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Improving the Objective Well Being of Productive Zakat Recipients by Applying Islamic Micro Finance in Baitul Mal Aceh, Indonesia

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Abstract

This study was aimed to identify the level of objective wellbeing of the productive zakat recipients in Baitul Mal Aceh Indonesia. A descriptive quantitative approach using an average score to measure the level of objective wellbeing was carried out. A total of 498 productive zakat recipients were involved in this study. The findings showed that the average level of objective well-being of the productive zakat recipient for six dimensions (economic, house, health, educational, vehicle and time) is still moderate. Even for age groups ≥ 64 ; the barber and low educated respondents are still at a lower level of objective wellbeing. Therefore, Baitul Mal Aceh needs to increase the amount of microloans together with the provision of business expertise and management courses to enhance the efficiency of objective wellbeing of productive zakat recipients.

Keywords: Objective Wellbeing, Productive Zakat, Baitul Mal, Cross-Sectional Study, Aceh Indonesia

1. Introduction

Aceh is one of the Provinces in Sumatera, Indonesia which has the highest poverty severity index (0.87) compared to national poverty severity index (0.44) (BPS Indonesia, 2017). Before the earthquake and tsunami hit Aceh in 2004, the economic level in Aceh was lower when compared with other parts of Indonesia due to war. Cavallo and Noy (2009) pointed out that natural disasters and wars have a negative effect on the well-being of a nation's economy. Although Aceh has now received substantial financial allocations, the Aceh Government has yet to demonstrate its ability to solve poverty problems. Many government programs have not been able to address poverty and well-being issues in Aceh (Wahyudi et al., 2014). Whereas, Kataria (2011) believed that poverty is the root cause of many social problems around the world. Hence, poverty in Aceh requires a comprehensive approach to address overwhelming problems associated with poverty. Ganguly (2018), Nagayya and Rao (2009) and Sani et al. (2017) reported that microfinance is one of the effective ways of reducing poverty.

Unfortunately, most conventional microfinance agencies still practice usury which is certainly not an appropriate practice to be offered to the Muslim community (Hassan and Ali, 2010). In fact, Islam has provided a better tool that can be used to address poverty, i.e., zakat. Zarina et al. (2012) state zakat is an Islamic fiscal policy tool that serves as a catalyst for economic development towards a high-income nation. According to Abdullah (2013), productive zakat is the property of zakat used for supporting business capital of the zakat recipients. Previously, Armiadi (2008) explains that the distribution of productive zakat improves the economic well-being of the recipient. While Wahyuni (2017) argued that productive zakat is a zakat fund that is distributed to zakat recipients in an efficient and effective manner with a versatile and productive system in accordance with the ruling of shari'ah. In 2016, Baitul Mal Aceh has distributed productive zakat to micro-entrepreneurs who have small businesses (Riyaldi, 2015). The majority of zakat productive recipients have successfully repaid their loan to Baitul Mal Aceh (Nurlaila and Hasnita, 2013).

Howell and Collen (2008) explained that wellbeing could be achieved if an individual has income, wealth or savings to meet the basic human needs such as food, water, and shelter, etc. Food, water, shelter, sufficient income, and household assets are basic human needs that are essential for decent living (Wu, 2013). Sugiharto (2007) and Muda et al. (2006) mentioned that the level of income, spending's, savings, the health of family members, the convenience of getting health services, the cost of a child's education per month, the value of the vehicle, the free time, and the frequency of recreation per month can be used to measure the objective wellbeing. Meanwhile, White (2008) argued that the objective wellbeing could be measured by some of the economic variables, nutritional and health status. Furthermore, these indicators can also be used to measure the perception or individual satisfaction level of each of these objective welfare indicators. However physical, material and life-standard necessities are basic data in measuring prosperity.

In relation to objective wellbeing and productive zakat contribution, the question is; has the productive zakat been proven to increase the objective wellbeing of the recipients? Can the productive zakat help to repay their loan? Unfortunately, there are not many reports that explain the current level of the objective well-being of productive zakat recipients. Therefore, the purpose of this study was to analyse the level of overall objective well-being. Further, the effect of the demographic distribution of the zakat recipients on the level of objective well-being has also been analysed. The findings of this study are expected to be useful inputs to be used as a policy basis in improving the objective well-being of the recipients of zakat and the people of Aceh, Indonesia.

2. Methods

A Cross-sectional study was conducted in Aceh Province, Indonesia. Sample selection is done by using purposively sample selection method. Aceh was chosen as the location of the study because it is the only Province in Indonesia implementing Islamic Sharia law. A quantitative questionnaire survey was conducted to collect the primary data from a pool of 498 beneficiaries of productive zakat in Aceh receiving loans from Baitul Mal Aceh since 2006. The data was collected on economic condition, home condition, health condition, child education costs, vehicle value, time use for leisure, age, sex, business type, education level, working status of spouse, marital status and residency. Data is analyzed by quantitative approach in order to look at the level of objective welfare according to the characteristic of the recipient of productive zakat on a demographic basis. Data were analysed according to Cooper and Pamela (2006) quantitative approach, i.e., describe or define something by creating a profile of a group of problems, people, or events, through data collection and scheduling of data frequencies from variables or interactions among variables in a study. Furthermore, the Statistical Package for Social Sciences (SPSS) Version 20 is used to measure objective well-being with mean level indicators. By following Dyer and Edward (1999), the level of objective wellbeing of zakat beneficiaries is measured by using five levels of categories, where the average score of 1.00 - 1.49 is very low, average score of 1.50 - 2.49 is low, average score of 2.50 - 3.49 is moderate, average score of 3.50 - 4.49 is high and average score of 4.50 - is very high.

3. Result and Discussion

Table 1 shows the basic data of productive zakat recipients in Baitul Mal Aceh according to age, gender, business type, education level, working status of spouse, marital status and residence. The age category showed that the majority of recipients are between 35 years to 44 years (44.6%) (Table 1). While the smallest age category of

recipients is located between 64 years and above (1.6%). Women dominate the total of productive zakat recipient by gender (76.3%). The majority business category runs by productive zakat recipients are the retailer (49%). While the smallest group of business category run are barber shop (0.2%) and stationary shop (0.2%). Majority of zakat productive recipient has finished their senior high school (58.2%). While only 4 percent of them did not finish primary school. 74.7 percent spouse of productive zakat recipients is working. Most productive zakat recipients have married (91.6%). The recipients of productive zakat are scattered in urban and rural areas. However, 58.8 percent of them choose to live in urban areas while 41.2% are living in a rural area.

Table 1. The Demography Data of Productive Zakat Recipient in Baitul Mal Aceh Indonesia (n=498)

No	Demographic Items	Frequency	Percent
1	Age :		
	(25 years -34 years)	61	12.2
	(35 year -44 year)	222	44.6
	(45 year -54 year)	160	32.1
	(55 year -64 year)	47	9.4
	(64+ year)	8	1.6
2	Sex		
	Women	380	76.3
	Man	118	23.7
3	Business Type		
	Food And Beverage	172	34.5
	Mechanics	8	1.6
	Fisherman	2	0.4
	Retailers	244	49.0
	Vegetable Sellers	20	4.0
	Tailor	32	6.4
	Farmers Vegetable	8	1.6
	Breeders	8	1.6
	Barber Shop	1	0.2
	Stationary Shop	1	0.2
	Laundry Shop	2	0.4
4	Education Level		
	Did Not Finish Primary School	4	0.8
	Finish Primary School	32	6.4
	Junior High School	143	28.7
	Senior High School	290	58.2
	Diploma	13	2.6
	Bachelor	16	3.2
5	Working Status of Spouse		
	Not Working	126	25.3
	Working	372	74.7
6	Marital Status		
	Single	42	8.4
	Married	456	91.6
7	Residence		
	Rural	205	41.2
	Urban	293	58.8

Table 2 shows the level of wellbeing of respondents' objectives as a whole. The economic dimension shows a low level of well-being (2.47). Respondents' average income was found to be 2.91 at the ranking scale. The respondents' income level was slightly thinner with the average cost of living (2.86), but both were still in the same group (moderate). Unfortunately, the level of family savings per month is still very low (1.96). On average, the dimensions of the home showed a moderate situation (3.41). Although the level of facility indicator is high (3.54) but it is offset by a moderate physical condition (3.29). Health dimensions show high levels of health (3.62). Family health indicators (3.71) and access to health services (3.54) were high. The average level of children education expenditures is still moderate (2.56). On the dimensions of the vehicle, the indicator shows a high average level (3.65). Time dimension shows a low overall average level (1.71). The time to relax per day indicator is 2.23 and recreation 1.19

which is still low. However, the average level of the overall well-being of the respondents was relatively moderate (2.83).

Table 2. Level of Objective Well Being Based on Six Dimensions in Baitul Mal Aceh Indonesia (n = 498)

No	Statement	Mean = 2.83		
		Min. Score	Max. Score	Mean Score
1. Economic Dimension				2.47
	• The family income per month	1	5	2.91
	• Family living costs per month	1	5	2.86
	• Family savings per month	1	5	1.96
2. House Dimension				3.41
	• Home physical condition	2	4	3.29
	• Facilities are at home	1	5	3.54
3. Health Dimension				3.62
	• Family health level	1	5	3.71
	• The level of health service facilities obtained	1	5	3.54
4. Educational Dimension				2.56
	• The cost of schooling for children per month	1	5	2.56
5. Vehicle Dimension				3.65
	• Value of vehicles	1	5	3.65
6. Time Dimension				1.71
	• Time to relax per day	1	5	2.23
	• Frequency of recreation per month	1	5	1.19

Overall, the level of objective well-being was found to be moderate. Objective wellbeing is influenced by the low level of the time dimension and economic dimension which has a low score. It can suppress the excess of the objective well-being level scores on other dimensions. The beneficiaries of productive zakat are small-scale entrepreneurs. Their limited daily income is the major hurdle in employing a larger number of employees. To meet the number of employees, many productive zakat recipients have to involve their family members without being paid as employees. The fact is also supported by Garikipati (2012) who reported that some poor families in developing countries are employing their spouses to manage the workload. Family involvement sometimes cannot be productive to increase the amount of business output because some family members also lack the expertise and are not trained to perform the required work. Therefore, the recipient of productive zakat is forced to increase his working hours to meet the production demand. Moreover, if there are multiple orders from customers, they will reduce the time to rest. This causes the time dimension to be lower than in other dimensions. Similarly, Olinto et al. (2013) stated people in developing countries are forced to work harder and longer in order to improve their life.

The shortage of skilled workers is forcing to increase the working hours. This could affect production quality. Many end products are not up to the marked quality standards due to the inconsistency in precision and expertise of production. The monitoring process for each stage of production is also not feasible. Ultimately these substandard goods result in entrepreneurial losses. This has been supported by the findings of Multifiah (2007) which states that Baitul Mal is only able to lend a small amount of loan, so it is less effective to increase the recipient's income. Lahiri (2012) also stated that most micro, small and medium enterprises are facing the problems of low output productivity, low output quality, lack of fund, unskilled and low profit. Furthermore, marketing of the goods is done through old traditional methods whereas modern digital and social media, i.e., facebook, twitter, etc., can boost the marketability of the products. Mulyana (2014) also support this finding that micro entrepreneurs in Indonesia have only a little knowledge of marketing. The current findings also showed that the propensity to save the money is less than the propensity to buying goods and services. This situation is parallel with the theory of the marginal propensity to consume given by Keynes (1936). In that theory it is clear that the characteristics of the lower class people are the percentage of their savings and the investment is smaller than the percentage of the money they spend. That's because their income is more spent on buying the basic needs of his family. This proves that the recipients of productive zakat are still not categorized as a high-level society, but they are still among the moderate society.

Table 3 shows the level of objective wellbeing according to seven demographic variables: age, gender, business type, education level, working status of spouse, marital status and residence of the recipient. In the age variable, the highest level of wellbeing was present in the age group 55 years-64 years (2.99) which is still on a moderate level of objective wellbeing (Table 3). Meanwhile, the lowest group was 64+ years old (2.47) and included in the low level of objective well-being. By gender, men have a higher level of wellbeing (2.87) than women (2.78). However, both genders are at a moderate level. The business type that has the highest level of wellbeing is the stationary shop (3.36) effort which is at a moderate level. The level of objective wellbeing of barbershop (2.18) is still in the low. Diploma holds the highest level of wellbeing among the group of education (2.90) which is still a moderate level. The lowest level of objective wellbeing in education is the respondents who did not finish their primary school (2.04) and is classified as a low level of objective wellbeing. Respondents whose spouse also worked (2.85) had a higher level of objective wellbeing than unemployed pair (2.67), but both are still at a moderate level of objective wellbeing. Respondents who have a partner (2.82) have a higher level of objective wellbeing than those who do not have a partner (2.58). Both are still at a moderate level of objective wellbeing. The rural respondents (2.88) have a higher level of objective wellbeing than those who are living in the city (2.75), and both are still at a moderate level of objective wellbeing.

Table 3. Objective Well-Being Based on Demographics in Baitul Mal Aceh Indonesia

No	Demographic Items	Level of Objective Wellbeing
1	Age :	
	(25 years -34 years)	2.80
	(35 year -44 year)	2.79
	(45 year -54 year)	2.78
	(55 year -64 year)	2.99
	(64+ year)	2.47
2	Sex	
	Women	2.78
	Man	2.87
3	Business Type	
	Food And Beverage	2.77
	Mechanics	2.86
	Fisherman	2.68
	Retailers	2.82
	Vegetable Sellers	2.86
	Tailor	2.78
	Farmers Vegetable	2.61
	Breeders	2.76
	Barber Shop	2.18
	Stationary Shop	3.36
	Laundry Shop	3.09
4	Education Level	
	Did Not Finish Primary School	2.04
	Finish Primary School	2.64
	Junior High School	2.66
	Senior High School	2.90
	Diploma	2.90
	Bachelor	2.76
5	Working Status of Spouse	
	Not Working	2.67
	Working	2.85
6	Marital Status	
	Single	2.58
	Married	2.82
7	Residence	
	Rural	2.88
	Urban	2.75

According to demographic variables, the level of objective wellbeing of zakat productive recipient did not show a striking difference. Based on age, gender, type of business, education level, spouse's employment status, marital status and residence of the respondents on average still showed a moderate level of wellbeing. However, age ≥ 64 showed

a low level of objective wellbeing because older entrepreneurs are unable to work more to earn better income. In addition, the limited number of employees, the small number of sales leads to a low level of objective well-being for barbers. Very low levels of education also cause the level of well-being to become low. Low-educated respondents have a lack of knowledge of how to grow their businesses. Therefore, the productive zakat recipient should have the guidance of financial management and marketing of good goods and services. The provision of related courses should be given to the recipient of productive zakat and their family members who can potentially increase his family's income. In addition, Baitul Mal Aceh needs to increase the amount of productive zakat loans and increase the amount of zakat collection by promoting the awareness of paying zakat to the community. A large collection of zakat can help more productive zakat recipients in the future. The Aceh government expected to be more active in creating new job opportunities for the Acehnese people. This is believed to have a positive effect on the enhancement of the future objective well-being of the productive zakat recipient of Baitul Mal Aceh.

4. Conclusion

Overall, the findings showed that the objective wellbeing of productive zakat recipient is still relatively moderate. Vehicle dimension has the highest level of objective wellbeing while the time dimension has a very low level of objective wellbeing among the productive zakat recipients. By following the demography, it's shown that all categories are at a moderate level of objective wellbeing except age groups ≥ 64 , the barber, and low educated respondents who are still at a low level of objective well-being.

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