

The Effect of Business Development Assistance Program and Religiosity on the Economic Performance of Zakat Recipients through Their Participations using Structural Equation Model

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Abstract: The benefit of zakat for productive business that is still not being explored optimally is the main motivation of this research. The structural equation model is applied to test the impact of business development assistance program and religiosity on the economic performance of zakat recipients through their participation in the Special Region of Yogyakarta and we conducted a survey of 365 respondents. The research instrument uses 5 likert scale that have high reliability and validity based on the value of Alpha and Kaiser-Meyer-Olkin. The empirical model with SEM analysis shows that a high goodness of fit. Business development assistance program and religiosity have a significant effect on the participation of recipients of zakat in the development of business with a positive direction, and the participation will then have a significant and positive effect on the economic performance of zakat recipients. The direct effect of business development assistance program and religiosity is lower than their indirect effect on economic performance through participation.

1 INTRODUCTION

Indonesia is a country with a Muslim majority population of 216.66 million people or 85 % of the total population (BPS, 2015). The Muslim population can increase the potential for the collection and distribution of very large zakat. Referring to the National Zakat Statistics issued by the National Zakat Authority (BAZNAS), the total zakat collection in 2017 was recorded at 6224.4 billion rupiah or an increase of 24.06 % compared to 2016. Zakat distribution was recorded at 4860.2 billion rupiah or increased compared to the previous year of 65.81 %, with absorption of 78.08 %. The allocation of zakat distribution based on their respective fields is 8825 billion rupiah, for the economic sector (20.33 %), 941.9 billion rupiah for education (21.69 %), 979.5 billion rupiah for the field of da'wah (22.56 %), 413.5 billion rupiah for the health sector (9.52 %), and 1124.2 billion rupiah for the field of Social Humanity (25.89 %).

According to the Law of the Republic of Indonesia number 23 of 2011 concerning Zakat Management, zakat management aims to: (a) improve the effectiveness and efficiency of services

in the management of zakat; and (b) increasing the benefits of zakat to realize community welfare and poverty reduction. The benefits of zakat to realize community welfare and poverty alleviation are still a problem, because various studies reveal that zakat distribution tends to be consumptive, or unproductive. The Law on Zakat states that zakat can be utilized for productive business in the context of handling the poor and improving the quality of the people if the basic needs of mustahik have been fulfilled. The distribution of zakat is currently dominated by consumptive activities. There are various forms of zakat distribution carried out by zakat institutions, one of which is the distribution of zakat in the form of business capital allocated to productive recipients of zakat known as microfinance mechanisms (Ibrahim and Ghazali, 2014). Zakat and Waqf (Endowments) are basically tools to create stability of economy through the distribution of the right funds for the right people so that they can decrease the gap between the poor and the rich (Hassanain, 2015).

The Financial Services Authority (2016), which is stated in the 2015-2019 Indonesia Financial Services Sector Master Plan document states that Indonesia holds enormous potential for the growth

of the Islamic financial services sector, supported by a large Muslim population of around 88.1%. Indonesia is also the largest Muslim country in the world with 12.7 % of Muslims in the world. Referring to the report: "State of the Global Islamic Economy" 2017-2018 edition, Indonesia only occupies 11th position out of 73 countries in the world based on Global Islamic Economy Indicator which covers 6 sectors, including the Islamic financial sector where Indonesia ranks 10th (Thomson Reuters, 2018). Various data and indicators show that Islamic finance in Indonesia has not shown a performance optimally.

Considering that zakat has proven to be a very effective way to help the poor, the collection and distribution of zakat must be increased (Abdullah, Derus and Al-Malkawi, 2015). According to Jaelani (2015), optimizing the high potential of zakat in Indonesian society, cooperation between stakeholders, and government regulations can be a solution in reducing poverty. The role of the government which is the main stakeholder in the management of zakat is represented by BAZNAS. The challenge is how to allocate zakat to those productive businesses. According to Hamzah (2017), zakat has not been used intensively for empowerment of mustahiq (recipients of zakat) in the form of productive economic endeavors. BAZNAS as a collection authority and fund manager has compiled various utilization strategies so that the utilization of zakat is more productive which leads to business continuity in the three target groups namely; the beginner mustahik businessman, businessman mustahik and Z-mart. The problems faced by entrepreneurs mustahik are access to: capital, raw materials, production, and markets.

This research will examine the use of zakat for the development of productive businesses by recipients of zakat in the Special Region Yogyakarta whose zakat management is carried out by the BAZNAS Yogyakarta. The research questions are whether the success of the development of its business is influenced by individual factors, external factors, and the participation of zakat recipients in the development of its business. The individual factor is religiosity while the external factor is the role of business development assistance program.

2 RESEARCH METHOD

The research was conducted in Bantul, Gunung Kidul, Kulon Progo, Sleman, and Yogyakarta with

305 respondents. The measurement of variables using 5likert scale with statement items are presented in Table 1 below.

Table 1: Research Variables and Measurement.

Variable	Item	Reference
Religiosity	Attend attend recitation groups	Abdullah and Sapiei (2018),
	Pray at the mosque	Farouk <i>et al.</i> (2018), Somu and Sujatha (2015)
	Attend religious events	
Assistance	Motivation	Hamzah (2015)
	Learning	
	Entrepreneurship	
Participation	Attend business meeting	Langerodi and Dinpanah (2017); Hamzah (2015); and Radzi, Nor, and Ali (2017)
	Regularly save money	
	Loan payment	
	Capital empowerment	
Economic	Economic cooperation empowerment	Berguiga (2017) and Hamzah (2015)
	Equity increasing	
	Income increasing	
	Business development	
	Business collaboration	

Reliability test of the research instruments using Cronbach Alpha while test of the validity using Kaiser-Meyer-Olkin (KMO). Testing the hypothesis using an analysis of structural equation models with two exogenous variables, namely business development assistance program and religiosity, one mediator namely participation in business development, and economic performance variables as an endogenous variable.

3 RESULTS AND DISCUSSION

3.1 Reliability and Validity

Table 2: Reliability and Validity of Research Instruments.

Variable	Code	Cronbach Alpha	KMO
Religiosity	R1	0.814	0.680
	R2		
	R3		
Assistance	A1	0.836	0.700
	A2		
	A3		
Participation	P1	0.764	0.785
	P2		
	P3		
	P4		
	P5		
Economic	E1	0.842	0.773
	E2		
	E3		
	E4		

Research instruments have high reliability and validity as indicated by the cronbach alpha value above 0.75 and the KMO value above 0.65. The results of the reliability and validity testing are presented in the table below.

3.2 Respondent Profile

The number of respondents who filled out complete questionnaire was 305 which consists of 56 % of men, 40 % of high school education, 34 % of the age group 31-40 years, 51 % living in Gunung Kidul, and 49.51 % engaged in the trade sector. Most respondents (56 %) have business experience under 5 years, 59 % have income ranging from 1-2 million Rupiah per month, and 62 % receive zakat in the amount of 3-5 million.

Female respondents generally showed religiosity and the role of Business Development Assistance Program was higher than male respondents. The group of respondents with high education showed higher economic performance and participation compared to those with elementary, middle and high school education, but the group of college graduates showed the lowest role of Business Development Assistance Program. Respondents in agricultural business sector relatively found the importance of role of Business Development Assistance Program and showed higher participation compared to other business sectors. Respondents in manufacturing showed higher religiosity and participation than agricultural sector, trade sector and service sector. Respondents with age of 41-50 years showed higher religiosity, the role of Business Development Assistance Program, participation, and economic performance compared to other age groups.

3.3 Structural Equation Model

Participation which mediates the relationship between religiosity and the role of Business Development Assistance Program on the economic performance of the productive business conducted by zakat recipients are tested by using structural equation model analysis. The results of the structural equation model analysis are presented in Figure 2 below.

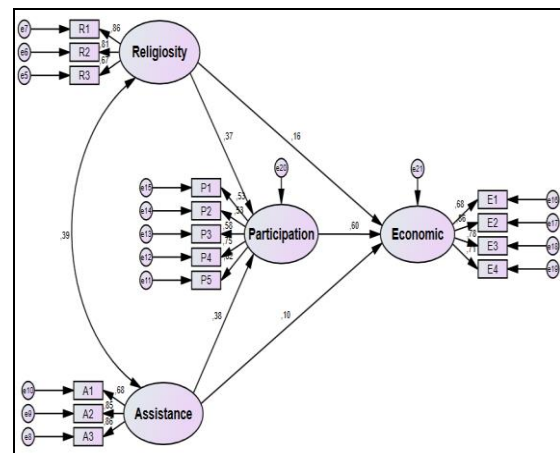


Figure 1: Standardized Model.

The empirical model has a very good goodness of fit as measured by several statistical parameters as presented in table 3 below.

Table 3: Model Fit Analysis Summary.

Statistics	Independence Model	Default Model	Saturated Model
CMIN	2252.830	330.992	0.000
GFI	0.342	0.876	1.000
CFI	0.000	0.885	1.000
FMIN	7.411	1.089	0.000
RMSEA	0.259	0.098	-
AIC	2282.830	402.992	240.000

This research has five hypotheses with the complete test results presented in table 4 below.

Table 4: Hypotheses Test.

Relationship	Estimate	S.E.	C.R.	P
Religiosity to Participation	0.450	0.085	5.269	***
Assistance to Participation	0.282	0.050	5.587	***
Participation to Economic	0.346	0.050	6.958	***
Assistance to Economic	0.043	0.027	1.555	0.120
Religiosity to Economic	0.112	0.045	2.461	0.014

Religiosity and the role of business development assistance program to participation has a very significant influence with a positive direction which means that the higher the level of religiosity and the role of business development assistance program, the higher the level of participation of recipients of zakat in developing and improving their businesses. Both variables show relatively similar roles as

indicated by the path coefficients of 0.37 and 0.38. It means that the success in encouraging the level of participation is strongly influenced by religiosity and business development assistance program (external factor) to zakat recipients in conducting their productive business.

Research on the effect of religiosity of tax recipients is relatively rare because most of the previous research has linked religiosity to compliance with zakat payments, as done by Abdullah and Sapiei (2018) and Farouk, Idris, and Jaffri (2018), or relates religiosity to business performance or economic empowerment program, as done by Somu and Sujatha (2015) which shows that spiritual empowerment has a significant impact on economic empowerment. According to Abdullah and Sapiei (2018), three dimensions of religious and virtue (akhlaq) dimensions are the driving factors for zakat compliance. This research is different from the research conducted by Farouket al. (2018) which places religiosity as a moderator that is significant to the relationship between attitude and subjective norms with the intention to pay zakat.

Significant influence of business development assistance program on participation shows the central role of education or training programs for zakat authority in developing business. Business development assistance program are needed to reduce various problems that are still being faced, especially in the management of businesses financed by zakat. Although this research has not yet studied about the application of sharia principles in the management of businesses of zakat recipients, several studies in the field of Islamic finance are used as a comparison.

Lack of economic independence becomes a problem in implementing sharia-based microfinance such as lack of funding and lack of skills in managing business (Rahim, 2015). According to Abbas and Shirazi, (2015) Islamic microfinance faces obstacles namely lack of knowledge, experience and professionalism of supporting staff. Various technical constraints in business management can be overcome by business development assistance program or other forms of empowerment, with reference to several research results, including Hamzah (2018) for productive management. The last researcher included technical support and managerial support factors as support variables, in addition to five other variables, namely external factors, individual factors of business owners, business aspects, management, and resources.

The indirect effect of religiosity and business development assistance program to economic performance through participation is greater than the direct influence of the population, as presented in table 5.

Table 5: Total Effect, Direct Effect, and Indirect Effect (Standardized Model).

	Assistance	Religiosity	Participation	Economic
Direct effect				
Participation	0.377	0.373	0.000	0.000
Religiosity	0.100	0.162	0.604	0.000
Indirect Effect				
Participation	0.000	0.000	0.000	0.000
Economic	0.228	0.225	0.000	0.000
Total Effect				
Participation	0.377	0.373	0.000	0.000
EconoMic	0.327	0.387	0.604	0.000

Economic performance is directly influenced by participation with a path coefficient of 0.604 and is influenced by religiosity and direct and indirect assistance with a total effect of 0.387 from Religiosity and 0.327 from business development assistance program. Greater indirect influence on economic performance through participation is one of the empirical evidences for zakat managers, especially BAZNAS Yogyakarta, to increase the participation of zakat recipients in productive business development programs funded by zakat. Efforts to increase participation need to take into account the characteristics of respondents whose participation rates vary from respondent demographics, type of business, age group, and level of education. As a comparison, the Langerodi and Dinpanah (2017) study on the participation of farmers in environmental protection programs, the level of participation of participants in the empowerment program was significantly influenced by social features, information sources, and attitudes of program participants. Participation as mediator was examined by Langford, Parkes, and Metcalf (2006) which states that participation is a mediator that is significant to the relationship between business objectives and property with business development which includes organizational goals, change and innovation, and customer satisfaction.

Radzi, Nor, and Ali (2017) use the concept of knowledge sharing as one of the success factors of small businesses. Sharing knowledge can occur when respondents gather with each other in training activities. Two indicators that measure the participation variable in this study are the activeness of zakat recipients in meetings and

collaboration empowerment. Increased participation will encourage the exchange of experience, knowledge, and skills in business development and finally it can ultimately support increased economic performance. Referring to the significant relationship between the role of facilitator and the level of participation, the level of participation of zakat recipients is expected to increase more by increasing the role of facilitator as one of the sources of knowledge in business management by recipients of zakat.

Distribution of zakat for productive businesses still needs to be strengthened in Indonesia, especially in its financial management. During this time, financial assistance to zakat providers for productive businesses is still considered to be funding assistance that is not demanded for refunds. Strengthening the zakat management program for the development of productive businesses is a challenge from BAZNAS, which does not rule out the possibility of its own financial management system as in the form of microfinance institutions that continue to apply sharia principles.

Balancing social performance and financial performance is a major challenge for microfinance institutions. The aspects of Islamic microfinance, especially those whose funds are from zakat and waqf, are still lagging behind. For example, there is a need to establish financial management guidelines related to governance to increase the credibility of microfinance institutions, and to support the sustainability and improvement of operations. According to Berguiga, Said, and Adair (2017), microfinance institutions face a two challenges, namely that they must ensure increased financial inclusion from the poor, while financially sustainable without relying on subsidies.

4 CONCLUSIONS

The central role of the participation of zakat recipients in the development of productive business is the main finding of this study. This participation increased with the increasing level of religiosity and the role of business development assistance program, which in turn had a significant impact on improving the economic performance of its productive businesses. The challenge is how zakat recipients can increase their participation in business development which is still relatively diverse and the direct influence on economic performance has not been significant. The business development assistance program can provide

knowledge and skills in business management that have been an obstacle, including the role of BAZNAS in conducting more effective business empowerment programs so that their productive business show an increasing economic performance.

This research will be continued by expanding individual factors and external or institutional factors to assess their effects on the economic performance of businesses managed by zakat recipients, including entrepreneurial ability, financial literacy, and courage to take risks as other individual factors; and social and religious environmental influences and institutional support, especially from BAZNAS. The aspect of financial literacy is important because the zakat management program is also linked to financial inclusion programs that are prioritized programs in the financial sector in Indonesia. According to Ahmed and Salleh (2016), integrating zakat and waqf into financial inclusive planning such as money management through savings and microfinance programs ensures that poor people have access to financial products and services.

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