

# Analyzing the impact of productive zakat on the welfare of zakat recipients

*by* Tika Widiastuti

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# Analyzing the impact of productive zakat on the welfare of zakat recipients

Imron Mawardi and Tika Widiastuti

*Department of Islamic Economics, Faculty of Economics and Business,  
Universitas Airlangga, Surabaya, Indonesia*

Muhammad Ubaidillah Al Mustofa

*Department of Development Studies, Faculty of Creative Design and Digital  
Business, Institut Teknologi Sepuluh Nopember, Surabaya, Indonesia, and*

Fifi Hakimi

*Department of Islamic Economics, Faculty of Economics and Business,  
Universitas Muhammadiyah Lamongan, Lamongan, Indonesia*

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## Abstract

**Purpose** – This study aims to investigate the effects of zakat and business assistance on the growth and well-being of *mustahiqs* (zakat recipients). This study also investigates the impact of macroeconomic variables on the welfare of *mutahiqs*.

**Design/methodology/approach** – The partial least squares-structural equation modelling method is used in this quantitative study, examining data from 137 *mustahiqs*. The data was collected from seven zakat institutions, which run effective zakat programmes to empower *mustahiqs*.

**Findings** – Zakat empowerment programmes and business assistantships positively impact the growth of *mustahiqs*' businesses, beneficial to their well-being. Nevertheless, their well-being is unaffected by the proxy of the macroeconomy.

**Originality/value** – This study adds to the zakat literature by identifying the relationship between zakat, business growth, macroeconomic conditions and *mustahiq* welfare. Accordingly, this approach was made by combining primary and secondary data. This research offers a unique measure of welfare based on the concept of the Islamic objectives (*Maqasid al-Shariah*).

**Keywords** Macro economy, Poverty alleviation, Business assistantship, *Mustahiq*'s welfare, Productive zakat, Business assistance, Effective zakat

**Paper type** Research paper

## Introduction

Zakat, a form of Islamic social finance, is critical to the country's economic development and social security (Bilo and Machado, 2019; Saad *et al.*, 2020). Optimal use of zakat could effectively overcome poverty among Muslim communities by minimising the income disparity between the rich and the poor (Kailani and Slama, 2020; Owoyemi, 2020; Hamid

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and Hamid, 2020; Kusuma and Ryandono, 2016; Zauro *et al.*, 2020; Ahmed *et al.*, 2017; Kuran, 2020). Furthermore, this concept eliminates despicable traits in *muzaki* (zakat giver) and cultivates noble qualities (Masroom *et al.*, 2020). As of March 2020, Indonesia's destitute reached 26.42 million (Indonesian Statistics, 2020), making it essential to investigate zakat as one of the tools in poverty-reduction programmes. Thus, this study will discuss zakat's development as a welfare funding source and its relationship with poverty and economic development.

Indonesia's zakat funds are used for short-term consumption programmes and long-term practical activities (Law of the Republic of Indonesia Number 23 of 2011 concerning Zakat Management, 2022). The empowerment of *mustahiqs* (zakat recipients) through funding assistance, that is, for micro-businesses, influences their business growth by generating higher income (Djaghballou *et al.*, 2018; Beik and Arsyianti, 2016). For instance, a study investigated the impact of zakat empowerment programmes on the welfare of beneficiaries. It was found that zakat funds aided business growth and improved the welfare of *mustahiqs* (Anis and Kassim, 2016; Beik and Pratama, 2017; and Khasandy and Badrudin, 2019). Overall, an effective zakat distribution will result in long-term socioeconomic resilience (Beik and Arsyianti, 2016).

Given the points above, a rigorous examination is required to optimise the impact of zakat empowerment on the *mustahiq's* welfare. In Bangladesh, for instance, zakat empowerment programmes presented no apparent effect on the *mustahiqs'* agricultural production and the food expenditure or security status (Tanvir Mahmud *et al.*, 2014). Naturally, this finding contradicts the dominant zakat theories that affirm the idea of prosperity and enhanced life quality. Possible causes of such failure include inadequate project staff monitoring, training facilities, infrastructure and funding. The zakat programmes can significantly improve living standards if appropriately designed, monitored and evaluated.

Previous studies emphasise the assistantship value and role in providing business training, guidance, monitoring and evaluation (Beik and Arsyianti, 2016; Nafiah, 2015; and Pratama, 2015). Additionally, this study adds to the body of knowledge by developing a novel method for calculating *mustahiq* welfare. A previous study used the Center of Islamic Business and Economic Studies model to quantify welfare (Beik and Arsyianti, 2016; Rahmat and Nurzaman, 2019). The well-being measurement input includes the satisfaction of human needs on material and spiritual levels. The index is divided into four sections: welfare, material deprivation, spiritual deprivation and total deprivation. In contrast, this study assesses well-being using *Maqashid al-Shariah* (Islamic objectives), which refers to the objectives of Islamic legal principles and the protection of five pillars: religion, soul, intellect, progeny or descendant and wealth.

The *Maqashid al-Shariah* must be considered when evaluating welfare for various reasons. For instance, evaluating *mustahiq's* welfare solely based on materialistic criteria, such as business growth, income growth and consumption level, would degrade welfare quality in the Islamic worldview. Thus, it must be measured based on material and spiritual terms (Beik and Arsyianti, 2016). Secondly, a Muslim must attain *Al-Falah* or the pinnacle of happiness in this world and the hereafter, that is, heaven's orientation, accomplished through the material and spiritual requirements. Thirdly, Ibn Asyur asserts that Shari' (Allah) desires that humans remain beneficial in their actions by protecting the religion, soul, intellect, offspring or descendant and wealth (Widiastuti *et al.*, 2021a).

This research aims to determine the relationship between zakat, business growth, macroeconomic conditions and the *mustahiqs'* well-being. The partial least squares-structural equation modelling (PLS-SEM) is quantitatively applied to achieve the purpose of

the study. Data from 137 *mustahiqs* who benefited from zakat empowerment programmes were gathered from seven institutions running these programmes, supported by zakat funds. The empirical findings show that effective zakat and business assistance positively impact the growth of *mustahiqs'* businesses, providing a beneficial influence on their welfare. However, proxies of macroeconomic conditions presented no effects on their well-being. Meanwhile, the direct relationship between effective zakat empowerment programmes and *mustahiq* welfare shows a significant positive impact.

The findings of this study contribute to the zakat literature in the following ways. The study investigates the relationship between the primary and secondary data, used to construct a model examining the nexus between the variables. Subsequently, both data types are collected via a structured questionnaire. The secondary data include macroeconomic indicators, that is, inflation and gross regional domestic product (GRDP), while the primary data comprise the zakat empowerment programme, *mustahiq* business growth and welfare. Secondly, this study extends the investigation of the impact of zakat empowerment programmes on the growth of Indonesia's macroeconomic aggregation (Afendi, 2018; Ridwan *et al.*, 2019a). The extension includes an examination of zakat and business assistance in influencing *mustahiq's* business growth and well-being.

This study also extends this impact by considering the effect of macroeconomic indicators research (Beik and Arsyianti, 2016; Khasandy and Badrudin, 2019; Ahmad *et al.*, 2020; Issyam *et al.*, 2016; and Osman *et al.*, 2020). The unique measurement of *mustahiq's* welfare is developed based on the *Maqasid al-Shariah*, derived from Al-Satibi. Finally, the importance of assistance programmes is highlighted to ensure the growth of *mustahiqs'* business. However, it was found that business assistance does not affect their well-being, which focused solely on the business development aspect. Thus, welfare is measured by financial aspects and other factors, that is, spiritual aspects.

The paper is structured as follows: Section 2 discusses the literature review as a reference for the research model, and Section 3 presents the data sampling and methodology design. Meanwhile, Section 4 addresses data processing results, and Section 5 expresses the analysis of the results.

## Literature review

### *Zakat and mustahiq's welfare*

Zakat is one of the mechanisms of poverty alleviation in Islam and is one of the five pillars of Islam. Its primary goal is to assist the needy and achieve socioeconomic justice by closing the gap between the rich and the poor (Raies, 2020; Widiastuti *et al.*, 2021a, 2021b). The term means "purity" and "cleanliness" in Arabic and expresses the act of portioning one's wealth annually to specified groups (reaching the haul) at a predetermined rate (Ali and Hatta, 2014). Zakat is unlike regular charity (*sadaqah*), and a Muslim with the financial capacity (*nishab*) must perform this obligation to purify their wealth and soul. Accordingly, Allah (SWT) specified the eight groups of Zakat recipients in the Quran, Surah Al-Taubah, verse 60.

Primarily, its distribution is conducted in two ways: consumptive and effective zakat, which determines the success of creating prosperity by diminishing poverty and inequality. Consumptive zakat is directly intended for those in dire need of necessities, such as food, clean water, clothing and shelter. Contrastingly, effective zakat presents a long-term impact, as it is distributed in the form of business capital, machinery and equipment and business assistance based on the beneficiaries' needs. Continuous contributions are made so that the beneficiaries can become self-sufficient and transform from *mustahiq* (zakat recipient) to *muzaki* (zakat giver) status (Ali *et al.*, 2016; Kashif *et al.*, 2018). The number five basic zakat



criteria (Ten Zakat Core Principle) suggests that effective zakat empowers *mustahiqs* with long-term socioeconomic resilience (Beik and Arsyianti, 2016).

Effective zakat impacts the development of *mustahiq* businesses, indicating an increase in income. Several studies have been conducted on the effects of effective zakat on their business growth. For instance, Taufiq *et al.* (2018) discovered that the effective distribution of zakat to a group of farmers positively impacts their income growth. It provides supplemental funds to their businesses, enabling them to enhance their products and increase their income and prosperity. Furthermore, effective zakat is demonstrated to provide a sustainable source of income for its beneficiaries via micro-business management (Osman *et al.*, 2020; Beik and Arsyianti, 2016), improving their living standards. This finding aligned with previous studies (Lessy *et al.*, 2020; Akbar *et al.*, 2020; Razak, 2020; and Anis and Kassim, 2016). This finding also backs up Bouanani and Belhadj's (2020) claim that the effective zakat instrument significantly reduces poverty in Tunisia.

Zakat institutions also manage funds from non-zakat sources such as *infaq*, *sadaqah* and other social contributions, and the distribution of these social funds improves the well-being of *mustahiqs* (Putri *et al.*, 2019; Kusuma and Ryandono, 2016; Kusriyah, 2020). The development of *mustahiq* empowerment programmes that use both funds positively affects community welfare and living conditions. Hence, these institutions must properly manage zakat, as it will have significant consequences on the recipients (Indra, 2018). Corporate social responsibility (CSR) could increase the beneficiaries' business income and welfare (Ahmad *et al.*, 2020).

In Islam, the welfare concept is measured using Islamic law indicators to provide holistic perspectives. The *Maqasid al-Shariah* parameter is an example (Kusuma and Ryandono, 2016; Syamsuri and Irsyamuddin, 2019), in which Al-Syatibi divides it into two categories: sharia goals (*dharuriyat*, *hajiyat* and *tahsiniyat*) and human goals (Rahman *et al.*, 2017). Meanwhile, Imam Al-Ghazali categorised this parameter into five essential aspects: protection of religious, life, mind or intellectual, descendant, followed by wealth or property (Fadhilah *et al.*, 2020; Rahman *et al.*, 2017). Islamic welfare focuses on bringing the most significant benefit to the people in this life and the afterlife. Given these points, the five elements are used as measurements in this study to achieve Islamic welfare or well-being.

#### *Business assistantship*

Providing zakat recipients with business assistantships will increase the programme's effectiveness and support their welfare (Ibrahim and Ghazali, 2014). The effective zakat programme aims to provide business guidance through transforming their mindsets and imparting valuable lessons (Widiastuti and Rosyidi, 2015). Zakat entails consumption with a negligible short-term and a premium on long-term impact by identifying suitable *mustahiqs*. They are provided with guidance in developing their abilities to achieve financial independence. Thus, effective zakat encompasses capital provision, training, guidance, monitoring and evaluation. A study analysed the *mustahiqs*' attitudes toward welfare to determine the business assistance quality provided through the zakat empowerment programme at Dompet Dhuafa (Andriati and Huda, 2015). It was found that their welfare can be achieved through business assistance, aligning with Bonandar's (2018) study.

#### *Zakat and macroeconomic indicators*

The increase in aggregate goods and services is a sign of economic growth, demonstrated by an increase in gross domestic product (GDP). The GDP indicates an increase in the public consumption level corresponding to the advanced income per region. According to Puskas Baznas (2020), the zakat collection reached IDR 154bn in 2017, IDR 187bn in 2018, IDR

281.2bn in 2019 and IDR 385bn in 2020, projected to reach Rp 516bn in 2021. However, the amount collected contrasts the untapped potential for zakat collection, totalling IDR 327tn. Naturally, this data should be a primary concern of relevant policymakers.

The zakat distribution is expected to boost aggregate consumption, increasing the number of goods and services consumed. This approach will help increase *mustahiqs* income and consumption levels (Zauro *et al.*, 2020; Selim, 2020). The impact of zakat, *infaq* and *sadaqah* (ZIS) is investigated on the Indonesian economy in consumptive and practical forms (Wibisono *et al.*, 2019; Alghina *et al.*, 2019), revealing that the ZIS funds given to *mustahiqs* positively affect their economic status. Moreover, increased distribution of ZIS funds boosts economic growth (Shaikh, 2017; Shaukat and Zhu, 2020), as they are consumptive and practical, providing additional working capital for selected businesses.

Previous studies demonstrated that zakat positively affects economic growth (Ridwan *et al.*, 2019b; Wahyuningsih and Nurzaman, 2020), serving as a proxy for macroeconomic variables. Furthermore, zakat aims to achieve socioeconomic justice and equitable income distribution (Quran, Chapter Al Hasyr, Verse 7). Both factors must be consistent with achieving economic development. Its efficient distribution potentially expands job opportunities by expanding *mustahiq's* business's production capacity. Essentially, increased job placements imply a more equitable distribution of income; and thus, zakat administration must be streamlined.

Inflation is defined as an increase in the aggregate price of goods caused by the disequilibrium of supply and demand. This predicament induces the rise in the cost of raw materials, reducing *mustahiqs'* income and business profits, which negatively impact their well-being. Consequently, this continuous cost increase detrimentally affects their businesses (Afendi, 2018). Furthermore, Widiastuti *et al.* (2021a) attempted to investigate the relationship between zakat empowerment programs, macroeconomic variables and *mustahiq's* welfare. GRDP as a proxy for macroeconomic variables boosts *mustahiq* business growth but not inflation. Both proxies have no effect on the well-being of *mustahiqs*. Besides, zakat institutions are critical in optimising empowerment programmes and stabilising income to maintain their welfare.

## Methodology

This quantitative study applies PLS-SEM to measure the impact of independent variables on the level of *mustahiqs'* welfare. In contrast to previous research, this study uses a combination of primary and secondary data. The primary data is acquired through a structured questionnaire, including zakat empowerment, business assistantship, *mustahiqs'* business growth and welfare. The secondary data is obtained from the Indonesian Statistics Inflation, comprising inflation and GRDP. Accordingly, the study selected a single observation of inflation and GRDP for 2020 from the East Java Province.

The PLS-SEM is a comprehensive multivariate analysis tool with the ability to analyse complex correlations and a small sample size. This statistical tool is versatile, powerful and superior for theory prediction and testing complex multivariate models (Henseler *et al.*, 2015; Hair *et al.*, 2014). It does not rely on normally distributed data and necessitates additional analysis, such as detecting outliers to provide apparent, meaningful and valid results. The tool identifies, forms relations between variables (Sinkovics *et al.*, 2016) and estimates models with several constructs (Hair *et al.*, 2019). Hence, the PLS-SEM method has been frequently used in the research on zakat (Amilahaq and Ghoniyah, 2019; Bin-Nashwan *et al.*, 2020; Farouk *et al.*, 2018; Saad *et al.*, 2020; and Widiastuti *et al.*, 2021a).

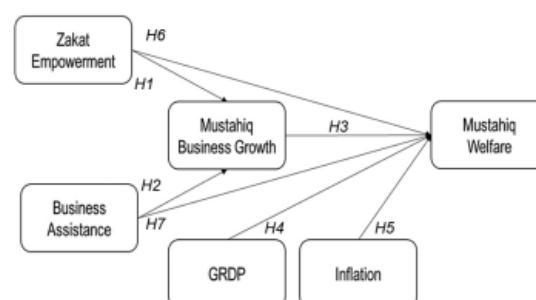
A purposive sampling method was used for sample selection based on several criteria: The *mustahiq* must receive an effective zakat empowerment programme from the respective

institution within the preceding six months. Additionally, they must own a business and maintain an accounting record (income and expenses) of at least the last three months of business activities. However, there is no available data on the number of *mustahiqs* who benefited from productive zakat programmes at national level. Thus, the respondents for this study are drawn from several zakat institutions, which provide empowerment programmes operating at the national and different regional levels.

The data from 137 *mustahiq* respondents were collected from seven zakat institutions in Indonesia: Yatim Mandiri East Java, Yatim Mandiri Jogja, Dompot Dhuafa East Java and Indonesian Zakat Initiative East Java. Others include Nurul Hayat East Java, Yayasan Dana Sosial Al-Falah Malang and Dompot Amanah Umat. Two distinct periods were used, in which the first period was between March and July 2019. Meanwhile, the second period was between January and April 2020, or the duration of the COVID-19 pandemic. During this period, data collection is conducted under the health protocols that adhere to government standards and Ministry of Health directives. This study established a conceptual framework for the hypothesis, illustrated in Figure 1. Appendix 1 and 2 provide detailed explanations of variable measurements and model questioners. As illustrated in Figure 1, the hypothesis for this study is as follows:

- H1. Zakat empowerment (ZE) positively affects *mustahiqs*' business growth (MBG).
- H2. Business assistance (BA) positively affects *mustahiqs*' business growth (MBG).
- H3. *Mustahiqs*' business growth (MBG) positively affects *mustahiqs*' welfare (MW).
- H4. Macroeconomic factors and gross regional domestic product (GRDP) positively affect *mustahiqs*' welfare (MW).
- H5. Macroeconomic factors and inflation (INF) negatively affect *mustahiqs*' welfare (MW).
- H6. Zakat empowerment (ZE) positively affects *mustahiqs*' welfare (MW).
- H7. Business assistance (BA) positively affects *mustahiqs*' welfare (MW).

The procedures for conducting the research are as follows: The first step entails the collection of primary sources of thought, namely, Quran verses, the Prophet's Hadiths, the Companions' history of effective zakat and ideas from related books and journals. In the second step, focus group discussions were convened with zakat authorities, associations, academics and practitioners. This step is crucial to expand the current information on zakat governance, such as the challenges of managing effective zakat, followed by potential solutions and implementation strategies. As a result, the research framework can be



**Figure 1.**  
Factor determinants  
of *mustahiq*'s welfare



established by eliciting information on the factors of *mustahiq's* well-being. Subsequently, an in-depth interview was conducted with experts to validate the previously acquired information. Finally, a questionnaire survey is distributed to selected *mustahiqs* in collaboration with the zakat institutions.

### Results

The processed data from PLS-SEM must pass several tests to produce optimal results, including validity, reliability and multicollinearity tests. The validity and reliability tests are generated using the convergent and discriminant validity tests, which must be performed on the model and each indicator (item) factor. This method assures the validity and reliability of the model and constructs. The convergent validity test determines the items' internal consistency from each construct by examining the values of cross-loading, Cronbach's alpha, composite reliability and average variance extracted (AVE). This idea is possible when the components are harmonised, contributing to the development of conceptual meaning in the latent variable (the construct). The discriminant validity test confirms the factor loading and latent variable correlation. Meanwhile, the multicollinearity test is generated using collinearity statistics and the variance inflation factor (VIF) value (Hair *et al.*, 2014).

In PLS-SEM, the convergent validity test is implemented by assessing the value of the loading factor, describing the magnitude of the correlation between each measurement item (an indicator in the questionnaire) and the latent variable (the construct). The recommended loading factor is above 0.70, although 0.50 is also acceptable. The results indicated that several items are below 0.70, and thus, multiple indicators (items) must be eliminated, including MW2, MW3, MW4 and ZE6, where their value is less than 0.70 or 0.50 (Table 1).

Good construct validity is perceived if the AVE value is greater than 5%. Meanwhile, the reliability test is based on Cronbach's alpha and composite reliability values. In this case, a construct is considered reliable if its Cronbach's alpha value exceeds 0.6 and its composite reliability value exceeds 0.7. Composite reliability quantifies the actual reliability of a variable, whereas Cronbach's alpha quantifies the variable's lowest reliability level. Hence, the composite reliability value is always more significant than Cronbach's alpha value (Abdillah and Jogyanto, 2015; Sekaran and Bougie, 2013) (Table 2).

Discriminant validity refers to the degree to which one construct differs from another (Hair *et al.*, 2012). The most efficient measures of discriminant validity variables are the Fornell–Lacker criterion, cross-loading and the Heterotrait-Monotrait Ratio of Correlations (HTMT) (Hair *et al.*, 2014). Accordingly, this form of validity is established when:

- the square root of each construct's AVE is more significant than its correlation with another construct; and
- each item loads are more significant than its associated constructs (Table 3).

The discriminant validity of the respecification model was examined using the Fornell–Lacker analysis criteria and cross-loading. The square root value of AVE in a latent variable must be greater than the overall value in the same column and row. It was found that all latent variables in the model presented a square root value of AVE greater than the correlation value of the latent variable. Therefore, it can be concluded that all latent variables meet the discriminant validity (Fornell and Larcker, 1981). Moreover, the confidence interval values do not show a value of 1 in any of the constructs, except for GDRP and inflation, which were a single observation. Thus, the constructs meet the HTMT criteria, fulfilling discriminant validity (Sharip *et al.*, 2022).



Item	Before correction					After correction							
	ZE	BA	MBG	GDRP	INF	MW	Item	ZE	BA	MBG	GDRP	INF	MW
ZE1	0.775						ZE1	0.793					
ZE2	0.818						ZE2	0.828					
ZE3	0.796						ZE3	0.806					
ZE4	0.819						ZE4	0.826					
ZE5	0.704						ZE5	0.709					
ZE6	0.403						BA1	0.750					
BA1		0.749					BA2	0.817					
BA2		0.817					BA3	0.698					
BA3		0.699					BA4	0.814					
BA4		0.814					BA5	0.875					
BA5		0.875					BA6	0.772					
BA6		0.772					BA7	0.835					
BA7		0.835					BA8	0.734					
BA8		0.734					BA9	0.797					
BA9		0.797					BA10	0.785					
BA10		0.786					BA11	0.819					
BA11		0.819					MBG1		0.935				
MBG1							MBG2		0.858				
MBG2							MBG3		0.943				
MBG3							MBG4		0.915				
MBG4							MBG5		0.917				
MBG5							GDRP1			1.000			
GDRP1							INF1				1.000		
INF1							MW1						0.602
MW1							MW5						0.608
MW2							MW6						0.796
MW3							MW7						0.866
MW4							MW8						0.633
MW5							MW9						0.635
MW6							MW10						0.619
MW7							MW11						0.748

(continued)

Impact of  
productive  
zakat

**Table 1.**  
Factor loading  
values

Table 1.

Item	Before correction					Item	After correction						
	ZE	BA	MBG	GDRP	INF		MW	ZE	BA	MBG	GDRP	INF	MW
MW8						MW12							0.657
MW9						MW13							0.620
MW10						MW14							0.744
MW11						MW15							0.727
MW12						MW16							0.786
MW13						MW17							0.817
MW14						MW18							0.784
MW15						MW19							0.811
MW16						MW20							0.680
MW17						MW21							0.565
MW18													
MW19													
MW20													
MW21													

Note: Factor loading values below 0.50 (in italic) are eliminated  
Source: Authors' calculation (2021)

The VIF value is the most frequently used statistical method for the multicollinearity test. The results show that the VIF value ranges between 1.000 and 6.907, significantly less than 10; therefore, all variables' indicators passed the multicollinearity test (Table 4) (Hair *et al.*, 2010; Memon *et al.*, 2017).

The fit model is calculated using the Standardised Root Mean Square Residual (SRMR). The SRMR is defined by the square root of the difference between the residuals of the sample covariance matrix and the hypothesised covariance model (Hooper *et al.*, 2008). In this study, the SRMR value is 0.09, which is considered a good model fit, indicated by a value less than or equal to 0.10. (An *et al.*, 2017). Furthermore, the paths coefficient is estimated using the bootstrapping results and examining the *t*-statistic value. The item is significant if the *t*-statistics value for the measurement item is more significant than 1.96 and the *p*-value is less than 0.05 at the 5% significance level. Meanwhile, the parameter coefficient, or the original sample, indicates the direction of influence. In this case, the original sample is assessed by considering its positive or negative effects and the influence of the independent variable on the dependent variable (Hair *et al.*, 2017; Ghozali, 2008). The path coefficients are summarised in Table 5.

## Discussion/analysis

### *Zakat empowerment to mustahiq's business growth*

Zakat is an effective method to empower the lives of the destitute, protect *mustahiqs* from usury and improve their state of economic conditions (Article 27 of Law No. 23 of 2011). Based on the analysis in Table 5, *H1* presented the following values: *t*-statistic 3.279 > 1.96, *p*-value = 0.001 and the original sample value = 0.414. This result implies that empowering effective zakat positively affects the *mustahiq's* businesses development. The zakat empowerment programmes provide the *mustahiqs* mentoring on business knowledge and proper religious practices (Ali *et al.*, 2016). These programmes can be distributed in various ways, such as providing business capital, tools and machines to run a business and business mentoring.

In some instances, zakat institutions assist in marketing and distributing cultivated products to a larger market by connecting recipients with suppliers or distributors. This process enables their products to reach a larger community. The zakat empowerment programmes can only be effective for business growth if it leads to income advancement (Sharofiddin *et al.*, 2019; Rizaty and Aswin, 2019). These programmes enable *mustahiqs* to effectively manage business capital funds provided by zakat institutions, expanding their business operations, production and sale. This finding aligned with Adnan *et al.* (2019), who examined the distribution of zakat, particularly those in the microfinance institutions in

Variable	Cronbach's alpha	Composite reliability	AVE
Zakat empowerment	0.852	0.894	0.629
Business assistance	0.940	0.949	0.627
<i>Mustahiq's</i> business growth	0.951	0.962	0.835
GRDP	1.000	1.000	1.000
Inflation	1.000	1.000	1.000
<i>Mustahiq's</i> welfare	0.941	0.948	0.505

Source: Authors' calculation (2021)

**Table 2.**  
Construct reliability and validity



	Zakat empowerment	Business assistance	Mustahiq's business growth	GRDP	Inflation	Mustahiq's welfare
<i>Fornell-Lacker criterion</i>						
Zakat empowerment	0.793					
Business assistance	0.823	0.792				
Mustahiq's business growth	0.679	0.663	0.914			
GRDP	0.332	0.333	0.526	1.000		
Inflation	0.206	0.252	0.467	0.633	1.000	
Mustahiq's welfare	0.708	0.613	0.679	0.418	0.304	0.711
<i>Heterotrait-Monotrait ratio (HTMT)</i>						
Zakat empowerment	X					
Business assistance	0.919	X				
Mustahiq's business growth	0.735	0.673	X			
GRDP	0.346	0.329	0.542	X		
Inflation	0.213	0.242	0.483	0.633	X	
Mustahiq's welfare	0.776	0.622	0.695	0.418	0.304	X
<i>Cross-loadings</i>						
ZE1	0.793	0.614	0.639	0.385	0.345	0.587
ZE2	0.828	0.74	0.561	0.269	0.175	0.604
ZE3	0.806	0.688	0.443	0.284	0.151	0.543
ZE4	0.826	0.637	0.589	0.271	0.075	0.595
ZE5	0.709	0.590	0.420	0.06	0.034	0.461
BA1	0.602	0.750	0.467	0.167	0.223	0.343
BA2	0.661	0.817	0.635	0.352	0.283	0.534
BA3	0.568	0.698	0.384	0.183	0.06	0.498
BA4	0.631	0.814	0.539	0.305	0.275	0.465
BA5	0.761	0.875	0.501	0.202	0.102	0.532
BA6	0.619	0.772	0.496	0.189	0.067	0.447
BA7	0.653	0.835	0.480	0.201	0.106	0.427
BA8	0.604	0.734	0.441	0.225	0.158	0.357
BA9	0.694	0.797	0.359	0.188	0.071	0.469
BA10	0.676	0.785	0.693	0.419	0.411	0.646
BA11	0.678	0.819	0.625	0.344	0.286	0.505
MBG1	0.687	0.664	0.935	0.471	0.424	0.643
MBG2	0.461	0.428	0.858	0.492	0.467	0.526
MBG3	0.631	0.602	0.943	0.501	0.429	0.606
MBG4	0.636	0.614	0.915	0.513	0.451	0.657
MBG5	0.654	0.681	0.917	0.437	0.379	0.655
GDRP1	0.332	0.333	0.526	1.000	0.633	0.418
INF1	0.206	0.252	0.467	0.633	1.000	0.304
MW1	0.458	0.401	0.334	0.097	-0.011	0.602
MW5	0.432	0.303	0.381	0.221	0.070	0.608
MW6	0.552	0.501	0.574	0.414	0.280	0.796
MW7	0.575	0.503	0.497	0.343	0.175	0.866
MW8	0.371	0.261	0.298	0.230	0.157	0.633
MW9	0.407	0.322	0.355	0.211	0.227	0.635
MW10	0.386	0.316	0.311	0.234	0.144	0.619
MW11	0.584	0.481	0.437	0.230	0.166	0.748
MW12	0.518	0.484	0.505	0.225	0.283	0.657
MW13	0.436	0.328	0.323	0.096	0.074	0.620
MW14	0.529	0.491	0.616	0.422	0.367	0.744

**Table 3.**  
Construct validity

(continued)

	Zakat empowerment	Business assistance	<i>Mustahiq's</i> business growth	GRDP	Inflation	<i>Mustahiq's</i> welfare
MW15	0.572	0.506	0.506	0.204	0.137	0.727
MW16	0.497	0.382	0.436	0.268	0.172	0.786
MW17	0.616	0.597	0.654	0.307	0.224	0.817
MW18	0.529	0.464	0.463	0.266	0.092	0.784
MW19	0.658	0.609	0.710	0.529	0.39	0.811
MW20	0.429	0.380	0.522	0.358	0.334	0.680
MW21	0.348	0.267	0.484	0.497	0.452	0.565

Source: Authors' calculation (2021)

Table 3.

Item	VIF	Item	VIF
ZE1	1.730	GDRP1	1.000
ZE2	2.247	INF1	1.000
ZE3	2.172	MW1	2.314
ZE4	1.975	MW5	1.910
ZE5	1.524	MW6	3.472
BA1	2.408	MW7	4.158
BA2	2.796	MW8	2.240
BA3	2.278	MW9	2.085
BA4	2.638	MW10	2.673
BA5	3.966	MW11	2.308
BA6	2.757	MW12	2.267
BA7	4.379	MW13	2.198
BA8	2.365	MW14	3.065
BA9	3.472	MW15	2.434
BA10	2.508	MW16	2.647
BA11	3.115	MW17	3.828
MBG1	6.201	MW18	3.220
MBG2	2.859	MW19	2.989
MBG3	6.907	MW20	2.773
MBG4	3.957	MW21	2.340
MBG5	3.987		

Source: Authors' calculation (2021)

Table 4.  
Variance inflation  
factor values

Malaysia. It was found that the distribution through the *qardhul hasan* financing model (free interest financing support) can significantly impact the *mustahiqs'* income.

#### *Business assistantships to mustahiq's business growth*

The *mustahiqs* generally require supervision and business guidance; hence, zakat institutions play their role by providing business assistance. The importance of business assistantship in zakat empowerment programmes is highlighted in previous works (Ibrahim and Ghazali, 2014; Widiastuti and Rosyidi, 2015; and Bonandar, 2018). Business assistance ensures that these programmes are efficiently used and not misused. The assistance

includes a set of activities whose primary focus is to assist the zakat programme recipients via a comprehensive understanding of good business governance and supervision, monitoring and evaluation. The study's results show that business assistantship positively impacts their business growth, proven by the  $H2$   $t$ -statistic value equals 2.698, which is more significant than 1.96, while the original sample value is 0.322. In essence, business assistance distinguishes effective and consumptive zakat, as there is no assistance in consumptive zakat. The risk of programme failure increases without assistance, especially in providing a long-term improvement on the welfare of beneficiaries.

*Mustahiqs' business growth to mustahiqs' welfare*

The growth of *mustahiq* businesses benefits their welfare, indicated by the variable's  $p$ -value at 0.001, less than 0.05 and the original sample value at 0.318. The development of business performance is reflected by its increase in sales, profit and business assets, aligning with Cahyadi's (2016) findings. Hence, the increase in sales turnover and profit directly influence their welfare. In fact, most *mustahiqs* interviewed in this study stated that the empowerment programme increases their income level and fulfils their basic needs.

*Macroeconomy (gross regional domestic product and inflation) to mustahiqs' welfare*

Theoretically, the rise in the GRDP figure indicates an increase in the public consumption level because of an increased income. Thus, it plays a critical role in improving the *mustahiqs'* well-being and income, mirroring the proliferation of their business. However, the findings from this study reported that the  $t$ -statistics values of GDRP and inflation are below 1.96, suggesting that both variables presented no significant influence on the *mustahiqs'* welfare. Furthermore, the proxy of the macroeconomic condition does not affect their welfare. Hence, there is no positive impact of GRDP on their welfare and economic growth.

This finding opposes that of Shaikh's (2016), in which GRDP impacts business growth supported by ZIS empowerment programmes and improves welfare. Similarly, the study's findings contradict Nechifor and Winning (2018), who found that GDP negatively impacts the poor in a sample study of India, South Asia, the Middle East and North Africa. The GDP imbalance exists because of overexploitation of the poor. Furthermore, the size of *mustahiq's* business may explain the GRDP's insignificance in their welfare. The businesses of effective zakat recipients are primarily concerned with providing necessities, and the demand for these needs is unaffected by the changes in economic growth. This phenomenon is because

Hypotheses	Original sample	$t$ -statistic	$p$ -values	Results
$H1$ . Zakat empowerment $\rightarrow$ <i>Mustahiq's</i> business growth	0.414	3.279	0.001	Significant
$H2$ . Business assistance $\rightarrow$ <i>Mustahiq's</i> business growth	0.322	2.698	0.007	Significant
$H3$ . <i>Mustahiq's</i> business growth $\rightarrow$ <i>Mustahiq's</i> welfare	0.318	3.242	0.001	Significant
$H4$ . GRDP $\rightarrow$ <i>Mustahiq's</i> welfare	0.101	1.197	0.232	Not significant
$H5$ . Inflation <i>mustahiq's</i> welfare	0.000	0.005	0.996	Not significant
$H6$ . Zakat empowerment $\rightarrow$ <i>Mustahiq's</i> welfare	0.483	4.874	0.000	Significant
$H7$ . Business assistantship $\rightarrow$ <i>Mustahiq's</i> welfare	-0.030	0.226	0.821	Not significant

**Table 5.**  
Partial least squares-  
structural equation  
modelling result

Source: Authors' calculation (2021)



the essentials are consumed on a daily basis, which differs from luxury goods, where the demand tends to decrease as the economic income depreciates.

Moreover, the study found that inflation is a non-crucial determinant in characterising the *mustahiqs*' well-being because of several justifications. Firstly, the insignificance is because of the stable inflation rate: the fluctuation in the monthly inflation rate presented a downward trend consistently over three years. Secondly, various *mustahiq*-run businesses are microbusinesses that manage the daily consumption of the community, and thus, inflation presented little impact. Furthermore, during the first pandemic outbreak, the government provided substantial assistance to enhance the declining purchasing power. Numerous efforts were implemented, including provisions for various types of assistance, such as food and cash.

#### *Zakat empowerment programmes on the welfare*

Based on the findings, the *t*-statistic value of the zakat empowerment programme on *mustahiqs*' welfare is 4.874, which is greater than 1.96, while the original sample value is 0.483. This result suggests that empowering *mustahiqs* with effective zakat positively impacts their welfare. Previous studies support this finding, which indicated a link between the distribution of effective zakat and welfare, presented by their increased income (Rahmat and Nurzaman, 2019). Correspondingly, the impact of effective zakat programmes was investigated on poverty reduction and welfare development (Widyaningsih, 2016). The zakat distribution through effective programmes improved the material aspects and increased welfare. This result is shown by the decline in absolute, material and spiritual poverty indices (Kusuma and Ryandono, 2016; Lessy *et al.*, 2020). Finally, Shahrudin *et al.* (2019) discovered that the distribution of zakat could enhance the welfare of *muallafs* (people who convert to Islam from another belief/religion), particularly spiritually.

#### *Business assistantships and welfare*

The *mustahiqs*' welfare is unaffected by the business assistantship, demonstrated by its *t*-statistic value of 0.226, which is more significant than 1.96. This phenomenon is because their well-being is not exclusively dependent on business expansion and increased financial income. The business assistantship process focuses more on business development, monitoring and evaluation aspects. In Islam, well-being is measured on a material and spiritual level, and a Muslim is said to be prosperous if he can meet his material and spiritual needs.

#### **Managerial relevancy**

The theoretical implications in this study establish a unique measurement of well-being, used as a reference to measure the zakat empowerment programme's success in increasing the *mustahiqs*' well-being. However, zakat from the communities comes in the form of business capital assistance, which has placed an additional burden on *mustahiqs*. They must operate their businesses efficiently to maximise the given resources as they hold substantial responsibility upon receiving the social funds. Hence, the zakat empowerment programme will broaden the scope of business, ensuring their well-being. For empirical implications, this research highlighted the significance of business assistantships, supporting the *mustahiqs*' business. Thus, zakat institutions that provide empowerment programmes must regularly monitor and evaluate the system in addition to providing advice for businesses with substandard performance.

### Conclusion

This study discovered that effective zakat empowerments and business assistantship positively impact the *mustahiq's* business growth. However, the macroeconomic variables exhibited no bearing on their well-being, which benefitted from business expansion. Moreover, there is a positive relationship between effective zakat empowerment programmes and *mustahiq's* welfare. Zakat recipients bear the burden provided by the funding, where they are obligated to maximise the fund. Correspondingly, the perceived commitment motivated them to improve their business management. Furthermore, the programmes must strictly monitor and evaluate the system (business assistance) to ensure its success.

### Limitations and study forward

One of the limitations is the research scope, where the subjects are derived from only seven institutions. However, the authors believe that the study's findings can provide a general picture of zakat empowerment and its impact on the *mustahiqs'* well-being. Hence, future studies should focus on a broader range of zakat institutions. Moreover, it is imperative to understand the effects of zakat empowerment programmes on their business growth and welfare. Thus, a more comprehensive analysis method must be used to determine the relationship between the variables. This idea can be achieved by including additional variables, namely, *mustahiq* demographics, that is, age, education level, gender and income level.

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**Table A1.**  
Variables used

No.	Variable	Theoretical concepts	Empirical concepts (Indicators)	Measurement
1	Mustahik welfare based on <i>maqasid al-shariah</i>	The fulfilment of basic needs including material and spiritual aspects based on Islamic principles to safeguard religion ( <i>diin</i> ), soul ( <i>nafs</i> ), intellect ( <i>aql</i> ), descent ( <i>nash</i> ) and property ( <i>maal</i> ) (Dahlan, 2003)	<i>Mustahik</i> welfare is reflected in fulfilling basic needs, including material and spiritual needs, based on the maintenance of <i>maqashid al-sharia</i>	1. <i>Hidzam ad-din</i> , 2. <i>Hidzam nafs</i> , 3. <i>Hidzam 'aql</i> , 4. <i>Hidzam nash</i> , 5. <i>Hidzam maal</i>
2	Mustahik business growth	Growth of micro-business caused by capital accumulation through effective 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 (Muller, 2017)	The growth of micro-businesses is characterised by an increase in production scale and profit	1. Stimulant with adequate business capital, 2. Business development, 3. Increasing business scale and 4. Fulfilment of the needs of businesses (Faisal and Yuliani, 2017)
3	Effective zakat empowerment programme	Empowerment programme carried out in an organised 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 (Mintarti, 2012)	1. Microbusiness financing, 2. Capacity building through various training, 3. Institutional development and 4. Developing the capital, savings and revolving funds (Mintarti, 2012)	1. Amount of assistance provided, 2. The quality of the empowerment programme and 3. The period a member/respondent is involved in the empowerment programme
4	Business Assistance	Continuous interaction between the facilitator and group members or the community until a better change occurs (Subarto, 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 programme
5	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
6	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	-	Regional gross domestic product, quarterly data

Source: Authors' compilation (2020)

## Appendix 2. Questionnaire

No.	Statement	Rating score				
		1	2	3	4	5
<b>Welfare Based on <i>Maqasid al-Shariah</i></b>						
Religion	1	Ability to fulfill worship facilities				
	2	Ability to have time for obligatory worship (5 times prayer)				
	3	Ability to carry out the obligations of fasting Ramadan				
	4	The ability to take the time to read the Qur'an every day				
	5	Ability to spend wealth to give charity				
Soul	6	Ability to meet food needs (halal, nutritious and <i>thayyib</i> food and drinks)				
	7	Ability to meet the needs of decent clothing ( <i>syar'i</i> clothing)				
	8	Ability to meet housing needs (habitable houses)				
	9	Ability to get health services/access to self and family				
Mind	10	Ability to have a clean and healthy living environment (have healthy latrines for family needs, access to clean water, etc.)				
	11	Ability to meet basic education needs such as children's school fees				
	12	Ability to gain access to training (informal education) to improve business knowledge and skills				
Descendants	13	Ability to obtain religious education needs				
	14	Ability to meet the health needs of the wife during pregnancy, childbirth and breastfeeding				
	15	Ability to maintain family harmony				
Wealth	16	Ability to meet children's basic needs				
	17	Ability to earn decent income				
	18	Ability to earn halal income				
	19	The ability to store assets				
	20	Ability to save (saving) for the future				
	21	Ability to invest				

No.	Statement	Rating score				
		1	2	3	4	5
<b><i>Mustahik</i> Business Growth</b>						
22	Business turnover has increased after participating in the effective zakat programme					
23	Business assets have increased after participating in the effective zakat programme					
24	Operating profit has increased after participating in the effective zakat programme					
25	Business scale (productivity) increases after participating in the effective zakat programme					
26	Increased family income and sufficient to meet the basic needs of the family					

(continued)

No.	Statement	Rating score				
		1	2	3	4	5
<b>Effective Zakat Empowerment Programme</b>						
27	Obtaining zakat funds for business capital					
28	Obtain training according to <i>mustahik's</i> skills/expertise from the effective zakat programme					
29	Obtain training tools in the context of stimulus to form skilled, creative, and independent <i>mustahik</i>					
30	Ability to manage effective zakat funds to increase business income					
31	The quality of the effective zakat empowerment programme by the Zakat Institution					
32	The length of time for participation in the effective zakat empowerment programme					

No.	Statement	Rating score				
		1	2	3	4	5
<b>Business Assistance</b>						
33	Routine Assistances were carried out					
34	Feel the benefits obtained in business assistance from the material side (Such as increased business performance, operating income, etc.)					
35	Feel the benefits obtained in business assistance from the spiritual side (Such as increasing the quality and quantity of worship, etc.)					
36	Obtain direct and indirect supervision in <i>mustahik's</i> business activities					
37	Obtain direction in forming human resources that are honest, trustworthy, disciplined, professional, etc.					
38	Obtaining the right business operational strategy to maintain business continuity					
39	Get the right marketing strategy to increase sales					
40	Get the right financial management strategy (such as how to save, invest, insurance, etc.)					
41	Get training in dealing with customers					
42	Get help when <i>mustahik</i> has difficulty in his business					
43	Obtain assistance to develop <i>mustahik's</i> business income during business activities					

**Corresponding author**

Imron Mawardi can be contacted at: [ronmawardi@feb.unair.ac.id](mailto:ronmawardi@feb.unair.ac.id)

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