
**RELIGION ON POVERTY REDUCTION: POSSIBILITIES FOR
PHILANTHROPIC ORGANIZATIONS IN ISLAMIC SOCIETIES LIKE
INDONESIA**

THESIS

A thesis submitted in partial fulfillment of the requirements for
the Master Degree from Institut Teknologi Bandung and
the Master Degree from University of Groningen

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INSTITUT TEKNOLOGI BANDUNG**



AND

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Abstract

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The development of Faith-Based Organisations can be seen from their involvement in various kind of activity. There are also loud claims upon their activities about the possibilities that they have to combat many social issues e.g. poverty. Many research conducted in analysing their roles and their succeed key.

This research will analyze both government and private Islamic philanthropy organizations in Indonesia and to which and how they can give contribution in poverty reduction in Indonesia. By this research we can comprehend the possibilities of Islamic philanthropy organization in poverty reduction. Although there are many Islamic philanthropy organizations in Indonesia and also the potential donors as one of the obligations in Islam teaching, they still can not grab the potential fund resources from them. Therefore, there is a need to increase their performance not only in distributing their charity but also to increase their fundraising. I hypothesis the importance's of Islamic philanthropy organizations, private and government organizations, as an alternative solutions in poverty reduction in Indonesia

This research is expected to contribute theoretically to promote Islamic philanthropy organizations as a great opportunity to reduce poverty and give contribution for development. It will also give academic background about whether or not the religion based organization play important role on combating poverty.

Keywords: Islamic philanthropy organization, poverty reduction, and faith-based organization.

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Preface

The increasing of faith-based organizations' roles in tackling social issues e.g. poverty, health, education and so forth, gives me the strong impetus in doing this research, especially to explore the possibilities of philanthropic organizations in Islamic societies dealing with poverty issues. Departing from the great potential had by Indonesia as the largest Islamic societies, this research wants to promote Islamic philanthropy organizations as a great opportunity to reduce poverty and give contribution for development.

Difficulties during research are range from limitation of time and data, since research and study about faith based organisation are relatively new especially about Islamic one. In addition, this master thesis is also a final part of my study in Double Master Degree Program of Environmental and Infrastructure Planning (Faculty of Spatial Science, RuG) and Development Planning and Infrastructure Management (School of Architecture, Planning and Policy Development, ITB).

Furthermore, it is almost impossible to acknowledge all those who have supported me in writing my thesis. Firstly, I am grateful to Allah SWT, to be able to finish my study in the Netherlands and complete my thesis right on time. And, it was very difficult to make a good thesis with a limited amount of time without any support from them. Therefore, I would like to address my thanks to my supervisors Dr. Justin Beaumont (RuG) and Ir. Haryo Winarso, M.Eng, PhD (ITB) for giving me comments, criticisms, suggestions, and feedback on my thesis. I would also want to thank to Dr. Johan Woltjer (RuG) as my tutor during my study in RuG. Respectecly, I would also like to thank all my lecturers in ITB and RuG and also all staff members in ITB and RuG. Special thanks are also devoted to my husband, Romie Agusra, for his great loving and supporting during my study in Bandung and Groningen, my angels, Belantara Kusuma Negara and Queentha Virginia Rinjani, and my parents for their patience and support during my study in Groningen.

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Groningen, August, 2008
Yulia Rahmawati

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Chapter 1

Introduction

This chapter is an introduction of the thesis that gives brief explanation about research design. It consists of aim, background, and the structure of this research. This chapter presents the aim of this research, the current discourses about the role of religion in poverty reduction, and the possibilities of philanthropic sector in Islam society in poverty reduction in Indonesia.

1.1 THE AIM OF THE RESEARCH AND RELEVENCE

The aim of this research is to understand the possibilities of philanthropic organizations in Islamic society in poverty reduction in Indonesia. Islamic philanthropy can take the form of *zakat* (tithes), *infak/sedekah* (alms) and *waqaf* (religious foundations or property donated for religious or community use) that aims to enhance community empowerment and economic justice within society. Islamic philanthropy has a great potential to empower community, in which the wealthier people have obligation to give their specific amount of their wealth with certain condition and requirements to the beneficiaries (the poor one) which serves as an equitable redistribution of wealth (Alfitri, 2006).

Research about the opportunity had by Islamic philanthropy organizations in poverty reduction and in development is relatively new not only in Indonesia context but also in international context. The increasing of faith-based organizations' roles in tackling social issues e.g. poverty, health, education and so forth, gives the strong impetus in doing this research. I hypothesis the importance's of Islamic philanthropy organizations, private and government organizations, as an alternative solutions in poverty reduction in Indonesia. There are many Islamic philanthropy organizations in Indonesia that provide charity services for community based on Islamic teaching. However, their performance is

still not optimal. As the largest Islamic nation, there is a great possibility of collecting huge fund from zakat, infaq, and sadaqah (ZIS) in Indonesia.

Nowadays, the research about the faith-based organizations and their roles in social, political and economic development increases significantly. However, there is still not much research about Islamic-based organization because most of the faith-based organization is from Christian background and most research conducted in US and European where the Christian based organizations, local and international, have been already well-developed. This research is expected to contribute theoretically to promote Islamic philanthropy organizations as a great opportunity to reduce poverty and give contribution for development. It will also give academic background about whether or not the religion based organization play important role on combating poverty.

1.2 BACKGROUND

1.2.1 Current Discourse

Religion and development are in different track for long time. Religion is suspected as an obstacle of development. Tyndale (2003) says that many development organizations including many NGOs said that religion as an anti-developmental force because they have different vision of what development is about from the mainstream development theorists. Furthermore, if they have same vision, they may have different way to achieve the goals. It can be seen in combating HIV/AIDS, religious groups prefer to approach the self-awareness through education to change people behavior rather than dissemination of using condoms. However, there is still faith-based organizations which working with the poor are characterized by their readiness to accept the more modern approach. For example, in Indonesia MUI (Indonesian Islamic Council) has reinterpreted Quran and Hadith into religious opinion for family planning program and other government policy as also done by Nahdathul Ulama, one of the biggest Islam organization in the World with their fatwa (religion opinion).

Recently, religion is used as basic approach to gain public attention about certain issues. Every religion in the world speaks the issue of responsibility for the poor society (Regnerus et al, 1998). For example, in Islamic civil society in West Africa (Linden, 2006) and “faith-based” poverty-to-work program in United State (Lockhart, 2003) use religion approach to cope with poverty issue. Religious voices give more contribution to public life (Bane and Made, 2003 and Ludwig and Mayer, 2006). Because they provide more effective social services than secular ones due to their religious character that motivates a supportive and caring attitudes of their staffs (Sherman, 1995; White House, 2001 in Ebaugh et al, 2003).

Religious institution deeply influences people’s life. They give such a spirit for the certain community to deal with their life. USAID has a history of working with faith-based organization in African countries for providing services to people living with HIV/AIDS (Green, 2003). Meanwhile, according to Taylor et al (2000), sociology and social work have a long documentation about the centrality of religious concern and institutions in black communities in United States. This documentation, Taylor said, suggest that faith communities have occupied a primary role within them, and encompassing a broad range issues, not only educational matter but also political concerns, economic and community development. Involving religious organization in development seems like an effective way to improve communities’ life quality. World Bank president, Joseph Stiglitz emphasize that it is needed to build dialogue and cooperation between faith-based organization and secular one related to development issue (Olson, 2008).

1.2.2 Planning in Poverty Reduction

Dealing with poverty issue, planning is needed. What kind of planning approach should be implemented? Planning theories and practices has been shifted from

technical approach to more communicative approach. Poverty is a complex problem that hardly solved by technical approach. As the societies dynamic and have their own value and in regard to the acceleration of global network, collaborative planning becomes a new approach to widely use. Collaborative planning concept rises from Giddens and Habermas thought, institutionalist sociology and communicative action (Healey, 2006). Giddens argues that we are born into social relations and interact with others which as individuals we live in multiple webs or networks. Through this interaction we can build understandings. The institutionalist approach focuses on building social relation and network of our lives so we can interact with others. Collaborative approach builds up link between networks that have different interest. This approach focuses on interaction at the level of developing strategies and frameworks. Healey (2006) said that collaborative planning should help to improve the quality of life through the deliberative work of collaborative capacity building, because based on its institutionalize approach, it can interlink economic, social-cultural and environmental issue.

Involving community in planning and implementation all efforts of poverty reduction initiatives become an important consideration. Different approach can be considered, such as creation economic opportunities, empowering local society, and also gain encourage public participation in decision making process. In this point, to gain communities' attention and support is a must. One option that I emphasized in my research is to ensure that the religion can deal with poverty reduction and development movement in relation with empowerment philanthropic organization within Islamic society.

1.2.3 The Case of Indonesia

Economic crisis in Indonesia in 1997-1998 gave huge impact to Indonesian economy both rural and urban area. This monetary crisis was not only overwhelming the Indonesian's currency, the currencies in other ASEAN

countries were also affected. However, the downfall of the IRD was much more serious. On 7 October 1997, the IRD had lost 55% of its value against the US dollar, compared to other ASEAN currencies which fell relatively less being within the range of 11 - 41% (Njo, 1997 in Yahya, 1998). It caused 20% inflation which quickly absorbed the foreign stock exchange and the further impact was an economic crisis. Facing this reality we could no longer boast that our economy was fundamentally firm. The Indonesian economy which had been built in 30 years collapsed in just a few months. According to the recent International Monetary Fund (IMF) calculation, the 1998 economic growth of Indonesia would be -5%, compared to that of 1997 which was +5% (Republika, Daily, 15 April 2008).

This crisis drastically changes the income and expenditure pattern of many households in Indonesia. This implies that more people have to be stood down from jobs. This job loss may well leave millions of professional managers, employees, and workers unemployed, thus stimulating social crises.

The government has made many attempts to recover the situation. But most of these did not work. In the short term, the government launched some 'market operations' by supplying primary needs, at affordable prices, to anticipate the lack of goods in the markets. The goods were in short supply, housewives buying in large quantities for bleak days looming. This situation was worsened by certain speculative distributors who hoarded goods in their warehouses, with the intention of selling them when the price peaked. Again, the poor families could not afford much.

In that time many philanthropic organizations, religion-based and secular one, provide redistribution of charity fund for the poor family mostly in urban area, where the crisis gave the worst impact. The philanthropic organizations in Indonesia mostly are based on religion.

The 2004 Indian Ocean tsunami caused massive devastation in Indonesia, Thailand, Sri Lanka, India and Bangladesh, as well as other Asian and East African countries. Nangroe Aceh Darussalam and Nias Island was worst hit by the massive flooding which cause infrastructure damage, lost of life and paralyse all activities in that province. Government of Indonesia (GOI) enunciate it as national disaster in first place. This disaster caused huge social, economic and environmental destruction to the area that we already poor. Before the tsunami, more than third of the population of Aceh and Nias live in poverty. Now, almost half live below the poverty line or are dependent on food aid (BRR Report, 2005). Government of Indonesia along with the staff of 124 international NGOs, 430 local NGOs, and dozens of donor United Nations agencies, various government agencies, some military, and many others are collectively working on reconstruction efforts for Aceh and Nias.

Table 1. Damage and Loss Assessment of Tsunami (USD billion):

	Damage	Losses	Total
Housing	1.4	0.0	1.4
Transportation	0.4	0.1	0.5
Fisheries	0.1	0.4	0.5
Other	1.0	1.0	2.1
Total	2.9	1.5	4.5

Source: BPS Indonesia, 2005

Table 1 shows the total estimate of damage and loss of tsunami which is USD 4.5 billion. This amount is equivalent with 97% Aceh GDP or 2.2% National GDP (BPS, 2005). Many new and innovative mechanisms for funding the recovery of Aceh and Nias have ensured that sufficient resources are available. To rebuild and redevelop Aceh and Nias pascha tsunami, not only financial matter but also public policy reforms in Aceh. It was marked by signing piece accord between GOI and Free Aceh Movement (GAM) in 15 August 2005 in Helsinki which brings chance for peace and the reconstruction efforts present the opportunities to strengthen the

peace by empowering whole communities to plan and build their future (BRR report, 2005).

1.3 STRUCTURE OF THESIS

This thesis is divided into six chapters in order to meet the designated theoretical framework and to synchronize with the proposed methodological steps. The content of each chapter are described as follow:

1. Chapter 1: Introduction

This chapter consists of aim, background and the structure of the thesis. In this section, the explanation of the thesis gift briefly in background. It also discusses current discourse about the topic and provides it with the relevancies of this research. The causes of poverty in Indonesia are also explained precisely, which further explain about the role of religion based philanthropic organization in facing poverty reduction.

2. Chapter 2: Theoretical Framework

This chapter is the main body of this research in which theoretical framework is formulated. This chapter will be the framework and the basic knowledge in doing this research related to faith-based organizations and their roles in development. Firstly, it explains the development of faith-based organizations and current discourse about them, then the poverty issue will be described as well. Finally, this chapter will explain the role of faith-based organizations in the development especially in tackling social issues especially in combating poverty.

3. Chapter 3: Research Questions and Research Methods

This chapter presents the research question and research methodology as a basis for doing the analysis. Furthermore it explains the research questions, the method that is used in this research, and also the scope of this research.

4. Chapter 4: Overview of the Case

This chapter will describe the overview of the Islamic philanthropic organization in Indonesia and how they change over time. In this chapter, Islamic philanthropy organizations, both government and private ones, will be describe as the source of the analysis later in chapter 5.

5. Chapter 5: Analysis

Chapter 5 of this research will analyze both government and private Islamic philanthropy organizations in Indonesia and to which and how they can give contribution in poverty reduction in Indonesia. From theoretical framework and case overview, some indicators will be elaborated and analyzed.

6. Chapter 6: Conclusion and Recommendation

It is the last chapter in which research findings will be describe. This chapter consists of conclusion and recommendations. From the analysis, this research will come with several recommendations as policy lessons to implement in order to widen the possibilities of philanthropic organizations on poverty reduction.

Chapter 2

Theoretical Framework

In order to understand the relationship between faith-based organizations' and poverty reduction, faith-based organization concepts have to be determined and its linkage with development and poverty have to be clarified as well. This chapter describe faith-based organizations and their relation to poverty reduction from international experiences. The important aspects of the poverty reduction and the role of Islamic philanthropic organizations to deal with poverty issue will be described. Then, the discussion will move to the possibilities of using philanthropic organization in Islam society for poverty reduction.

Poverty reduction is a complex problem that cause by many factors and to deal with it government can not do it by its own. Many actors should be involved. Gaining community participation seems to be a must. Almadinger (2002) say that the reformed modernists (Habermas) and postmodernists (Lyotard) seems to be agree on two things, which are that the society is complex and rationalism is not itself objective. The disagreement is that no form of rationality can exist (Lyotard, 1986 and Bauman, 1988 in Allmadinger, 2002) while Habermas (1984) and Giddens (1990) in Allmadinger (2002) believe that it can through communicative rationality. On the other hands Healey (1997) say that the planning practice is based on rational planning focused on identifying the objectives and developing and implementing appropriate means to achieve them (Healey, 1997). It is debated by communicative rationality through collaborative approach which deals with the process, on how and who (interaction) to achieve the goal. In this chapter I will argue that communicative and participatory approach in community participation is needed to deal with poverty reduction especially if religion will be use as a basic approach.

2.1 Faith-Based Organizations and Development Issue

2.1.1 Faith-based Organization in Development Issue

In 1998, James Wolfensohn and Lord Carey, then Archbishop of Canterbury, inspired the foundation of the World Faiths Development Dialogue (WFDD) as a dialogue on development and poverty among people from the different religious traditions and between them and the multilateral development agencies (Tyndale, 2003). The UN has been in dialogue with religious organizations for a long time and lately it also attracts other international agencies such as IMF, Inter-American Development Bank and so forth. The power of religious organizations in encouraging society seems to be a great chance to approach communities as a purveyor of moral values which is very important to bring communities into development agenda, especially to contend for the poor. Religion plays important roles in contemporary post-secular societies, where the religious leaders and institutions influence cultural norms and provide the basis for alternative political, social, and economic orders that can be used as the basis of political actions (Beaumont, 2008).

Nowadays, faith-based organizations are scattered and involved in various kind of activities, such as education, health, and other humanitarian aids. They provide services for the poor communities all over the world, for example working with and for refugees and internally displaced persons (Kirmani et al, 2008), giving huge contribution in HIV prevention by providing counseling, clinical services and so forth in African countries (Green, E. C, 2003). Another examples are faith based organizations in the Netherlands that known as the most secular country are the organizations that provides support services, such as emergency shelter, social work, pastoral care, advocacy, assisting immigrants and asylum seekers (Beaumont, 2008 and Beaumont and Dias, 2008).

The new concern with religion and development, according to Clarke (2006) risks repeating the conceptual and programmatic problems by:

-
1. Focusing disproportionately on organizations seen as mainstream, liberal or moderate and therefore more compatible with donor discourse and policy
 2. Focusing on faith-based charitable or development organizations at the expense of a broader set of organizations.

In the context of international development the revitalization of public religion is evident in the growth of faith based activism. It is also triggered by the fall of communist and end of cold war. The religious leaders got an important role in gaining community support. For example, in Philippine, Christian leaders helped to depose Marcos regime in 1986, in Indonesia, Muslim leaders helped bring down Soeharto regime in 1998 and Thai Buddhist leaders gave contribution to collapse military regime in 1992.

Western donors have traditionally supported from Christian churches. In UK, the Overseas Development Administration (ODA) funded organizations such as Christian Aids, Catholic Fund for Overseas Development (CAFOD) and Catholic Institute for International Relation (CIIR). In 2005, the UK Department of International Development (the successor of ODA) maintained Programme Partnership Agreement with Christian Aid, CAFOD and the successor of CIIR but not with organizations from other faiths.

The growing importance of FBOs in development discourse can be seen in January 1980 when Reagan as US president, mobilized the Christian right in support of his domestic and foreign policy (Clarke, 2006), in 1996 during Clinton's years, further attention was given to faith-based participation in state-funded social services and in 2001 Bush announced the creation of the White House Office of Faith-Based and Community Initiatives (Goode, 2006). By 2003 43% of electorate was evangelical, a significant shift away from Christian denomination. The National Association of Evangelicals (NAE) had 30 million members in 2005 and has become an important participant in debates around US policy and international development (Waldman, 2004 in Clarke, 2006).

The debate about within academic, political and media about the possibilities of religions and faiths in general and faith-based organizations (FBOs) in particular for tackling social issues also increase lately in European countries. Funding by the European Union, Faith-Based Organizations and Exclusion in European Cities (FACIT) concerns the present role of Faith-based organizations in matters of poverty and other forms of social exclusion (such as homelessness or undocumented persons) in European cities. One of the objectives in working paper of FACIT 2008 is to assess the significance of FBOs from a variety of faiths (Christian, Hindu, Islamic, Jewish and Buddhist), in the policy and practice of urban social policies in general, combating social exclusion and promoting social cohesion in particular (Beaumont and Cloke, 2008). They note that FBOs are not just churches or other official religious institutions but more to religious associations that exist as independent legal entities, such as registered charities.

As define by Clarke (2006), there are 5 types of FBO's, which are:

1. Faith-based representative organizations or apex bodies which rule on doctrinal matters, govern the faithful and represent them through engagement with the state and other actors. This type is varying across the main faiths, like World Council of Churches (WCC), United States Conference Catholic Bishops (USCCB), the Sangha (Buddhism), Muhammadiyah and Nahdhatul Ulama (Moslem) in Indonesia, etc. These organizations playing significant roles in the state. They actively in international and national forum.
2. Faith-based charitable or development organizations which mobilize the faithful in support of the poor and other social groups, and which fund or manage programs which tackle poverty and social exclusion. This type plays direct roles in combating poverty and or providing charity for the poor. In US there are 18% of 37.000 non profits organizations involved in social service provision and their budgets reach 17 billion USD in 1999. In Indonesia according to PIRAC survey, in 1996 the funds from collecting ZIS is 25,6 million USD.

-
3. Faith-based socio-political organizations which interpret and deploy faith as a political construct, organizing and mobilizing social groups on the basis of faith identities but in pursuit of broader political objectives or, alternatively, promote faith as a socio-cultural construct, as a means of uniting disparate social groups on the basis of faith-based cultural identities. In Pakistan, a coalition of 6 political parties based on Islam religion won 11,3% vote in Parliament in 2002. In Indonesia Islamic parties won 16% vote in 1999 election.
 4. Faith-based missionary organizations which spread key faith messages beyond the faithful, by actively promoting the faith and seeking converts to it, or by supporting and engaging with other faith communities on the basis of key faith principles. This type of organization provides the funds and or charity in certain countries with special mission to spread their faith and they give an important influence for the development of NGOs in the recipient countries. Hearn (2002) in Clarke (2006) say that evangelical and Pentecostal missions I Africa are critical to the implementation of USAID policy in recipient countries.
 5. And finally, faith-based illegal or terrorist organizations which engage in illegal practices on the basis of faith beliefs or engage in armed struggle or violent acts justified on the grounds of faith. Thee most popular organizations is Al Qaeda or Jemaah Islamiyah which has wide network but few Moslem subscribe to it because its violent actions.

In this research, the faith-based charitable or development organization is the main focus which is explored. Because the faith-based charitable organization play a more direct role in tackling poverty by funding or managing programs to help the needy.

2.1.2 Religious Ethics in Recent Development

Amartya Sen (1999) in Bane (2003) defines development as “a process of expanding the real freedoms that people enjoy”. Sen also defines poverty as “the deprivation of basic capabilities rather than merely as lowness of income”. Sen’s basic idea is that human development consists in exercising human capabilities in achieving a satisfying life path, that comprise basic capabilities to fill their basic needs, like to avoid starvation, under nourishment, premature mortality, and also to have freedom for enjoying political participation, speech and so forth. This freedom, according to Sen, involves process and opportunities and poverty comes from being deprived from these basic capabilities.

How process and opportunities can be gained? Currently, community involvement and participation play an important factor in planning and development. Healey (2006) argues that social diversity is a nature of any place whether it is appeared and strongly claimed or invisible but exist. Furthermore Healey (2006) say that people are not the same but dynamics of the way they live in their place and their needs cannot be standardised. And the society seems to be regrouping in their specific identity and interest. Their specific identity could be their local culture, religion and other social background that must be treated well to gain their involvement.

Different people have different interests and perspectives. It is difficult to understand them. It is become a crucial factor in our community today. According to Healey (2006), community should be seemed not only as the people who live in an area, but also as two images of it at the same time. She argues that those images of community as first, an integrated place-based social world, which every individual is bounded by common value, norm or beliefs about their appropriate behaviour and responsibility to each other and to their “community”. In this term, first, it can also be seen as individual aggregate interest as ordinary people, and second as an opposition community associated with ordinary people or group of

community who are opponent to powerful power such as private and government (William, 1976 and Mayo, 1994 in Healey, 2006).

Religion is one of the important and strong matters which bond the community. Religion is also one aspect that can motivate or obstruct development. Religious people and institutions can become funding sources (Krafess, 2005), innovation (Bartkowski et al, 2002), empowerment (Brodsky, 2000), social movements (Brodsky, 2000) and service delivery (Taylor et. al, 2000). The development communities view religion differently, as an institutional structure to be used to aims of the project and as culture element that often impeding development, and as a personal motivation that can support development (Selinger, 2004). Mostly they avoided the religious matter from development strategies.

Religion has been marginalized since 1920s when sociology accepting the thesis that religion was increasingly less significant sociologically (Selinger, 2004). Herbert (2003) observe how the changing life style influence the way people view religion and construct what they call modernity in which religion itself were marginal to the economic development of the nation. The ignorance of religion by social science and also by society, according to Herbert, because they think religion is no longer required in a modern society.

Modernization theory has had a significant impact on development strategy. But then since 1990s, the interaction between religion and politic are increased (Selinger, 2004). Haynes (2002) in Selinger (2004) highlights the rise of Islamism since the Iranian revolution in 1979, spreading all over the world. There are also tensions between extremist Islam and the West especially after September 11th as noted by Ebaugh (2002).

As cited by Selinger, Lyon (1996) emphasized that the reentrance of religion into the construction of society must be evaluated as more than simply reaction to modernization. Religion becomes an important matter that influences all development activities The Global Civil Society Report 2004/5 argues that there

is no way we can understand the logic, strategic and dynamic of civil society anywhere in 3rd World unless we bring the transcendental dimension back into our analysis. In term of development aids, Berger (2006) say that why not use every means and tools available to fight poverty, even it is an instrument that ignorance by the donors, i.e. religious view. It also cited by McGregor (2007) from The FACID (2004, 2) that the code not explicitly recognize spiritual issues as a component of development but it prohibits the discrimination based on religious view. Political and social movements and advocacy campaign are also drawn upon religious motivation and support by religious leader. The HIV/AIDS prevention in Africa by World Bank and other international institution use religion approach to succeed their program. Religious regimes and parties in Iran, Pakistan and so forth influence the development policy in their countries. Many faith-based organizations take place in development agendas, such as MDG's campaign, poverty prevention, woman empowerment etc.

2.2 Poverty Issue

Different understanding about poverty definition leads to different definition that people give about poverty. It is because it's multidimensional nature which intertwine between income and non-income dimension. Poverty is also conceptualized in both absolute and relative sense. This concept is generally based on whether relative or absolute standard are adopted in the determination of minimum income required to meet basic need. The relative concept of poverty is largely income-based while in absolute term has to be adjusted periodically based on technology development or recent development.

In general, as described by Townsend (1997), poverty can categorize as follow: 1. Absolute poverty is poverty in which it is having less than objective defined and absolute minimum, 2. Relative poverty is poverty in which it is having less than other society and 3. Somewhere between, that poverty is feeling you do not have enough to get along, maybe it is absolute or relative or in between.

Poverty measurement is important to see the poverty condition in the country and to provide certain programs to reduce it. Conversely, there are many theoretical debates on how to measure the poverty index. The World Bank defines poverty in absolute terms. The bank defines extreme poverty as living on less than 1USD per day, and moderate poverty as less than 2 USD per day. It has been estimated that in 2001, 1.1 billion people had consumption levels below 1 USD per day and 2.7 billion lived on less than 2 USD per day. There are some ways to measure poverty that can find as below:

1. *Basic Need Approach*

Basic Need Approach is one of the major approaches to measure the absolute poverty. It tries to define the absolute minimum resources necessary for long-term physical well-being, usually in terms of consumption goods (Reader, 2006). The poverty line is then defined as the amount of income required to satisfy those needs. The basic need lists is sometime different among the countries but in general food, shelter, clothe, clean water, education, health and sanitation is included.

2. *Income Inequality*

Income equality, also known as income distribution, is used to measure the distribution of income and economic inequality in a specific region or country. Inequality is determines by the demand for and supply of skill. Income distribution has always been a central concern of economic theory and economic policy because in come is the most consistent factor to be included in poverty measurement. Classical economists were mainly concerned with factor income distribution which is the distribution of income between the main factors of production while modern economists more concerned about the distribution of income across individuals and households. However, the overall level of inequality in a country, region, or population group is one of the most important dimensions of welfare in that group (Coudouel et al. 2002),.

3. *Poverty Gap Index*

Poverty gap index is the mean over the population of the proportionate poverty gap, where the poverty gap is given by the distance of the poor below the poverty line, as a proportion of the line. The non-poor are counted as having zero poverty gaps. Poverty gap always linkages to other indicator such as net migration rate, GDP per capita, adult literacy rate and so forth. This measure reflects the average distances of the poor below the poverty line so it gives a better idea of the depth of poverty in certain area.

4. *Human Development Index*

Human Development Index is a combining measured of life expectancy, literacy, educational and GDP per capita (UNDP Human Development Report, 2008). This measures not only measures poverty in economic view but also social condition in the country. The index was developed by Mahbub ul Haq in 1990 and Sir Rihard Jolly with help from Gustav Ranis from Yale University and Lord Meghnad Desai from London School of Economics. Every year, UNDP releases its own Human Development Index report and by that can implies whether the country is developed, developing or underdeveloped.

5. *Human Poverty Index*

Human Poverty Index (HPI) uses indicators of the most basic dimensions of deprivation: a short life, lack of basic education and lack of access to public and private resources ((UNDP Human Development Report, 2008). Access to public and private resources here mainly refers to access for safe water, the proportion of children with malnourished, access to health center and so forth. However, UNDP has also made efforts to broaden the measure of poverty through HPI.

2.3 Faith-Based Organizations in Poverty Reduction

Poverty issue absorbs more attention from society as well as government. How to deal with this issue, who's responsible to handle it and what should be done with

it. Poverty is a complex issue that influences economic, social, cultural and political life and they link each other strongly. In his presidential campaign, George W. Bush promised to increase the involvement of faith-based organizations in social service provision. It is consistent with his policy agenda as Governor of Texas that greater participation by faith-based groups in social services has potential chance to improve service delivery. Because in United States, as Ebaugh et al. (2003) say, the religious institutions have traditionally delivered services to disadvantaged groups.

Today, not only Government concern on poverty issue but also non-government organization, local, regional, national and even international organization. Because every religion in the world speaks the issue of responsibility for the poor (Regnerus et al, 1998), this opportunity seems to be a good chance to deal with poverty prevention. One of the research about giving the poor or needy that did by Regnerus et al (1998), there is one evidence in his finding that religious people tend to be more concern on giving the poor than non religious one, and he said that religion does matter. McGregor (2007) in his paper explores how religion NGOs are 'doing development differently' by focusing upon the influence religion has upon their development activities and found that religion NGOs are already pursuing 'alternatives to development' by centralizing or at least recognizing and being sensitive to spiritual concerns, a dimension that is obscured within many development encounters. The claims made within certain politicians, NGOs and academics that FBOs has better performance in reducing urban poverty and striving social justice than government and the welfare state more generally (Kramnick and Moore 1997 in Beaumont and Cloke, 2008). This statement refers to the fact that there is a faith-motivation to engage in service for the poor. Still in Beaumont and Cloke (2008), even the fundamentalist religion organisation such as Salvation Army has shown their attention on the lives of homeless people. The concern of the religious based organisation in providing their services and also reaching the grassroot community by using religion approach gain great success. The research among all mosques in the Dutch city of

Rotterdam (Canatan et al 2003 in Beaumont and Cloke, 2008) revealed that their social role far exceeds that of a religious centre by itself. The research shows that mosques succeed in reaching minority groups (usually characterized by low income and educational levels) for which the threshold to regular services is too high (De Gruijter et al 2006 in Beaumont and Cloke, 2008). For Islamic community, mosque not only for pray, but it becomes a place to discuss many social issues in their community, one of them is financial support for the needy.

Religious community in their professional life in any institution both secular and religious, need respect and dignity over their religion, and thus an alternative process of collaboration (Myers, 1999). They also motivated by their religion that may impacts their professional behavior. For example, the staffs that work for religious non profit organizations were merely to charge less and still provide good services for the needy. However, religion may become a practical problem when religious leaders or institutions obstruct the development because it promotes western liberal secular culture since many donors are indeed from western countries. Cooperation with donors' countries also navigates religious values. HIV/AIDS prevention is one of the most debateful issues (Green, 2003).

Chapter 3

Research Questions and Research Method

This chapter consists of research questions, and the explanation about research methodology. This research will be developed based on three main activities, namely data collection and literature review, research procedures, and methods of analysis.

3.1 Research Questions

This research is developed based on some research questions, those are:

1. How can religion deal with poverty issue?
2. What are the main issues in the development of Islamic philanthropy organization in Indonesia?
3. To what extent do Islamic philanthropy organizations contribute to poverty reduction?
4. What policy lessons can be learned?

3.2 Data collection and Literature Review

Research methodology that used in this research is study literature and document analysis. In doing study literature, this research will provide with planning system literatures that related to poverty reduction, and the role of faith-based organizations in development especially when deal with poverty issue. The literatures that used on this research are international scientific journals, The World Bank Working Papers and Reports, articles and books.

This research is also conducted by means of document analysis, which analyzes all documents that related with poverty issue that linked with the role of Islamic philanthropic organizations to cope with it. In this step, document reports

published by The World Bank, NGOs, and others that related with this topic will be used. Due to the limited time in completing this research, the data used in this research are from previous researches, the official site of Islamic philanthropic organization in Indonesia, and also from working paper that related to this research.

To collect literatures and data needed, this research mainly used electronic bibliographic database search, besides the RuG' library collection for the books and few journals. The major electronic bibliographic databases e.g. Google Scholar, Google and OPAC are used with specific key terms i.e. "Faith-Based Organization", "Religious-Based Organization", "Development Study", "Poverty", "Philanthropic Organization", "Islamic Philanthropic Organization" and also added "in Indonesia" to find specific location. Because of the searching results come up with too wide topic, and then it is necessary to combine the key terms to find the more relevance literatures for the research.

From the searching process (Google scholar), it can be seen that the research about Islamic faith-based organization is not much. In searching process, the literatures with "faith-based organization" are reaching 3.410, while "Islamic-faith-based organizations" only find 7 and "Islamic philanthropic organization" finds 26 items. The limited literatures and data about this research create difficulties and limitations especially in building theoretical framework and analysis. However, the internationals' experience about faith-based organization can be used as a basic approach.

3.3 Research Procedures

Research procedures are formulated as follow:

1. Firstly, building basis for theoretical framework about religion based organizations and their relation to poverty reduction from international experiences. It also describes about religious based organizations in general.

The important aspects of the poverty reduction and the role of Islamic philanthropic organizations to deal with poverty issue will be described. The aim of this procedure is to provide basic information and definition about poverty reduction through religion approach. The data that used here is secondary data from literature review.

2. Secondly, doing extensive literature review to describe the profile of poverty issue and current condition about the role of Islamic philanthropic organizations in Indonesia. It is also related to the current discourse in Indonesian policy about this issue and provided with overview of case study that becomes one of source analysis besides other documents analysis.
3. Thirdly, analyzing the concepts on how religion can deal with poverty reduction and the role of Islamic philanthropic organization, by using textual analysis. This analysis means that this research will use literatures as basic source of analysis, and selectively use the data provided by those literatures and from interview to build concept that needed.
4. Finally, after doing analysis, this research will come up with conclusion and recommendations that derived by comprehensive analysis to explore the possibilities and strategies using religion as basic approach on poverty reduction.

3.4 Method of Analysis

Method of analysis in this research is mainly focus on literature review which using existing literatures and previous research about related topic (Flowerdew and Martin, 2005). This research is using qualitative data taken from journals and reports that provided by RuG library, government site, NGOs' site and others institution that related to this research (universities, association, non-government organization, and so forth).

This research based on the faith-based organizations development and their roles in providing services in many sectors, like economic development, health,

education and charity programs that give wider influence in social, economic and political. The literature review is needed to learn and stimulate idea for building the theoretical framework later as the main body of this research (Neuman, 1991). From literatures review and previous researches about faith-based organizations, I want to identify how the religion-based organization can deal with poverty issue. Then I will take Indonesia as a case study, since the development of religion based philanthropic organizations in Indonesia gradually develop, especially after economic crisis and Aceh and Nias tsunami disaster (PIRAC, 2002).

Furthermore, document analysis as a form of qualitative data analysis about religion based philanthropic organizations and current discourse about that in Indonesia will be conducted to find the main issues in the development of Islamic philanthropy organization in Indonesia will be done. The qualitative data analysis is important to develop a comprehensive description about this research (Dey, 1993). These main issues will become the basis to evaluate of philanthropic organizations in Indonesia that categorize as government and private organizations. I will analyze the performance of government and private organizations in providing their services to find out the possibilities of these organizations to contribute on poverty reduction in Indonesia. Finally, this research will propose some recommendations that come from analysis of the current condition of Islamic philanthropy organizations in Indonesia, government and private organization.

To provide better visual representation, complete analysis is shown on diagram in Figure 1 below:

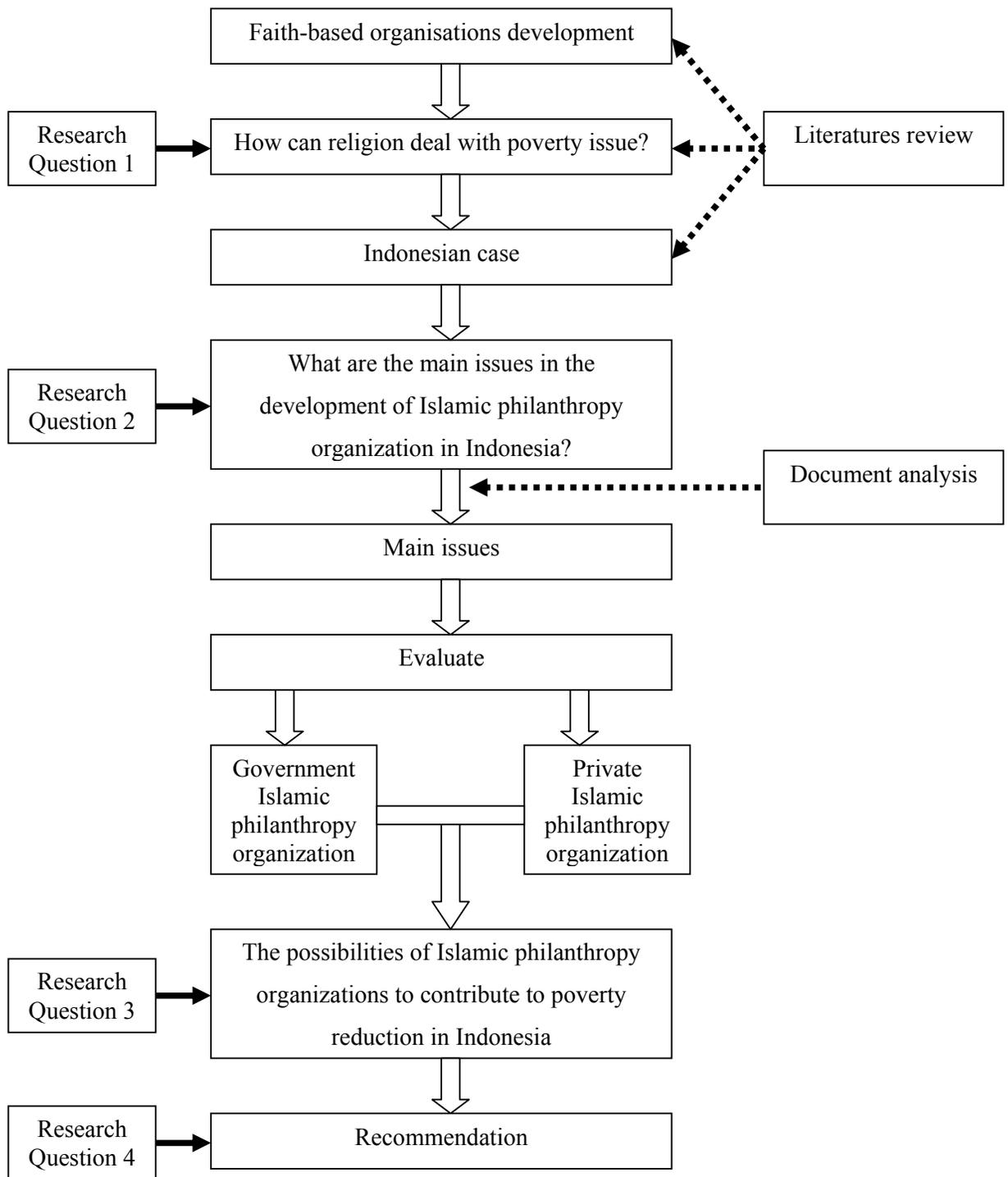


Figure 1. Diagram of Analysis

Source: Compile by author

From the figure above, it can be seen the practical step in doing this research. From the literature review in theoretical framework, first research question is answered. The next step is answering the second research question about the main issue in the development of Islamic philanthropy organization in Indonesia. This answer will elaborate with theoretical framework to find the indicators that will be analyze in previous chapter and answer the third research question about the possibilities of Islamic philanthropy organizations to contribute to poverty reduction in Indonesia. Finally, the recommendation will answer the last research question about the policy lesson that can be learned from this research.

Chapter 4

Poverty and Islamic Philanthropy Organizations

This chapter elaborates on the poverty condition in Indonesia in general including recent discourse about zakat management and Islamic philanthropic organization related to the implementation of zakat management law and philanthropic sector policy in Indonesia.

4.1 Poverty Dimension in Indonesia

The challenge of reducing poverty remains one of the country's most pressing issues. The number of people living below 2 USD per day in Indonesia comes close to equaling all those living on or below 2 USD per day in all of the rest of East Asia besides China. The Indonesian government is committed to the objective of reducing poverty in its medium-term plan (RPJM) for 2005-09 which, in turn, draws on a national poverty reduction strategy. Indonesia struggles with poverty after economic crisis in 1998 hits it and drags its citizen to poverty level. Poverty level that increased at that time, now back into pre-crisis level that can be seen in figure below:

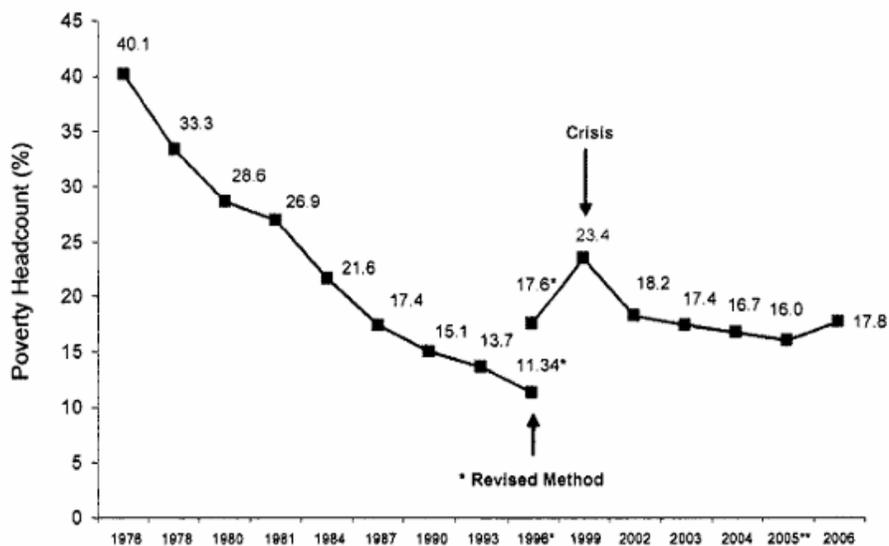


Figure 2: Poverty in Indonesia fell rapidly until the 1990s' and has declined again since the crisis

Source: World Bank report (Nov, 2006)

In September 2006, BPS announced that the poverty rate in Indonesia had increased during the period February 2005 to March 2006 from 16.0 percent to 17.75 percent-in contrast to steady declines in the poverty rate since the crisis. The recent analysis said that the cause of that increasing rate due to the increasing of rice price. The 33 percent increase in rice prices between February 2005 and March 2006 mostly due to the ban on rice imports. Around three-quarters of the additional four million people falling into poverty during this period. While other analysis indicates that the fuel price increase was not a major factor in the increased poverty rate (World Bank report, 2006). The unconditional cash transfer (UCT) program, which provided cash transfers to 19.2 million poor and near-poor households, more than offset, on average, the negative impact of the fuel price increase for the poor. In other words, the impact of the combined effects of the fuel price increase and the UCT compensation point to a net positive income gain, overall, for the poorest 20 percent of the population.

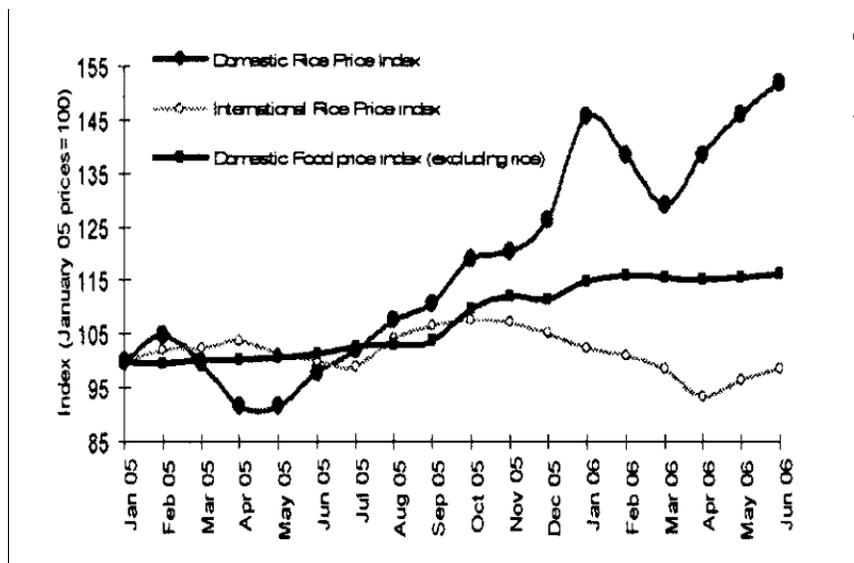


Figure 3: The domestic rice price overtook international prices proportion of households that are net consumers of rice (%) (incl. the tariff) after December 2005 due to shortages In domestic supply

Source: FAO in World Bank report (2006)

The increasing rice price hit Indonesian citizen that mostly are in vulnerable level of poverty. In table below can be seen the proportion of household that are net consumers of rice and hit by the impact the worst.

Table 2. The proportion of household that are net consumers of rice (%)

	Rice farmers	All farmers	All Indonesians
Urban	27.67	73.7	94.53
Urban poor	25.26	67.32	85.79
Urban non-poor	28.49	75.91	95.51
Rural	26.63	64.19	72.26
Rural poor	33.17	68.1	72.14
Rural non-poor	25.17	63.17	72.28
Total	26.77	65.44	82.74
Poor	31.79	67.98	76.46
Non-poor	25.57	64.75	82.74

Source: Susenas, 2004.

The increasing rate of Indonesian poverty due to the increased of rice and fuel price give many impacts in politic, economy and social life. Government releases some policies to overcome the poverty problem. Beside UCT and other safety net for the poor, government cooperate with private sector and social organization arrange some program such as giving no gage loan with low interest or share system for the poor. After the crisis, there are many philanthropic organizations grow in Indonesia and mostly based on religious background. They provide collecting and distributing food, clothes, and fund for the needy mainly in urban area, especially to counter the fulfillment of basic need as a direct impact of rice and fuel price increased.

4.2 Theology of Philanthropy

As in other Islamic communities, in Indonesia, Islamic charity is a form of philanthropy. Philanthropy can take the form of *zakat* (tithes), *infak / sedekah* (alms) and *waqaf* (religious foundations or property donated for religious or community use). It purposes to develop community empowerment and economic justice in general.

In Islam teaching, all things belong to God, and that wealth is therefore held by human beings in trust. The word Zakat means both 'purification' and 'growth'. Our possessions are purified by setting aside a proportion for those in need, and, like the pruning of plants, this cutting back balances and encourages new growth. There are prohibitions on amassing material possessions and being parsimonious. There are invitations and obligations to, and rewards for those who make charitable donations. *Zakat* and *sedekah* are of equal religious obligation as the five daily prayers (*shalat*). As it is a reward for making donations in form of Zakat, there is also a punishment for whom that did not make it. It is explained in Quran surah at-Taubah verse 34 and 35 and in sunnah. "O ye who believe! There are indeed many among the priests and anchorites, who in Falsehood devour the substance of men and hinder (them) from the way of Allah. And there are those who bury gold and silver and spend it not in the way of Allah: announce unto them a most grievous penalty (Qur'an, 9:34, based on Yusuf Ali translation). On the Day when heat will be produced out of that (wealth) in the fire of Hell, and with it will be branded their foreheads, their flanks, and their backs, their flanks, and their backs.- "This is the (treasure) which ye buried for yourselves: taste ye, then, the (treasures) ye buried!" (Quran, 9:35, based on Yusuf Ali Translation). Furthermore, in sunnah the prophet (pbuh) said: "Any owner of gold and silver who does not deliver from them their right, on the Day of Quiyamah (Day of Judgment), (the gold and silver) will be shaped as foils of fire. Then it will be heated in the fire of Hell; (and) then with it he will be ironed on his side, his forehead, and his back" (narrated by Muslim).

Different with other forms of philanthropic action such as sadaqah and waqaf, zakat is an obligation with specific rules. If zakat implementations does not met its religious requirements than it becomes such a voluntary alms which means it is not valid for zakat obligation. Zakat regulation is established in Qur'an, the Sunnah (or hadith), and the consensus of the companions and the Muslim scholars. Zakat is the amount of money that every adult, mentally stable, free, and financially able Muslim, male and female, has to pay to support specific categories people. This category of people is defined in surah at-Taubah verse 60: "The alms are only for the poor and the needy, and those who collect them and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarers; a duty imposed by Allah. Allah is knower, Wise." (The Holy Qur'an 9:60).

There are two types of zakat (Al-Qardawi, Fiqh in Alfitri, 2006): 1. Zakatal-Fitr, is given at idul fitri, the celebration at the end of the fasting month of Ramadan. It is usually in the form of money and basic food. This is given directly to poorer members of the community. 2. Zakatal-Maal, is obligatory when a certain amount of money, called the nisab is reached or exceeded. Zakat is not obligatory if the amount owned is less than this nisab. The nisab (or minimum amount) of gold and golden currency is 20 mithqal, this is approximately 85 grams of pure gold. One mithqal is approximately 4.25 grams. The nisab of silver and silver currency is 200 dirhams, which is approximately 595 grams of pure silver. The nisab of other kinds of money and currency is to be scaled to that of gold, 85 grams of pure gold. This means that the nisab of money is the price of 85 grams of 999-type (pure) gold, on the day in which Zakat is paid. The mechanism of counting the zakat is as follow:

1. Passage of One Lunar Year:

Zakat is obligatory after a time span of one lunar year passes with the money in the control of it's owner. Then the owner needs to pay 2.5% (or 1/40) of the money as Zakat. (A lunar year is approximately 355 days).

2. Deduction of Debts:

The owner should deduct any amount of money he or she borrowed from others; then check if the rest reaches the necessary nisab, then pays zakat for it.

As stated in Quran, Islam views life as an integrated unity, where every aspect is interconnected with the other (Janis, 1990). There is no division about which one is more important among spiritual, economic, social and political sector of Islamic society. They have their own importance in enhancing the worship of Allah. That is the reason why in Islamic law base country, in general Zakat manages by the state.

4.3 The Law of Zakat Management and Philanthropic Sector

The concept of zakat exemplifies Islam's strong concern with social and economic justice. It serves as an equitable redistribution of wealth and income, which is enforced through moral obligation and fiscal measures (Ariff, 1991). Islamic philanthropy has great potential to empower the community. Unfortunately, in the past, resources generated by Islamic philanthropy have not always been managed professionally. Neither have they been distributed appropriately or in a clearly targeted manner. As many have argued, however, the redistributive economic impact of zakat depends on how it is administered, especially with regard to collection and distribution (Abdullah, 1991 in Arieff, 1991). Because the management of zakat in Indonesia is not managed professionally yet so the full potential of zakat has not yet been realized.

Mostly zakat management in Indonesia still do in traditional way. There are a large part of the funds from zakat and sedekah is given directly to people to fulfil their everyday needs or zakat is just given to the *amil* (mosque official who collects tithes), that the majority of them are not professional administrators of philanthropy, and do not work within the principles of transparency and

accountability (Fauzia, 2007). The same thing happened with Waqaf, in the form of land or buildings, which should be used to alleviate poverty and may be used to turn a profit or other community needs, is left untouched and unutilised (Fauzia, 2007).

The difficulty of zakat management in Indonesia stems from the fact that Indonesia is not an Islamic state. The willingness of a regime to regulate zakat administration directly very much depends on its policy toward Islam. Meanwhile, the voluntary sector's role in zakat management depends in part on the availability of facilitative law, which has the potential to enhance credibility and accountability and thereby foster public trust. The unaccountability and untransparency in zakat management trigger community to pay their zakat directly to the needy just to fill their daily needs. Considering the large amount of zakat funds, it can be used for long time needs. As Indonesia has the largest muslim population in the world which constitutes almost 90% of its total population (Asia Pasific Philanthropy Consortium (APPC), July 2001). From that fact, the involvement of the state in managing zakat becomes an urgent agenda. The amount of money from zakat, especially zakat maal, if it is managed in professional way, can give huge contribution in poverty reduction. But the management of zakat in Indonesia was unclear before government enact Law of *Zakat* Management No. 38/1999 (Fauzia, 2007).

In early Indonesia, the duty of Ministry of Religion that founded in January 1946 coverage Islamic religious information, Islamic marriages, and Islamic education that can be seen in their bureau, while zakat did not part of their assign (Alfitri, 2006). Early during his reign, second president of Indonesia, Soeharto, severely controlled political Islam but strongly supported Islamic spirituality (Hefner, 2000). This ambivalence can be seen in Soeharto's willingness to take charge of the national effort of *zakat* collection. This willingness followed by Presidential Decree No. 07/PRIN/10/1968 that gave impetus to incorporating the matters of *zakat* into the responsibilities of the state. The implementation of this decree

firstly did by Ali Sadikin, he governor of DKI Jakarta by issuing a gubernatorial decision to establish a semi-autonomous *zakat* agency, called BAZIS Jakarta that followed by other provinces. The BAZIS administration in each province had a structure quite similar to that BAZIS of Jakarta, with the governor as general chairman assisted by an executive chairman and a board of advisers. This structure is also followed by lower level of government in city/regency, district and village in every province.

In practice, BAZIS is not the only one that involved in Zakat management. Traditional system of zakat payment still exist in which zakat collection and distribution has also flourished through Islamic social and educational organization like in Muhammadiyah and Nahdatul Ulama, the biggest Islamic organization in Indonesia that have many followers. They also work in local area and they work mostly oriented to their communities, mainly in education and social work.

Political changed in Indonesia has been marked by the collapsed of Soeharto regime and brought many changes in Indonesia. The political euphoria evoked many muslim groups form political parties that use Islam as their ideological basis. B.J. Habibie as president at that time acted Law of Zakat Management No. 38/1999. The background of this law, whether it is for political reason (to win muslim political support) or for effectiveness of Zakat management due to economic crisis, this law gave an enhanced direction about accountability to Zakat collector agencies in Indonesia which is hoped can give roles in community empowerment.

To implement the law, Minister of Religion issued Decision No. 581/1999. The law and the decision direct the formed of zakat collector bodies, known as BAZ for government collector institution and LAZ for nongovernmental institution. Both have the same functions which are to collect, distribute and utilize efficiently zakat proceeds, *zakatal-maal* and *zakatal-fitr* as well as other form of charity in

Islam, according to the stipulation of Islamic tenets (Alfitri, 2006). However, unlike the laws in other Muslim countries, in Indonesia, based on the Zakat law there is not obligation for zakat payment. It is up to Indonesian Muslim whether to perform zakat or not, government only proposing and accommodating for zakat collecting and distribution.

According to Alfitri, 2006, the state takes this neutral position because of some reasons. Those are, firstly, cognizant of its secular stance. Indonesia is not an Islamic-based country. The state avoids getting involved in defining religious tenets such as enforcing to perform zakat. Secondly, the state expected details of zakat implementation to be worked out through lower level entities which is in Decision of Ministry of Religion. However this decision only contain the organizational structures of BAZ and their roles, the requirements of LAZ to get official status and requirements for utilizing zakat proceeds, it does not detail on the specific religious rules applicable to zakat. Thirdly, it seems like state have not been ready to introduce a full-scale program for zakat management.

During the New Order Regime in Indonesia, there are restrictive regulations over the nonprofit sector, and its organizational arrangement and funding sources. They were aimed at asserting government control over the existence and activities of the organizations', rather than their development. In the beginning of economic crisis in Indonesia which was signed by the falling of the New Order Regime, the freedom of organization and expression are more secure, regardless of its hazy implication towards NGOs and philanthropy development. One enabling factor that may be conducive toward the 'life' of this sector is the new provision of tax reduction on the social budget (APPC, 2001).

According to Law No. 7 of 1983, all foundations that provided social services in the fields of religion, education, health, and culture were possibly eligible for a tax exemption (Arinanto, 1999). However, according to the new Laws No. 10 of 1994, tax exemptions for foundations working in these fields are restricted to

grants, donations, presents, and inheritance and government subsidies. In 2000, President Abdurrahman Wahid made reformation through Laws No. 17 of 2000 on the Third Revision of Laws No. 7 of 1983 on Income Tax which its one significant change tax deduction on taxable income can be considered for certain social spending. This correlates with Law No. 38 of 1999 on Zakat Fund. Both of the laws correlate to and regulate two important aspects. First, Zakat is not a tax object. Second, Zakat (of income) may reduce taxable income. This means that the government provides tax dispensation over income spent for social purposes. The above regulation is effective for both personal and corporate taxpayers who work on nonprofit or for-profit orientations (APPC, 2001).

The high enthusiasm for fundraising among Indonesians not only becomes from religious teaching but also from the culture that call Gotong Royong in which communities help each other in wider manner. It is the responsibility for the communities to help their member whom needs. Viewing this habitual, there is a need to efficient mobilization in public fundraising for social causes such as natural disaster, other calamities victim, and helping the poor in order to reduce the poverty. Several systematic mobilization campaigns are succeeded in gaining huge funds from donors that come from individuals and corporations. Their eagerness can be seen from their active contributions to fundraising activities held by the mass media like Kompas, Republika and Suara Pembangunan (national newspaper), RCTI, SCTV, TPI, and other television media especially during the natural disaster events, such as Aceh and Nias tsunami, Jogjakarta and Bengkulu earthquake. Their success lays in their high transparency, especially television media, which is more particular in its interactive characteristics. Although many donors prefer to remain anonymous, the transparent manner of the fundraising gives donors a sense of security and accountability. They know where their funds are distributed.

During the economic crisis and political instability in Indonesia, philanthropic endeavors in society develop rapidly. Fundraising techniques and strategies have

become more effective and innovative, including sophisticated methods through the use of the internet, banking facilities and credit cards (PIRAC, 2002). Refers to survey that carry out by PIRAC, Islamic philanthropic organizations, like Al Falah of East Java, Darut Tauhid of West Java and Dompot Dhuafa of Jakarta, have shown encouraging results in fundraising. The organizations have been able to register a total of 126,244 donors with a tendency to increase every year.

4.4 Islamic Philanthropic Organisation in Indonesia

For the recent years, the development of Islamic philanthropic organizations in Indonesia has improved. It marked by the establishment of several strong and capable philanthropic organizations which are government and non government organizations. For government institution, BAZIS DKI Jakarta has a good reputation. On the other hand many non government institutions developed and gain public trust such as Dompot Dhuafa, Dompot Sosial Ummul Quro, LAZ Bank BNI, LAZ Pupuk Kaltim and PKPU (Post for Justice and Carrying Humanity). Some of these organizations are high-independent agencies that set up with funds from multi-national corporations, banks and educational institutions. These organizations are more dynamic, transparent and accountable. They are managed professionally.

Community-based Zakat institutions (Lazis) have the potential to be comparable to the government Bazis, once they reach professional levels. Table below compares Bazis Jakarta and Yayasan Dompot Dhuafa (YDD) over a five-year period, showing the latter's potential. After five years of operation, YDD's fundraising results surpassed that of the state-owned Bazis Jakarta. This is due, among other things, to YDD's innovative fundraising programs. While after crises Bazis DKI gain less fund from Zakat and Sadaqah, YDD gain drastically.

Table 3. Compararison between Bazis DKI dan YDD

Year	Bazis DKI	YDD
1997	10,967,480,548.50	1,541,716.814
1998	6,762,772,558.16	3,054,290.757
1999	8,122,693,568.87	6,079,320.283
2000	8,416,629,931.68	11,395,570.642

Source : PIRAC, 2002

Yayasan Dompot Duafa (YDD) Republika, which was founded formally in 1994, has 3 categories in their program, namely economic development, human resource development and charity program.

1. Economic Development

There is three main areas in this program, which are micro finance, agricultural development, and small-scale enterprise development. To implement this program YDD built a network that consist of 59 organization all over Indonesia namely, Baitul Maal wat Tamwil (BMT). YDD also joint Bank Perkreditan Rakyat Syariah to deliver financial assistance.

2. Human Resource Development

YDD provides fellowship, scholarship, and internship for potential university students whom come from poor family. Furthermore, YDD link up the donors' family as foster parents for the unfortunate students to continue their study.

3. Charity Program

The charity program provides health services for needy families, widows and orphans who receive a small regular allowance. The most huge fund distribute for relief aids for natural disaster victims, like tsunami in Aceh and Nias, tsunami Pangandaran, Jogjakarta and Bengkulu earthquake and other natural disaster events.

The non government institution, we can call them private philanthropic organizations, adopted some very interesting methods of fundraising (Fauzia, 2007). Some funds invested to ensure the long term program of organizations and other funds being used to provide credit to small business for the needy as describe before in YDD's programs. So, it is not just simplify to give food or clothes for their short term needs, but more to ensure their long term needs.

According to research that conducted by PIRAC (2002), there are several fundraising program that release by YDD. They send direct email to their donors every month, and even they get 5-10% positive response, they raised Rp. 2 billion/month. In special event like fasting month they raised even more. YDD also uses media campaign to promote its programs, through paper based media and electronic media. Others innovative program for fundraising is to provide YDD's donors with member card, which is automatically, will be deducted from their account every month. The card holders will be enjoy discount in several YDD's joint groups, like restaurants, hotel and travel, bookstores, education and recreation and so forth. From this program, YDD collect Rp. 30 billion/month. Other fundraising program like corporate Zakat with private company that raise up to Rp. 100 billion/year, coordinating special events like charity night and auction in fasting month or other Islamic events and/or for natural disaster.

To maintain the donors trust, YDD release daily and weekly report in Republika newspaper, while the more detail report can be seen in YDD magazine "Pendar". Furthermore for annual reports of the condition of all donation they raised, YDD also publish them in others media. With the transparency and the innovative program, YDD gain more donors and public trust.

In 1996, the number of Bazis was 277 institutions at the district level, 3,160 at the sub-district level and 38,117 at the village level. The total amount of funds mobilized by the Bazis has been increasing considerably, as shown in Table 4.

The figures reflect a major part of individual giving in Indonesia, reaching US\$ 23.6 million in 1996.

Table 4. Collecting ZIS in Indonesia

Year	Donation (Rp.)
1991	2,273,487,378
1992	10,896,196,828
1993	46,181,411,117
1994	52,345,500,969
1995	60,314,655,826
1996	235,968,314,342

Source: BAZIS DKI Jakarta

Zakat Management in Bazis DKI manages by Government employee. Its program mostly distributes Zakat and sadaqah to the needy, natural disaster victims, financial aids for mosque, and scholarship for students. In fundraising program, Bazis Jakarta do not use an active way to gain more donors, unlike YDD or other private philanthropy organizations. It can be seen in its guideline for managing ZIS. Every year the governor targeting ZIS and priority strategies to distributed ZIS. Refers to this priority and strategies, BAZIS DKI arrange work program which implemented by all operational units to the lower level (cities, districts and sub districts (kelurahan)). Distributing and managing funds have to be proved by Government of DKI as stated in its guidelines which is laden in Decree and Instruction released by Governor, Department of Religion and BAZIS DKI (Official site of Bazis DKI, 2008).

Since founded in 1969 until 2004, the auditing and releasing financial reports of Bazis DKI have been done twice which is in 2003 and 2004 (Official site of Bazis DKI, 2008). Donors need the trustworthy institution to manage their donations. They have to ensure about its program, its financial management transparency, and its professional staff who manage and run the institution and the program. From PIRAC survey to private philanthropy organizations, their major success

fund raising lies in their high transparency. This is especially true with television newspaper and their website, which is distinctive in their interactive characteristic. Although many donors prefer to remain anonymous, the transparent manner of the fundraising gives donors a sense of security and accountability.

Chapter 5

The Analysis of Contribution of Islamic Philanthropy Organisations in Poverty Reduction

This chapter analyzes the condition of Islamic philanthropy in Indonesia and how it can be possible to give contributions in poverty reduction by referring to the previous chapter as basic idea. This analysis will be divided into two main categories, first is about the existence of Islamic philanthropy organizations and second is about the contribution of that organizations give on poverty reduction. In the end of this chapter, it will be elaborate on how to make the improvement of the Islamic philanthropy organizations so they can deliver their service and give more contributions for poverty reduction.

5.1 The Existence of Islamic Philanthropy Organizations

The roles of many religion based organizations, Moslem, Christian, Buddhist, increased without count on what religion that people as recipient has (McGregor 2007). This can be seen in Aceh and Nias tsunami, where Aceh is a strong Moslem community while Nias is Christian community but both accept aids from various donors, secular, Moslem based, Christian based, and other organizations through out the world. The act of volunteerism becomes more popular during economic crises and natural disasters. Many massive natural disaster events encourage individuals, corporation and NGOs to participate actively in giving and distributing the funds.

Three forms of volunteerism have recently developed (APPC, 2001). One is volunteerism by individuals who are not coordinated under a special organization. Another is volunteerism that is coordinated under a certain group or organization for incidental or temporary programs. The third is volunteerism that is managed by a group or organization with professional and sustainable programs. The third type is characterized by a strong oral and written commitment from volunteers to

be actively involved in implementing programs and routine and continuous activities. This type of volunteerism sets up a special division or organization specifically to recruit volunteers professionally.

5.2 The Challenges and Constraints for Islamic Philanthropy to contribute on Poverty Reduction

Nowadays it can be seen that philanthropy actions in Indonesia give a new enlightenment and open wide possibilities to develop in a promising direction for bigger purpose, because enthusiasm among various circles of NGOs, corporations and funding agencies in that sector has gradually increased. However, there is still many challenges and constrains for continued the farther development of philanthropy organizations in Indonesia.

First is coordination and synchronization between regulation and implementation, and also a conflict of law between Zakat Law Management and Income Tax Management. Law No. 38/1999 states that *zakat* paid to BAZ or LAZ can be deducted from the taxable profit or income of a taxpayer according to current tax regulation. On the other hand, Law No. 17/2000, the current tax regulation, does not include *zakat* among the listed deductions. Instead, this Law indicates that *zakat* collected by BAZ or LAZ cannot be counted as a deduction in determining the amount of income subject to tax. However, through Tax Decision No. KEP-163/PJ/2003 by the Director General of Tax. The Decision state that *zakat* paid to BAZ or official LAZ may be subtracted from the gross income of a taxpaying legal body or from the net income of a personal taxpayer up to 2.5%. But this deduction is limited to income subject to both *zakat* and income tax. Because the category of *zakatable* items is broader than the items subject to income tax, some *zakat*, such as that on wealth, will not be deductible. Furthermore, these laws have to be socialized to encourage people and corporations to pay *zakat* as they will get the incentive, not to be burdened by double payment, tax and *zakat*.

Secondly, the difficulties in managing donors' database also come as other constraints face by philanthropic organizations. Their willingness to keep their identity anonymous remains reluctant to develop a more transparent culture in making contributions. There is a belief in Islamic teaching that the philanthropic actions do by Moslem people will be more meaningful (in connection with rewards from God over their actions), if there is no one know about what they give and how much they give. Furthermore this case also raises the difficulties for organizations to manage their database about their donors. Without a database, communication that is vital to maintaining a long-term relationship between donors and recipients cannot be established.

Thirdly is the lack of transparency and accountability in the distribution of the funds. Without transparency and accountability, misappropriation of funds is possible and can create public mistrust. Not all organizations provide with regular reporting about the collecting and distributing funds.

Fourthly, constraint on development the philanthropic organizations is limited resources. Training for fundraising and grant making management organizations and professional fundraisers has been minimal. The staff that manage the organizations depart from the willing to do social works. However, to manage and run the programs of the organizations that involve huge funds, human resource capacity building needs to be done. Involving mass media (newspaper, television and internet), fundraising training, training on database and donor management is needed.

Five is the limited network that private organizations have because of spreading area of Indonesia. On the other hand, Government organization has a wider network but they lack of innovation, mostly they are waiting for donors instead of actively collect ZIS in more innovative way.

From the analysis above, it can be summarized that the indicators need to be fulfilling in order to maximize the Islamic Philanthropy organization contribution on poverty reduction:

Table 5. Indicators Analysis

Indicators	Implementation (+) good, (-) bad	Description
1. Coordination and synchronization between regulation and implementation	Government (-) Private (+)	The state simply has not been ready to introduce a full-scale program for <i>zakat</i> management, so in implementation the whole packet of regulation become blur.
2. Human Resource Capacity	Government (-) Private (+)	Private organizations have more capable human resources to run the institution and the program. Bazis has limited skillful staff to manage the institution in lower level such as in sub districts and districts.
3. Gaining the public trust	Government (-) Private (+)	Lack of transparency and accountability reduce public trust, so they do distribute their own Zakat by themselves.
4. Development grant	Government (-) Private (+)	Most of fund from zakat and any kind of philanthropy in Islamic

Indicators	Implementation (+) good, (-) bad	Description
		society still tend to provide charitable need (everyday need) than development purpose.
5. Fundraising program	Government (-) Private (+)	Lack of innovative fundraising program, especially for Government organization such as Bazis.
6. Socialization and community participation	Government (-) Private (+)	Lack of socialization and community participation because paying zakat rate as an obligation so it is more to self awareness.
7. Network in Indonesia	Government (+) Private (-)	Government network is wider than private network because Bazis covering whole Indonesia archipelago, it exists in every provinces, regencies/cities, districts and sub districts while private ones mostly in big cities.
8. Contribution on poverty reduction	Government (-) Private (+)	The NGOs gain public trust not only because of their transparency and accountability but also

Indicators	Implementation (+) good, (-) bad	Description
		they provide their organization with innovative program in fundraising and move the trend from only providing charitable grant to development grant

Source: compiled by author

From table above, mostly the indicators are not well implemented. The potential and huge fund from philanthropic sector still needs to be managed to give maximum contribution on poverty reduction. There are enormous possibilities from both government and private philanthropy organizations to optimize their performance in collecting, distributing and managing the fund from ZIS.

Chapter 6

Conclusion and Recommendation

This chapter contains the results and further discussions of the study. This chapter can be summarized as providing the answers to research questions and also the conclusion of the study. The conclusion of the thesis is taken from the entire content of the thesis, but primarily from chapter 2, 4, and 5. Furthermore, derived from the conclusion, some recommendations can be drawn, and they will be discussed in the final part of this chapter.

6.1 Conclusion

This thesis talks about the possibilities of possibilities of philanthropic sector in Islam society in poverty reduction in Indonesia. The focus of this thesis is based on the roles of faith based organizations or religious based organizations in combating poverty and participate in development which is taken from several literatures and current discourse about significant roles plays by religious based organization. From the literatures and current condition in Indonesia can enhance the improvement and the possibilities of Islamic philanthropy organizations in poverty reduction in Indonesia. The literature review and the analysis can be used to answer the research questions.

As stated in chapter one, the aim of this research is to understand the role of religion in poverty reduction and the possibilities of philanthropic sector within Islam society in poverty reduction in Indonesia. This research is expected to contribute theoretically to promote Islamic philanthropy organizations as a great opportunity to reduce poverty and give contribution for development. It will also give academic background about whether or not the religion play important role on poverty reduction and how the philanthropic organization can be a bridge that link religion and development. I emphasized in my research is to ensure that the

religion can deal with poverty reduction and development movement in relation with empowerment philanthropic organization within Islamic society. And also I argue that that communicative and participatory approach in community participation is needed to deal with poverty reduction especially if religion will be use as a basic approach. Moreover I also found that gaining public trust through the accountability and transparency is a must and the most important thing for philanthropy organisations to keep going.

Question 1: How can religion deal with poverty issue?

For long time, religion was put aside in development track until in 1990s while interaction between religion and politic are increased (Selinger, 2004). Many national and international NGOs consider religion as an approach. Faith-based organizations also succeed in providing their services all over the world.

Religion has proved to play the most significant role for individual giving in some communities and societies, based on their religion belief or teaching. Philanthropic giving in Indonesia is also mostly motivated by religious reason. As the largest Islamic society, the well mobilization of the fund raised from its philanthropy action will provide huge amount of fund that can distribute for economic development and others.

Question 2: What are the main issues in the development of Islamic philanthropy organization in Indonesia?

In describing the main issues in the development of Islamic philanthropy in Indonesia, it is related to the indicators that have been mentioned in chapter four. There are coordination and synchronization between regulation and implementation; human resource capacity; gaining the public trust; development grant; fundraising program; socialization and community participation; network in Indonesia; contribution on poverty reduction.

The constraints faced by philanthropic organizations in Indonesia mostly because the indicators are not well-implemented. The potential and huge fund from

philanthropic sector still needs to be managed to give maximum contribution on poverty reduction. The state simply has not been ready to introduce a full-scale program for *zakat* management, so in implementation the whole packet of regulation become blur, human resources who manage or run Zakat institution is not capable in management context, lack of transparency, lack of innovative fundraising program, limited network, lack of community participation, and so forth.

Question 3: To what extent do Islamic philanthropy organizations contribute to poverty reduction?

Some of Islamic philanthropy organizations in Indonesia gain huge funds from ZIS through their innovative way in fundraising program. Unfortunately, they has limited network, most of them only cover certain area as their basis donors, especially in big cities. While government philanthropic organization has wider network but lack of innovation in fundraising program. Considering Indonesia as the largest Islam community in the world and their obligation to pay their Zakat, then the fund from ZIS can be manage for economic development process and community empowerment. Other fundraising program like corporate with Islamic Bank, such as Muamalah Bank, Syariah Banks, Bank Perkreditan Rakyat Syariah provide the financial assistance for needy

Question 4: What policy lessons can be learned?

From analysis there are at least four instruments that may be used to implement, namely:

1. Accountability and transparency to gain public trust and more donors by regular reporting and public audit. Every philanthropy organization, government or private, should provide with regular reporting through media, newspaper or electronic media, with updated data about the fund distribution so the donors know exactly where their ZIS are distributed. Public audit have to do every year and the results are published as well.

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2. Providing capable staff to run the institution and program. It is not only for increasing the organization performance but also to gain public trust. BAZIS that has wider network, in lower level is managed by ‘amil zakat that mostly still use traditional ways in collecting and managing fund from ZIS. It is one reason why individuals prefer to distribute their ZIS by their own, instead of distribute it through BAZIS. Based on PIRAC survey, there is 87% the donations give directly to the beggars, 67% to donors’ relatives, 44% to victims of calamities and 36% to donors’ friends. Mostly the donations only fulfill the daily need.
 3. Widening operational network. Private philanthropy organization mostly operate limited in big cities, their network is limited but they try to provide wider service in distributing fund by cooperate with others institution and organizations such as Banks and Local NGOs.
 4. Developing more innovative way in fundraising and distributing. To develop organizations program in fundraising, the organizations should consider the target donors they want to gain. Like YDD, it provides many programs in fundraising based on the income of the donors, currently is divided into two categories, up to Rp. 5 million/month and above Rp. 5 million/month. There are also provided 3 kinds of membership card, Rp. 25.000/month, Rp. 50.000/month and Rp. 100.000/month.

6.2 Recommendation

In order to make Islamic philanthropic organization contribute in poverty reduction, several recommendations are proposed:

1. Socialization of the Zakat Management and Tax Deduction Law properly to encourage people and corporation to pay Zakat as they will get the incentive, not to be burdened by double payment, tax and zakat. Through the socialization, it is expected that they can participate actively in paying their ZIS to the philanthropic organization that they trust the most rather than paying directly to individuals.

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2. The need of active mobilization in fundraising program. The philanthropic organizations have to be actively contact the donors instead of waiting for them to pay their ZIS. Because many of Muslim people pay their ZIS individually for daily need. It will be more meaningful if the fund can be distributed in more useful need such as for economic development, education, and health service.
 3. Developing the innovative program in fundraising and widening the network to gain more donors. Sharing program between private organizations and government organization can be an alternative, since governments' has network while privates' has program. Besides, maintaining donors is needed and to gain their trust is the life of the organization. Donors need a trustworthy institution for their donations. It is the reason accountability and transparency is needed

Finally, I hope this thesis will contribute in setting up better improvement for philanthropic organizations in Islamic societies in reducing poverty by increasing their performance in providing better service and enhancing public trust.

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