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## Article

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## MANAGEMENT | RESEARCH ARTICLE

# A mediating effect of business growth on zakat empowerment program and *mustahiq's* welfare

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**Abstract:** Zakat is an instrument of Islamic economic and social funds that contributes to the achievement of people wellbeing. This study examines the business growth as a mediating variable on the relationship between the impact of the zakat empowerment programs and *mustahiq's* (zakat recipient) welfare. This quantitative study employs Partial Least Square Structural Equation Modelling (PLS-SEM) analysis on 100 *mustahiqs* from different zakat empowerment programs in East Java and DI Yogyakarta. Zakat empowerment positively affects *mustahiq's* welfare. This indicates that the empowerment program successfully increases *mustahiqs'* wellbeing and their business. Business growth as a mediating variable on the relationship between business assistantship and *mustahiq* welfare also shows a positive and significant effect. Further, macroeconomic indicators consisting of GRDP and inflation and internal factors consisting of age and educational level, have different impacts on the business growth of *mustahiq*. This study confirms the zakat empowerment program's role in improving the *mustahiq's* welfare based on *maqashid al-shariah* (the Islamic objectives). Zakat community empowerment is a solution to suppress the poverty rate and possible for reducing inequality and ending poverty in Indonesia. This study extends



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## ABOUT THE AUTHORS

Tika Widiastuti is a lecturer and researcher at the Faculty of Economics and Business, Universitas Airlangga. She holds a doctorate in Islamic Economics. Her research interest includes zakat governance and Islamic economics.

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## PUBLIC INTEREST STATEMENT

Zakat community empowerment is a solution to suppress the poverty rate and reduces inequality. The distribution of zakat (Islamic social fund) through empowerment programs, such as micro-business funding assistance, is expected to provide long-term socioeconomic impacts. By receiving productive zakat, recipients with micro businesses can use the funds to develop or start a business. This study extends the literature by testing the business growth as a mediating variable on the relationship between the zakat empowerment and business assistantship on *mustahiq's* (zakat recipient) welfare. This study confirms zakat empowerment's role in improving *mustahiq's* welfare. This study extends the literature by providing a unique measurement of welfare by considering the aspects of *maqashid al-shariah* (the Islamic Objectives).

the literature by providing a unique measurement of *mustahiq* welfare. This study incorporates *maqashid al-shariah* considerations to measure the wellbeing.

**Subjects:** Economics; Macroeconomics; Business, Management and Accounting

**Keywords:** productive zakat; empowerment; poverty alleviation; welfare

**Jel Classification:** I30

## 1. Introduction

Zakat is one of the pillars of Islam and an Islamic economic instrument used to ensure a fair distribution of income and wealth, thus, Islam as the religion of mercy, peace and compassion can truly be felt. The existence of zakat is to ensure fair distribution of wealth, improve the quality of life for *mustahiq* (zakat recipients) and reduce the level of income gap (Ahmed et al., 2017; Raies, 2020; Rini et al., 2020; Wijayanti & Ryandono, 2020). The purpose of zakat, both zakat *maal* (the zakat issued on our possessions/wealth) and zakat *fithrah* (zakat that usually spend before *Idul Fitri* day), is to become a primary means of communication between the well-off and the poor. However, it seems that these ideals are still far from the existing reality. For that, the roles and contributions of zakat institutions is needed in supporting the realization of sustainable empowerment programs so that poverty alleviation can be realized. Zakat can be counted as one of the mechanisms in overcoming social economy issues, through the zakat empowerment.

There are four social economy issues need to be highlighted. First, Indonesia's high poverty rate becomes an evaluation material for the government and policymakers to find the right instrument in accelerating poverty alleviation. Various policies, sectoral, monetary, fiscal, and others have not been effective in reducing the poverty rate. Statistics Indonesia (2020) recorded that poverty in March 2020 reached 26.42 million people. This figure has increased when compared to the 2019 data of 24.79 million people. This data shows an increasing trend in the poverty rate of 1.63 million people. Second, the Gini coefficient, a parameter indicating the level of wealth inequality, reaches 0.381 in March 2020. This number means that the income inequality between the wealthiest and the poor still need special consideration. Third, the current economic system that does not side with the poor is suspected to be the cause of the difficulty of reducing poverty. Financial institutions as intermediary institutions that channel funds from people with a surplus to people in need do not function properly. Formal financial institutions such as banks usually demand requirements such as collateral and income statement, before granting credit. The collateral act as a guarantee and could be in the form of a certificate of ownership for lands, houses, properties, cars, etc. The rural poor are not bankable, as they face a difficult obstacle to provide the specific requirements demanded by the banks. Thus, banks become reluctant to give financial supports to the poor. Access to finance is essential, and it is used to provide better education, health service, and decent housing for the poor (Berhane & Gardebroek, 2011; Fianto et al., 2019; Littlefield et al., 2003). Fourth, the lack of entrepreneurial skills also resulted in difficulties for the poor to escape from poverty. US News and World Report in 2019 that indicates Best Countries show that Indonesia's entrepreneurial dimension is ranked 50 out of 80 countries surveyed. Meanwhile, at the Southeast Asia (ASEAN) level, Indonesia is in the second-lowest position along with the Philippines, out of the seven countries surveyed. The score obtained by Indonesia in entrepreneurship is 0.7 on a scale of 0–10. A value close to 0 indicates the worse the entrepreneurial dimension of a country is and vice versa. This lack of entrepreneurial skills results in small job creation that is not proportional to the large workforce, which results in high unemployment and poverty levels. Therefore, a method and instrument that can empower the poor and make it easier for the poor to access capital to do business are needed. One such instrument is zakat empowerment.

Pusat Kajian Strategis Badan Amil Zakat Nasional (PUSKAS BAZNAS), a government body that manages zakat, shows that the potential for zakat in Indonesia in 2019 reaches IDR 233.8 trillion. In this case, the zakat on income and profession becomes a sector with the highest potential value of zakat IDR 139.07 trillion, which is then followed by cash zakat of IDR 58.76 trillion, agricultural

zakat of IDR 19.79 trillion and zakat on livestock of IDR 9.51 trillion. (Outlook Zakat Indonesia, 2020). The map of zakat potential in Indonesia is described in Table 1:

It was noted that in 2019 the potential for zakat in Indonesia reached IDR 233.84 trillion or reached 3 percent of Indonesia's GDP. However, the collection of zakat has only reached IDR 10.22 Trillion or equivalent to 4.4 percent of the potential national zakat collection (National Zakat Statistics 2019, 2020). The accumulation is relatively small compared to the potential for zakat. This gap has become an important issue that affects zakat institutions and the distribution of zakat.

The distribution of zakat through productive empowerment programs is expected to have long-term socio-economic impacts, such as micro-business funding assistance (Beik & Arsyianti, 2015). By receiving productive zakat, recipients with micro businesses can use the funds or the capital to develop their business or start a business instead of spending it for daily consumption. The development can include enlarging the production scale, penetrating a new market, and developing diversification of products. Thus, productive zakat offers a more significant impact on poverty alleviation than consumptive zakat, in the long run. Zakat empowerment improves the usability of zakat, not only in scope for adherence towards Islamic principles but also in helping the *mustahiq* escape poverty. Nafiah (2015) shows that the utilization of productive zakat on livestock business at Gresik city has a positive effect on *mustahiq's* welfare. *Mustahiq* felt an increase in income and better fulfillment of needs after participating in a productive zakat empowerment. This empirical fact supports the findings of Effendi and Wirawan (2013), Andriati and Huda (2015), and Wulansari and Hendra Setiawan (2014), that found a positive influence of zakat empowerment on *mustahiq's* welfare.

A thorough monitoring and evaluation process is needed to maximize the application of the zakat empowerment to increase the welfare of the *mustahiq*. Tanvir Mahmud et al. (2014) evaluate a zakat empowerment in Bangladesh and found that the poor's zakat money could not create any significant influence on *mustahiqs'* agricultural production, food expenditure, and food security status. Lack of proper monitoring by the project staff, inadequate training facilities, lack of infrastructure, and a small amount of funds might be the significant reasons for such failure. The Zakat program might play a vital role in improving the living standard if it is properly designed and monitored. The importance of assistantship in the form of monitoring and evaluation process is also highlighted by Beik and Arsyianti (2015), Nafiah (2015) and Pratama (2015)

This study aims to analyze the effect of productive zakat empowerment and business assistance on *mustahiq* business growth and welfare. The variable of business growth will be applied as a mediating variable. In addition, this study would examine the nexus of macroeconomic variables and internal aspect of *mustahiq* on the mediating variable. This study employs Partial Least Square Structural Equation Modelling (PLS-SEM) analysis on 100 respondents' data to identify the causal effect of productive zakat on the welfare of the *Mustahiqs* and their business growth. These respondents are zakat recipients from different zakat institutions in the province of East Java and DI Yogyakarta. The respondents receive zakat empowerment programs, run a business, and have financial records on the business.

**Table 1. Potential zakat collection in Indonesia in 2019**

Sources of Zakat Collection	Potential of Zakat
Zakat on Profession/Income	IDR. 139.07 Trillion
Cash Zakat	IDR. 58.76 Trillion
Zakat of livestock	IDR. 9.51 Trillion
Zakat of Company	IDR. 6.71 Trillion
Total Potential of Zakat	IDR. 233.84 Trillion

Source: Indonesia Zakat Outlook (2020).

Table 2. Variables used in the model

No	Variable	Theoretical Concepts	Empirical Concepts (Indicators)	Measurement
1	Mustahiq Welfare Based on Maqashid Syariah	The fulfillment of basic needs including material and spiritual aspects based on Islamic principles to safeguard religion ( <i>din</i> ), soul ( <i>nafs</i> ), intellect ( <i>aql</i> ), descent ( <i>nasl</i> ) and property ( <i>maal</i> ) (Dahlan, 2017)	Mustahiq welfare is reflected in fulfilling basic needs, including material and spiritual needs, based on the maintenance of <i>maqashid al-sharia</i> .	1. <i>Hidzun ad-din</i> , 2. <i>Hifdzun nafs</i> , 3. <i>Hifdzul 'aql</i> , 4. <i>Hifdzun nasl</i> , 5. <i>Hifdzul maal</i>
2	Mustahiq Business Growth	Growth of micro business caused by capital accumulation through productive zakat would be one of Islamic economic growth and development characteristics. This development aims to the continuous growth of micro-business, but it will also take affect the increase of the factor of production (Müller, 2017).	The growth of micro-businesses is characterized by an increase in production scale and profit.	1. Stimulant with adequate business capital, 2. Business development, 3. Increasing business scale, 4. Fulfilment of the needs of businesses (Faisal & Yuliani, 2017)
3	Productive Zakat Empowerment Program	Empowerment program carried out in an organized manner and stages, starting from the initial stage to the follow-up and evaluation activities. This activity aims to improve the economic, social, and cultural conditions of the community to achieve a better quality of life (Hariyanto et al., 2020)	1. Microbusiness financing, 2. Capacity building through various training, 3. Institutional development, 4. Developing the capital, savings, and revolving funds (Hariyanto et al., 2020)	1. Amount of assistance provided, 2. The quality of the empowerment program, 3. The period a member/respondent is involved in the empowerment program
4	Business Assistance	Continuous interaction between the facilitator and group members or the community until a better change occurs (Suharto, 2005)	1. Quantity of assistance, 2. Forms of business assistance provided by empowerment agencies, 3. Benefits felt by the empowerment members	1. How many times the assistance was done for one month, 2. The form of assistance that includes business and spiritual assistance or only one aspect, 3. Value of the benefits felt by members of the empowerment program
5	Age	length of life or existence (since birth or existence)	-	Years
6	Educational Level	A stage of education that is determined based on students' level of development, goals to be achieved, and abilities to be acquired.	-	Years: Primary Schools (6 years), Secondary Schools (3 years), and High School (3 years)
7	Inflation	A process of increasing prices in general and continuously related to market mechanisms which can be caused by various factors, among others, increased public consumption, excess liquidity in the market that triggers consumption, or even speculation.	-	Consumer Price Index: Monthly inflation data at every city
8	Economic Growth	Economic growth is the process of changing a country's economic conditions on an ongoing basis towards a better state during a specific period.	-	Gross Regional Domestic Product (GRDP), Quarterly Data

Source: Authors' Compilation, 2020.



This study extends the literature by testing business growth as a mediating variable on the relationship between the impact of the zakat empowerment and *mustahiq* welfare. This study also provides a unique measurement of *mustahiq* welfare. To measure the welfare, Beik and Arsyianti (2015) and Rahmat and Nurzaman (2019) applies the model CIBEST developed by BAZNAS. This model combines material and spiritual fulfillment of human needs quadrants. This index is split into four categories, namely, welfare, material poverty, spiritual poverty, and absolute poverty. Unlike both previous studies and others, this study incorporates *Maqashid al-Shariah* (the Islamic objectives) considerations to measure well-being. *Maqashid al-Shariah* is the objectives of Islamic legal principles that consist of the protection of five elements: the protection of religion, soul, intellect, offspring or descendant, and wealth. Besides, this study would test the mediating effect of business growth in affecting the welfare of *mustahiq*.

The consideration of *Maqashid al-Shariah* in evaluating *mustahiq* welfare is essential for several reasons. Beik and Arsyianti (2015) highlights the importance of *mustahiq* welfare and states that *mustahiq* wellness must include material and spiritual aspects. Thus, measuring the wellbeing of *mustahiq* only using material viewpoints like business growth, consumption level status, and others would reduce the quality of welfare in the Muslim worldview. Second, the goal for every Muslim is to achieve Al Falaḥ. Falaḥ implies the maximum condition in happiness in this world and the hereafter. The orientation of heaven is achieved by fulfilling spiritual aspects. Third, according to Ibn Asyur, there are things that *Shari'* (Allah) wants to realize beneficial human goals or to maintain the benefit in their specific actions (Mahmood et al., 2017). These benefits include the protection of religion, soul, intellect, offspring or descendant, and wealth.

The result shows that the zakat empowerment positively affects the business growth and the welfare of *mustahiq*. This indicates that the empowerment program successfully increases the revenue of the business and has increased the recipients' wellbeing. The business growth also affects positively on the growth of *mustahiq* welfare. Higher income is responded with better fulfillment of needs; thus, the prosperity is achieved better. Further, the business assistantship also increases the business's growth, consequently growing *mustahiq* welfare. The monitoring and evaluation process by zakat institutions on the business will encourage *mutahiq* to run the business better. macroeconomic indicators consisting of GDP and Inflation and internal factors consisting of age and educational level, have different impacts on the business growth of *Mustahiq*.

This study adds to the literature in the following ways. First, this study complements previous literature written by Andriati and Huda (2015), Beik and Arsyianti (2015), Effendi and Wirawan (2013), Nafiah (2015) and Wulansari and Hendra Setiawan (2014) by testing the direct effects of internal and external aspects of *mustahiq*. The internal aspect includes the age and education level while the external aspects include macro-economic variables such as inflation and GDP. To the best authors' knowledge, little studies focused on examining the impact of internal and external elements on *mustahiq's* welfare into a single framework. Second, the results shed light on how vital zakat empowerment programs are in improving the quality of *mustahiq's* live. Consequently, Zakat institutions need to put more consideration in distributing the zakat on productive purposes, not the consumptive ones. Third, this study provides a unique measurement of welfare that can be applied for further studies.

This research is conducted during the Covid-19 pandemic. This research invited several participants for Focus Group Discussion (FGD), in-depth interviews, and respondents to fill out the questionnaire. FGD was held using an online system, where participants attended the zoom-meeting. Meanwhile, the processes of in-depth interview and filling out the questionnaire were conducted offline with the adherence to health protocols recommended by the Ministry of Health such as wearing a mask, washing hands when visiting, and maintaining a distance of 2 meters from informants. As the situation of Covid-19 pandemic, the sample collection was carried out with the permission of informants and questionnaire respondents. The limitation of this study is that it cannot provide data for more than 100 respondents. The policy of large-scale social restrictions makes several zakat institutions delay its zakat empowerment programs. The study coverage is limited, as not all zakat programs run at the time of Covid-19.

This research serves as an evaluation of zakat distribution for Indonesian zakat institutions during the outbreak of a pandemic. This research is also expected to provide feedback for zakat institutions and other relevant stakeholders on the importance of productive zakat in improving *Mustahiq's* welfare. These two aspects become the motivations to encourage informants and respondents in participating in this research.

The structure of this paper is as follows. Section 2 reviews related works on zakat empowerment. Section 3 describes the research method. Section 4 describes the result and analysis. And Section 5 concludes the study and provide suggestions for future research and related stakeholders.

## 2. Literature review

### 2.1. Economics of zakat and empowerment

Zakat is one of the pillars of Islam. Unlike normal charity (*sadaqah*), the recipients of Zakat have been specified by Allah (S.W.T) in the Holy Al-Quran, Surah Al-Taubah, verse 60: "*Zakat is for the poor and the needy, and amil (those employed to administer the funds), for the muallaf (those who have embraced Islam), for those in bondage and debt, those who strive in the cause of Allah and for the wayfarer; (thus it is) ordained by Allah and Allah is full of knowledge and wisdom.*" Zakat's primary goal is to alleviate poverty through assistance to the poor and the needy and to achieve socio-economic justice by closing the gap between the poor and the rich in the society (Raies, 2020). Zaenal et al. (2018) prove zakat can be a solution part for the community empowerment by analyzing the zakat community development (ZCD) program in Bantul during 2016. The analysis revealed the zakat community empowerment was significant economically in suppressing the poverty rate and possible for reducing inequality and ending poverty in Indonesia. The result is the number of productive zakat program beneficiaries whose income is below the poverty line (poor category) before the program is 244 people and after the program change to 168, which means the program has succeeded in reducing the number of poor people by 76 people (5.34 percent). The poverty gap of beneficiaries of the productive zakat program in Bantul also decreases. The difference between the poverty line and the average income of beneficiaries is Rp 63,763 before the program and Rp 56,992 after the program. The income gap is also declining from 0.197 to 0.169. This finding goes in line with Bouanani and Belhadj (2020), which examines Zakat's impact on poverty in Tunisia. Using simulated data of individuals from Tunisian household surveys in 2010 and 2015, it measures the effect of Zakat to reduce poverty by applying the Fuzzy Approach. The simulation results display a significant decrease in the poverty index of Tunisia's seven regions. In addition, Rini et al. (2020) found that the collection of Zakat has a significant positive effect on the distribution of Zakat, and the distribution of Zakat has a significant positive effect on poverty alleviation. Although the results of this study are consistent with the theory, the distribution of Zakat in Indonesia is still used to meet consumptive needs. Whereas, in the future, the distribution of Zakat is expected to turn into productive Zakat.

Quality human resource is among the most critical economic growth factors (Fleisher et al., 2010; Galor & Tsiddon, 1997). Human resource theory states that humans' knowledge increases their cognitive abilities, leading to more productive and efficient activities (Davidsson & Honig, 2003). Decent human resources can make the economic activity develop and more efficient. The quality of human resources also affects business performance. Samad (2013) states that the aspects of creativity and competence of human resources are the main factors that affect the company's business performance. One way to improve the quality of human resources is through empowerment. Munjuri and K'Obonyo (2015) states that human resources empowerment has a significant impact on productivity, income, and business efficiency.

### 2.2. Zakat management

Management is a series of activities that include planning, organizing, implementing, and controlling functions to achieve specific goals (Mahmood et al., 2012). In the absence of proper management, an organization will find it challenging to achieve goals. In the Zakat Institution, zakat management is an activity of planning, implementing, and coordinating the collection, distribution,



and utilization of zakat (Minister of Law and Human Rights Republic of Indonesia, 2011). Zakat management is intended to ensure that zakat is professionally and appropriately distributed to improve the recipient's quality of life (Adiwijaya & Suprianto, 2020). Zakat management empowers *mustahiq* to become financially independent and transform the status of *mustahiq* to *muzakki* (zakat giver) (Indra, 2018; Widiastuti et al., 2019). Zakat management is carried out to ensure that the empowerment programs will positively and significantly impact its recipients' wellbeing. Zakat distribution is divided into two, namely consumptive zakat and productive zakat distributions. The distribution of productive zakat can be in zakat empowerment programs through micro-entrepreneurship and micro-business (Müller, 2017).

### 2.3. The concept of *Maqashid Sharia*

*Maqashid Sharia* consists of two words, namely *Maqashid* and *Sharia*. The word "*maqashid*" is the plural form of "*maqshad*" which means an intent and purpose. At the same time, *Sharia* has the meaning of Allah's laws set for humans to become guidelines in achieving happiness in life in the world and the hereafter. Therefore, *Maqashid Sharia* are the goals to be obtained from the establishment of law (Asafri, 1996). According to Ibn Asyur, there are things that *Shari'* (Allah) wants to realize beneficial human goals or to maintain the benefit in their specific actions (Mahmood et al., 2017). Asafri (1996) explains that benefits can be realized if the five main elements can be maintained. According to Imam Syatibi, the five main elements are religion, soul, descent, mind, and wealth. To achieve and maintain the five primary elements, Imam Syatibi divided them into three levels of benefits: *daruriyat* (primary), *hajjiyat* (secondary), and *tahsiniyat* (tertiary). *Daruriyat* is intended to maintain the five essential elements and human life above. *Hajjiyat* is meant to eliminate difficulties or make the maintenance of the five main elements better. In comparison, *tahsiniyat* is intended so that humans can do their best to perfect the maintenance of the five main elements.

### 2.4. The impact of productive Zakat on *Mustahiq's* welfare

Zakat can be distributed through direct financial support to the poor and the needy who do not have the capacity or good health to sustain themselves. This form of support falls under the health-deprived recipients. Zakat can also be distributed indirectly by providing trade tools as work equipment for able-bodied, business capital for those with business skills, training and skill acquisition, and other supports deemed relevant to the recipients' physical condition and abilities (Hariyanto et al., 2020). However, the poor must be encouraged to be independent and self-sustained by fully utilizing the zakat disbursement. Siddiqi (1988), however, reminds that the provision of productive distribution in the form of capital or other income-generating assets will only be availed after the basic needs are met (Ahmed et al., 2017). Wijayanti and Ryandono (2020), the transformation process of *mustahiq*, is one indicator of the zakat institution's success in realizing equity, income distribution, the creation of justice, and the nation's social welfare.

Several studies examine the impact of the zakat empowerment on *mustahiqs'* welfare. Sharofiddin et al. (2019) found that zakat distribution contributes significantly to social welfare through education at a significance level of 5%. Beik and Arsyianti (2016) analyze the role of productive-based zakat in DKI Jakarta and Bogor using the CIBEST model, which comprises four indices that include the welfare index, material poverty index, spiritual poverty index, and absolute poverty index. The study found that the zakat utilization program increases the welfare index of the *mustahiq* by 96.8 percent. The material poverty index and absolute poverty index can also be reduced by 30.15 percent and 91.30 percent. The unpredictable result occurs on the spiritual poverty index in which there is an increase of two households living under spiritual poverty. These two zakat recipient households suffer weakening spiritual values despite materially better-off in the zakat program's presence. Hamidi et al. (2019) examine the empowerment program that distributes productive zakat funding from BAZNAS of South Sumatra. The study finds that productive zakat capital, length of business period, and training have significant effects on zakat recipients' income in Palembang. Nafiah (2015) shows that the utilization of productive zakat on livestock business at Gresik city positively affects *mustahiq's* welfare. *Mustahiq* felt an increase in

income and better fulfillment of needs after participating in a productive zakat empowerment Effendi and Wirawan (2013) also found that using productive zakat by giving capital assistance increases the average income received by *mustahiq* from their businesses. These findings Andriati and Huda (2015) and Wulansari and Hendra Setiawan (2014) that highlighted the importance of the zakat empowerment on improving the *mustahiq*'s welfare.

### 2.5. The role of business assistantship in affecting *Mustahiq* welfare

Ibrahim and Ghazali (2014) argues that supervision accompanied by assistance to zakat recipient can increase effectiveness of productive zakat to achieve *mustahiq* welfare. Widiastuti (2015) state that utilization of productive Zakat can increase *mustahiq* welfare through distribution of zakat funds with coaching and mentoring. Productive Zakat program aims to transform the mindset of *mustahiq* and provide a valuable lesson that Zakat is not only for consumptive purposes with barely short-term impact. Productive Zakat starts by selecting the suitable *mustahiq*, providing training and guidance, and developing their capabilities to have a better mindset and financial independence. Andriati and Huda (2015) examine quality of business assistance in productive zakat program of Dompot Dhuafa Institution and analyze the saving attitude of *mustahiq* and their welfare. With excellent quality assistance, welfare of *mustahiq* can be achieved. Bonandar (2018) examine the impact of business assistantship in a productive zakat program using a sample of *mustahiq* in Samarinda.

### 2.6. Personal factor, macroeconomic indicators, business development and *Mustahiq* welfare

Age and educational level are important personal factors that play essential roles to the development of *mutahiq* business. According to human capital theory, the stock of human capital diminishes with aging; thus, productivity also decreases with age (Becker, 1994). In the lifecycle model, employees maximize human capital over their lifecycle, choosing the optimum between working and training or between different jobs that offer various training and earning combinations (Roosaar et al., 2019). Thus, it is important to put high consideration of age in developing the business as productivity of *mustahiq* will depend on the age. In addition, education level matters in deriving the potential skills and capabilities of the *mustahiq*. Education has a direct effect on individual productivity and income. Where human resources improve the quality of life through a process of education, training, and development that ensures increased work productivity, it consequently guarantees sufficient income and improving welfare. Theoretically, the higher the education of an entrepreneur, the higher the income earned (Baum, 1988; Nainggolan, 2016; Sagir, 1989).

Inflation is a macroeconomic variable that signals information concerning economic stability and price level. Higher inflation leads to a decrease in the real value of money, making good and service prices more expensive and reducing the aggregate demand for available output. Higher inflation will further increase production costs as obtaining raw materials and paying for labor costs become more expensive. In the producers' sides, higher production costs will reduce the business profits while in the consumer side, higher inflation consequently decreases the motivation of people to consume and conduct more business activities. Further, the national output or market size reflects a country's economic development. One of the measures is by estimating the gross domestic product (GDP), which describes the value of goods and services produced by the state within a particular year period. Higher GDP illustrates the higher income of people thus will influence the consumption pattern and companies' profits. Higher GDP reflects the realization of the country's economic objective and reflects a decent economic environment (Madura, 2010).

The nexus between zakat and macroeconomic variables is highlighted by Ridwan, Pimada et al. (2019) that found a significant positive effect of zakat on economic growth and inflation. The giving of zakat will increase the purchasing power of *mustahiq* in consuming, portrayed as an increase in demand for goods and services. An increase in the demand for consumption of goods and services will increase national production. However, if the rise in need is not balanced with an increase in supply, it will increase the price level. Aggregate price increases lead to inflation (demand-pull inflation). Ridwan, Asnawi et al. (2019) find zakat collection and distribution have positive impacts on equal distribution of wealth, cleanliness of

wealth, economic growth, provision of educational facilities to needy students, and delivery of good health facilities in Indonesia. A similar findings is also found in Wahyuningsih and Nurzaman (2020) that found significant effect of zakat on the GDP. Zakat increases aggregate consumption and plays an essential role in asset redistribution policies and the creation of wealth, which has a contribution to economic growth. This finding goes in line with Shaukat and Zhu (2020) that found a significantly positive impact of zakat rate on economic growth, FDI and domestic investments while reducing corruption.

Several studies analyze the role of business growth in affecting *mustahiq* welfare. Cahyadi (2016) states that development of *mustahiq* businesses significantly influences their welfare. This means that growth of business incomes, business turnover, and profits may impact welfare of *mustahiq*. A significant positive effect is also suggested by Tanjung (2019) who finds a positive relationship between business development and welfare. The magnitude increases when operating income has a positive effect on improving the welfare.

### 3. Methodology

This research is a quantitative study that applies Structural Equation Modeling (SEM). SEM is employed to interpret the data, assess the model's overall fit, and to test a combined structural model (Chin, 1998). SEM is a statistical analysis technique used to construct and test statistical models that are usually in the form of cause and effect. SEM analysis combines several analytical methods, including factor analysis, path analysis, and regression. SEM has two major approaches: the component-based approach, i.e., partial least square (PLS-SEM), and the covariance-based approach (CB-SEM). The differences lie in statistical assumptions and nature of fit statistics. CB-SEM is suitable when research objective is to test or confirm a theory. In contrast, PLS-SEM is an alternative method when CB-SEM distributional assumptions are not fulfilled. The research objective is to predict using a less-developed theory (Hair et al., 2017; Briliana & Mursito, 2017). Therefore, PLS-SEM is the preferred method for this study because of its prediction orientation of a less developed theory in productive zakat. The application of this method is divided into analysis of outer and inner models. For outer model analysis, this model requires several reliability tests that include a construct validity test, and a composite reliability test. The study will conduct a path coefficient and adjusted R<sup>2</sup> analysis. This study uses the SMART PLS3 to conduct analysis.

The model uses primary data from Focus Group Discussion (FGD), in-depth interview and questionnaires of 100 *mustahiq* respondents participated in the zakat empowerment from several zakat institutions in Indonesia. The purpose of conducting FGD is to gain several indicators and variables that could possibly affect the welfare of *mustahiqs*. In addition, this FGD is a brainstorming event to collect essential data to build the model. This FGD invites academicians, representative from zakat institutions (Dompot Dhuafa, Yatim Mandiri, Nurul Hayat, Inisiatif Zakat Indonesia), and experts from zakat association (Forum Zakat). The validation of these indicators and variables is conducted through in-depth interviews with experts and academicians and through confirmation from previous studies. The variables are further explained in Table 2.

The data was collected from seven zakat institutions in East Java Province, Indonesia, consist of: Yatim Mandiri Jawa Timur, Yatim Mandiri Jogja, Dompot Dhuafa, Inisiatif Zakat Indonesia Jawa Timur, Nurul Hayat Jawa Timur, Yayasan Dana Sosial Al-Falah Malang, Dompot Amanah Umat. The research also uses secondary data. Inflation and Regional Gross Domestic Product are derived from Indonesian statistics. The sample are selected using a purposive sampling method with several criteria that include (1) *Mustahiq* must receive zakat productive empowerment program from zakat institution in Indonesia at least in the past six months, (2) *Mustahiq* must run a business and (3) *Mustahiq* has an accounting record of their business activities (at least income and expenses records). Data collection was carried out in two different period. The first period was between March–July 2019 while the second period was between January–April 2020 or during COVID-19 pandemic outbreak. The process of data collection applies health protocols following government's standards and instructions from the ministry of health. A PLS-

SEM method is a statistical tool that can be used on several research topics, including zakat (Farouk et al., 2017). This study forms a conceptual framework used for the hypothesis, see Figure 1.

From Figure 1. Conceptual Framework, the hypothesis in this study is as follow. H1: Zakat empowerment program positively affect the welfare of *mustahiq*. H2: Zakat empowerment program positively affect *mustahiq*'s business growth. H3: Business assistantship positively determines the welfare of *mustahiq*. H4: Business assistantship positively determines the business growth of *mustahiq*. H5: Age significantly determines the business growth of *mustahiq*. H6: Education significantly determines the business growth of *mustahiq*. H7: Higher inflation will decrease the business growth of *mustahiq*. H8: Higher GRDP will increase the business growth of *mustahiq*. H9: The growth of business positively determines the welfare of *mustahiq*. The variables are described as follows.

The following is a series of processes or stages of this research. The first step is to collect primary sources of thought by collecting verses from the Al Quran, Hadiths of the Prophet PBUH, and the history of the Companions related to productive zakat as well as collecting seeds of ideas from related books and journals. The second step is to conduct FGDs with experts, academics, and practitioners in the field of zakat. The FGD was conducted to gather up-to-date information related to zakat management in Indonesia which consisted of problems in managing productive zakat, solutions, and strategies for implementing these solutions. Besides, FGD was conducted to build a research framework by collecting factors that affect the welfare of *mustahiq*. After the FGD was conducted, the third step was to conduct an in-depth interview to validate the collected information in step 1 and 2 with zakat experts. The final step is to arrange a questionnaire and complete survey to selected respondents in collaboration with zakat institutions which are partners in this study.

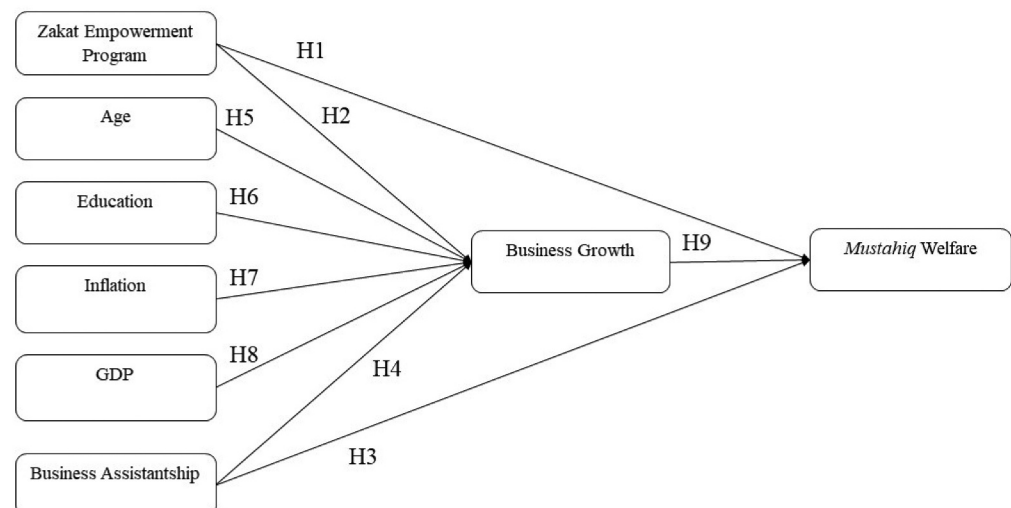
#### 4. Results/Findings

The measurement evaluation consists of several stages: a construct validity test, a composite reliability test, a path coefficient and adjusted R<sup>2</sup> analysis. The construct is said to have good construct validity if the value of average variance extracted (AVE) is higher than 5 percent (Abdillah & Jogiyanto, 2016). The construct validity test results are obtained in Table 3 as follows:

The reliability test is based on the value of Cronbach's alpha and composite reliability. A construct can be reliable if it has a Cronbach's alpha value greater than 0.6, and Composite reliability value is more significant than 0.7. Composite reliability measures an actual reliability value of a variable, meanwhile Cronbach's alpha measures a lowest value of a variable's reliability so that Composite

**Figure 1. Conceptual framework.**

Source: Authors' Model, 2020



**Table 3. Average variance extracted (AVE)**

No	Variable	Average Variance Extracted (AVE)	Result
1	Zakat Empowerments Program	0.648	Valid
2	Business Assistantship	0.651	Valid
3	Busines Growth	0.834	Valid
4	<i>Mustahiq</i> Welfare	0.538	Valid
5	GRDP	1,000	Valid
6	Inflation	1,000	Valid
7	AGE	1,000	Valid
8	Educational Level	1,000	Valid

Source: Data Processing Result, 2020.

reliability value is always higher than Cronbach's alpha value (Abdillah & Jogiyanto, 2016). Table 5 shows the result of Cronbach's alpha and Composite reliability tests for each variableTable 4:

Based on data processing in Tables 3 and Tables 5, the results indicate that the indicators of the four variables fulfill the validity and reliability tests. Hence, the indicators of these eight variables can be used to measure the construct in the study.

**Table 4. Path coefficients**

Hypothesis	Direct Relationship	Original Sample	t- Statistic	P Values	Decision
H1	Zakat Empowerment → <i>Mustahiq</i> Welfare	0.494	5.041	0.000	Accept
H2	Zakat Empowerment → Busines Growth	0.136	0.967	0.334	Reject
H3	Business Assistantship → <i>Mustahiq</i> Welfare	−0.013	0.118	0.906	Reject
H4	Business Assistantship → Busines Growth	0.394	2.883	0.004	Accept
H5	Age → Busines Growth	−0.129	1.361	0.174	Reject
H6	Education Level → Busines Growth	−0.497	3.269	0.001	Accept
H7	Inflation → Busines Growth	0.061	0.872	0.383	Reject
H8	GRDP → Busines Growth	0.156	2.113	0.035	Accept
H9	Business Growth → <i>Mustahiq</i> Welfare	0.418	4.306	0.000	Accept
H10	Age → Busines Growth → <i>Mustahiq</i> Welfare	−0.091	1.306	0.192	Reject
H11	GRDP → Busines Growth → <i>Mustahiq</i> Welfare	0.065	1.792	0.074	Reject
H12	Inflation → Busines Growth → <i>Mustahiq</i> Welfare	0.026	0.859	0.391	Reject
H13	Business Assistantship → Busines Growth → <i>Mustahiq</i> Welfare	0.165	2.403	0.017	Accept
H14	Zakat Empowerment → Busines Growth → <i>Mustahiq</i> Welfare	0.057	0.967	0.334	Reject
H15	Education Level → Busines Growth → <i>Mustahiq</i> Welfare	−0.208	2.529	0.012	Accept

Source: Research result, 2020.

**Table 5. Composite reliability and Cronbach's alpha**

No	Variable	Crochbach's Alpha	Composite Reliability	Result
1	Zakat Empowerments Program	0.863	0.902	Reliable
2	Business Assistantship	0.933	0.944	Reliable
3	Busines Growth	0.95	0.962	Reliable
4	<i>Mustahiq</i> Welfare	0.933	0.942	Reliable
5	GRDP	1,000	1,000	Reliable
6	Inflation	1,000	1,000	Reliable
7	Age	1,000	1,000	Reliable
8	Educational Level	1,000	1,000	Reliable

Source: Data Processing Result, 2020.

Data processing within Partial Least Square Analysis are said to be significant if t-statistics value of measured items is higher than 1.96, and p-value is less than 0.05 at 5% significance level. Simultaneously, parameter coefficient indicates direction of influence by looking at positive or negative original sample and magnitude of impact of exogenous variables on endogenous variables (Ghozali, 2008). Following is path coefficient table to see t-statistic value.

Based on the results in Table 5, the p-value of Zakat Empowerment to *Mustahiq* Welfare is 0.000 and is less 0.05. This indicates that Productive Zakat positively affects *mustahiq* welfare and accepts the first hypothesis. This finding supports several studies of Beik and Arsyianti (2016), Hamidi et al. (2019), Hariyanto et al. (2020), Nafiah (2015), Sharofiddin et al. (2019) and Wijayanti and Ryandono (2020) that found a positive relationship between zakat empowerment and *mustahiq* welfare.

The p-value of the Zakat Empowerment to Busines Growth is 0.334 and is higher than 0.05. This indicates that the zakat empowerment has no significant contribution in affecting the business growth of *mustahiq*, thus, rejects the second hypothesis. This finding opposes several findings of Effendi and Wirawan (2013) and Nafiah (2015) that show the zakat empowerment's success in developing the business of *mustahiq*.

The p-value of Business Assistantship to *Mustahiq* Welfare is 0.906 and is higher than 0.05. This indicates that the Business Assistantship program has no significant contribution in affecting the *Mustahiq* Welfare, thus, rejects the third hypothesis. This finding opposes studies of Andriati and Huda (2015), Ibrahim and Ghazali (2014) and Widiastuti (2015) that highlighted the importance of business assistantship in improving *mustahiq's* quality of life.

The p-value of Business Assistantship to Business Growth is 0.004 and is lower than 0.05. This indicates that the Business Assistantship program affect positively to *mustahiq's* Business Growth, thus accept the fourth hypothesis. This finding supports studies of Bonandar (2018) that finds a positive effect mentoring on increasing income, wealth, and better education for *mustahiq's* family.

The p-values of Age to Business Growth and Inflation and Busines Growth are less than 0.05, thus reject the fifth and seventh hypothesis. This indicates that, age as a proxy of personal aspect and inflation as a proxy of external or macroeconomic indicators play no important role in determining the business growth of *mustahiq*. To compare with, Education Level to Busines Growth and GRDP to Busines Growth have p-values of less than 0.05 and accept the sixth and eighth hypothesis. This indicates that education and business growth have significant effects on



business growth. However, an interesting finding comes from the level of education which has a negative beta coefficient. This indicates that lower level of education will be responded by higher business growth. Higher education level of *mustahiq* is expected to encourage better business performance, thus *mustahiq* is expected to be able to generate higher income.

The Business Growth to *Mustahiq* Welfare, has a p-value of 0.000 and accepts the ninth hypothesis. This finding support studies of Cahyadi (2016) and Tanjung (2019) who finds a positive relationship between business development and welfare. The proposed model shows that business growth mediates the path between business assistantship and *mustahiq's* welfare in addition to the path between educational level and *mustahiq's* welfare.

## 5. Discussion/Analysis

It was found that business growth is a mediator between business assistantship and *mustahiq's* welfare. The existence of business growth is important to mediate the relationship between business assistantship and *mustahiq's* welfare, considering the insignificant effect of its direct relationship. This indicates that, business assistantship will encourage higher business growth and consequently led to the achievement of *Mustahiq's* Welfare.

The significant effect of direct relationship between business growth and *mustahiq* welfare confirms the study of Cahyadi (2016) and Tanjung (2019), which show a positive relationship between business development and *mustahiq* welfare. This growth of business incomes, business turnover, and profits improve the wellbeing of *mustahiq*. As *mustahiq* receive more revenue for the business, this will provide more investment opportunity. The additional benefits can be used to expand the scale and range of businesses. Besides, more profits on the business will provide *mustahiq* with more purchasing power to consume. Consequently, the consumption level of *mustahiq* will increase.

The Business Assistantship program positively affects to *mustahiq's* Business Growth. This finding supports Bonandar (2018) studies that provided zakat funds, and coaching has a positive effect on increasing income, wealth, and better education for *mustahiq's*. Zakat institutions have a role in improving the welfare of *mustahiq* by conveying guidance in running their business. Further, mentoring, monitoring, and evaluation process will put the burden on *mustahiq* to keep managing their business with a serious mindset.

The positive and significant impact of productive zakat empowerment on *mustahiq* welfare confirms the concept and essential role of productive Zakat program in poverty alleviation by increasing *mustahiq* prosperity. The funds acquired by *mustahiq* can be used to develop their business so that *mustahiq* can continuously fulfill their basic needs and keep their business sustained. In the long run, they might be transforming their status into *muzakki*. This finding is in line with Beik's (2015) and Widyarningsih (2016), which find the positive relation between productive zakat programs and poverty alleviation as well the development of *mustahiq* welfare. The utilization of Zakat through productive programs can increase *mustahiq* prosperity, which is characterized by a decrease in the index of absolute poverty, material poverty, and spiritual poverty. This finding supports several studies by Beik and Arsyianti (2016), Hamidi et al. (2019), Hariyanto et al. (2020), Muda and Arfan (2016), Nafiah (2015), Salam and Risnawati (2019), Sharofiddin et al. (2019) and Wijayanti and Ryandono (2020) that find a positive relationship between the zakat empowerment and *mustahiq* welfare. The provision of productive Zakat is further expected to break the cycle of poverty caused by low productivity, especially related to limited access to business capital (Muda & Arfan, 2016). Access to business capital is a severe problem faced by *mustahiq*. The main issue with formal financial institutions (e.g., banks) is that these financial intermediaries demands specific collateral and wealth requirements to get credit. These requirements are significant obstacles for rural poor in obtaining financing sources to support their businesses (Fianto et al., 2018). Access to finance is essential and has substantial economic and social impacts, especially on rural poor. In addition, the productive zakat

empowerment also positively and significantly affects the business growth, that can be seen in the increase of business profits, productivity, and scale.

The insignificant effect of the zakat empowerment on business growth opposes studies of Effendi and Wirawan (2013) and Nafiah (2015) that show the zakat empowerment's success in growing the business of *mustahiq*. Further, the insignificant effect of business assistantship on *mustahiq welfare* opposes studies of Andriati and Huda (2015), Bonandar (2018), Ibrahim (2014) and Widiastuti (2015). The business assistantship includes developing the skills of *mustahiq* in running such a business, such as production, marketing, supply chain management, customer relationship management, financial management, and others. The business assistantship also includes monitoring and evaluation processes. This business assistantship encourages *mustahiq* to manage their businesses better, and its absences will lead the productive zakat program to become infective and inefficient. The insignificant role of the zakat empowerment on business growth and business assistantships on welfare may be explained by the downturn economic conditions caused by the Covid-19 Pandemic outbreak. The data collection was conducted in the outbreak of Covid-19 when the government enforces the social and physical restriction on a national scale. This policy hampers economic conditions. Many business activities are forced to stop, and many firms and corporations lay off their employees. This caused a fall in consumption. Consequently, many *mustahiq* see this factor as an essential factor in affecting their business income. Further, the physical distancing policy hinders the zakat institutions by hampering the institution from conducting visitations to monitor and examine *mustahiq* businesses' development. In some other zakat institutions, this economic downturn and pandemic outbreak cause various empowerment programs are delayed to the next unpredicted period.

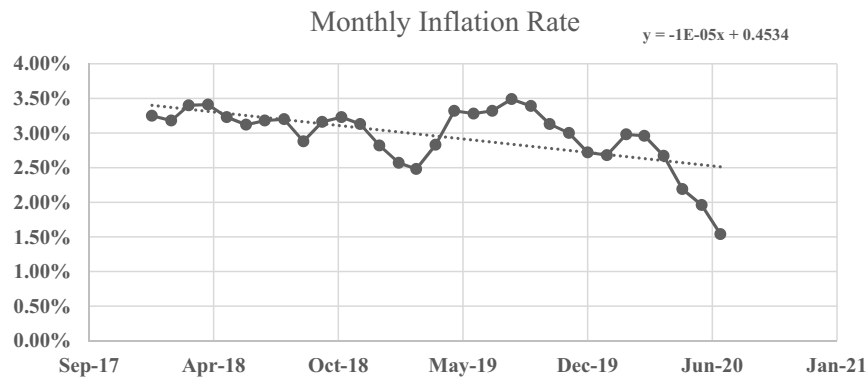
*Mustahiq* age determines the success in doing a job, both physical and non-physical kinds of business. In general, old *mustahiq* have weak and limited physical strength, while young *mustahiq* have strong physical abilities. However, the productive age has a specific age limit. The older they get, the more productive they are since they have more work experience than the young people, except for *mustahiq* who are entering the retirement time. Thus, age has a positive influence on labor productivity. In this study, age as a proxy of personal aspect plays no essential role in determining the business growth. *Mustahiqs* see the aging factor as less determining factor of business growth.

The educational level has a significant effect on business growth but an adverse direction. This indicates that a lower level of education will be responded by higher business growth. In theory, higher education level of *mustahiq* will encourage better business performance and generate higher income. This result opposes findings Baum (1988), Nainggolan (2016) and Sagir (1989) that found a higher education level will encourage *mustahiq* to manage the business better and generate higher income. A possible solution is that many of *mustahiq* cannot afford a high level of education. Thus, they depend more on experience and skills gained through empowerment programs. As they could not afford to get a higher education, they gain more skills to develop the business. Usually, people with higher education are more likely to work as an employee at private companies or become government workers, than to take care of the business. Conducting a business has a higher risk compared to being an employee.

The proxy of the macroeconomic condition has different effects on business growth. Inflation plays no significant impact, while the GRDP affect positively on the business growth of *Mustahiq*. The insignificant impact of inflation can be explained due to the stable rate of inflation. For the last three years, the monthly inflation rate fluctuation is enjoying a steady change and tends to have a negative or downward trend see Figure 2. *Mustahiqs* see the factor of inflation as less influenced factors in determining business growth. To compare, the GRDP affect positively to the business growth of *Mustahiq*. The economy's growth will encourage people to have a higher level of income, thus influencing the consumption pattern and companies' profits. Higher GRDP reflects the realization of the country's economic objective and reflects a decent economic environment.

**Figure 2. Monthly inflation rate.**

Source: Indonesian Statistics, 2020



## 6. Managerial implications

The result of this study shed lights on the benefits of business assistantship in affecting business growth, which consequently influences the welfare of the *mustahiq*. The assistantship will boost the motivation of *mustahiq* to run the business better. The result also highlights the importance of educational background in expanding the business of *Mustahiqs*. Thus, the management must prefer *mustahiqs* with better educational background.

## 7. Conclusion

This study confirms the zakat empowerment role in improving the *mustahiq's* welfare but not on business growth. Further, business assistantship positively affects business growth but not *mustahiq's* welfare. The business growth as a mediating variable affects positively on the *mustahiq's* well-being. The outbreak of the Covid-19 Pandemic may be the cause behind the insignificant effects of the zakat empowerment on business growth and the business assistantship on *mustahiq* welfare. Personal factors such as age and education have a different impact on business growth. *Mustahiq* sees the aging factor as a less determining business growth factor and depends more on experience and skills gained through empowerment programs. As they could not afford to get a higher education, they gain more skills to develop the business. The macroeconomic indicators consisting of GRDP and Inflation also have different impacts on the business growth of *Mustahiq*. The stable fluctuation of the inflation rate and its decreasing trend is not considered a determining factor that affects the business, while that is not the case for GRDP. *The economy's growth will encourage people to have a higher level of income, thus influencing the consumption pattern and companies' profits.*

## 8. Limitation and study forward

The scope of this research limitation is that this research was conducted in one of the provinces in Indonesia. Despite that, this study is considered capable of representing the management of zakat empowerment in Indonesia, considering the tremendous potential for zakat collection in East Java and DI Yogyakarta. Besides, this study uses a PLS-SEM approach that focuses on looking at the nexus between variables. Future research can focus on a broader scope of zakat institutions or on a larger national scale. Besides, it is also possible to apply a more comprehensive method of looking at the relationship between variables. Several variables may be introduced for further studies in determining the level of welfare such as how much funds given to the *mustahiq*, and the characteristics of the *mustahiq*. Macroeconomic indicators, such as the Industrial Production Index (IPI), the development of financial markets, and others, can be used to be the proxies of economic conditions. It would also be interesting to check the nexus of other demographic variables such as gender on the business growth of *mustahiq* and their welfare. The outbreak of covid-19 would likely affect this sector of the study. Zakat productive and empowerment program include real economic activities. Thus, the policy of large-scale social restrictions will hinder the businesses process and reduce the expected return of the business.

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### Authors contribution

All authors in this study have measurable contributions. The first author builds the logic idea of the research, prepares the FGD, conducts in-depth interviews with informants, compiles questionnaire, and writes literature analysis. The second author evaluates and criticizes the models. The third author looks for additional knowledge that can be considered as up-to-date information in the model. The last author wrote an analysis of the results and emphasized the factors that should be considered before writing the conclusion, processed the data and wrote the research results.

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