

SMEs' Trade Zakat Payment for Poverty Alleviation: Study Case in Malang City, Indonesia

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Abstract.

This community service program aims to enhance SMEs' understanding of trade zakat and improve their compliance with zakat obligations in Malang City. Using a quantitative approach and Structural Equation Modeling (SEM), the study analyzes data collected from SME owners in Malang. The program addresses key factors influencing willingness to pay zakat, including entrepreneurs' attitudes, zakat literacy, and the role of zakat administrators. The program consists of training sessions that cover the importance and potential of trade zakat, the Fiqh of zakat on trade, and practical methods for calculating and paying zakat. The findings highlight that zakat administration significantly impact SMEs' willingness to pay zakat, while attitudes toward zakat and religiosity also play crucial roles. Additionally, the results show that attitude and zakat literacy do not affect SMEs' willingness to pay zakat. The program's evaluation demonstrates that strengthening zakat literacy and improving zakat administration can encourage SMEs to fulfil their zakat obligations, contributing to poverty alleviation and socio-economic development. These findings offer valuable insights for optimizing zakat collection and utilization to maximize its potential in supporting community welfare.

Keywords: Trade zakat; SMEs and zakat willingness.

I. INTRODUCTION

Zakat is regarded as one of the most effective and proven Islamic tools in combating poverty and its associated negative consequences. Imam Al-Ghazali, in his *Ihya Ulumuddin*, describes true poverty as the inability to fulfil basic life necessities, while poverty resulting from greed is a consequence of human desires that material wealth cannot satisfy. Ahmed (2008) defines poverty in the microeconomic context as the total household income derived from various components such as consumption levels, production capabilities, human resource potential, and welfare distribution. At the micro level, poverty alleviation can be achieved by using zakat as an instrument to address these components by meeting the consumption needs required for basic survival. Research by Ahmed (2008) shows that zakat collection and distribution positively impact the reduction of hardship. Furthermore, Hoque et al. (2015) suggest that using zakat to foster entrepreneurship represents a new approach to alleviating hardship, particularly when the root cause of poverty is not a lack of resources but a lack of entrepreneurial capabilities. A previous study by Hoque et al. (2014) also demonstrated how regional Gross Domestic Product (GDP) and the zakat index can contribute to poverty reduction. In Indonesia context, zakat plays a crucial role in the government's efforts to reduce poverty, particularly given that the majority of its population is Muslim and obligated to pay zakat annually. As a critical Islamic social financial instrument, zakat is governed by various laws and policies, with UUD No. 23 of 2011 on Zakat Management serving as the key legislative framework.

This law oversees both government-managed and private zakat institutions, which work toward the shared goal of poverty reduction in Indonesia. Despite these efforts, zakat collection in Indonesia remains significantly below its potential. According to reports from BAZNAS, national zakat collection exceeded IDR 22.4 trillion in 2022, and reached over IDR 14.7 trillion in the first half of 2023. However, these figures still represent only a fraction of the zakat's potential. The collection target for 2023 is IDR 33 trillion, which would account for only 10% of the projected national zakat potential of IDR 327.6 trillion (BAZNAS, 2024). This gap underscores the untapped potential of zakat as a means of socio-economic development. Meanwhile,

the rapid growth of micro, small, and medium enterprises (SMEs) in Indonesia presents a promising opportunity. Economic growth in regions such as East Java, which saw an increase of 4.98% in the second quarter of 2024, highlights the significant contribution of SMEs to the national economy. Malang, in particular, is home to one of the largest concentrations of SMEs in the country, offering a unique opportunity to channel zakat from trade into addressing poverty. As a growing economic force, SMEs provide a potential avenue for zakat to empower communities and contribute to poverty alleviation.

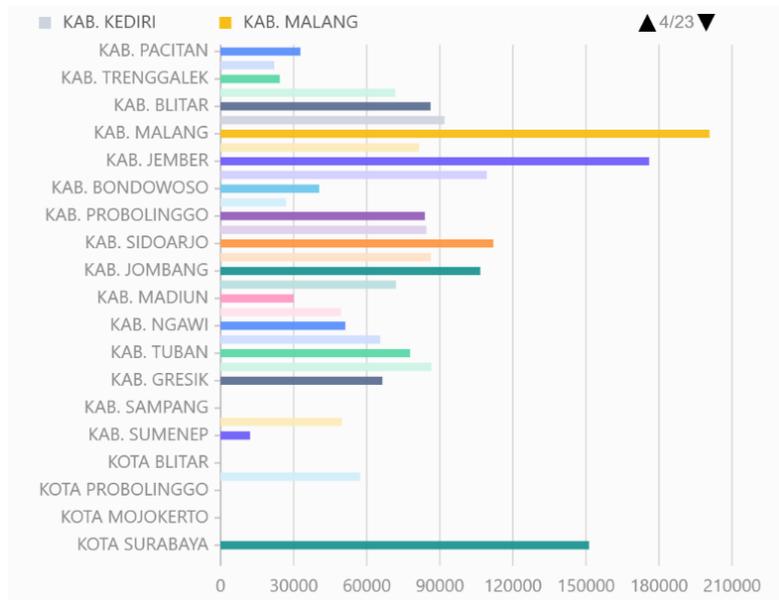


Fig 1.Number of SMEs in East Java

Increasing trade zakat among SMEs in Malang requires attention to several key factors. Rohman (2023) shows that the level of public trust and understanding of zakat significantly influences their willingness to pay zakat through zakat institutions. Therefore, efforts to increase zakat literacy and build public trust in zakat management institutions are crucial. Furthermore, Muhammad (2016) highlights the importance of entrepreneurs' attitudes towards zakat and business profitability in driving zakat compliance. This means that, in addition to external factors such as trust and understanding, internal factors such as entrepreneurs' attitudes and business conditions also influence zakat payment. This community service has both long-term and short-term goals. In the long term, it aims to increase income from zakat on income from SMEs through increased literacy, awareness, and trust in zakat institutions. In the short term the program aims to conduct a comprehensive assessment of the current understanding of zakat among SMEs in Malang. This assessment will help identify knowledge gaps and tailor our educational programs accordingly. Additionally, we plan to establish partnerships with local industry to reach a wider audience of SMEs and provide targeted workshops and seminars on zakat.

Based on the above discussion, there are three key issues can be identified:

1. Underutilization of Zakat Potential: Despite the significant zakat collection reported by BAZNAS, the actual zakat collection in Indonesia remains far below its full potential. In 2023, the zakat collection target of IDR 33 trillion only represents 10% of the estimated national zakat potential of IDR 327.6 trillion.
2. Lack of Entrepreneurship Support through Zakat: While zakat is traditionally used for direct poverty alleviation, recent studies suggest that the focus on fostering entrepreneurship through zakat is an underexplored avenue.
3. Limited Impact of Zakat on Micro, Small, and Medium Enterprises (SMEs): The rapid growth of UMKMs in Indonesia, particularly in regions like East Java and Malang, presents an opportunity for zakat to play a more significant role in economic development. However, zakat collection and distribution mechanisms have not fully capitalized on the potential of zakat to support SMEs.

Table 1. Solutions and Objectives for Increasing Trade Zakat from SMEs in Malang

No.	Solutions	Activities	Objectives
1	Increasing Public Awareness	<ul style="list-style-type: none"> ✓ Socialization: Conducting seminars, and workshops involving religious leaders, entrepreneurs, and the general public. ✓ Campaign: Utilizing social media, print media, and banners to disseminate information about trade zakat. ✓ Religious Education: Integrating trade zakat material into the religious education among SME. 	<ul style="list-style-type: none"> ✓ Increasing public understanding of the concept of trade zakat. ✓ Increasing awareness of the obligation to pay trade zakat. ✓ Forming a positive public opinion regarding trade zakat.
2	Simplifying Zakat Payment Procedures	<ul style="list-style-type: none"> ✓ Synergy with Financial Institutions: Collaborating with financial institutions to provide zakat payment services for SMEs. 	<ul style="list-style-type: none"> ✓ Facilitating zakat payments for the SMEs. ✓ Increasing the number of zakat payers among SMEs. ✓ Increasing public trust in zakat management institutions.
3	Strengthening Zakat Management Institutions	<ul style="list-style-type: none"> ✓ Transparency: Presenting zakat management reports in a transparent and accountable manner. 	<ul style="list-style-type: none"> ✓ Increasing public trust in zakat management ✓ Improving the efficiency and effectiveness of zakat on trade management. ✓ Expanding the reach of zakat benefits.

II. METHODS

This community service program utilizes a mixed-method approach, integrating both qualitative and quantitative methods to develop and implement a Zakat on Trade literacy program for SMEs in Malang, Indonesia. Each stage of the program is designed to address the challenges associated with the collection of Trade Zakat, the issues surrounding Zakat payment, and potential solutions. The primary objective of the program is to enhance zakat literacy and connect SMEs with zakat institutions, thereby maximizing the collection of trade zakat as an Islamic financial tool for poverty alleviation. The first stage involves a needs assessment, which is conducted through secondary data analysis from reports, articles, and previous research. In addition, data is collected through questionnaires to gain a deeper understanding of the factors influencing SMEs' trade zakat payments. Based on the insights gathered, the second stage focuses on program design, which includes the development of a zakat on trade curriculum.

The curriculum covers three key topics: the importance and potential of Trade Zakat, Fiqh of Zakat on Trade, and the practical methods for calculating and paying zakat on trade. Experts in each area, including academic (from Universiti Kebangsaan Malaysia), religious leaders, and person-in charge from zakat institutions in Malang, are invited to contribute to the program. The third stage involves program implementation, which includes workshops and hybrid training sessions. During these sessions, participants will learn about the importance of zakat, the fiqh of zakat on trade, how to calculate their trade zakat, and practical methods for making payments. The final stage is program evaluation, which is conducted through post-training surveys to measure the improvement in understanding among SMEs in Malang after participating in the program. Additionally, a questionnaire is distributed to assess the factors that influence their willingness in paying trade zakat through zakat institutions. The evaluation process includes both quantitative data analysis from the surveys and qualitative feedback from interview participants, providing insights into their experiences throughout the program.

III. RESULT AND DISCUSSION

3.1 Community Service Implementation

The community service program included training and mentoring activities aimed at enhancing zakat on trade literacy, commencing in August – December 2024. The program began with planning, outreach, and establishing collaborations with relevant stakeholders. The main training activities were conducted in

December, involving 35 selected SMEs that met specific criteria. The training sessions focused on three key topics:

1. The Potential and Importance of Zakat for SMEs: Delivered by Associate Professor Dr. Muhammad Hakimi from Universiti Kebangsaan Malaysia, this session aimed to increase general literacy and awareness among SMEs regarding the significance of zakat for their businesses. Participants gained insight into the importance of paying trade zakat, its contribution to their enterprises, its broader impact on the economy, and its role in poverty alleviation.

2. Fiqh of Trade Zakat: Presented by Dr. Jalaludin, a lecturer at Universitas Islam Negeri Malang, this session provided a comprehensive understanding of the fiqh (Islamic jurisprudence) of trade zakat. Participants were equipped with religious knowledge about zakat concepts and practical methods for calculating their trade zakat obligations.

3. Practical Aspects of Paying Trade Zakat: Conducted by YASA Malang, a local zakat institution, this session provided SMEs with a complete overview of the practical process of fulfilling their trade zakat obligations. By illustrating the steps from calculation to payment, the session aimed to strengthen the connection between SMEs and zakat institutions, enhancing trust in the reputation of zakat institutions in Indonesia.



Fig 2. Participants listen to the material presented by Dr. Jalaludin

3.2 Evaluation

For the evaluation process, participants were required to complete a questionnaire designed to identify factors influencing their willingness to pay trade zakat through zakat institutions. This effort aimed to assist zakat institutions in recognizing critical factors that could enhance trade zakat collection in Malang. The analysis focused on three independent variables and one dependent variable (Table 2), utilizing Structural Equation Modeling-Partial Least Squares (SEM-PLS).

Table 2. Operational Definition of Research Variables

No	Variable	Description
1	Independent Zakat Administrator	Reflects the overall effectiveness of zakat institutions, including administrative performance, trustworthiness, and transparency.
2	Attitude	Captures the general perspective of SME individuals regarding their business ethics and moral values.

3	Zakat Literacy	Measures the level of understanding and knowledge individuals have about zakat.
4	Dependent Willingness	Indicates the extent to which individuals are willing to pay zakat through zakat institutions.

SEM is a robust multivariate statistical method used to test relationships between variables, validate theoretical models, and produce precise parameter estimates. This approach enables researchers to determine whether the proposed model aligns with the theoretical framework. As noted by Muflih and Juliana (2020), the components of SEM include latent variables, indicators, modeling, parameters, and error terms.

Path coefficients

Path coefficients are essential metrics used to evaluate the significance and strength of relationships between variables within the research model. They play a critical role in testing the research hypotheses by examining how independent variables influence the dependent variable. This evaluation involves analyzing three key components: the original sample value, T-statistics, and P-value. The T-statistics measure the statistical significance of the relationship, while the P-value indicates the probability that the observed results occurred by chance. For a variable to demonstrate a significant and positive effect, the T-statistics value must exceed 1.96, and the P-value must be less than 0.05. These thresholds confirm the robustness and reliability of the model's proposed relationships, ensuring that the findings are both meaningful and statistically sound.

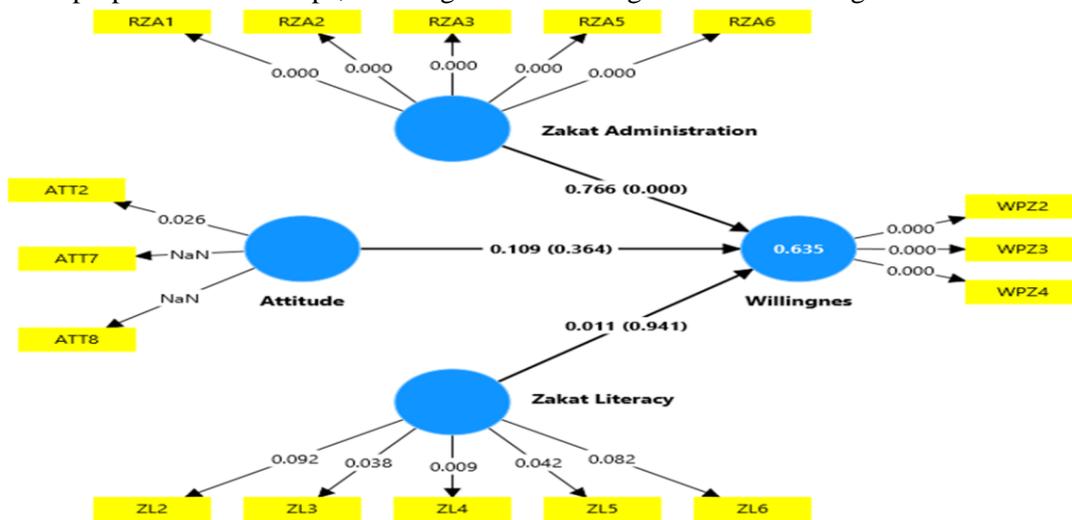


Fig 3. Path coefficients

Table 3. Result of Path Coefficients

Variables	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Result
Attitude -> Willingnes	0.120	0.908	0.364	Rejected
Zakat Administration -> Willingnes	0.128	5.990	0.000	Accepted
Zakat Literacy -> Willingnes	0.153	0.074	0.941	Rejected

The analysis reveals that the relationship between (Attitude → Willingness) with a T-statistic value of 0.908 and a P-value of 0.364 is rejected, indicating that attitude does not have a significant effect on the willingness to pay zakat through zakat institutions. Meanwhile, the relationship between (Zakat Administration → Willingness) with a T-statistic value of 5.990 and a P-value of 0.000 is accepted, demonstrating that zakat administration has a positive and significant impact on willingness. Conversely, the relationship between (Zakat Literacy → Willingness) with a T-statistic value of 0.074 and a P-value of 0.941 is rejected, suggesting that zakat literacy does not significantly influence the willingness to pay zakat. This implies that the performance of zakat administration is a critical factor, while attitude and literacy alone may not drive individuals' willingness to pay trade zakat through zakat institutions.

Discussion

The findings highlight the critical role of zakat administrators in influencing SMEs' willingness to pay business zakat through formal institutions. This variable reflects the trust and credibility of zakat administrators, emphasizing the need to strengthen operational efficiency, transparency, and reputation to

enhance zakat collection. Building trust and demonstrating the positive impact of zakat distribution can further encourage compliance. This finding is consistent with previous studies, including Satrio & Siswanto (2016), Soemitra & Nasution (2021), and Rosalinda et al. (2021), which also demonstrate that trust significantly affects individuals' intentions to pay zakat to zakat institutions. On the other hand, Zakat literacy does not appear to have a significant effect on zakat payment. This finding aligns with the results of Soemitra & Nasution (2021), who discovered that zakat literacy does not significantly influence the intention to pay zakat to zakat institutions. This may be due to other dominant factors, such as the profitability of SMEs, which determines whether they meet the zakat threshold, the reputation of zakat institutions, or a preference for self-managing zakat obligations.

According to Hakimi et al. (2021), based on the Theory of Planned Behavior (TPB), a positive attitude, closely linked to faith in the context of zakat (Hairunnizam, Sanep, & Ali, 2005), significantly influences the intention to pay zakat. Similarly, Annahl et al. (2021) found that muzakki are more inclined to fulfill their zakat obligations through institutions when they perceive their contributions to have a greater impact. While Attitude still shows a positive relationship with Willingness, the results indicate that the attitude of SME owners toward trade zakat does not significantly influence their intention to pay zakat through zakat institutions. Basically, the finding still aligns with the findings of Hakimi et al. (2021), which suggest that the positive effect of attitude on intention may vary depending on the context and individuals' perceptions (Hakimi et al., 2021). However, the limited influence of attitude also warrants further investigation. This could stem from issues with measurement indicators, such as characteristics of the respondent profile, such as varying exposure to zakat obligations or differing motivations for compliance. Refining the measurement model and exploring contextual factors could provide a clearer understanding of this relationship. To address these gaps, future efforts should focus on enhancing the credibility and operational capacity of zakat administrators, improving zakat literacy through targeted educational programs, and conducting further studies to reassess the role of attitude while considering moderating variables such as business size, profitability, or socio-economic factors. These actions can help increase zakat compliance and optimize the role of formal zakat institutions.

IV. CONCLUSION

This community service activity aimed to enhance the knowledge of SMEs in Malang City about trade zakat while assisting zakat institutions in their outreach efforts to increase zakat collection through official institutions in Indonesia. Using a Structural Equation Modeling (SEM), the study found that Attitude toward zakat had a positive but insignificant relationship with Willingness, indicating that SME owners' attitudes alone do not significantly influence their intention to pay zakat through institutions. In contrast, Zakat Administration showed a strong and significant positive effect, emphasizing the critical role of transparency, accountability, and trustworthiness in encouraging zakat compliance. Meanwhile, Zakat Literacy was found to have an insignificant impact on Willingness, suggesting that knowledge about zakat needs to be coupled with practical engagement strategies to transform awareness into action. These findings underscore the importance of improving zakat administration and designing targeted educational programs to enhance zakat collection and optimize its socio-economic benefits.

V. ACKNOWLEDGMENTS

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