_Z > 0$ and $\hat{E}_Z = 1$, then *ZEIN* is < 0 , which implies that the zakat deficiency does not exist where the amount of zakat received by the poor and needy is more than sufficient to cover their basic needs.

Case 4: If $\hat{G}_Z = 0$ and $\hat{E}_Z = 1$, then *ZEIN* is $= 1$, which implies that the government is not extending any (zero) amount of zakat to the zakat recipients with the consequence that they had to rely fully on the income earned from doing odd jobs or “begging” to make their ends (the basic needs) meet.

As such, the *ZEIN* stretches from negative to zero (0), one (1) and any positive values. In addition to the data published by BAZNAS, this study relies on sources of other publications, which include, but not limited to, unpublished theses, journal papers, reports and discussion, seminar and conference papers. It is thought necessary to widen the sources of data as:

- The officially published data are insufficient to meet our data requirements; and
- to avoid inconsistencies in poverty trends caused by the use of one data set that is not comparable in terms of sample size or survey period and location.

To construct the *ZEIN* for the period 2008 till 2015, data that are related to several variables associated with poverty in Indonesia are gathered. They are:

- Total expenditure on basic needs of the poor households. In this study, the basic needs refer to an amount of money used by a poor household, which will be confined to Group 1 (G1 – the needy) and Group 2 (G2 – the poor) to maintain a minimum livelihood for its members. This will include expenditures on food, shelter (rental), clothing, health care and education.
- Government institution spending on poverty alleviation programs, i.e. the safety nets, and its sources. It is the source of fund used to alleviate poverty, and in this study, It is the zakat collected at the national/regional levels. The amount collected in turn will be distributed to the poor and needy zakat recipients in the respective states.

Specifically, two provinces, namely Jakarta and North Sumatra, were selected for data collection purposes and consequently used to compute the *ZEIN*. The data collected were from 2000 to 2015 for Jakarta and 2011 to 2015 for North Sumatra. To construct the *ZEIN* for the provinces of Jakarta and North Sumatra, data that are related to several

variables associated with poverty in Indonesia are compiled. They are:

- Total expenditure on basic needs of the poor households. In the case of Indonesia, we combine the basic needs which refer to an amount of money used by a poor household from Group 1 (G1 – the needy) and Group 2 (G2 – the poor) to maintain a minimum livelihood for its members. This will include expenditures on food, shelter (rental), clothing, health care and education.
- Government spending on poverty alleviation programs, i.e. safety nets, and its sources. It is the source of fund used to alleviate the poverty, which in this study, is the zakat collected at the provinces of Jakarta and North Sumatra. The amount collected in turn will be distributed to the poor and needy zakat recipients in the respective provinces. As such, Province DKI Jakarta and North Sumatra are taken to be the representatives of Indonesia.

3 RESULTS AND ANALYSIS

The results of the *ZEIN* for DKI Jakarta and North Sumatra provinces are shown in Table 2 below.

Table 2: *ZEIN* for Jakarta and North Sumatra

Province/ Year	DKI JAKARTA (G1 + G2)	NORTH SUMATRA (G1 + G2)	SIMPLE AVERAGE FOR INDONESIA (G1 + G2)
2000	2.64	0.91	1.77
2001	-0.75	0.85	0.05
2002	-0.68	0.85	0.08
2003	0.06	0.96	0.51
2004	0.03	1.00	0.51
2005	0.57		0.57
2006	0.57		0.57
2007	0.79		0.79
2008	0.92		0.92
2009	0.96		0.96
2010	0.97		0.97
2011	0.97		0.97
2012	0.97		0.97
2013	0.96		0.96
2014	0.95		0.95
2015	1.00		1.00
Simple Average (by Province)	0.68	0.91	0.78

The analysis is based on two observations: by the group of zakat recipients, years, and provinces (average), and by country (average).

By Group, Year and Province (average)

Table 2 above shows the results of ZEIN for two (2) provinces, namely DKI Jakarta and North Sumatra, over the sixteen (16) year period (2000-2015). From the table above, we can see that the provinces of DKI Jakarta and North Sumatra obtained the ZEIN value that is greater than 0. However, if we compare the provinces of DKI Jakarta and North Sumatra, we found that the ZEIN for the province of North Sumatra is not as good as the province of DKI Jakarta as the ZEIN VALUE for the former province was generally close to 1, implying that the amount of zakat received by the poor group (poor and needy) was not sufficient to cover their expenses on basic needs.

In this regard, the Indonesian government needs to address this issue by improving the collection and disbursement of zakat. By doing so, the poor people can get positive benefits from zakat, hence enabling them to fulfil their basic needs. The finding is in contrast to other findings based on a case study of Indonesia which are done by Nurzaman (2016), Saidurahman (2013), Febianto et al (2010), Jaelani (2015), and Lessy (2013). As the present study is just investigating two (2) out of 34 provinces in Indonesia, the finding is far from conclusive. Thus, we reserve it for our future research undertakings where more data will be collected from as many provinces as possible from Indonesia.

By Country-Indonesia (average)

In general, the results for ZEIN in the Indonesian context are consistent with the individual provinces. The zakat fund received by the poor people is not sufficient to cater to their basic needs. With a few exceptions, the ZEIN results obtained indicated greater than 0, suggesting that the Indonesian government should improve the collection and disbursement of zakat for every province in Indonesia, if the poor people's welfare is to be improved. To sum up, the study using ZEIN as the measurement of zakat effectiveness, has been able to show that the distribution of zakat in Indonesia is still unsatisfactory, in particular the one that is dedicated to the poor people.

4 CONCLUSION AND POLICY RECOMMENDATION

In conclusion, the ZEIN outcome has shown that the zakat fund received by the poor people is not sufficient to cater the basic needs of the poor people in Indonesia. This study found that the ZEIN for the province of North Sumatra is not good as the province of DKI Jakarta where it's ZEIN value was strongly closed to 1.

It is suggested that Indonesian government should improve the collection and disbursement of zakat for every province in Indonesia. Thus, the poor asnaf can enhance their standard of living and enable them to cover their daily basic needs.

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