

Role of Zakat in Sustainable Development Goals

Salman Ahmed Shaikh

Universiti Kebangsaan Malaysia

Abdul Ghafar Ismail

Universiti Islām Sultan Sharif Ali Negara Brunei Darussalam

ABSTRACT

In this paper, we explore the potential of the institution of Zakāt to meet the development challenges, especially in the Muslim world. We discuss the interlinkages between the institution of Zakāt and Maqasid-al-Shari'ah. We also discuss the economic potential and effects of Zakāt by reviewing theoretical and empirical studies. Finally, we also provide our analysis which suggests that Zakāt can play an important role in meeting sustainable development goals related to poverty, hunger, global health and well-being, quality education, decent work and economic growth and income inequality.

Keywords: Zakāt, Sustainable Development Goals, Poverty, Inequality

JEL Classification Code: E6, H2, H3

INTRODUCTION

Zakāt is a compulsory obligation in the faith of Islām to pay a certain part of surplus wealth to the specified beneficiaries every year. As per Islāmīc principles, every year, 2.5% of wealth subject to *Zakāt* has to be paid by the Muslims to the 8 specified heads of beneficiaries and causes. *Zakāt* is compulsory to be paid by every Muslim who owns sufficient amount of wealth. In Islāmīc jurisprudence, if a Muslim owns an equivalent monetary sum of *Nisāb*, he has to pay 2.5% of surplus wealth above the *Nisāb* every year.

Zakāt is an important institution in an Islāmīc economic framework for poverty alleviation and economic welfare. The poverty rate is generally higher in Muslim majority countries, a great number of whom are located in Asia and Africa. Food

insecurity and hunger is also a major problem in Muslim majority countries. Due to lack of a sustainable source of subsistent level of incomes, Muslim population faces heightened poverty.

One of the major goals of the future development agenda is to end poverty and hunger. Therefore, in this paper, we explore how much potential this institution of *Zakāt* has to meet the development challenges, especially in the Muslim world.

The paper proceeds as follows. In the next section, we discuss the interlinkages between the institution of *Zakāt* and Maqasid-al-Shari'ah. Then, in Section 3, we discuss the economic potential and effects of *Zakāt* by reviewing theoretical and empirical studies. Finally, in Section 4, we discuss how the institution of *Zakāt* can help in achieving sustainable development goals.

ZAKĀT AND MAQASHID-E-SHARI'AH

In the Islāmic knowledge and institutional framework, there are five foundational goals, also known as 'Maqasid-al-Shari'ah'. These include protection of faith, life, progeny, intellect and wealth. In one of the supplications of the Prophet Muhammad (pbuh), He (pbuh) sought refuge from disbelief and poverty together. Poverty and destitution can make a person vulnerable in faith and may engender the perception that his way out of poverty is dependent on others. A person facing poverty can have lesser chances of exercising free will in choosing the right means to fulfill the essential needs. Thus, to reduce poverty with the aim of making people come out of the vulnerable state of Imān is an important part of Maqasid-e-Shari'ah. If the institution of *Zakāt* can help in alleviating poverty and help the poor people, then it can contribute in promoting the Maqasid-e-Shari'ah, which is to protect and preserve the faith and avoid it to become vulnerable.

Poverty can result in loss of life from lack of essential nutrition and basic life-saving medication. Therefore, if *Zakāt* helps a person to afford essential food intake and essential life-saving medicines, then it can help in saving lives, which is again an important component of Maqasid-e-Shari'ah.

Infectious diseases can cause epidemic which can result in mass scale loss of lives and endanger the survival of entire human communities and other species in a particular affected geography. Likewise, fear of poverty can result in some people getting desperate and taking lives of themselves and their dependents. Poverty can become a vicious cycle and affects generations after generations. Thus, if the institution of *Zakāt* can enable people to get out of poverty trap, it will be consistent with protecting human progeny, which is an important part of Maqasid-e-Shari'ah.

Lack of essential nutrients can cause stunting and affect intellectual capabilities. Thus, if the institution of *Zakāt* can enable people to afford essential life's nutrients, then it will help in the healthy nourishment of children and make them more productive in future. Thus, the institution of *Zakāt* can help by making people afford essential nutrition and basic education.

Zakāt is a means of purifying wealth. When a person fulfills the obligation to pay *Zakāt*, he is able to purify his/her wealth. It may seem that the wealth decreases by payment of *Zakāt*, but, at the societal level, it helps in wealth circulation which eventually benefits everyone in terms of economic activity and strengthening of social safety. The spiritual benefit of *Zakāt* is even more significant. *Zakāt* helps a Muslim to achieve spiritual fulfillment by pleasing Allah and help a person to obtain Barakah in the all-encompassing sense of contentment and promise of greater rewards in this life and the life hereafter.

Thus, we see that the institution of *Zakāt* is an important institution in the Islāmic framework, which has interlinkages with Maqasid-e-Shari'ah and potential to play a key socio-economic role in the society as well.

ECONOMIC POTENTIAL OF ZAKĀT

Shaikh (2016) estimates potential *Zakāt* collectible in 17 member countries of Organization of Islāmic Cooperation (OIC). He finds that *Zakāt* to GDP ratio exceeds Poverty Gap Index to GDP (PGI-GDP) ratio except in 3 countries with poverty line defined at \$1.25 a day. He shows that the aggregate resources pooled together from the potential *Zakāt* collection in 17 OIC countries will be enough to fund resources for poverty alleviation in all 17 OIC countries combined.

In the early empirical literature on welfare potential of Infaq (charity) to alleviate poverty in Pakistan, Malik et al. (1994) use microdata to establish that Infaq (charity) does have a significant impact on reducing poverty gap. In a more recent study, Azam et al. (2014) in an empirical study for Pakistan establish that *Zakāt* significantly enhances the welfare of the households. M. Akram & Afzal (2014) in an empirical study for Pakistan argue that *Zakāt* disbursement among the poor, needy, destitute, orphans and widows has played a significant role in poverty alleviation. Their results show that there is an inverse relationship between poverty and *Zakāt* disbursement both in the short run and in the long run.

Using aggregate data for Malaysia, Suprayitno et al. (2013) find that *Zakāt* distribution has a positive, but small impact on aggregate consumption. Hence, *Zakāt* distribution should not be limited to the consumption needs, but should also cover other forms of monetary aid that can generate a continuous flow of income for *Zakāt* recipients. In another recent study, Abdelmawla (2014) argue based on empirical evidence using aggregated data for Sudan that *Zakāt* along with educational attainment significantly reduced poverty in Sudan.

In another empirical study for Bangladesh, Hassan & Jauanyed (2007) estimate that *Zakāt* funds can replace the government budgetary expenditures ranging from 21% of Annual Development Plan (ADP) in 1983-84 to 43% of ADP in 2004-2005. For Malaysia, Sadeq (1996) finds that about 73% of the estimated potential *Zakāt* collection will be needed annually to change the status of hard-core poor households to a status of non-poor households in Malaysia. Ibrahim (2006) contends in an empirical study for Malaysia that *Zakāt* distribution reduces income inequality. His analysis

reveals that *Zakāt* distribution reduces poverty incidence, reduces the extent of poverty and lessens the severity of poverty. Firdaus et al. (2012) estimate the potential of *Zakāt* in Indonesia by surveying 345 households. Their results show that *Zakāt* collection could reach 3.4% of Indonesia's GDP, which can help in reducing poverty to a large extent.

Some other studies also show the comparative potential of *Zakāt* as a superior tool for poverty alleviation among other poverty alleviation institutions. Debnath et al. (2013) assess the effectiveness of *Zakāt* as an alternative to microcredit in alleviating poverty in Bangladesh. Through the Propensity Score Matching (PSM) technique, the study reveals that the impact of *Zakāt* scheme has proven to be greater than the microcredit programs. Besides that, the study also highlights that *Zakāt* scheme significantly increases both income and expenditure of the recipients in comparison to the microcredit programs.

Some studies like Nadzri et al. (2012) recommend integrating the various poverty alleviation and redistribution tools for creating synergies. The effectiveness of *Zakāt* institutions may improve by collaborating with other institutions such as Microfinance institutions. Shirazi (2014) suggests that the institutions of *Zakāt* and Waqf (charitable trust) need to be integrated into the poverty reduction strategy of the Islāmic Development Bank (IDB) member countries. The proceeds of these institutions should be made as part of their pro-poor budgetary expenditures. Hassan (2010) suggests a model which combines Islāmic Microfinance with two traditional Islāmic tools of poverty alleviation such as *Zakāt* and Waqf (charitable trust) in an institutional setup. Hassan (2010) argues that the poor borrowers will have less debt burden as their capital investments will be

partly met by funds from *Zakāt* that does not require any repayment.

Finally, Norazlina & Rahim (2011) identify that there are many types of programs that could be funded by *Zakāt* such as providing education for the poor, the establishment of schools, vocational training and rehabilitation for *Zakāt* recipients to make them more productive, establishment of agriculture and cottage industries, provision of fixed asset and equipment to small business projects, provision of working capital, building of low-cost housing and providing medical treatment and health care.

SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) as successor to Millennium Development Goals (MDGs) represent a broader intergovernmental agreement to foster action on broad-based development encompassing economic development, human development and environmental sustainability.

There are 17 broad goals in which several targets had been set which are to be achieved by 2030. We find that in at least 7 goals, the institution of *Zakāt* is highly important, especially in the Muslim majority countries.

Table 1. Comparison of Socio-Economic Indicators across Country Groups

Indicators	High Income	Middle Income	Muslim Countries
Economic			
GDP Per Person Employed (Constant 2011 PPP\$)	76,507	29,631	40,341
Poverty Ratio at PPP \$1.90 a Day (% of Population)	0.56	5.95	24.58
Education			
Literacy Rate (% of Adult Population)	98.46	93.22	73.46
Net Enrolment Ratio in Primary (%)	96.92	92.34	85.55
Health			
Hospital Beds (Per 1,000 People)	5.18	3.37	1.98
Improved Sanitation Facilities (% People with Access)	97.14	81.85	64.53
Improved Water Source (% People with Access)	99.28	91.89	82.04

Source: World Development Indicators, 2015

Since the goals are ambitious and the time-frame set for these goals is short, it is important that all-encompassing efforts are undertaken involving all sorts of institutions to make the largest leap forward. It is especially crucial for countries that are much behind the targets and need considerable effort and resources to pull themselves up to meet the targets. In Table 1, we show the state of development indicators in the Muslim majority, non-Muslim majority middle income and non-Muslim majority high-income countries. It clearly shows that

Muslim countries on average have to travel much more distance in achieving the development targets as compared to middle income and high-income countries.

Religious institutions which have a socio-economic character can also be employed in creating synergistic efforts towards achieving the sustainable development goals, especially in Muslim majority countries. The first sustainable development goal is to have no poverty by 2030. If we look at the institution of *Zakāt*, we find that the payer of *Zakāt* and the

receiver of *Zakāt* belong to two different income classes. The payer of *Zakāt* is non-poor with surplus wealth above *Nisāb*. On the other hand, the receiver of *Zakāt* is usually a poor person with no surplus wealth above *Nisāb*. Thus, the threshold wealth of *Nisāb* makes a distinction between the payer and receiver and helps to achieve targeted income and wealth transfer to the people who are usually the poor people.

Since this redistribution is based on wealth rather than income, it can achieve the redistribution objectives more effectively and consistently since wealth fluctuates much less than income over the business cycles. Metwally (1983) argues that *Zakāt* has a wider base and it is applicable to both the incomes and the wealth. He emphasizes that the *Zakāt* system has an inbuilt mechanism to reach the right targets in terms of *Zakāt* collection and disbursement. This ensures increasing the propensity to consume more emphatically and quickly.

Furthermore, the accumulated wealth can be much more than the single period income, especially in the high net worth individuals of the society. That is why, in the absence of broad-based wealth taxes and loopholes in taxing off-shore wealth, the progressive income taxes alone have been unable to reduce income inequality and wealth redistribution. Hartman (2002) cites the case of US economy and argues that the progressive taxes were designed to reduce income inequality. But during the last four decades, while the share of income taxes levied on the upper tenth of incomes rose 15%, the after-tax income share of the remainder of incomes declined by 13%.

Oxfam reports that 8 individual persons have as much wealth as bottom 50% of the entire global population. Their combined wealth is \$426.2 billion as of end-2016. As per World Bank, there are 767 million people below the poverty line of \$1.90/day. It means that poverty gap is

\$531.9 billion ($1.90 \times 767,000,000 \times 365$) per year. Comparing the wealth owned by only the richest 8 persons (\$426.2 billion) and the total global poverty gap funding requirement (\$531.9 billion), one can see how redistribution of wealth can help in pooling poverty alleviation funds.

The second sustainable development goal is to end hunger. According to Food and Agricultural Organization (FAO), there are approximately 800 million people who suffer from hunger and are food insecure in their routine lives. Most of the poor countries lack basic resources to kick-start growth and to invest in health and education. The mere scientific solutions to health and education issues solve the supply side problem, but not the demand side problem since these essential services are produced and marketed in the global market economy on a commercial basis. If only 70% of the people in a country can afford to pay the market price of food, then for whom should the food be produced, i.e. the 70% of those who can afford or the 100%? The answer by market economy where price mechanism reigns supreme is that it is quite possible to have market equilibrium at a price where only the 70% non-poor could afford food and 30% remain unserved and unfed unless they get charity or government's support. Thus, the redistribution of resources is vital to enhance income as well as the capacity to earn sustainable incomes, which requires income support programs, basic health and education as well as microfinance to build small enterprises.

According to The Hunger Project, 2.4 billion people do not have adequate sanitation and each day, nearly 1,000 children die due to preventable water and sanitation-related diarrheal diseases. It is partly because sanitation is not good business as compared to cellular services and life's other comforts and luxuries. Food and Agriculture Organization estimates that

food per capita availability has increased since the 1970s, but still close to 800 million people suffer from hunger (Pingali, 2002). The institution of *Zakāt* could help in providing income support to the poor people who are food insecure due to lower and unsustainable incomes.

Another important sustainable goal is to have good health and well-being. Nearly 50 percent of the people living in extreme poverty are 18 years old or younger. This goes on to show that a significant portion of our global population would not have a fair start to achieve socio-economic mobility. Thus, proper nourishment, basic medicines and vaccinations are necessary to avoid ill-health, stunting and loss of capacities for independent productive living in adulthood. Some life-saving medicines cost less than a dollar, but they are underprovided due to commercial reasons. Unless effective redistribution happens, the purchasing power cannot be enhanced which is vital to afford even the basic necessities today, such as food, water and medicines.

The sustainable development goal of quality education is vital for achieving permanent poverty exit, enhancement of skills and capacities, and to ensure upward social mobility. The financial institutions can come to the rescue once the people are able to hold enough assets and skills for the enterprise. But, much before that, people require survival and human capital development in the early stage of life. There are mosque-based schools in the Muslim majority countries which effectively channelize *Zakāt* funds to ensure basic religious and secular education. Effective administration and management of the *Zakāt* funds can help in scaling up the benefits in terms of strengthening institutions to create synergistic effects.

Another important sustainable development goal is gender equality. The institution of *Zakāt* is completely neutral to

gender in terms of its principles of rules regarding payment and receipt of *Zakāt*. The *Zakāt* funds can be paid to the women and to institutions which are working for the wellbeing of women, such as maternity homes and schools for girls, for instance.

Decent work and economic growth is the most vital sustainable development goal to realize a sustainable reduction in poverty and in ensuring upward socio-economic mobility. On one hand, *Zakāt* from endowment surplus households (those having higher wealth than *Nisāb*) to the endowment deficient households can help in providing income support and affordability for skills enhancement programs. *Zakāt* could also be used to provide funding for education and health institutions, thereby contributing to human capital development which can provide decent work. On the other hand, the institution of *Zakāt* would ensure circulation of wealth in the productive enterprise, thereby directing capital to go in the real sector of the economy rather than sitting idle in the hands of the wealthy individuals.

The most important issue which is universally faced in the world is the rise in income inequality. It is universal since even the developed countries have higher income inequality. Piketty (2014) writes that 60% of the increase in US national income in the 30 years after 1977 went to just the top 1% of the earners.

In Table 2, we give a numerical example of wealth redistribution under the *Zakāt* system. The example would illustrate how the institution of *Zakāt* could help in reducing income inequalities. Suppose we have an interest free economy that comprises 10 rich people each having wealth of \$1,010. We also assume that there are 100 poor people each having wealth of \$2. Let us suppose that the *Nisāb* amount in this interest-free economy is \$10. Column 2 shows the aggregate wealth of rich people.

Column 3 shows the wealth transferred from the rich to the poor in each year. Column 4 shows the aggregate wealth of poor people after wealth transfer.

For simplicity, we suppose perfect wealth equality between the people in each of the group. For the sake of highlighting the effect of wealth redistribution of wealth transfers, we assume that income is generated randomly in this interest-free economy with no interest based lending allowed. Furthermore, we assume that income earned is consumed in that period to enable us to focus our attention on the wealth redistribution effect of *Zakāt* in an

interest-free economy. Column 5 shows the wealth multiple in each year for the two groups.

It can be seen that after around 27 years, the wealth multiple will drastically go down from 101 to almost 1 for the two groups as a whole. Column 6 shows the wealth multiple per person. It can be seen that wealth multiple will become only 5 after 27 years from the initial value of 505. Eventually, the wealth recipients will become ineligible for *Zakāt* receipts and rather will become part of the *Zakāt* payer group.

Table 2. Numerical Simulation of Wealth Redistribution under *Zakāt* System

Year	W_R	Wealth Transfer (R to P)	W_P	W_R to W_P Multiple	W_R to W_P Multiple Per Person
0	10,100.00		100.00	101.00	505.00
1	9,850.00	250.00	350.00	28.14	140.71
2	9,606.25	243.75	593.75	16.18	80.89
3	9,368.59	237.66	831.41	11.27	56.34
4	9,136.88	231.71	1,063.12	8.59	42.97
5	8,910.96	225.92	1,289.04	6.91	34.56
6	8,690.68	220.27	1,509.32	5.76	28.79
7	8,475.92	214.77	1,724.08	4.92	24.58
8	8,266.52	209.40	1,933.48	4.28	21.38
9	8,062.36	204.16	2,137.64	3.77	18.86
10	7,863.30	199.06	2,336.70	3.37	16.83
11	7,669.21	194.08	2,530.79	3.03	15.15
12	7,479.98	189.23	2,720.02	2.75	13.75
13	7,295.48	184.50	2,904.52	2.51	12.56
14	7,115.60	179.89	3,084.40	2.31	11.53
15	6,940.21	175.39	3,259.79	2.13	10.65
16	6,769.20	171.01	3,430.80	1.97	9.87
17	6,602.47	166.73	3,597.53	1.84	9.18
18	6,439.91	162.56	3,760.09	1.71	8.56

19	6,281.41	158.50	3,918.59	1.60	8.01
20	6,126.88	154.54	4,073.12	1.50	7.52
21	5,976.20	150.67	4,223.80	1.41	7.07
22	5,829.30	146.91	4,370.70	1.33	6.67
23	5,686.07	143.23	4,513.93	1.26	6.30
24	5,546.42	139.65	4,653.58	1.19	5.96
25	5,410.26	136.16	4,789.74	1.13	5.65
26	5,277.50	132.76	4,922.50	1.07	5.36
27	5,148.06	129.44	5,051.94	1.02	5.10

Source: Author's Computations

CONCLUSION

In this paper, we explored the potential of the institution of *Zakāt* to meet the development challenges, especially in the Muslim world. Muslim countries on average have to travel much more distance in achieving the development targets as compared to middle income and high-income countries. Since the goals are ambitious and the time-frame set for these goals is short, it is important that all-encompassing efforts are undertaken

involving all sorts of institutions to make the largest leap forward. We discussed the economic potential and effects of *Zakāt* by reviewing theoretical and empirical studies. We also provided our analysis which suggests that *Zakāt* can play an important role in meeting sustainable development goals related to poverty, hunger, global health and well-being, quality education, decent work and economic growth and income inequality.

REFERENCES

- Abdelmawla, M. A. (2014). "The Impacts of *Zakāt* and Knowledge on Poverty Alleviation in Sudan: An Empirical Investigation (1990-2009)", *Journal of Economic Cooperation and Development*, 35(4), 61 – 84.
- Azam, M.; Iqbal, N. & Tayyab, M. (2014). "Zakāt and Economic Development: Micro and Macro Level Evidence from Pakistan", *Bulletin of Business and Economics*, 3(2), 85 – 95.
- Debnath, S. C.; Islām, M. T. & Mahmud, K. T. (2013). "The Potential of *Zakāt* Scheme as an Alternative of Microcredit to Alleviate Poverty in Bangladesh", 9th *International Conference on Islāmic Economics and Finance*, QFIS, Doha, Qatar.
- Hassan, M. K. & Jauanyed, M. K. (2007). "Zakāt, External Debt and Poverty Reduction Strategy in Bangladesh", *Journal of Economic Cooperation*, 28(4), 1 – 38.
- Hassan, M. K. (2010). "An Integrated Poverty Alleviation Model Combining *Zakāt*, Awqaf and Microfinance", in *Seventh International Conference-The*

- Tawhidi Epistemology: Zakāt and Waqf Economy, Bangi, Malaysia.*
- Ibrahim, P. (2006). "Economic Role of Zakāt in Reducing Income Inequality and Poverty in Selangor", PhD Thesis, Universiti Putra Malaysia.
- M. Akram, M. & Afzal, M. (2014). "Dynamic Role of Zakāt in Alleviating Poverty: A Case Study of Pakistan", University Library of Munich, Germany.
- Malik, S. J.; Hussain, M. & Shirazi, N. S. (1994). "Role of Infaq in Poverty Alleviation in Pakistan", *The Pakistan Development Review*, 33(4), 935 – 952.
- Metwally, M. M. (1983). "Fiscal Policy & Resource Allocation in Islām", Islamabad: Institute of Policy Studies.
- Nadzri, F. A.; A. Rahman, R. & Omar, N. (2012). "Zakāt and Poverty Alleviation: Roles of Zakāt Institutions in Malaysia", *International Journal of Arts and Commerce*, 1(7), 61 – 72.
- Norazlina A. W. & A. Rahim, A. R. (2011). "A Framework to Analyse the Efficiency and Governance of Zakāt Institutions", *Journal of Islāmic Accounting and Business Research*, 2(1), 43 – 62.
- Piketty, T. (2014). "Capital in the Twenty-first Century", New York: Harvard University Press.
- Pingali, P. (2002). "Reducing Poverty and Hunger: The Critical Role of Financing for Rural Development, Food & Agriculture. In *International Conference on Financing for Development*, March, 2002.
- Sadeq, A. H. M. (1996). "Ethico-Economic Institution of Zakāt: An Instrument of Self Reliance and Sustainable Grassroots Development", *IIUM Journal of Economics and Management*, 12(2), 47 – 69.
- Shaikh, S. A. (2016). "Zakāt Collectible in OIC Countries for Poverty Alleviation: A Primer on Empirical Estimation". *International Journal of Zakāt*, 1(1), 17 – 35.
- Shirazi, N. S. (2014). "Integrating Zakāt and Waqf into the Poverty Reduction Strategy of the IDB Member Countries", *Islāmic Economic Studies*, 22(1), pp. 79 – 108.
- Suprayitno, E., Kader, R. A., & Harun, A. (2013). "The Impact of Zakāt on Aggregate Consumption in Malaysia", *Journal of Islāmic Economics, Banking and Finance*, 9(1), 39 – 62.
- World Bank Group (2012). "World Development Indicators 2012". World Bank Publications.

Salman Ahmed Shaikh
Universiti Kebangsaan Malaysia
salman@siswa.ukm.edu.my

Abdul Ghafar Ismail
Universiti Islām Sultan Sharif Ali Negara
Brunei Darussalam
ghafar.ismail@unissa.edu.bn

The Comparison between Consumption and Production-based Zakat Distribution Programs for Poverty Alleviation and Income Inequality Reduction

Qurroh Ayuniyyah, Ataul Huq Pramanik, Norma Md. Saad, Md. Irwan Ariffin
International Islamic University Malaysia

ABSTRACT

This study attempts to analyze the effect of consumption and production-based zakat distribution programs in eradicating poverty and reducing income inequality of the zakat beneficiaries by using the modification of the Center of Islamic Business and Economic Studies (abbreviated as CIBEST) model, Deciles method, Gini coefficient and Atkinson index. It takes the case study of 1,309 zakat beneficiaries managed by the National Zakat Board of Indonesia (abbreviated as BAZNAS) in three different cities and regencies including Bogor, Depok and Sukabumi. It suggests that the present zakat distribution programs conducted by BAZNAS can significantly alleviate poverty and reduce income inequality among zakat beneficiaries. It is observed that one year after receiving zakat programs, production-based programs have higher increase of the material and spiritual condition (represented by falah index) by 300 percentage points while households who obtained consumption-based programs rise by only 20 percentage points. It is also found that the Gini coefficient decreases by 0.017 points while Atkinson index falls by 0.042 points indicating that the income inequality among observed zakat beneficiaries are improved. This study has substantiated the role of zakat for poverty alleviation and income inequality reduction that can benefit development in general.

Keywords: Zakat Distribution Programs, Poverty, Income Inequality

INTRODUCTION

One of the important factors determining the success of zakat impact on development is a zakat distribution program. According to Zakat Act No. 23/2011, zakat distribution programs in Indonesia are divided into two categories namely, consumption and production-based programs. Hafidhuddin *et al* (2013) explain that the former should aim to fulfill basic needs of its recipients including health, food and education while the latter should intend to economically empower its recipients

by providing financial assistance, business coaching and supervision to the zakat recipients. About two thirds of zakat collection is allocated for the former while the remaining one third for the latter (BAZNAS Report, 2015).

The difference between both programs specifically lies on their long-run goals. The consumption-based programs aim at helping the beneficiaries without having long-term objective to realize the financial independence of the recipients. For instance, the distribution of zakat fund to help the victims of natural catastrophe in the country. The aid can

be in the form of foods, clothes, victims evacuation, health facility and shelter.

The production-based programs aspire to achieve the financial independent status of the beneficiaries, which in the long-run they are expected to become zakat payers. For example, zakat community development (ZCD) integrates social and economic aspects of the people based on community and location. This empowers people by building their awareness and ability through training and coaching, with the main source of finance from zakat fund. Among ZCD programs that have been practiced are strawberry farmers empowerment in Bali, System of Rice Intensification development in Yogyakarta and water supply provision in East Kalimantan.

Moreover, a program called “*Rumah Makmur BAZNAS*” (BAZNAS Prosperity House) has a vision to attain economic well-being of the zakat beneficiaries by providing working capital access and promoting the spirit of Islamic economics. In this case, BAZNAS has the role to assist and monitor the *mustahik* throughout the program. The other examples of production-based programs include scholarship program, free-hospital facility and forming Islamic scholars cadres. These programs have the long-run objective to accomplish self-sufficiency of the *mustahik*.

From the previous explanation, it appears that the production-based zakat distribution programs have the ability to empower *mustahik* to achieve their well-being while consumption-based programs mainly aim to fill out the basic necessities of the recipients. This research, hence, attempts to analyze and to compare the effect of consumption and production-based zakat distribution programs specifically in eradicating poverty and reducing income inequality of the

zakat beneficiaries. It takes the case study of 1,309 zakat beneficiaries managed by the National Zakat Board of Indonesia (abbreviated as BAZNAS) in Bogor, Depok and Sukabumi by using questionnaire. The analytical tools used in the study are the modification of the Center of Islamic Business and Economic Studies (abbreviated as CIBEST) model that assesses poverty from material and spiritual perspectives. In addition, Deciles method, Gini coefficient and Atkinson index are also employed to measure the effect of zakat on income inequality reduction among zakat beneficiaries under consideration.

This paper comprises five sections including introduction as the first one. The second section is literature review followed by methodology in the third section. Section four deliberates results and analyses. Last section concludes the paper and presents some recommendations.

LITERATURE REVIEW

Beik (2013) argues that types of zakat program are one of important variables determining the success of income inequality reduction among zakat recipients. In general, BAZNAS (2015) classifies its distribution programs into two types of programs based on their objectives including consumption-based programs and production-based programs.

According to Beik and Ayuniyyah (2016), the Advisory Council of BAZNAS has issued a decision letter No. 001/DP-BAZNAS/XII/2010 about guidance of collection and distribution of zakat. This decision also provides the principles related with the consumption and production-based

distribution programs channeled to the beneficiaries. Accordingly, while consumption-based programs are generally aimed at fulfilling the daily basic needs of the recipients, production-based zakat distribution programs are disbursed by providing “*qard al hasan*” financing scheme for the beneficiaries. For the production-based distribution programs, BAZNAS normally selects the recipients who are in the productive age group as they have a greater potential to change their life condition as compared to the recipients who are not in the production age group.

In relation with the role of zakat for poverty alleviation and income inequality reduction, there have been numerous empirical studies on this issue using quantitative approach in Indonesia. Beik (2013) uses the analytical tools to measure poverty and income inequality. These include the most commonly used Lorenz curve, Gini coefficient and Atkinson index to measure income inequality as well as headcount ratio, poverty and income gap measurement, Sen index and Foster, Greer and Thoorbeek (FGT) Index to measure poverty etc. By taking the case of Jakarta city, he finds that proper zakat distribution program is able to reduce the poverty incidence and income inequality by 16.79 percent and 0.57 percentage points respectively.

Anriani (2010), Purnamasari (2010), and Beik and Tsani (2015) also reveal similar findings. Anriani (2010) suggests that poverty incidence in Bogor regency can be reduced by 8.77 percent using the existing zakat distribution programs, while Purnamasari (2010) finds that the poverty rate can be reduced by 21.40 percent in Garut regency. Likewise, Beik and Tsani (2015) show that zakat can reduce poverty incidence in South Lampung regency by 18.60 percent.

However, poverty is actually a multidimensional concept in the sense that there is no definition that can provide a comprehensive view on poverty. Shirazi (1994), Pramanik (1993, 1998) and Narayan (2000) are of the opinion that poverty is a state when individuals do not have enough resources to satisfy their basic needs in order to attain reasonably comfortable life. But based on multidimensional perspective they argue that it is difficult to comprehend poverty from income alone. Therefore, it is also important to see poverty from other perspectives especially from spiritual point of view. Imam Al-Ghazali (1980) divides poverty into two major categories namely, poverty with the relation to material and spiritual needs.

While conceptualizing the poverty concept from material and spiritual aspects, Beik and Arsyanti (2015) develop the Center for Islamic Economics and Business Studies (abbreviated as CIBEST)¹ model to capture both elements. They define material poverty as the incapability to meet the material basic needs such as foods, clothes and shelter. The major cause of material poverty is the income inadequacy to meet those needs. On the other hand, spiritual poverty is defined as the inability of people to fulfill the minimum spiritual needs including such obligatory worships as prayer, fasting and paying zakat. This kind of poverty is caused by internal and external factors. The internal factors comprise the influence from self's lust and worldly desire, the lack of understanding on Islam and the domination of evil characters within

¹ The name “CIBEST model” is based on the research done by the Center of Islamic Economics and Business (CIBEST), Bogor Agricultural University in 2013 pertaining the Islamic Poverty Line concept.

self such as laziness, bad temper and many more. The external factors include wrong family support, bad impact from external environment such as secularism, religious liberalism, atheism and many more, unsupported government policy and other external factors.

The attempts of the CIBEST model usage to analyze the role of zakat for poverty eradication have been made by Beik and Pratama (2015). By taking the case of Bogor regency, the study shows that after completing the program implemented with zakat, 63.7 percent of household are able to fulfill their material and spiritual needs. This is reflected through the decrease of the material, spiritual, and absolute poverty index and the increase of welfare (*falah*) index.

In line with that finding, Beik and Arsyianti (2015) also find that after joining zakat distribution programs within one year, the welfare (*falah*) index of the zakat beneficiaries in Jakarta can be raised by 96.8 percent measured by CIBEST index. Moreover, zakat can significantly lower the material poverty index by 30.15 percent and absolute poverty index by 91.30 percent. However, in this case, there are two households that have higher spiritual poverty index. It shows these two zakat receiver households experience diminishing spiritual values while they are materially better-off in the presence of zakat utilization program.

Despite a number of studies as delineated above, there still exists a gap in studying the empirical role of zakat in alleviating poverty and income inequality. First, the gap exists on the lack of past empirical studies particularly in Indonesia to compare the role of consumption and production-based zakat distribution programs in urban and rural areas.

Thus, any study to compare between both types of zakat distribution programs is expected to contribute the existing literature of zakat studies. Third, the gap also occurs on the issue of coverage of geographical area as vast as that of Indonesia. This kind of empirical research is still not conducted in many parts in Indonesia. Therefore, covering the cities and regencies of Bogor, Depok and Sukabumi will enrich the empirical studies of zakat.

METHODOLOGY

This study observes 1,309 respondents that are obtained through survey from January to April 2017. As mentioned earlier, it takes the case of BAZNAS in two different cities and regencies in West Java including Bogor, Depok and Sukabumi. The poverty analysis employs the Center of Islamic Business and Economic Studies (CIBEST) model with several alterations in order to obtain a more holistic result as it reveals material and spiritual aspects. The income inequality is measured by using Deciles method, Gini coefficient and Atkinson Index.

In terms of poverty analysis, this research examines two sets of data. First data set comprises pre-zakat household income and the second data set includes post-zakat household income. The pre-zakat household income data is obtained from BAZNAS in each regency before the respondents participate zakat distribution programs while the post-zakat income data is acquired using questionnaires one year after they join zakat distribution programs. In terms of spirituality before and one year after zakat distribution programs, it is obtained through questionnaire. The CIBEST quadrant is used to derive

index of each area in the quadrant including welfare index, material poverty index, spiritual poverty index and absolute poverty index. In our study, we change the term “welfare” with “*falah*”. Mathematically, the *falah* index is formulized as follows.

$$F = \frac{f}{N} \quad (1)$$

Where:

F = *Falah* Index that lies from 0 to 1

f = The number of prosperous households of zakat payers

N = The number of observations

Secondly, the material poverty index is formulized as follows.

$$Mp = \frac{NM_p}{N} \quad (2)$$

Where:

Mp = Material Poverty Index that lies from 0 to 1

NM_p = The number of materially poor but spiritually rich households. They fall under material poverty line, but their spiritual Likert scale at least equals to 3.

N = The number of observations

Thirdly, the spiritual poverty index is formulized as follows.

$$Sp = \frac{NS_p}{N} \quad (3)$$

Where:

Sp = Spiritual Poverty Index that lies from 0 to 1

NS_p = The number of materially rich but spiritually poor households. They fall above material poverty line, but their spiritual Likert scale is less than 3.

N = The number of observations

Lastly, the absolute poverty index is formulized as follows.

$$Ap = \frac{NA_p}{N} \quad (4)$$

Where:

Ap = Absolute Poverty Index that lies from 0 to 1

NA_p = The number of materially and spiritually poor households. They fall under material poverty line and their spiritual Likert scale is less than 3.

N = The number of observations

The number of , NM_p , NS_p , and NA_p are simply determined by counting the number of households living in each quadrant. Those numbers can be valued when the standard of materially and spiritually poor are established. Accordingly, the standard of material line is derived from the minimum standard of material needs that has to be fulfilled by the household. The formula of this standard is as follows.

$$MS = \sum_{i=1}^N PiMi \quad (5)$$

Where:

MS = Poverty line income (in terms of local currency)

P_i = Price of goods and services i (in terms of local currency)

M_i = Minimum amounts of goods and services needed

In terms of income poverty line in five aforementioned areas under consideration, this study employs *nishab* standard of zakat of income as material standard. The *nishab* standard of zakat of income is the monetary value of 524 kg rice based on Regulation of Indonesian Minister of Religious Affair Number 52/2014. According to Presidential Instruction Number 5/2015, the government-purchasing price of each kg equals to IDR7300. Therefore, the material standard according to *nishab* is obtained by multiplying 524kg of rice with the aforesaid government-purchasing price of each kg that equals to IDR3825200 or USD283.29. A household is classified as materially poor if its income is less than the value

of MS. Otherwise, they are categorized as rich.

In terms of the indicators of spiritual needs, the spirituality model of CIBEST is opted over other models because of several considerations. First, the simplicity of the CIBEST model makes this model applicable for large sample size. Second, although it needs several extensions, the indicators of spirituality in the CIBEST model have strong foundation according to the *Quran* and *hadith*. Third, the model has been also adopted as national policy by BAZNAS and hence the validity of the model has been solved.

The spiritual indicators of the CIBEST model are measured using Likert scale by evaluating the performance of household's worship and external factors including prayer, fasting, zakat and charity spending, household environment and government policy environment. The scale lies between 1 to 5 representing ascending performances in order. In other words, the higher scale represents the better spirituality.

For instance, if a household always performs obligatory and recommended prayer, fasting and pay zakat and charity, they are scored 5. On the other hand, if they never perform them and block other to perform those worships, they get 1. Similarly, if the household and policy environments are conducive for the family members to perform worship, they are scored. The standard of spiritual poverty line equals to 3 showing the family only performs the obligatory worships or minimum performance of worships.

Nevertheless, despite its simplicity, the spirituality index in the

CIBEST model is confined on the mere three out of five pillars of Islam and the supporting environment of family and government. In the current study, the spiritual indicators are modified by adding some such other variables as the way of household members perform prayer (congregational or individual basis), the habit of reading *Quran* and the endeavor for acquiring Islamic knowledge as well as attending religious gathering or ceremonies. Besides that, the indicators also include one's foundation of Islamic creed, i.e. *aqidah*. The adjustments are expected to be able to capture spiritual condition of the household in more comprehensive way. The indicators of spirituality are presented in the following Table 1.

To support the additional spiritual indicators, this study employs verses in the *Quran* and *hadith*. For instance, the inclusion of Islamic creed (*aqidah*) is based on six pillars of faith and Islamic teaching practice in daily life supporting the *hadith* stating that poverty may lead to disbelief. The *Quran* 112: 1-4, 31: 22 and 33 are among verses that indicate the crucial aspect of believing Allah SWT. In terms of the way of household members in performing prayer whether in congregational (*jama'ah*) or individual basis, it is in accordance to the *Quran* 2: 43. Rasulullah (s.a.w) also said, "It is better to join another person and pray than to pray alone and it is more superior in the company of two men and the bigger congregation the more liked it is by Allah." (narrated by Abu Dawud, book of Kitabus Solah, *hadith* no. 554).

Table 1. Spiritual Indicators

Variables	Likert Scale					Spiritual Standard
	1	2	3	4	5	
Belief	Disbelieve in Allah and blocking others to believe	Disbelieve in Allah	Believe in Allah	Believe in Allah and have positive thought over Him	Believe in Allah, have positive thought over Him and encouraging others to believe	Average score for spiritually poor household is equal to 3 (SS = 3)
Obligatory Prayer	Blocking others to pray	Against the concept of obligatory prayer	Performing obligatory prayer but not on regular basis	Always performing obligatory prayer	Performing obligatory prayer and encouraging others to pray	
Recommended Prayer	Blocking others to pray	Against the concept of recommended prayer	Not performing recommended prayer	Performing recommended prayer but not on regular basis	Always performing recommended prayer	
Congregational Prayer	Blocking others to pray	Against the concept of recommended prayer	Not performing prayer in congregation	Performing prayer in congregation but not on regular basis	Always Performing prayer in congregation	
Obligatory Fasting	Blocking others to undertake fasting	Against the concept of fasting	Not fully performing obligatory fasting	Performing only obligatory fasting	Performing obligatory fasting and encouraging others to undertake fasting	
Recommended Fasting	Blocking others to undertake fasting	Against the concept of fasting	Not performing recommended fasting	Performing recommended fasting but not on regular basis	Always performing recommended fasting	
Zakat and Infak	Blocking others to pay zakat and infak	Against the concept of zakat and infak	Not paying infak at least once in a year	Paying zakat <i>al-fitr</i> and zakat <i>al-maal</i>	Paying zakat <i>al-fitr</i> , zakat <i>al-maal</i> , and infak	
Reciting Al-Quran	Blocking others to recite Al-Quran	Never recite Al-Quran	Recite Al-Quran but not on daily basis	Recite Al-Quran in daily basis less than 1 juz	Recite Al-Quran in daily basis at least 1 juz	
Acquiring Islamic Knowledge	Blocking others to Islamic Knowledge	Never acquire Islamic knowledge	Seldom acquire Islamic knowledge	Often acquire Islamic knowledge	Acquire Islamic knowledge in regular basis	
Religious gathering attendance	Blocking others to attend religious gathering	Never attend religious gathering	Seldom attend religious gathering	Often attend religious gathering	Attend religious in regular basis	
Household Environment	Forbid <i>ibaadah</i>	Against implementation of <i>ibaadah</i>	Consider <i>ibaadah</i> as private matter for household member	Support execution of <i>ibaadah</i>	Creating environment which obligates execution of <i>ibaadah</i>	
Government Policy Environment	Forbid <i>ibaadah</i>	Against implementation of <i>ibaadah</i>	Consider <i>ibaadah</i> as private matter	Support execution of <i>ibaadah</i>	Creating environment which obligates execution of <i>ibaadah</i>	

Source: Beik and Arsyianti (2015) with some extensions

The indicator of reading *Al-Quran* is in line with some *Quranic* verses that show the significance of the Holy Book and therefore Muslim should learn, read and implements its contents in all aspects of their life. For example, in the *Quran* 2: 2, Allah SWT says, “*This is the Book about which there is no doubt, a guidance for*

those conscious of Allah.” People who conscious of Allah SWT are those who have *taqwa*, piety, righteousness, fear and love of Allah and those who take great care to avoid His displeasure. The important position of *Al-Quran* in the Muslim’s life as a guidance can also be found in the *Quran* 29: 45, 38: 1, 50: 1, 56: 77-80 and 85: 21.

In terms of the endeavor for acquiring Islamic knowledge as well as attending religious gathering, this is based on the important role of knowledge in the religion. Islam encourages people to have knowledge as Allah SWT states, "...Allah will raise those who have believed among you and those who were given knowledge by degrees." (*Quran* 58: 11). This verse shows the importance of the knowledge acquirement process. People are encouraged to obtain useful knowledge particularly the one that can generate better understanding on Islam. There are also many verses that indicate the role of knowledge for Muslim such as the *Quran* 3: 18, 20: 114 and 39: 9. Following the CIBEST model, spiritual standard that separates spiritually poor households and spiritually rich households is determined to be equal to 3 (vide Table 1). Mathematically, it can be written as follows.

$$SS = 3 \quad (6)$$

Where:

SS = Standard for spiritual poverty

The general spiritual condition of households in one country can be formulated as follows.

$$SA = \sum_{k=1}^N \frac{SHk}{N} \quad (7)$$

Where:

SA = Average score of spiritual condition of the observed households

SHk = Actual condition of household k

N = The number of households in the sample

If the value of spiritual average ranking of the household is more than its standard ($SA > SS$), then generally speaking, spiritual condition of population in one place is in good

condition. In other words, they are spiritually rich. Similarly, if the value of spiritual average of the household is less than or equal to its standard ($SA \leq SS$), the residents of that place are spiritually poor.

Another important aspect is related on the calculation of SHk . It is obtained from the score of all variables observed in the household. Therefore, equation (8) below provides the formula to compute SHk .

$$SHav = \sum_{h=1}^{TNH} \frac{AS_1 + AS_2 + \dots + AS_{TNH}}{TNH} \quad (8)$$

Where:

$SHav$ = Average score of actual spiritual condition of one household

ASh = Actual spiritual score of the household member h

TNH = Total number of household member

As for ASi , the formula is as follows.

$$ASi = \frac{FS + OPS + RPS + CPS + OFS + RF}{1} \quad (9)$$

Where:

ASi = Actual spiritual score of household member i

OPS = Obligatory prayer score

RPS = Recommended prayer score

CPS = Congregational prayer score

OFS = Obligatory fasting score

RFS = Recommended fasting score

ZS = Zakat and infaq score

AS = Reading Al-Quran score

KS = Acquiring Islamic knowledge score

IGS = Islamic gathering attendance score

HS = Household environment score

GS = Government policy environment score

Determination of the number of households in each CIBEST quadrant

is based on combination of results of material standard (MS) value and spiritual standard (SS) value. There are four probabilities of combination between MS and SS results, namely, both rich and high spirituality, high spirituality but poor, rich but low spirituality, and both poor and low spirituality

When the number of household in each quadrant is known, the calculation of all indices becomes easier. Combining all values of *falah* index, material poverty index, spiritual poverty index and absolute poverty index, we will get total values of those indices to be equal to 1. This is called as the generalized CIBEST model.

$$\begin{aligned}
 \text{CIBEST Model} &= 1 \\
 &= F + Mp \quad (10) \\
 &+ Sp + Ap
 \end{aligned}$$

According to equation (10), total summation of all indices must be equal to one. These indices could be utilized in mapping the population, in which quadrant that most of the population lives. It will assist the government to design policy strategy that can be effectively executed.

In terms of income inequality, the study uses Deciles, Gini coefficient and Atkinson index as the analytical tools. McConnell *et al* (2015) define Gini coefficient as a numerical measure of the overall distribution of income. The value lies between 0 to 1, where 0 exhibits perfect equality and 1 represents perfect inequality. Based on Patmawati (2006), the calculation of Gini coefficient is as follows.

$$G = 1 - \frac{(ab)(bd + ac)}{2} \quad (11)$$

Where:

G = Gini coefficient

ab = The value based on population division

bd = Percentage of income received by population

ac = Percentage of population

The interpretations of Gini coefficient results are as follows. If the post-zakat Gini coefficient may appear smaller than the pre-zakat Gini coefficient, to suggest the impact of zakat distribution on income inequality reduction.

Another income inequality measurement is Atkinson Index. It is basically based on the social welfare evaluation of income distribution. Patmawati (2006) argued that this index has two major objectives. First, to quantify the differences in inequality between the two distributions to indicate the income distribution of the post-zakat distribution is more equal than the income distribution of the pre-zakat distribution. Second, to measure the degree of welfare loss of the society due to inequality in the income distribution of the society. This is important so that we can know whether the welfare loss of the society is reduced with the distribution of zakat.

On the other hand, Golan *et al* (2001) argue that this measure has several desirable properties. First, the Atkinson index has a dollar-denominated (currency-denominated) interpretation. Second, the measure for the entire population can be decomposed into within-groups and between-groups welfare measures for subgroup of the population. Third, changing the single parameter that indexes the Atkinson measure changes the weight the welfare index places on relative increases of wealth at the lower end of the income distribution. Fourth, it can be derived axiomatically to be consistent with a welfare maximization model.

The formula of Atkinson index is given below.

$$I = 1 - \frac{Y_{EDE}}{\mu} \quad (12)$$

Where:

I = Atkinson index

Y_{EDE} = Equally distributed equivalent level of income.

μ = Mean income distribution of the population

The interpretation of this Atkinson index is based on its pre and post zakat values. If the value of post-zakat Atkinson index may appear smaller than the value of pre-zakat Atkinson index, it can be concluded that zakat distribution is able to reduce the welfare loss of the society, and vice versa.

RESULTS AND ANALYSIS

Demographic Characteristics

The following Table 2 presents respondents' profile based on areas. While urban area is represented by

three cities including Bogor, Sukabumi and Depok, rural area is only represented by two regencies namely Bogor and Sukabumi. It appears that around two-third of the respondents live in rural area, while only one-third of the respondents are from the urban area. This can be understood as more people live in rural area as compared to the urban area.

The following Table 3 exhibits demographic characteristics of the respondents in urban and rural areas. In terms of gender, it appears that the current finding is contradicted with the conventional wisdom where male-headed households dominate characteristics of the respondents by approximately two-third and four-fifth in urban and rural areas respectively. In relation with marital status, nearly two-third of the household heads are married in both areas followed by the widowed and single household heads.

Table 2. Respondents' Profile based on Area

Demographic Characteristics		Frequency	Percentage
Urban	Bogor City	300	63.03
	Sukabumi City	76	15.97
	Depok City	100	21.00
	Total	476	100.00
Rural	Bogor Regency	333	39.98
	Sukabumi Regency	500	60.02
	Total	833	100.00
Total	Urban	476	36.36
	Rural	833	63.63
	Total	1,309	100.00

Table 3. Respondents' Demographic Characteristics

Demographic Characteristics		Percentage	
		Urban	Rural
Gender	Man	67.4	79.7
	Woman	32.6	20.3
Status	Married	66.8	81.9
	Single	8.2	0.7
	Divorced	25.0	17.4
Age Groups	Juvenile (12 – 25 yo)	5.7	1.0
	Adults (26– 45 yo)	36.8	43.6
	Seniors (46 – 65 yo)	45.0	47.9
	Elderly (> 65 yo)	12.6	7.5
Formal Education	No Formal Education	4.2	1.6
	Elementary School	37.8	46.0
	Junior High School	22.5	23.3
	Senior High School	30.9	25.6
	Associate's Degree	1.5	1.2
	Bachelor Degree	2.5	3.1
	Others	0.6	0.2
Informal Education	Yes	41.0	53.4
	No	59.0	46.6
Jobs	Employee	11.1	8.8
	Housewife	4.6	2.5
	Farmer	1.3	10.8
	Entrepreneur	21.6	26.2
	Labor	20.2	21.5
	Industry Sector	2.3	1.7
	Service Sector	29.4	12.7
	Others	9.5	15.8

Based on the age of the head of households in both areas, it is surprising to observe that almost half of the head of households are seniors category (46 to 65 years old), followed by adults (26-45 years old), elderly (more than 65 years old) and juvenile (12-25 years old) categories. The finding suggests that the respondents are mostly at their economically production age, i.e. between 46 to 65 years old.

It is also found that majority of household heads in both areas pursue formal education up to elementary school level closely followed by senior and junior high school levels. There

are approximately 4 percent of the household heads that hold diploma and bachelor degree certificates. Only less than 1 percent of the respondents hold such other level of formal education as Islamic boarding school (*Pesantren*). However, it is surprising to observe that the household heads who never attend any formal education seems to be higher in the urban area as compared in the rural area. This phenomenon might be linked to the increase in urban poverty due to internal migration from rural to urban areas.

In terms of informal education, it is interesting to note that there exists

opposite evidence in both areas. While majority of urban household heads have never undergone any informal education, majority rural household heads have attended such informal education as routine Islamic gathering held near their places. This might reflect two facts. First, the awareness of the household heads in urban area to attend informal education might be lower. Second, the presence of such informal education as routine Islamic gathering in urban neighborhood might not be as many as that of rural area.

In relation with the jobs of household heads, worker in service sector dominates the occupation of household heads in urban area by nearly one-third of the total respondents; followed by entrepreneur (21.6 percent), factory labour (20.2 percent), employee (11.1 percent), housewife (4.6 percent), worker in industry sector (2.3) and farmer (1.3 percent). On the other hand, entrepreneur constitutes the highest portion of occupation of the rural household heads by 26.2 percent; followed by factory labour (21.5 percent), worker in service sector (12.7

percent), farmer (10.8 percent), employee (8.8), housewife (2.5 percent) and worker in industry sector (1.7 percent).

The following Table 4 the types of zakat distribution programs received by the households. It appears to be overwhelming predominance of consumption-based program over production-based program in urban area. On the other hand, production-based program shares two-thirds of the total zakat distribution program in rural area. This finding suggests that BAZNAS in rural area provides more empowerment programs as compared to BAZNAS in urban area. As a consequence, the average value of zakat fund received by rural households is also higher than urban households as production-based programs attempt to empower *mustahik* through entrepreneurship and business initiation or development. The difference of zakat fund values received by respondents in urban and rural area is statistically significant at 5 percent.

Table 4. Respondents' Profile based on Types of Zakat Distribution Programs

Types of Zakat Distribution Program	Area			
	Urban		Rural	
	Frequency	Percentage	Frequency	Percentage
Consumption-based Program	367	77.1	250	30.0
Production-based Program	109	22.9	583	70.0
Total	476	100.00	833	100.0

Poverty Analysis

Based on the aforementioned division, this study hence wants to analyze whether or not different types of zakat distribution programs have different impacts to the observed households in terms of poverty alleviation. The following Table 5 provides the result. The figures in the parentheses

represent the change in the four indices due to the presence of zakat distribution programs.

According to Table 5, it is observed that there is difference of the performance of the four indices of the households in urban and rural areas prior to the zakat distribution programs. While in urban area consumption-based recipients have

worse performance in all indices, in rural area they have better performance (vide column 1 to 4). This also shows different standards of zakat recipients' selection done by *amil* in urban and rural areas. It seems that the priority of consumption-based programs in urban area belongs to the groups who are economically and spiritually poor

while the production-based programs are for those who perform better material and spiritual conditions. On the other hand, majority of production-based programs in rural area are for those who are economically and spiritually poor.

Table 5. CIBEST Index based on Zakat Programs

Urban	Before				After			
	FI (1)	MPI (2)	SPI (3)	API (4)	FI (5)	MPI (6)	SPI (7)	API (8)
Consumption	0.09	0.71	0.01	0.18	0.11 (+22.22)	0.75 (+5.63)	0.01 (0.00)	0.12 (-33.33)
Production	0.42	0.32	0.19	0.06	0.59 (+40.48)	0.35 (+9.38)	0.04 (-78.95)	0.02 (-66.67)
Rural	Before				After			
	FI (1)	MPI (2)	SPI (3)	API (4)	FI (5)	MPI (6)	SPI (7)	API (8)
Consumption	0.10	0.84	0.00	0.06	0.12 (+20.00)	0.80 (-4.76)	0.02 (+100.00)	0.06 (0.00)
Production	0.03	0.68	0.04	0.25	0.12 (+300.00)	0.81 (+19.12)	0.01 (-75.00)	0.06 (-76.00)

Note: FI: *Falah* Index

MPI: Material Poverty Index

SPI: Spiritual Poverty Index

API: Absolute Poverty Index

One year after zakat distribution programs, it is observed that production-based programs give higher increase of the *falah* index both in urban and rural areas. This is evident from the figures in the parentheses in column (5) showing that the *falah* index of households who received production-based programs increases by 40.48 and 300.00 percentage points in urban and rural areas respectively, while households who obtained consumption-based programs rise by only around 20.00 percentage points in both areas. Given the spiritual and business supervision from *amil* officers during the programs, these results confirm that the production-based programs are intended to empower the zakat recipients in which in the long

run the welfare in terms of material and spiritual of the recipients can be realized.

In a similar vein, the absolute poverty index of the households participating in the production-based programs can be reduced greater as compared to the households participating the consumption-based programs in urban and rural areas as evident in the figures in the parentheses of column (8). This also reflects that production-based programs have more salutary effect in reducing material and spiritual poverty because of the presence of business and spiritual supervision of *amil* officers.

When examining the material poverty index, it is interesting to note

that except for the households participating consumption-based programs in rural area the values increase as a result of migration of the households from absolute poverty quadrant (vide column 6). In this case, there are households who are better off in terms of their spiritual condition only but still fall under material poverty in the presence of zakat distribution programs.

On the other hand, the spiritual poverty index of the households participating production-based programs in urban and rural areas can be reduced substantially by approximately 80.00 percentage points as presented in column (7). This shows the important roles of production-based programs concomitant with the spiritual supervision of *amil* officers for the zakat recipients. In the absence of spiritual supervision, the spiritual poverty index of the households joining consumption-based programs in both areas remain and even increase.

Given these results, the percentage of production-based zakat distribution programs should be increased for the future zakat distribution programs without neglecting the priority standard according to the *shariah*. Through production-based distribution

programs, zakat can noticeably empower the poor society by targeting the zakat recipients who are in the production age and have no physical constraint. Therefore the role of zakat in alleviating material and spiritual poverty can be realized.

Income Inequality Analysis

The following Table 6 presents the income distribution of households who are given consumption-based programs in urban and rural areas. It is observed that prior to consumption-based zakat distribution programs in urban and rural areas, the bottom 20 percent only enjoy less than one twentieth while the top 20 percent share almost a half indicating the existence of huge income gap among the groups. This is evident from the figures in column (1).

One year after zakat programs are disbursed, it is interesting to note that the presence of zakat distribution programs improve the income share of the bottom seven deciles indicated by the increase of their income share as evident from the figures in column (5). Meanwhile, the top 30 percent decreases its income share by approximately 173 percentage points as presented in column (5).

Table 6. Size of Distribution of Household Monthly Income of Households Before and One Year After Participating Consumption-based Zakat Distribution Programs based on Deciles in Urban and Rural Areas

No	Percentage of Population	Percentage Share in Total Income				Percentage Point of the Gap (b-a) (5)
		Before		After		
		Deciles (a) (1)	Cumulative Deciles (2)	Deciles (b) (3)	Cumulative Deciles (4)	
1	D ₁	1.34	1.34	1.63	1.63	(+29)
2	D ₂	2.69	4.03	2.90	4.53	(+21)
3	D ₃	3.87	7.90	4.38	8.92	(+51)
4	D ₄	5.44	13.34	5.78	14.69	(+34)
5	D ₅	7.07	20.40	7.14	21.83	(+7)
6	D ₆	8.47	28.88	8.54	30.38	(+7)
7	D ₇	10.53	39.41	10.73	41.11	(+20)

8	D ₈	13.53	52.94	13.35	54.46	(-18)
9	D ₉	17.67	70.60	16.89	71.35	(-78)
10	D ₁₀	29.40	100.00	28.65	100.00	(-75)

The above findings are also evidenced from the following Gini coefficient and Atkinson index as presented in the following Table 7. According to the table, it appears that Gini coefficient and Atkinson index can be reduced only in urban area one year after consumption-based zakat distribution programs are conducted as

evident from the figures in column (3), although the change only depicts a marginal reduction (0.039 and 0.067). This indicates that income inequality can be marginally improved and the welfare loss can also be reduced among zakat beneficiaries in urban area.

Table 7. Gini Coefficient and Atkinson Index Before and One Year after Joining Consumption based Zakat Distribution Programs

Areas	Income Inequality Measures	Before Zakat Distribution Program (1)	One Year After Zakat Distribution Program (2)	Change Index (3)
Urban	GC	0.415	0.376	(-0.039)
	AI	0.559	0.492	(-0.067)
Rural	GC	0.441	0.449	(+0.008)
	AI	0.631	0.639	(+0.008)
Total	GC	0.426	0.406	(-0.020)
	AI	0.590	0.560	(-0.030)

GC: Gini Coefficient

AI: Atkinson Index

In terms of production-based zakat distribution programs in urban and rural areas, it is observed in the following Table 8 that the income distribution among production-based zakat distribution programs one year after the program is conducted appears to be better off as presented in column (5). According to the table, it is surprising to observe that the income share enjoyed by the bottom 7 deciles goes up by 170 percentage points while the top 3 deciles reduces their income share by 170 percentage points. These changes are similar with the aforementioned consumption-based zakat distribution programs. Therefore our finding suggests the similar impact between consumption and production-

based programs on the income inequality reduction.

This finding is also supported by the values of Gini coefficient and Atkinson index as presented in the following Table 9. It appears that the marginal reduction in income inequality and welfare loss only apply in the beneficiaries in the rural area as evident from the figures in column (3). In other words, both types of programs have more salutary effect on the zakat recipients in rural area than that of in urban area. From our observation, this might happen due to the presence of supervision program from the *amil* officers in rural area.

Table 8. Size of Distribution of Household Monthly Income of Households Before and One Year After Participating Production-based Zakat Distribution Programs based on Deciles in Urban and Rural Areas

No	Percentage of Population	Percentage Share in Total Income				Percentage Point of the Gap (b-a) (5)
		Before		After		
		Deciles (a) (1)	Cumulative Deciles (2)	Deciles (b) (3)	Cumulative Deciles (4)	
1	D ₁	1.61	1.61	1.82	1.82	(+29.64)
2	D ₂	3.27	4.88	3.40	5.22	(+21.09)
3	D ₃	4.34	9.22	4.61	9.82	(+51.00)
4	D ₄	5.69	14.92	5.62	15.45	(+33.97)
5	D ₅	6.48	21.40	6.96	22.41	(+7.58)
6	D ₆	7.84	29.24	8.12	30.53	(+6.74)
7	D ₇	9.20	38.44	9.43	39.96	(+20.10)
8	D ₈	11.44	49.87	11.53	51.50	(-17.97)
9	D ₉	15.80	65.67	15.79	67.29	(-77.52)
10	D ₁₀	34.33	100.00	32.71	100.00	(-74.62)

Table 9. Gini Coefficient and Atkinson Index Before and One Year after Joining Production based Zakat Distribution Programs

Areas	Income Inequality Measures	Before Zakat Distribution Program (1)	One Year After Zakat Distribution Program (2)	Change Index (3)
Urban	GC	0.352	0.366	(+0.014)
	AI	0.569	0.586	(+0.017)
Rural	GC	0.396	0.3788	(-0.0172)
	AI	0.459	0.417	(-0.042)
Total	GC	0.428	0.410	(-0.018)
	AI	0.505	0.467	(-0.038)

GC: Gini Coefficient

AI: Atkinson Index

CONCLUSION AND RECOMMENDATION

This study suggests that the present zakat distribution programs conducted by BAZNAS can significantly alleviate poverty and reduce income inequality among zakat beneficiaries. It is observed that one year after receiving zakat programs, production-based programs have higher increase of the material and spiritual condition (represented by *falah* index) by 300

percentage points while households who obtained consumption-based programs rise by only 20 percentage points.

It is also found that the Gini coefficient decreases by 0.020 points while Atkinson index falls by 0.030 points indicating that the income inequality and social welfare loss among observed zakat beneficiaries of consumption-based programs are improved due to the presence of zakat programs. Besides, the similar impact

also applies in the beneficiaries of production-based zakat distribution programs where the income inequality and social welfare loss can be reduced by 0.018 and 0.038 points one year after the programs are conducted. To conclude, this study has substantiated the role of consumption and production-based zakat programs for poverty alleviation and income inequality reduction among zakat beneficiaries under consideration.

There are three recommendations can be drawn from the current findings. First, this study suggests for BAZNAS to improve the portion of production-based zakat distribution programs as they are found to have better effects specifically in reducing poverty of the beneficiaries. Second, continuous business and spiritual supervision programs from *amil* officers should be also improved in order to empower the beneficiaries and hence to achieve their independences status in the long run. Third, BAZNAS should give more attention on the selection process of the prospective beneficiaries so that the zakat recipients belong those who are eligible being *mustahiq* as this study finds there are households who are in the first quadrant prior to zakat distribution programs indicating that they are already above poverty line standard.

REFERENCES

- Al-Ghazali. (1980). *Ihya Ulum al Din*. Beirut: Darul Fikr.
- Anriani. (2010). *Analisis Dampak Zakat terhadap tingkat Kemiskinan Mustahik Studi Kasus: Pendayagunaan Zakat oleh BAZ Kota Bogor di Tiga Kecamatan Kota Bogor* (Undergraduate). Bogor Agricultural University.
- Badan Amil Zakat Nasional (BAZNAS) Report (2015). Jakarta: BAZNAS.
- Beik, I. S. & Ayuniyyah, Q. Fiqh Asnaf in the Distribution of Zakat: Case Study of the National Board of Zakat of Indonesia (BAZNAS). *Al-Iqtishad: Journal of Islamic Economics*, 6(2), 201-216.
- Beik, I. S., & Arsyianti, L. D. (2015). Construction of CIBEST Model as Measurement of Poverty and Welfare Indices from Islamic Perspective. *Al-Iqtishad: Journal of Islamic Economics*, 7(1), 87-104. <http://doi.org/10.15408/ijies.v7i1.1361>
- Beik, I. S. & Pratama, C. (2015). Analisis Pengaruh Zakat pada Kesejahteraan Mustahik Model CIBEST. *Republika daily*: May 28.
- Beik, I. S. & Tsani, T. (2015). Role of Zakat Distribution in Reducing Poverty and Income Inequality in Indonesia. In M. Yusop & N. Abdullah, *Zakat and Poverty Alleviation* (pp. 198-217). Kuala Lumpur: IIUM Press.
- Beik, I. S. (2013). *Economic Role of Zakat in Reducing Poverty and Income Inequality : A Case Study in the Province of DKI Jakarta, Indonesia*. Deutschland: LAP Lambert Academic Publishing.
- Narayan, D. (2000). *Voices of the Poor: Can Anyone Hear Us?* (Vol. 1). World Bank Publications.
- Patmawati. (2006). *Economic Role of Zakat in Reducing Income Inequality and Poverty in Selangor* (Ph.D). Universiti Putra Malaya.
- Pramanik, A. H. (1993). *Development and Distribution in Islam*.

- Petaling Jaya: Pelanduk Publications.
- Pramanik, A. H. (1998). *Poverty from Multidimensional Perspectives: A Micro Level Study of Seven Malaysian Villages*. Kuala Lumpur: Cahaya Pantai.
- Purnamasari, N. (2010). *Analisis Pengaruh Pendayagunaan Zakat, Infaq, dan Shadaqah terhadap Pengurang Kemiskinan Studi Kasus: Pusat Zakat Umat LAZ Persis Garut* (Undergraduate). Bogor: Agricultural University.
- Shirazi, N. S. (1994). *An Analysis of Pakistan's Poverty Problem and Its Alleviation through Infaq*, (Ph.D). International Islamic University, Islamabad.
- Syahhatih, S. I. (1989). *Penerapan Zakat dalam Dunia Modern*. Translator Anshori Umar Sitanggal. Jakarta: Pustaka Dian dan Antar Kota.

Qurroh Ayuniyyah
International Islamic University
Malaysia
ayuniyyah@gmail.com

Ataul Huq Pramanik
International Islamic University
Malaysia
ataul@iium.edu.my

Norma Md Saad
International Islamic University
Malaysia
norma@iium.edu.my

Muhammad Irwan Ariffin
International Islamic University
Malaysia
irwan@iium.edu.my

A Comparative Study of the Perception of Coastal Communities in Developing the Method of Distribution of Marine Zakat

Diki S Riwanto
Airlangga University

ABSTRACT

Indonesia is one of the largest maritime countries in the world with enormous potential resources. One of the potential resources includes fishery resources which reached 6.4 million tons per year with the value of catch fisheries reaching more than USD 15 billion. Thus, the total foreign exchange of marine and fishery reached USD 71 million per year. But along with these facts, 83 percent of the coastal communities are still living in poverty. To overcome these problems, it is necessary to optimize zakat, because in reality, the implementation of zakat (in this case marine zakat) is not optimal. This study is aimed to identify and develop the distribution model of marine zakat based on local people's perception. In analyzing this research, the authors applied qualitative method through comparative study approach by using data collection technique in the form of in-depth interviews. The scope of this research targets the people who live in depok and gunung kidul beach, Yogyakarta. Through this research, the authors hope that the community can identify the development of the distribution model of marine zakat that can empower coastal communities and can motivate local people to be more productive and optimize the available amount of zakat.

Keywords: *Islamic Economics, Marine Zakat, Empowerment, Coastal Community, Maritime*

INTRODUCTION

Indonesia is a country with the largest number of islands and the largest sea in the world. In Indonesia, the ratio of the sea area is larger than the mainland, i.e. 5.8 million kilometers of ocean and 1.9 million kilometers of land (BPS, 2012). So it is not surprising to see why Indonesia got the status of an archipelagic country as has been declared during the Juanda Declaration. This is a very important factor in legal, political, economic, cultural, territorial integrity, the unity of the nation and marks the claims and efforts of international juridical recognition of the sovereign

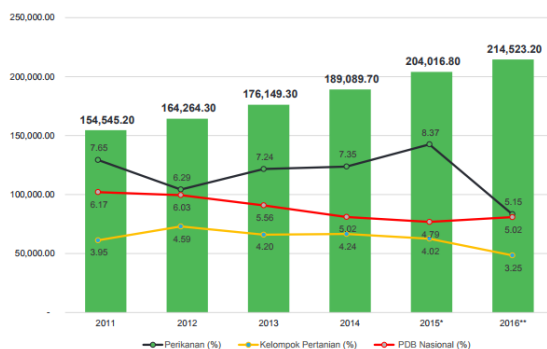
status of the island nation (Bappenas, 2014).

Indonesia has the potential of marine (both biological and non-biological) resources in the economy that can be utilized for the welfare of the community. There are at least 11 sectors of the marine economy that can be developed, such as: (1) fisheries; (2) aquaculture; (3) fishery industry; (4) marine biotechnology industry; (5) energy and mineral resources; (6) maritime tourism; (7) coastal forestry; (8) marine transportation; (9) maritime industry and services; (10) small island area resources, and

(11) nonconventional natural resources (Dahuri, 2014). Utilization of this potential is quite important, considering that 65 percent of Indonesian people live in coastal areas. (BPS, 2013). It is also supported by Sweden et al (2008), which says the understanding of the coastal economy contributes to the economy for several reasons, including: (1) highly productive coastal ecosystems and contributing large amounts of economic value to the coastal economy; (2) all countries in general, and the coastal economy in particular, has a complex system of ownership, markets, productive organizations, and governments that determine who receives economic benefits and who pay production costs.

Meanwhile, in terms of fishery resources, the Indonesian Marine Council (2017) said that Indonesia has the potential of fishery resources to the extent of 6.4 million tons per year with the number of captured fisheries reaching more than USD 15 billion. Thus, the total foreign exchange from marine and fishery reaches USD 71 Billion per year. In addition, based on data from BPS (2017), it is shown that the GDP growth in fisheries has always been higher than the National GDP and agriculture. However, while always increasing, by 2016, the contribution of fishery GDP to the national GDP only reached 2.27 percent. (see Chart 1).

Chart 1. GDP on Fisheries (Billion Rupiah), 2011-2017



Source: Badan Pusat Statistik (2017)

* Provisional numbers

** Very provisional numbers

This potential is reinforced by the fact that aggregate increase in world economic growth is affected by the economic activity in the Asia Pacific region. According to the study of World & Economic Forum, the most important variable of economic growth is the marine sector which is seen as Prime Mover. Consequently, it makes Indonesia as one of the potential countries for achieving higher economic growth, considering Indonesia is a maritime country located in the Asia Pacific region. Thus, it can be concluded that the welfare of coastal communities is of pivotal importance. However, as the facts stand, coastal communities are still categorized as poor. This is a solvable problem due to the large potential that should be utilized to reduce the number of poor people.

Poverty alleviation programs have long been undertaken by the Government of Indonesia, such as: Direct Cash Assistance (BLT), RASKIN, National Health Insurance (JAMKESNAS), School Operational Assistance (BOS), People's Business Credit (KUR), and National Community Empowerment Program (PNPM) which have been applied comprehensively. The government programs that are focused on coastal communities currently do not exist. However, poverty alleviation in villages and agriculture is different in coastal communities, because the number of fish obtained by fishermen can not be ascertained. But, as a matter of fact, the government is generalizing by not creating a specific program.

The existing programs such as the distribution of basic foods during the famine season as

happened in the coast of Depok Yogyakarta still did not resolve the problem of poverty. This shows that poverty alleviation undertaken by the government needs to be evaluated, with a more technical approach to structural approaches, where the provision of facilities can support and facilitate coastal community activities. What is needed is a cultural approach that provides knowledge to improve human development (Kusumaningrum, 2013).

In Islam, according to Qardhawi in Al-Arif (2010), poverty alleviation can occur through optimizing the collection and distribution of zakat. Hence, zakat can be more efficient tool to resolve poverty in the economy. But in general, people's understanding of zakat is only about Zakat Fitrah and Zakat Maal. However, there are also other sources of zakat in accordance with the development in current modern economy. In addition to the zakat sources already mentioned, according to Qardhawi in Hafidhuddin (2002), there is also a zakat on marine products. Based on his views, what is in the sea and has an economic value must be subject to zakat. This way, the vast marine potential with relatively income-poor coastal communities is expected to help in overcoming poverty. The existence of zakat provides one important source of fair finance.

Based on the facts that occur, there are still coastal communities who do not issue zakat on marine products. This is due to the lack of education of coastal communities about the zakat on these marine products. They need awareness on how the zakat will be implemented and how much nisab will be applied. Among the scholars also, there are still differences of opinion. Resultantly, the coastal communities do not know the criteria as to who is 'mustahiq' and who is 'muzakki'. In addition, there is lack of broad consensus, understanding and development related to the concept of zakat on marine products. Therefore, we

want to analyze the perception of coastal communities in developing the method of distribution of zakat on marine products that can empower coastal communities and can motivate local people to be more productive and optimize the existence of this zakat.

Research Question

Based on the background description of the problem, the authors identify some key issues that will be discussed. Hence, the formulated questions are as follows:

1. Does the fishing community know about the existence of marine zakat?
2. Who is entitled to issue zakat?
3. How much is the potential of zakat that can be applied in Depok and Drini Beach, Yogyakarta?
4. Which distribution model of zakat on the marine product is appropriate?

Target Research

The targets to be achieved through this study are;

1. Identifying problems and components of marine development especially in Depok and Drini Beach, Yogyakarta.
2. The formation of thoughts for the concept of marine zakat and the basic ideas for the preparation of long-term zakat on marine products.

LITERATURE REVIEW

Coastal communities

Community can be defined as a local group of people which refers to citizens of a village, town, tribe or nation, both large and small

groups who live together in such a way as to fulfill the main life interests (Soekanto, 1997). The coastal community is a group of people living in coastal areas, living together and meeting their needs from coastal resources. Communities living in cities or coastal settlements have socioeconomic characteristics closely related to the economic resources of the marine region. (Prianto, et al., 2005). Coastal communities that are primarily engaged in fishery business are generally still on the poverty line. They have no other job option, have low levels of education, and the majority of them are unaware of the preservation of natural resources and the environment (Lewaherilla 2002).

Problems faced by coastal communities, among others include: basic service facilities including physical infrastructures that are still limited; poorly maintained environmental conditions (lack of adequate health, clean inadequate water and sanitation, unsuitable housing conditions); community skills are limited to catching fish so that it does not support the diversification of activities; low population income; low education and public knowledge; and the economic activities of society are still traditional (Dahuri, 2016). Characteristics of coastal communities are dominated by fisheries. In general, if viewed from the economic point of view, the income level of coastal communities is still low so that they are on the poverty line. In addition, social conditions are characterized by low levels of education and the dependence of life on fisheries resources in the sea, thus making it less conducive to business diversification. Provision of basic service facilities such as roads, clean water, sanitation and garbage is still limited and insufficient. This causes the coastal community settlements to be unfit to live (slums) with high building density and low building quality.

Coastal Characteristics

Communities who live in coastal areas have unique characteristics that make them different from those living in rural, urban or mountain areas. These characteristics are closely related to the nature of the business of fisheries. They are equipped with the ability to catch, cultivate and make efforts to earn income from the marine wealth.

Coastal communities are generally pluralistic societies with high social life, meaning that the structure of coastal society is a combination of the characteristics of urban (plural) and rural (high social life). On the one hand, they are guided by traditional rural culture, but on the other, they have to accept the flow of city tourists who travel to the coastal areas or city traders who want to buy fishing marine products. This makes the structure of coastal communities very plural (Wahyudi, 2003). As for factors affecting fisheries business such as environment, season and market, the characteristics of coastal communities are also influenced by these factors.

Reliance on the Environment

Coastal communities are especially vulnerable to environmental factors, especially to water problems. Since the main income source depends on utilizing sea products, water conditions become the most important factor for income levels. If the water is polluted due to industrial waste or anything else, it will affect the quantity and quality of the catch of fishermen, in addition to the pollution that can damage the marine ecosystem. So if such a trend continues, it will have negative effects on the coastal community itself. Another problem

that hampers fishermen related to the environment is the use of technological factors. If their environment is still traditional, then the technology used to catch the fish is also traditional.

Reliance on Season

Another important factor for coastal communities, especially for the fishermen, is the season. They are very much dependent on the seasons, especially the small fishermen who depend on the wind direction. Fishermen with large boats depend on seasons where the season determines when big waves will appear. Even if they use engine power, it is risky to face big waves. This condition has a great impact on the social condition of coastal communities in general and the fishermen in particular. Fishermen may earn a lot of income during the fishing season, but the fishermen will experience distress in the necessities of life when big waves season comes. That is dangerous for fishermen if they are catching fish in the sea and it affects the catch of fish that they obtain. In general, the income of the fishermen is fluctuating because the fishermen are unable to predict how much they will catch. Sometimes they get a large number of catches, but it could be possible that on the next day, they get nothing. For example, the coastal communities living in the southern coastal areas of Java with relatively large waves, can not go to sea every day. They can only go at times when the waves are not big.

Reliance on the market

The next factor is the market, which also has an important role in the life of coastal communities, including both fishermen and fish sellers. Unlike farmers where their crops can survive for long periods of time, the marine products have a short lifespan. So when harvested, fishermen must immediately look to sell the fish. When the fish catch is abundant, the

fishermen are not immediately happy because of the law of demand and supply. If the number of goods supplied increases, the price becomes cheaper. Besides, the intense competition among fishermen who also sell the catch also causes fluctuations in fish market prices.

Zakat

The definition of zakat according to the UU No 38 of 1999, is 'the obligation of Indonesian Muslims who are categorized as financially capable to pay a prescribed amount of wealth from their existing stock of wealth. Zakat is a potential source of funds in realizing the welfare of the community. In addition, zakat is the realization of religion in the realization of justice for all people of Indonesia by paying attention to the poor. As an effort to effectively utilize this institution, the management system of zakat needs to be improved so that the implementation of zakat becomes more effective, efficient and accountable.

Zakat becomes the obligation for individuals who have wealth reaching nisab (muzakki). Then, it is distributed to eight groups of beneficiaries of zakat (mustahik). If viewed in terms of language, zakat has the meaning of blessing, growth, and holyness (Ascarya, 2008). In general, people's understanding of zakat is only restricted to Zakat Fitrah and Zakat Maal. Though there are also other sources of zakat in accordance with the development of the modern economy. These sources include: zakah on profession, zakah on the company, zakah on commercial paper, zakah on currency trading, zakah on traded livestock, zakah on

animals, zakah on property investment, zakah on sharia insurance, zakat of orchid plant, ornamental fish, bird swallow, and modern household accessories (Hafidhuddin, 2002). In addition to the zakat sources mentioned above, according to the research of Yusuf Al Qardhawi, there are also zakat marine products. As per his views, what is in the sea and that has an economic value must be issued zakat. Resultantly, the vast marine potential with income-poor coastal communities is expected to help in resolving poverty since zakat is one source of fair finance.

Zakat Marine Products

Along with the development of technology and science, the level of modern economic growth led to the existence of various types of new assets that have greater potential and productivity. Although such property is explicitly not mentioned in the Qur'an and Hadith, but it is not an exception (Tahsin) that the types of property not mentioned in the Qur'an and Hadiths are not obligated to issue zakat (Qadir, 2002). As the Zakah of marine product which is not mentioned explicitly in the Qur'an, then based on the previous explanation, it must still be subject to zakat. Because the marine product is one of the wealth that is developing now and is a basic necessity of daily life for coastal communities and has economic value. Thus, zakat on marine product must be subject to zakat. In accordance with qiyas, zakat application on new assets and wealth would be equivalent to the type of zakat on wealth which were mentioned in the textual sources. It has also been exposed in Q.S At-Taubah: 103 that every valuable source of wealth we have is subject to zakat.

“Take alms of their wealth, wherewith thou mayst purify them and mayst make them grow, and

pray for them. Lo! thy prayer is an assuagement for them. Allah is Hearer, Knower”(QS At Taubah; 103)

And the zakat is taken from the good and lawful property, it is contained in Q.S Al-Baqarah: 267.

“Allah disdaineth not to coin the similitude even of a gnat. Those who believe know that it is the truth from their Lord; but those who disbelieve say: What doth Allah wish (to teach) by such a similitude? He misleadeth many thereby, and He guideth many thereby; and He misleadeth thereby only miscreants” (QS Al Baqarah; 26)

But related to the obligation of Zakah on sea products, there are differences of opinion among Ulama, such as:

Opinion on the obligation of marine zakat

What has been said about amber and ornaments derived from the sea such as pearls and others also apply to fish caught by fishermen. The marine products have enormous potential to generate enormous amounts of money, when worked by large companies with modern equipment. Therefore it is very unusual if fish are not subject to the obligation to pay zakat which is analogous to mining, agriculture and others (Al Qardhawi 1996).

Abu Ubaid narrated it from Yunus bin Ubaid, "Umar sent a letter to his officers in Oman so he would not collect anything from a fish that was less than 200 dirhams. If it is worth 200 dirhams, that is big nisab money, then it must be levied zakat. It was also narrated from the

source of Ahmad. According to the Imami mazdhab, the zakat of fish is 20 percent because they see it as the ghanimah (Al Qardhawi, 1996).

There are two views of the high priest that is, Malik and Shafi'i, which reinforce the proposal, that is, the amount of Zakat should be different based on the heavy income of the work, the burden, the amount obtained, and what is obtained: the zakat can be 20 percent and 2.5 percent.

Opinions That Do Not Require Zakah Marine Product

According to research conducted by Yusuf AL Qrdhawi on marine results contained in the book of Zakat Law (comparative study on the Status and philosophy of zakat based on Quran and Hadith), among others, there are differences of opinion about the law of goods exploited from the sea such as pearls and marhan, and perfume like amber supposedly one piece can weigh 100 misqal. According to Abu Hanifah, Hasan bin Salih and the mahzab of the Zaidiah Syiah, are not subject to anything. As Ibn Abbas argues, narrated by Ibn Syaibah and others that amber is not a treasure but is something produced in the sea, and therefore it is not imposed on anything (Al Qardhawi, 1996).

Implementation of Zakat as a Public Financial Instrument

According to Mannan, the element in Islamic socialism is zakat. So the zakat is said to be the financial axis of the Islamic state. Zakat is different from a tax. The difference is in the recipients of zakat which as established in the Qur'an and also the burden of zakat is fixed. Mannan also stated that the existence of zakat does not cause a negative impact on the motivation of a Muslim to work, because the fact zakat can encourage someone to work hard. This is because basically no one wants to be the recipient of zakat,

thus encouraging someone to work harder. Sayyid Mahmud Taleghani views zakat as an effort to maintain cooperation and form of fair distribution in public demand, in addition to religious obligations (Haneef, 2010). In its implementation, zakat has a dominant effect in people's life, such as:

- a. Production
The impact of zakat will lead to a potential new remainder which will further increase the aggregate demand that will ultimately encourage producers to increase production to meet existing demand.
- b. Investigation
In addition to the impacts described above, increasing production will make the company to increase its investment.
- c. Jobs
Given the increase in investment. it can make a bigger increase in production which means it will expand employment.
- d. Growth
Increased aggregate demand makes an increase in investment, thereby promoting economic growth.
- e. Social gap
Zakat plays an important role in the process of income distribution which will lead to a reduction in social inequality.

RESEARCH METHODOLOGY

Type of research

Type of research in this research is a case study by comparing the potential of zakat between Depok Beach, Bantul with Drini Beach, Gunung Kidul. The objective is to

examine whether the income of the fishermen has potential to be subject to zakat or not.

Character of research

This study uses descriptive and qualitative methods. Data is obtained through observation (field research), interviews, and literature study.

Objects of Research

The objects of this research are:

- a. Depok Beach, Parangtritis Village, Kretek District, Bantul Regency, Yogyakarta Province.
- b. Drini Beach, Banjarejo Village, Tanjungsari District, Gunung Kidul Regency, Yogyakarta Province.

Data collection techniques

Data collection techniques used in this study are as follows:

- a. Direct observation techniques, researchers reside with the object under study and directly make observations to the object under study (the fishermen and the income).
- b. In-depth interview technique where the researcher conducts direct interviews of fishermen, *ta'mir*, and traders.
- c. Documentation and literature techniques.

DISCUSSION

Objects of Research

1. Depok Beach

Depok beach apart from being a tourist area, is also a coastal fishing area. Usually, people go there other than a tourist destination, but also to buy fish from the fishermen who comes to fish. The buying and selling of fish there happens through the fish auction, as well as through the direct sale and purchase transactions conducted at the seaside. Depok beach majority community works

as fishermen, but not the fisherman, but as helpers to fisherman. The main fishermen there mostly come from cilacap since the local people are still afraid to fight the waves which are quite big. Besides fishermen, the coastal communities in Depok also work as traders and farmers. So that when the tide is high, the people there work as farmers and switch professions.

For the coastal communities in Depok beach, the sailing day begins at 05.00-11.00WIB, but in January-June they do not sail because in these months, the tide is high so that the fishermen do not dare to look for fish. That is why; it is referred to as the lean season. The fish season lasts from June to September where the number of fish catches rises. There can be variation in the catch. The maximum catches of fish can reach 50 kg of fish or Rp 15,000,000 in one arrest and even more than this. On the other hand, the minimal catches reach an average of Rp 200,000 or even lower.

Obtained from an interview with Mr. Soekamto on July 29, 2017, one of the fishermen in the local area, it was revealed that the fishermen use vessels belonging to the skipper, so that the fishermen who do not have a ship could use the boat skipper. After deducting operating expenses from the catches, the net income is distributed through revenue sharing between fishermen and skipper with the percentage of 50:50.

Types of fish caught include Depok coast snapper, tuna, pomfret, layur, crabs, lobsters, rays, grouper, shark, squid, and small shark species. On the beach, there are fish markets. People are engaged in sea fishing, sea trade, and marine processing services. To meet the

demand, the required quantities are usually supplied from cilacap.

In Depok beach management operations, the cooperative is one of the institutions that have an important role in developing coastal management. The cooperative is a form of credit union who rent out stalls at the beach area. The rental price of every shop is different. Food shop rental price is around Rp 250,000 per annum, while garments shops rental price reaches Rp 300,000 per year. The system of withdrawal is made by officers of Cooperatives in April, but due to the mechanism of the cooperative management upholding the principle of *Amil*, then before the withdrawal is made, prior notice of one week is given in order to prepare in advance. Thus, it can be seen that the role of Cooperatives is quite large.

Informants say that the sellers and fishermen around the coast Depok are residents of territory around the place. The sellers take days off when they are on vacation. It is because there are only a few visitors at TPI. So during a normal day, only very few sellers are selling because they focus on the tourists who visit, but it is undeniable that the traders also become an important part of selling marine products.

2. Drini Beach

Coastal communities in Gunung Kidul district Drini beach represent a society that mostly consist of Brazilians. Other than fishermen, there are merchants as well since Drini Beach is an area that is pretty crowded for tourism. The virtue of Drini beach is that it is a beach for fishermen as well as a beach for tourism in contrast to most of the beaches which are located along the coastline of the mountain Kidul district. These qualities make beach Drini a hot spot to visit not only for sightseeing, but also to enjoy fresh fish catches from the fishermen who are there.

Nonetheless, Drini Beach is still not able to support the economy of the people over there as the majority of people still live in poverty. It is observed in this study that coastal communities, especially the fishermen Drini committee still has no specialized institutions such as Cooperatives or BMT to provide financing to support the productivity of the fishermen. The fishermen still do business on their own without any individual group or organization that can facilitate operation of fishermen fishing on the coast Depok Bantul.

In interviews conducted with three fishermen, the researcher came to know that for each vessel involved in the fishing, income may reach 500 thousand to three million rupiahs depending on the season and huge waves at sea. During the hurricane season and when there are high waves, even the fishermen on the beach Drini do not dare to go to sea. This negatively impacts the economy of the fishermen there. It usually occurs in January and March. This period is the most difficult time for fishermen because they play loose their livelihood. So at that time, the fishing activities of vessels only perform repairs and fishermen go to the town to be a seasonal construction worker.

Types of fish that is usually acquired by fishermen include skipjack tuna, rays, appeal, pomfret, layur, mackerel, squid, crab and lobsters. Their price and demand in the market is quite high. One of the differences between the fishermen in Depok and Drini beach is the revenue management. Fishing at Drini Beach involves operating costs such as fuel, coffee and cigarettes. Revenue results at sea will be further reduced due to high operating costs. In profit sharing,

the portion of the ship owner is always greater. A typical profit sharing portion calculation by the fishermen of Drini Beach is illustrated in Table 1. below:

Table 1.
Calculation of Servings Sharing at Drini Beach

Number of Fishermen In Boat	Shipowners (1)	The crew
1	75 percent	25%
2	50 percent	25% + 25%
3	40 percent	20% + 20%
		20%

Source: Author (2017)

In connection with the charity, marine fishermen are still not aware of any such charity. They spend only tithes which are issued each year. From this information, it can be seen that the fishermen still do not know the importance of zakat potential of marine products to support their welfare.

In addition to interviewing the fishermen, the researcher also conducted interviews of one of the existing traders at Drini shore. The traders sell fish, shrimp, crab, squid and seaweed obtained from the shore. Fishermen catch fish and trade with the tourists who visit the place. The selling price is relatively cheap compared to the market price since the fish are directly obtained from the fishermen without any intermediary.

Revenue traders at Drini are uncertain of their future income as it depends on whether there is a working day and if the weather and season is favorable. Most traders do not sell every day, but only on weekends, holidays and the national days. Some traders do not stay permanently in the region of Drini beach. Merchants who sell every day are usually traders who have a house and have settled permanently in the area. On holidays, people can earn Rp 500,000 to Rp 1 million, while the average day only gets Rp 100,000 and even no buyers at all.

Most traders live below the poverty line due to the lack of income they earn

when compared to the expenditure they should spend in order to continue with their daily lives. The absence of Cooperatives or other institutions that can provide financing to developing businesses and empowering traders is a significant constraint.

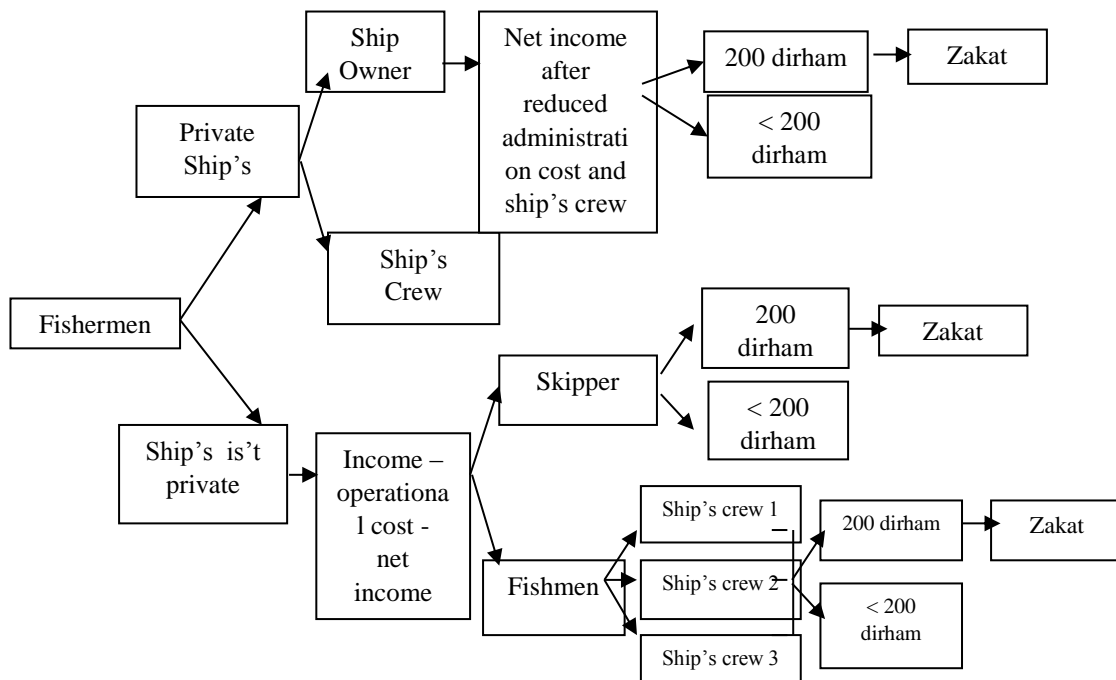
Other parties that were interviewed in this study include the *ta'mir* mosque clerics as well as *Amil* in charge of collecting and allocating zakat funds. These interviews revealed information that is linked to the problem of zakat mobilization. The fishermen still do not have awareness about zakat on marine products. Even in the mosque, there is no charity fund raising activity because most fishermen are in fact not native to the coastal regions. They give to charity in a mosque in the district or the village where they live. This proves that the zakat potential of marine products is still not implemented as well as it should have been.

Analysis of Results

Based on the results of research on the Depok Beach and Drini Beach, Gunung Kidul, the authors make the classification scheme of fishermen income belonging to muzakki and mustahik described in Figure 1. below.

deducted, it will give rise to net income. The net income equally and distributed to the crew. If the net income has been in the share of 200 dirhams or worth approximately Rp 600,000 (1 dirham = Rp 3,000). So according to the opinion of mazhab Imam Malik and Syafi'i, it is subject to zakat by 20 percent which is analogous to the result of mine, agriculture and others.

In the second category, the ship is not private property. The vessel is in the form of a loan obtained from a skipper who has a stake in net income when profit sharing is done between the



Source: Author (2017)

Figure 1. Fishing Cluster Scheme

Fishermen in general, classified into two, namely fishermen who have their own ships and ships which are owned by others. If the ship is private, the ship owner invites two crew members. The catch will be deducted from the operational costs (the average one sail requires an operational cost of Rp 200,000). When operating costs are

shipowner and the borrower of the vessel with the percentage of profit sharing being 50:50. As many as 50 percent is distributed to the ship's borrowers. It will be distributed to a number of fishermen who sailed. The average number of fishermen in a single ship comprises three fishermen. So, if the net income that has been distributed either from the side of the fisherman or skipper, reaches 200 dirhams or worth

approximately Rp 600,000, then there is obligation to pay zakat.

From the classification that has been described, an outline can be drawn as to know that muzakki having a net income worth 200 dirhams is subject to zakat. As per the data classification above, it is mostly found that the owners of ships and skipper have this much net income. A mustahik is a person that has a net income of fewer than 200 dirhams.

Distribution of Zakat for Model Development

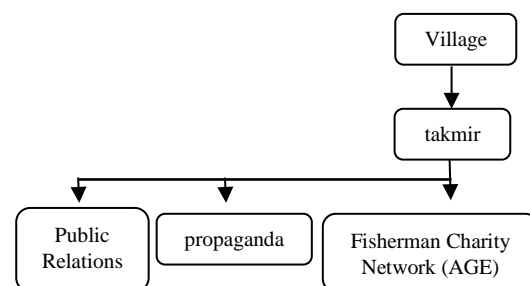
Now, it is already known who mustahiq is and who is classified as muzakki. It will now be easier to distribute zakat, because of the data obtained as per this outline. The muzakki is a skipper, while the mustahiq are fishermen (who still participate with skipper). So, skipper and private shipowners are obliged to pay zakat. The zakat distribution models have to be efficient for the productive distribution of zakat. One approach is that the charity will be made in venture capital to the fishermen who qualify.

Business zakat distribution is with local institutions (*ta'mir*). The *ta'mir* organizations are *Amil* zakat institutions which specifically contribute to the survey of muzakki and mustahik for charity, counting the number of needy, determining the distribution issue and deciding whether the zakat will be given directly (consumer) or as venture capital (productive). After distributing zakat, *Amil* is also obliged to foster social mobility through economic growth in a productive society.

In developing this model, researchers conceive a model of the collection and distribution of zakat funds on marine products named as AGE (Amal Fisherman Nets). The reason for the name is that it gives a popular name for the coastal people, especially fishermen. Because in operations, it is needed to build trust among bosses and owners of

private boats when issuing zakat on sea produce. It is important to socialize the importance of paying zakat on marine products as well as highlighting its potential in the management of zakat. This is the main reason why the researchers chose *ta'mir* as an institution to manage and administer the zakat proceeds rather than forming new institutions. The advantages of forming a special body under the auspices of *ta'mir* is to collect, manage and distribute effectively.

- Every village must have a mosque and *ta'mir* as managers.
- *Ta'mir* is the most trusted person in addition to being *ta'mir* society because they also are answering all the problems of the religious scholars.
- *Ta'mir* as alms collectors have the right to collect the zakat funds, so *ta'mir* is a better staffed agency specialized in the management of zakat on marine products.
- With *ta'mir* as the administrator, the charity funds will be optimized due to the transparency of zakat that can be published in the mosque but it is a more central mosque as community activities. The age scheme (charity nets of fishermen) are as follows:



Source: Author (2017) Organizational Structure *Ta'mir*

Charity nets of fishermen in the development of the model in this research have several programs related to the collection, management and distribution of zakat funds on marine products supplied by fishermen as muzakki. Following tasks are a part of AGE:

- a. Collecting data from the fishermen to ascertain who becomes muzakki and who are entitled to be mustahiq.
- b. Doing charity fund raising from muzakki including the skipper and private ship owners who are required to fulfill zakat obligation on seafood.
- c. Manage and be responsible for such charity funds and have more transparency for the entire community in the form of reports and information placed on the boards affixed in mosque.
- d. Doing the distribution of zakat funds to the mustahiq in the form of venture capital assistance or development of small fishing businesses.

Hopefully, by the involvement of specialized agency in the institutionalization of zakat, the potential of zakat collectible on marine products can be enhanced and be used to improve the welfare of coastal communities, especially the fishermen.

CONCLUSION

Zakat on marine product is one kind of zakat that is not taken into account by the fishermen, due to lack of knowledge and lack of socialization from related institutions. The results of this research show that there is no significant collection of zakat on marine products. So, in this situation, researchers are encouraged to make a model of marine zakat distribution. In this case, we can cluster who is categorized as mustahiq or

muzakki. In general, mustahiq are the fishermen whose status is still working alongside the skipper or the small fishermen who are still living below the poverty line, and the muzakki is the skipper who already owns several ships or private boat owners whose fish catch has reached nishab.

The authors provide solutions in the form of development of collection and distribution of zakat on seafood mobilized and distributed through zakat institutions. It is on this matter that the author makes a model for the distribution of zakat on seafood that will be collected by an organization called "Jaring Amal Nelayan" (JAMAN). The organization is managed by *ta'mir* local mosque. It is hoped that due to the involvement of JAMAN, the application of zakat on marine products can be coordinated. It is vital because zakat itself has a dominant effect in social life and economic activities, such as production, investment and opening job fields. All of this can aid in an effort to overcome social disparity.

RECOMMENDATION

After conducting research and making conclusions on the perception of coastal communities in developing the distribution model of marine zakat, there are several suggestions submitted by the authors including, among others:

1. It needs support from the government and the community about the importance of zakat on marine product so that it can be applied.
2. For institutions that have the authority as collectors of zakat, there is need for contribution in the rural areas

- rather than only in urban areas.
3. The need for socialization in both the mosque and directly in the community regarding the importance of the zakat on the seafood and marine produce.

REFERENCES

- Abdurrachman, Qadir. (1998). *Zakat Dalam Dimensi Mahdhah Dan Sosial*. Jakarta: PT Raja Grafindo Persada.
- Ascarya. (2007). *Akad dan Produk Bank Indonesia*. Jakarta: Bank Indonesia.
- Badan Perencanaan Pembangunan Nasional. (2014) *Konsep Mainstream Ocean Policy Kedalam Pembangunan Nasional*. Jakarta.
- Hafidhuddin, Didin. (1998). *Zakat Infak Sedekah*. Jakarta: Gema Insani Press.
- _____. (2002). *Zakat Dalam Perekonomian Modern*. Jakarta: Gema Insani Press.
- Haneef, Mohamed Aslem. (2010). *Pemikiran Ekonomi Islam Kontemporer: Analisis Komparatif Terpilih*. Jakarta: Rajawali Pers.
- Huda, Nur. et al. (2008). *Ekonomi Makro Islam*. Jakarta: Prenada Media Grup.
- Karim, A. Adiwarmanto. (2007) *Ekonomi Makro Islam*. Jakarta: PT Raja Grafindo Persada.
- Kusumaningrum, Arta. (2013) 'Kebijakan Pembangunan Dalam Pengentasan Kemiskinan masyarakat Pesisir (Studi Kasus pada Masyarakat Pesisir di Kabupaten Purworejo, Jawa Tengah)', *Jurnal Sosial Ekonomi dan Kebijakan Pertanian*, 2 (1).
- Kusumastanto, Tridoyo. (2003) *Pemberdayaan Sumber Daya Kelautan, Perikanan dan Perhubungan Laut dalam Abad XXI*. Yogyakarta.
- Nawawi, Ahmad. (2013). 'Partisipasi Masyarakat dalam Pengelolaan Wisata Pantai Depok di Desa Kretek Parangtritis', *Jurnal Nasional Pariwisata*, 5 (2): 103-9.
- Prianto, Eddy. (2005) 'Fenomena Aktual Tema Doktoral Arsitektur dan Perkotaan', in. Semarang: Badan Penerbit Universitas Diponegoro.
- Qardawi, Yusuf. (1996). *Hukum Zakat*. Jakarta: Litera Antar Nusa.
- Rianto, Nur. (2010). *Teori Makro Ekonomi Islam*. Bandung: Alfabeta.
- Sutrisno, Endang. (2014) 'Implementasi Pengelolaan Sumber Daya Pesisir Berbasis Pengelolaan Wilayah Pesisir Secara Terpadu untuk Kesejahteraan Nelayan', *jurnal Dinamika Hukum*, 14 (1): 1-12.
- Sweeden, Paula., Batker Deve., Radtke Hans., Boumans Roelof., Willer Chuck, (2008) *An Ecological Economics Approach to Understanding Oregon's Coastal Economy and Environment, Coast Range Association*. New York. Available at: <http://www.coastrange.org/CoastalEconomicsReport.pdf>.
- Wahyudin, Y. (2003) 'Sistem Sosial Ekonomi dan Budaya Masyarakat Pesisir', *Researchgate*, 1-26.
- Winata, Adi. and Ernik Yuliana, (2010) 'Peran Masyarakat Pesisir Dalam Penerapan Strategi Konservasi Sumberdaya Laut (Kasus Di Kelurahan Palabuhanratu, Kecamatan Palabuhanratu, Kabupaten Sukabumi)', *Jurnal Matematika, Sains, dan Teknologi*, 11(2), pp.

122–132.

Witarsa (2015) ‘Model Pengembangan
Ekonomi Masyarakat Pesisir
Berbasis Co-Management
Sumberdaya Perikanan Di
Kabupaten Pontianak’, *Jurnal
Economia*, 11(1).

Diki S Riwanto
Airlangga University
diki.s.riwanto123@gmail.com

Zakat as an Obligatory System and its Implications for Social Psychology of Society (Social *Tafsīr* of *Sūrah Al-Tawbah*: 103)

Abdul Wahid Al-Faizin
Airlangga University

Taqiyah Dinda Insani
Airlangga University

Tika Widiastuti
Airlangga University

ABSTRACT

*In the current literature, the study of the collective benefits of Zakat is more emphasized on the material economic aspects by using modern economic tools. Meanwhile, Zakat has a significant social role in the community. Therefore, Allah mentions in Qur'an the command of Zakat and prayer together as much as 22 times. It shows that the role of Zakat socially in human relationships with each other is comparable to the relationship with God. This paper will try to explore and analyze the social role (Social Psychology) of Zakat as an obligatory system from *Sūrah al-Tawbah*: 103. The method used in this paper is a qualitative method by using content analysis that combines *tafsīr bi al-ra'yi* with *tafsīr bi al-ma'thūr*. By using social *tafsīr*, it is found that Zakat should be an obligatory system and its management must be done centrally by the government. BAZNAS can be a representation of the government to perform the task. Then, it will result in the creation of equal degree and status between *mustahiq* and *muzakki*. Meanwhile, the implication of Zakat in the context of social interaction of the society is the creation of tranquility, security, and harmony for the whole society.*

Keywords: Zakat, Social Tafsīr, Social Psychology

INTRODUCTION

The command for paying Zakat and praying are mentioned together in Qur'an as much as 22 times. This shows that Zakat is a form of horizontal relationship between humans. Moreover, as a form of worship, it connects vertically to Allah. Zakat is an important principle in Islamic economics with two main functions, i.e. as a form of worship that gives benefit to the giver and ii) as a collective benefit for people in the

environment which run the Zakat system (Sakti, 2007).

So far, the study of the collective benefit of Zakat for people who run the Zakat system is always emphasized on the material economic aspects. The tools used for analysis are often modern economic tools. Although it is good, it is necessary to study and analyze the system of Zakat developed in other contexts, especially in the context of social psychology of society. Recalling as mentioned earlier that Zakat is a form of horizontal

relationship between parties who give the gift of more wealth (*muzakki*) to the parties who are deficient in property (*mustahiq*).

Qur'an and hadith as the main source of Islam should become a tool for exploring the significance of distinct Islamic institutions. In other words, one should use the main sources in Islamic scientific khazanah, called the tafsir method. Then, the concept and wisdom which is contained in an ayah in the Qur'an can be explored by the tafsir method.

Therefore, by using tafsir method which researchers rarely use, this paper tries to extract the wisdom in the Zakat system and the implications of Zakat on the social psychology of society. In this case, the ayat that becomes the object of research is Sūrah al-Tawbah: 103.

This paper used analysis which refers to some books of tafsir, both of classical and contemporary literature and combines tafsir bi al-ma'thūr book and tafsir bi al-dirāyah book. The process of analysis explores some concepts that exist in Sūrah al-Tawbah: 103 and analyze the meaning of lafadh mentioned in that ayah.

Based on the above background, the objectives of research in this paper are to analyze the concept of Zakat as an obligatory system based on Sūrah Al-Tawbah: 103; and the implication of Zakat for the social psychology of society based on Sūrah Al-Tawbah: 103.

LITERATURE REVIEW

Zakat and its Position in Islam

The language of Zakat means البركة (blessing, growth, holy, and kindness). Then, the terminology aspect said that Zakat is required by Allah which is some

portion of certain wealth to be given to the people who are entitled to receive it (*mustahiq*). Zakat can increase principal's treasure and keep it from various dangers is the reason why it is called Zakat (Qardawī, 1973).

One of the pillars which are foundations of Islam and also has a high position in Islam is Zakat. This is mentioned by Rasulullah:

بُنِيَ الْإِسْلَامُ عَلَى خَمْسٍ شَهَادَةِ أَنْ لَا إِلَهَ إِلَّا اللَّهُ وَأَنَّ مُحَمَّدًا رَسُولُ اللَّهِ وَإِقَامِ الصَّلَاةِ وَإِيتَاءِ الزَّكَاةِ وَالْحَجِّ وَصَوْمِ رَمَضَانَ

"Islam is based on (the following) five (principles): Syahadat Laa ilaaha illa Allah and (syahadat) Muhammad Rasulullah, to offer the (compulsory congregational) prayers dutifully and perfectly, to pay Zakat, to perform Hajj, and to observe fast during the month of Ramadhan" (HR. Bukhari)

The command for paying Zakat and praying are mentioned together in Quran as much as 22 times shows how important is the position of Zakat in Islam. In addition to that, Zakat is a unique and complete system of redistribution (Rivai, 2013). Zakat regulations in Islam are quite clear. Therefore, the function of Zakat has to become an obligatory system rather than a voluntary system in order to institutionalize it in the lights of Islamic injunctions.

Social Psychology

Social psychology differs from the other psychological fields which focus solely on individual internal variables as determinants of behavior, such as motivation, needs, and so on (Soeparno, 2011). Social psychology departs from the idea that the recognition of behavior and its process

takes place in the social sphere (which can affect the individual) and then produce the study of the intra-psychic process in a person in terms of interaction between people (Nurrachman, 2008). Social psychology is the understanding, explanation, and prediction of how the thoughts, feelings, and actions of individuals are influenced by the thoughts, feelings, and actions of others whom they see, or even just imagine (Soeparno, 2011).

Previous Research

There are several types of research conducted related to the impact of Zakat. First, research conducted by Muhammad Abdullah, Abdul Quddus Suhaib (2011) entitled “The Impact of Zakat on Social life of Muslim Society”. The purpose of this study is to explicate the significance of Zakat as an institution, to elaborate the impact of Zakat on social life of Muslim society as it is the basic theme of the study, to cultivate necessary awareness about basic theme among all sections of the society particularly intellectual, elites and opinion leaders and to promote further research about the impact of Zakat on social life of Muslim society so that Zakat as an institution is established in Muslim

countries. By using the qualitative methodology, the result shows that the system of Zakat plays an effective and successful role in developing the social life and moral values of Muslim society (Abdullah & Suhaib, 2011).

Second, research conducted by Eko Suprayitno, Mohamed Aslam, Azhar Harun (2017) entitled “Zakat and SDGs: Impact of Zakat on Human Development in the Five States of Malaysia”. The purpose of this research is to examine the impact of Zakat on human development program in Malaysia. The scope of this research is confined to five states in Malaysia, namely, Johor, Kedah, Negeri Sembilan, Selangor, and Terengganu, while the object of research in Human Development. By using the Autoregressive Distributed Lag (ARDL) bound testing approach; the results show that Zakat has a positive and significant influence on human development in five states in the short and long run. Zakat in Malaysia can be used as a tool of fiscal policy that is decided in the states of Malaysia to stimulate human development and economic growth in the long run (Suprayitno, Aslam, Harun, Pan, & Hotel, 2017).

Resume of previous research is following:

Table 1. Empirical Study

No.	Researcher	Methodology	Research Result
1.	Abdullah, Abdul Quddus Suhaib (2011)	Qualitative	The System of Zakat plays an effective and successful role in developing the social life and moral values of Muslim society.
2.	Eko Suprayitno, Mohamed Aslam, Azhar	Quantitative by using the Autoregressive Distributed Lag (ARDL) bounds	Zakat has a positive and significant influence on human development in five states in the short and long run. Zakat in Malaysia can be used as a tool of fiscal policy that is decided in the states of

	Harun (2017)	testing approach	Malaysia to stimulate human development and economic growth in the long run.
--	--------------	------------------	--

METHODOLOGY

This paper uses content analysis approach, one of the descriptive qualitative methodologies used as a research methodology in qualitative research. According to Berelson (1952) in Stemler (2001), content analysis has interpreted the words based on implicit rules. Meanwhile, according to Holsti (1969) in Stemler (2001), content analysis is specific, objective, systematic technique of interpreting and identifying the message. Content analysis approach that is used by the author is *tafsīr method* – the way commonly used by Ulama to explore Quran related laws and wisdom – which is a combination of *tafsīr bi al-ra'yi* and *tafsīr bi al-ma'thūr*.

The definition of *Tafsīr bi al-Ra'yi* or *bi al-Dirāyah* is an effort to seek an interpretation of Quran through the thought (*ra'yu*). *Ra'yu* means an *Ijtihād* which brings the balance between logic and basic principles of *Ijtihād*. People who want do that have to follow the four guidelines (Suyūṭī, 1998), i.e. i) Do not take the *ḍa'īf* and *maudū'* hadith when quoting from Rasulullah; ii) Since *mufassir* judgement related to the opinion of the Prophet's friends is absolute like hadith *marfū'*, hence it should be considered; iii) Mastering Arabic include grammar and iv) examining the arrangement and truly understanding Shari'ah basic rules (*al-uṣūl al-shar'iyyah*). Based on that explanation, only certain people are allowed to do so. If the person who has none of these qualifications, then there could be wrong and misleading interpretation. Some of these tafasīr books are *Tafsīr*

al-Jalālain, *al-Baiḍawī*, *al-Alūsī*, *al-Khāzin* and so on.

The definition of *Tafsīr bi al-Ma'thūr* or *bi al-Riwāyah* is an effort to seek an interpretation of Quran through the Quran itself, hadith, or the words of the prophet's friends. The *tafsīr* books that belong to this type are *Tafsīr al-Ṭabarī*, *al-Durr al-Manthūr*, *Ibn Kathīr*, *al-Baghawī* and many more.

Therefore, the leading *tafasīr* literary – classical and contemporary *tafasīr* – be explored in this paper for that methodology. *Tafsīr Ibn Kathīr* by *Ismā'īl bin 'Umar bin Kathīr*, *Ma'ālim al-Tanzīl* by *Abū Muhammad al-Husain bin Mas'ūd al-Baghāwī*, and *Mafātīh al-Ghaib* by *'Umar bin al-Husain al-Rāzi* are books of classical *tafasīr*, while for contemporary *tafasīr*, author explored are from *Tafsīr al-Munīr* by Dr. *Wahbah al-Zuhailī* and *Tafsīr al-Sha'rāwī* by *Muhammad Mutawallī al-Sha'rāwī*.

RESULTS AND DISCUSSION

The object of this research is interpretation of *al-Tawbah*: 103, that is

خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ وَتُزَكِّيهِمْ بِهَا وَصَلِّ عَلَيْهِمْ إِنَّ صَلَاتَكَ سَكَنٌ لَهُمْ وَاللَّهُ سَمِيعٌ عَلِيمٌ

“Take Sadaqah (alms) from their wealth in order to purify them and sanctify them with it, and invoke Allāh for them. Verily! Your invocations are a source of security for them, and Allāh is All-Hearer, All-Knower.” (QS. *al-Tawbah*: 103)

Based on that ayah, there are two attractive sentences to be discussed. The first one is: **خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً** that reflects the Zakat concept and the second one is: **تُطَهَّرُهُمْ وَتُزَكِّيهِمْ بِهَا** that reflects the Zakat function. Both of those sentences have a strong relation. It means that good execution of Zakat concept will lead to the good achievement Zakat function.

The Tafsiṛ of خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً (The Concept of Zakat as an Obligatory System)

In this part, Allah begins with *lafadh* خُذْ (take) which is the command word form (*fi'il amr*). According to that form, that *lafadh* is used as a *zāhir* and we can conclude that the Zakat collection activity is obligatory (Rāzi, n.d.). The opinion before is appropriate to the *uṣul al-fiqh* method. The methodology mentions that the application of the word has to be mandatory as long as no other *Dalīl* is present which can refuse it.

Rasulullah is the target (*mukhāṭab*) of this command word whose duty is to collect Zakat from the group of people with excess wealth (the rich), and Rasulullah carries out the mandate of the implementation (Dimashqi, 1999). Then, the duty becomes the responsibility of the sovereign after him (Zuhailī, 1998). The context of this ayah is at the time when Rasulullah got that duty as a sovereign authority in an Islamic government. Therefore, that duty also becomes the responsibility of the sovereign authority in managing the state afterwards.

In Abū Bakar era, there were people who opposed Zakat and tried to bypass their responsibility of paying Zakat by using the argument that they were no longer responsible to pay

Zakat because Rasulullah had already died. As the sovereign head of the Islamic government, he fought those people and he said:

وَاللَّهِ لَوْ مَنَعُونِي عَقَالًا وَفِي رِوَايَةٍ: عَنَاقًا
كَانُوا يُؤَدُّونَهُ إِلَى رَسُولِ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ
وَسَلَّمَ لَقَاتَلْتُهُمْ عَلَى مَنَعِهِ

“By Allah! If they refuse to pay even a young goat which they used to pay during the lifetime of Rasulullah, I will fight with them for it.” (HR. Bukhāri and Muslim)

In the implementation of Zakat as described above, the government can appoint some officers who handle the collection and distribution of Zakat, known as *amil Zakat* or ‘*āmilīn*. This is based on the assignment of Mu’adz bin Jabal by Rasulullah - who was the head of state at that time - to take Zakat in the Yaman. In the assignment, Rasulullah gave a message to Mu’adz which was presented to the Yamans’ residents. The message was as follows:

أَنَّ اللَّهَ قَدْ افْتَرَضَ عَلَيْهِمْ صَدَقَةً فِي
أَمْوَالِهِمْ، تُوْخَذُ مِنْ أَغْنِيَائِهِمْ، فَتُرَدُّ فِي
فُقَرَائِهِمْ - مُتَّفَقٌ عَلَيْهِ

“Indeed Allah has enjoined on them, the Zakat. And it is to be taken from the rich amongst them and given to the poor amongst them” (Muttafaq ‘Alaih)

Furthermore, Zakat is the right of the recipient (*mustahiq*) to be taken from the rich (*muzakkī*). This statement becomes strengthened by the use of *lafadh* خُذْ (taken) in *Sūrah al-Tawbah*: 103 and *lafadh* تُوْخَذُ (taken) in the above hadith. Thus, Zakat is not a voluntary charity that is left entirely to the consciousness of each individual. Rather, Zakat is obligatory. When *muzakkī* refuses to give it, then Zakat can be taken by force as was done by

Abū Bakar. This is based on the confirmation by Allah in *Sūrah al-Dhāriyyāt*: 19

وَفِي أَمْوَالِهِمْ حَقٌّ لِّلسَّائِلِ وَالْمَحْرُومِ
 “And in their properties, there was the right of the beggar, and the Mahrūm (the poor who does not ask the others)” (QS. Al-Dhāriyyāt: 19)

Based on that explanation, it can be understood that Islam’s view of Zakat is not voluntary, but obligatory. This is a crucial assumption for Zakat function in society’s life and economy. The ayah’s context explains that Zakat system is obligatory as indicated by *lafadh* صَدَقَةٌ. Thus, it is a requirement for the functioning of the Zakat function shown by *lafadh* تُطَهَّرُهُمْ which will be explained in the next discussion.

The Tafsiṛ of تُطَهَّرُهُمْ وَتُزَكِّيهِمْ بِهَا (The Implication of Zakat for Social Psychology)

In *Sūrah Al-Tawbah*: 103, Allah mentions that the main function of Zakat, is *lafadh* تُطَهَّرُهُمْ وَتُزَكِّيهِمْ بِهَا. *Lafadh* تُطَهَّرُهُمْ is a *fi’il muḍāri’* from *maṣdar* التطهير. While *lafadh* التطهير (*al-Taṭhīr*) comes from the syllable طهر or طهارة which means holy or clean. While *lafadh* تُزَكِّيهِمْ is a *fi’il muḍāri’* from *maṣdar* التزكية. While *lafadh* التزكية comes from syllable الزكاة which in language has to mean الطهارة والنماء والبركة والمدح (holy, blooming, blessing, and praise). The use of the word الزكاة for the four meanings is found in the Quran and hadith (Miṣrī, n.d.).

Based on the above, التزكية has the same meaning as التطهير. Though, there are several different meanings, the use of *lafadz* التزكية for meaning قَدْ أَفْلَحَ مَنْ زَكَّاهَا is التطهير

“Indeed He succeeds who purifies his ownself (i.e. obeys and performs All that Allāh ordered, by following the true faith of Islāmic Monotheism and by doing righteous good deeds).” (QS. Al-Shams: 9)

The meaning of *lafadz* زَكَّاهَا in that ayah is طهرها من الأخلاق الدنينة والردائل (purifying the soul from a low and despicable moral. Even though التزكية has an equation of meaning with التطهير (Dimashqi, 1999). However, according to *al-Rāzī*, when التزكية called concurrently (affixed) with *lafadh* التطهير, there must be a difference between the two (Rāzī, n.d.). This is because in the Quran there can be no repetition of the same *lafadh* without any different meaning or other implied utility.

Based on the above description, there are two meanings given by *mufassir* for *lafadh* التزكية in the *Sūrah al-Tawbah*: 103. First, *lafadh* التزكية has the meaning مبالغة في التطهير وزيادة فيه (more purifying). Second, *lafadh* التزكية has the meaning الإنماء والبركة في المال (developing and giving blessings to the treasure). It means that Allah will make the loss of property due to Zakat a source for developing, increase, and blessing in the wealth (Zuhailī, 1998).

In this study, we use the first interpretation of مبالغة في التطهير وزيادة فيه (more purifying) in the analysis. It is because this paper is focused on the analysis of Zakat implications on the social psychology of society.

In Arabic grammar, *lafadh* طهارة can be used for clean or holy physical (جُسْمَانِيَّة) as well as spiritual (نَفْسَانِيَّة) (Zubaidī, n.d.). The use of *lafadh* طهارة for spiritual/holy is also often used in the Quran. One of them is

أُولَئِكَ الَّذِينَ لَمْ يُرِدِ اللَّهُ أَنْ يُطَهِّرَ قُلُوبَهُمْ
لَهُمْ فِي الدُّنْيَا حِزْبٌ وَلَهُمْ فِي الآخِرَةِ عَذَابٌ
عَظِيمٌ

“Are the ones whose hearts Allāh does not want **to purify** (from disbelief and hypocrisy); for them, there is a disgrace in this world and in the Hereafter, a great torment” (QS. Al-Māidah: 41)

Based on this, we can interpret the function of Zakat in the form of التطهير in *Sūrah al-Tawbah*: 103 as cleansing and purification of the soul. In this case, the function of الزكوة which is in the Zakat, according to al-Sha’rāwī occurs in every element in it, for the recipient (*mustahiq*), the giver (*muzakkī*) and the wealth itself (*Sha’rāwī*, n.d.).

Referring to the opinion of al-Sha’rāwī, if the function of Zakat is taken as cleansing and purification of the soul, then we can see its implication to *mustahiq* and *muzakkī* in terms of psychology and the sociology of society. According to this paper, the implications of Zakat in the soul purification of *mustahiq* and *muzakkī* can be seen from two aspects as follows:

The Implications of Zakat in the Context of Social Equality

There are two important pearls of wisdom proposed by al-Sha’rāwī in the management of Zakat by the government according to (*Sha’rāwī*, n.d.). First, the avoidance of *mustahiq* from disgrace for “raising their hand” to ask Zakat from *muzakkī*. With the management of Zakat by the government, the *mustahiq* no longer needs to “raise their hand” to ask Zakat because they will directly receive it from the government. Second, it helps in avoidance of negative psychological

impacts that occur when Zakat is received directly from *muzakkī* by *mustahiq*, especially *faqīr* and *miskīn*. For example, when the family *mustahiq* A knows that the *muzakkī* who gave the Zakat is family B, then it will have psychological impacts on family A. For instance, a child from family A will feel inferior when dealing with children from family B because he knows that family B is the one who gave Zakat to his family. It is different when Zakat is managed by the government. Then there will be no poor people who feel contemptible and inferiority when dealing with the rich because they did not know from whom the Zakat they received. The poor know only that as citizens, they get what they deserve from the government which is mandated to ensure the prosperity of all the citizens in the state (*Sha’rāwī*, n.d.).

The function of Zakat as cleansing and purification of the soul psychologically for *muzakkī* is to eliminate the arrogance and 'ujub (pride themselves) from their hearts. When a *muzakkī* pays Zakat which is obligatory, he will not feel that he is superior with his Zakat payment because Zakat is nothing, but the rights of others who are entrusted to him. When he does not pay Zakat from his wealth, the government has the right to forcibly take it. This is confirmed by Allah in al-Dhariyyā t: 19

وَفِي أَمْوَالِهِمْ حَقٌّ لِّلسَّائِلِ وَالْمَحْرُومِ

“And in their properties, there was the right of the beggar, and the *Mahrūm* (the poor who does not ask the others)” (QS. al-Dhariyyāt: 19)

Furthermore, when Zakat is obligatory and is collected and managed by the government, then

muzakki will not know as to whom the Zakat is distributed. So when looking at the poor, he will not feel meritorious to him. Unlike the case when he directly gives the Zakat to mustahiq, then this will cause negative psychological impact for him by feeling superior to the *mustahiq*.

Based on this, we can conclude that the implication of Zakat in the context of the equality of society is the creation of equal degree and status between individual *mustahiq* and *muzakkī*. *Mustahiq* psychologically will not feel humiliated and inferior. Similarly, *muzakkī* psychologically will not feel arrogant, ujub and meritorious to *mustahiq*.

The Implications of Zakat in the Social Interaction Context of Society

The implication of Zakat in the social interaction context of the society can be seen from the function of Zakat in cleansing the hearts of those who perform it (*muzakkī*). It positively transforms the greedy and miserly character of a human and makes it more compassionate.. Allah said

قُلْ لَوْ أَنْتُمْ تَمْلِكُونَ خَزَائِنَ رَحْمَةِ رَبِّي إِذًا
لَأَمْسَكْتُمْ خَشْيَةَ الْإِنْفَاقِ وَكَانَ الْإِنْسَانُ
قَنُورًا

“Say (to the disbelievers): “If You possessed the treasure of the Mercy of My Lord (wealth, money, provision, etc.), Then you would surely hold back (from spending) for fear of (being exhausted), and man is ever miserly!” (QS. Al-Isrā’: 100)

In another *ayah*, Allah also said:

وَأُخْضِرَتِ الْأَنْفُسُ الشُّحَّ
“Even though men's souls are swayed by greed” (QS. Al-Nisā’: 128)

As we have known, wealth is something that is very precious and loved by a human. In fact, sometimes we find someone who loves wealth more than everything including family or even God. Therefore, it is no exaggeration if Rasulullah mentioned wealth as something green (خَضِرَةٌ) or pleasing to the eye and sweet (حُلْوَةٌ) as recorded by Bukhāri and Muslim.

Excessive love of the wealth often invites greedy virus into the human heart. This greed is described by Rasulullah in a hadith recorded by Bukhāri:

لَوْ أَنَّ ابْنَ آدَمَ أُعْطِيَ وَادِيًا مَلَأً مِنْ ذَهَبٍ أَحَبَّ إِلَيْهِ ثَانِيًا ، وَلَوْ أُعْطِيَ ثَانِيًا أَحَبَّ إِلَيْهِ ثَالِثًا ، وَلَا يَسُدُّ جَوْفَ ابْنِ آدَمَ إِلَّا التُّرَابُ ، وَيَتُوبُ اللَّهُ عَلَى مَنْ تَابَ
“Had the man been given a valley full of gold, he would have wanted the second again. If he is given the second one, he would want another one. No one can fill his stomach apart from the ground. Allah is receptive to anyone who wants to repent.” (HR. Bukhāri no. 6438)

That greed, in the end, makes people reluctant to give their wealth to others even in the smallest amount. It is more ironic that the waste of little wealth does not bother people as much as giving it to poor people (*faqīr* or *miskīn*).

Therefore, it can be appreciated as to why the obligation of Zakat has been established by Allah. Zakat performs an important role to gradually kill the viruses of greed and miserliness in the heart of a human. With the existence of Zakat, the rich are forced to give some of the wealth that Allah entrusts to the person who needs it. Financial obligations of social giving which are charged continuously are expected to make people get used to sharing and caring about the lives of poor people. Therefore, it becomes a

habit and gradually, the rich not only pay Zakat because as a duty, but will give charity more than the mandatory amount of Zakat. This has been practiced by the Prophet's friends, *tābi'īn*, and successors.

Besides cleansing and purifying the heart of muzakkī from the greed, Zakat is also able to purify the heart of *mustahiq* from envy, anger and jealousy. This envy, anger, and jealousy are often triggered by the high level of inequality. Then, envy, anger and jealousy become the main factor of crimes, such as robbery. In this case, Zakat is one of the instruments to distribute the wealth, which in Islam functions to minimize the inequality. The small inequality leads to reduce the potential for criminalization. Thus, the existence of Zakat is essentially able to keep the wealth of muzakkī from the robbery because of the inequality. This is fit with the hadith of Rasulullah

حَصِّنُوا أَمْوَالَكُمْ بِالزَّكَاةِ

“Keep your possessions (from destruction) by (issuing) Zakat” (HR. Al-Ṭabrānī)

Awareness of Zakat and the correct and optimal management of Zakat are also capable to give a positive impact to *mustahiq*. The *mustahiq* will obtain the benefit from

the existence of the rich people whose Zakat payments becomes a source of supplementary incomes for *mustahiq*. This transforms the attitude and feelings of envy, anger and jealousy to the rich into gratitude and love for them. This is as stated by Rasulullah

جُبِلَتْ الْقُلُوبُ عَلَى حُبِّ مَنْ أَحْسَنَ إِلَيْهَا ، وَبُغْضِ مَنْ أَسَاءَ إِلَيْهَا

“The attitude of the heart is inclined to love those who do good to him and hate those who do bad to him.” (HR. Al-Baihaqī in Syu'abul Iman 6: 2985).

In the social context of society, the role of Zakat according to al-Qarḍawī is able to provide the strong bond between the rich (muzakkī) with the surrounding community. The bond will always be framed by love and combined with brotherhood and helping each other (Qarḍawī, 1973). In the end, the bond will create a sense of security, peace, and harmony between them. The sense of security, peace, and harmony in this community will become one of the pillars of successful economic development.

Generally, the function of Zakat in social and economic context is explained in Sūrah al-Tawbah: 103. This can be further explained in the following diagram:

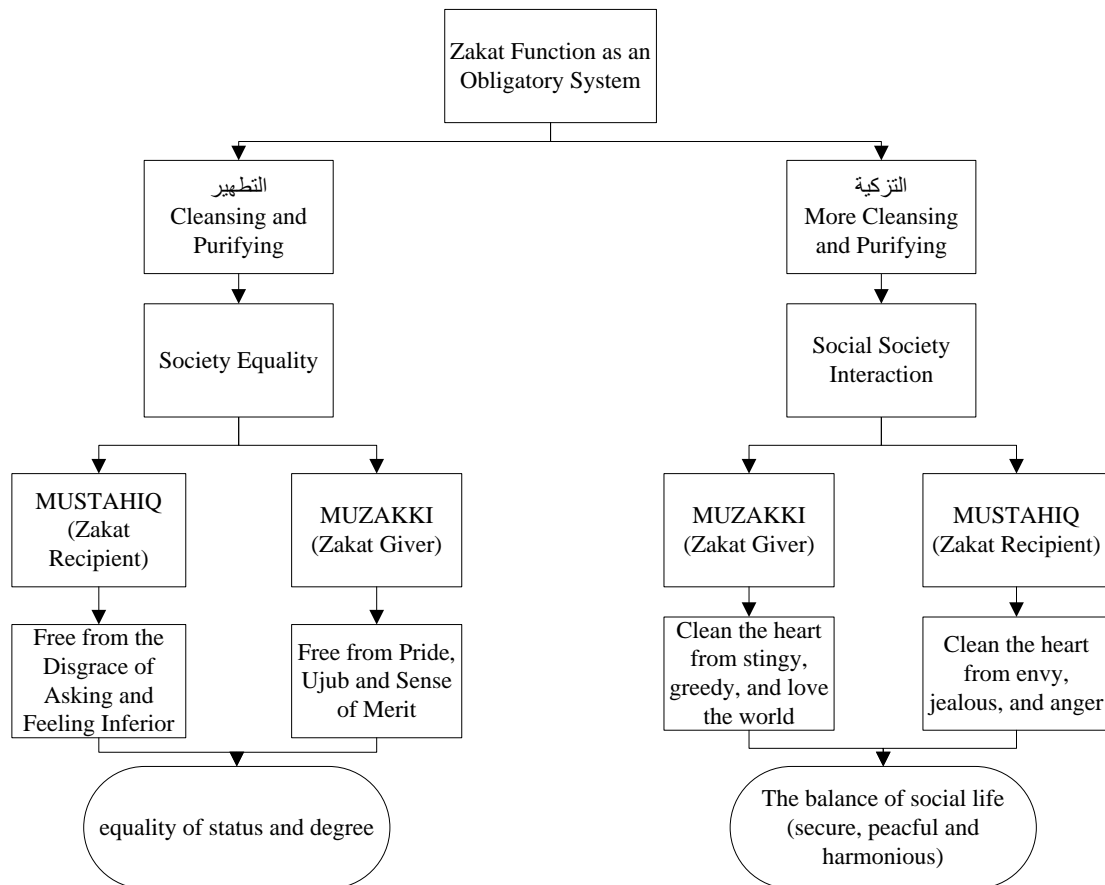


Figure 2. The Zakat Function Diagram in Public Equality and Social Community Interaction
Source: Authors' Formulation from Various Sources (2017)

CONCLUSION

Based on the results and above discussion, it can be concluded that the concept of Zakat based on *Sūrah Al-Tawbah: 103* is that Zakat should become an obligatory system, which is managed by the government. Furthermore, Zakat is an obligatory payment to ensure redistribution of resources between *mustahiq* and *muzakkī*. Similarly, Zakat gives implications in the realization of the balance of life in society with the creation of a sense of security, peace, and harmony in the community

Finally, this research leads to some recommendations. First, Indonesia as a country with the majority of the Muslim population is expected to make Zakat as an

obligatory system for the Muslim population. This is because of the huge potential of Zakat which can be collected from the Muslim community of Indonesia, which is the largest Muslim country in the world.

Second, the direct consequence of the implementation of Zakat as an obligatory system is that the management of Zakat is expected to be handled by the government. Government through banking institutions can collect Zakat, and distribute it. In this case, Baznas can be a representative of the government in carrying out the role. Thus, the management of Zakat by the government is able to optimize the function of Zakat for social and economic equality and prosperity.

Third, the research related to the Islamic economic applications written in the Quran can use the tafsir approach, which is the real and primary treatise in the sources of knowledge in the Islamic epistemology.

REFERENCES

- Abdullah, M., & Suhaib, A. Q. (2011). The Impact of Zakat on Social Life of Muslim Society. *Pakistan Journal of Islamic Research*, 8, 85–91.
- Dimashqi, I. bin ‘Umar bin K. al. (1999). *Tafsir al-Qur’an al-‘Azim*. Dār Ṭaybah.
- Misrī, M. bin M. al. (n.d.). *Lisān al-‘Arab*. Bairut: Dār Ṣādir.
- Nurrachman, N. (2008). Integrasi Psikologi: Antara The Knower Dan The Known. *Buletin Psikologi*, 16(1), 23–28. <https://doi.org/10.22146/bps.7493>
- Qarḍawī, Y. al. (1973). *Fiqh al-Zakāh*. Bairut: Mu’assasah al-Risālah.
- Rāzi, ‘Umar bin al-Husain al. (n.d.). *Mafātīh al-Ghaib*. Bairut: Dār Ihyā’ al-Turāth al-‘Arabi.
- Rivai, V. dan A. B. (2013). *Islamic Economics*. Jakarta: Bumi Aksara.
- Sakti, A. (2007). *Ekonomi Islam : Jawaban Atas Kekacauan Ekonomi Modern*. Paradigma & Aqsa Publishing.
- Sha’rāwī, M. M. al. (n.d.). *Tafsir al-Sha’rāwi*. Maktabah al-Shāmilah.
- Soeparno, K. (2011). Social Psychology: The Passion Of Psychology. *Buletin Psikologi*, 19(1), 16–28. <https://doi.org/10.22146/bps.11544>
- Stemler, S. (2001). An overview of content analysis. Practical Assessment, Research & Evaluation, 7(17). Retrieved from <http://pareonline.net/getvn.asp?v=7&n=17>
- Suprayitno, E., Aslam, M., Harun, A., Pan, S., & Hotel, P. (2017). Zakat and SDGs : Impact Zakat on Human Development in the 5 States in. *International Journal of Zakat*, 2(1), 61–69.
- Suyūṭī, J. al. (1998). *al-Itqān fi ‘Ulūm al-Qur’ān*. Bairut: al-Maktabah al-‘Aṣriyyah.
- Zubaidī, A. al-F. M. al. (n.d.). *Tāj al-‘Arūs min Jawāhir al-Qāmūs*. Mauqī’ al-Warrāq.
- Zuhailī, W. bin M. al. (1998). *Tafsir al-Munir fi al-‘Aqīdah wa al-Sharī’ah wa al-Manhaj*. Bairut: Dār al-Fikr.
- Abdul Wahid Al-Faizin
Airlangga University
alfaiz165@gmail.com
- Taqiyah Dinda Insani
Airlangga University
tdindainsani@yahoo.com
- Tika Widiastuti
Airlangga University
tika.widiastuti@feb.unair.ac.id

Role of Zakat as Social Finance Catalyst to Islamic Banking and Economic Growth

Ai Nur Bayinah
STEI SEBI

ABSTRACT

This paper is aimed to assess the contribution of Zakat in boosting Islamic banks' financing and economic growth for the period 2011-2015, in 10 district/city of West Java Province, Indonesia. Through Vector Autoregressive (VAR) panel co-integration analysis, variance decompositions (VD) and impulse response functions (IRF), this study investigates Zakat, Islamic Banking, and economic growth nexus. Findings in this research highlight that Zakat has a significant impact on Islamic banking, so this institution would contribute to economic growth both in the short and the long run, with fluctuation in variance from the first year. The results lend support to the view that Zakat not only leads to social benefits but also has a positive impact on the economy through increasing Islamic banks' financing. Therefore, this research will serve as a motivation for the industry players and regulators to continuously promote Zakat as a strategic policy. The originality of this research is to assess Zakat-led growth and finance by analyzing the impact of Zakat on the Islamic banking and regional economic outcome. Another novel aspect of this study is in the methodology as it employs VAR panel co-integration analysis, VDs and IRFs on the set of annual data.

Keywords: Zakat, Islamic Banking Financing, Economic Growth, West Java

INTRODUCTION

Theoretically, in the classical and modern literature, Zakat collection is always seen as the responsibility of government. Zakat is an effective tool to realize the purpose of fiscal goals that are expected to affect the state of development (Ramadhan, 2017; Jasafat, 2015), as well as social welfare of society, as listed in Al-Amwal by al-Dawudi, which is similar to Rawls's theory of social justice (Dasuki, 2015).

Islamic money and property management bridges the gap between the rich and the poor. Zakat enhances the circulation of wealth and ensures that wealth does not remain idle and hoarded. Nonetheless, seeing from the macroeconomic perspective, Zakat is used to increase the aggregate demand due to mustahik's high spending. Thus, it will

boost economic growth and will encourage investment. It is also an instrument of fiscal policy that serves to ensure that economic activity can run at the level of primary needs fulfillment (Siddiqui, 2005).

Therefore, the governments of Muslim countries need to give serious attention to optimize Zakat as a source of growth and equitable distribution of wealth. There is a need for a concerted step from the government and society to do the reconstruction of the spirit of Zakat, to prevent lack of focus as happened in past (Faisal, 2011). Consequently, a deficit of truth will occur as described in Lieven Boeve theory (Boeve, 2003).

The revitalization and implementation of Zakat in various Muslim countries, including Indonesia, is often seen as part of the identity politics (Kuran, 1997). Although for Neinhaus

(1988), Chapra (1992), and Presley and Sessions (1994), it is a tangible form of economic development and welfare improvement apparatus based on the Islamic paradigm (Susanto & Cahyadin, 2008). Despite the fact that to create sustainable development that has political, social, ethical, and moral complexity, the multi-dimensional problems cannot be solved by economic approach alone (Hasan, 2006).

The research by Hassan and Khan (2007) shows that Zakat funds can increase the government's tax potential through increasing productivity, employment and production, and can replace the government's expenditure budget by 21% of the Annual Development Program (ADP) in 1983 / 1984 and up to 43% in 2004/2005 in Bangladesh. So the government can use it for other development and social expenditures. However, the government does not see the need to include Zakat as an instrument of government policy and take Zakat institution as part of the national strategy.

In regards to the relationship between Zakat and purchasing power, Kahf (1999) explains that the payment of Zakat by groups that have more financial capability also known as *muzakki* is distributable to increase the purchasing power of the eligible (*mustahik*). The increase in purchasing power then increases the demand for commodities and then with the number of more commodities, the price will be cheaper and will be stable.

The research which was done by Suprayitno et al. (2013) in Malaysian Peninsula shows that Zakat distribution has a positive impact towards aggregate consumption. Besides, this research recommends to not limit Zakat distribution only to consumer needs, but also to financial needs that will result in sustainable income to the eligible. Similar to the recommendation of Bremer (2013), Zakat mobilization in long-term is more

powerful to encourage growth, as is also confirmed by the research of Mahat & Warokka (2013) in 19 Muslim countries by taking the data for the period 2004-2010.

In Islam, donations play an important role in both classical (Al-Haritsi, 2006) and modern (Shiddiqi, 2005) economics, but conventionally (Keynes, 2003), the theory of economic growth is largely void of the discourse. The linkage of both is the crucial problem of income distribution, which according to neoclassical occupies a secondary place and is assumed to be governed by marginal productivity. Such as the determination of wages for various jobs determined by the pure market forces of supply and demand. But the mechanical model of wage determination and income distribution does not hold up in a world where monopsony features, imperfect competition and economic and social forces come into play. In a world like this, unlike the ideal world of market fundamentalism, market power does not yield optimal results and there is room to modify the distribution of income. Thus, policy-oriented frameworks for analyzing the relationship between distribution and growth needs to be done with other approaches besides pro-labor and pro-capital distribution policies (Lavoie & Stockhammer, 2012). In such cases, the instrument of Zakat is the answer.

As an effort to pair religious approach (Freundenberg, 2011) which is elastic and flexible (Ghadi, 1994) with the conventional approach, the majority uses the approach of maximizing social welfare and social welfare approach which was undertaken by Edgeworth, Ramsey, Pigou, and Samuelson before 1955. Furthermore, optimal taxation approach examined by Mirless and Atkinson is also used. Finally, the often used approach for public decision making, i.e. pareto optimality approach (Winer & Hettich, 20004) is also used by adding government intervention

(Kantakji, 2008) to optimize its formulation (Nahi, 1994).

Zakat-related research has actually been largely done both normatively (Kahf, 1997; Misanam & dkk, 2008) as well as empirically as in Malaysia (Yussof, 2011) and Pakistan (Azam, Iqbal, & Tayyab, 2014). So, in general, there are at least four possible approaches that can explain the causal relationship between Zakat and economic growth, namely: (1) Zakat is a determinant of economic growth (Zakat-led growth hypothesis) or so-called “supply-leading view”, (2) Zakat follows the economic growth (growth-led Zakat hypothesis), or so-called “demand-following view”, (3) the mutual relationship between Zakat and growth (bidirectional causality view), and (4) the independent hypothesis that Zakat and growth are interconnected.

In relation to the implementation of Zakat in Indonesia specifically, there has not been any research to include the element of Zakat as a determinant of economic growth, especially regionally, such as the research in South Sulawesi (Afrizal, 2013), Bali (Jaya & Dwirandra, 2014), Aceh (Darwanis & Syukriy, 2013) and West Java (Sularno, 2013). The reviews are more normative (Mustafa, 2014), and mainly in poverty alleviation studies (Ariyani, 2016).

The implementation of Zakat in West Java will be an important starting point for the implementation of Zakat in regional policy. Zakat decentralization is a key factor to solve the problems that plague the Muslim community in the region. A system is needed to be used in the distribution of Zakat fund (Rosadi & Athoillah, 2015). According to Mth (2003), the role of Zakat is not only for the local community, but may be distributed to various regions if the community’s needs are fulfilled. However, he regretted that a study examining the application of Zakat’s influence in the economic development process is almost non-existent, as also affirmed by Shiddiqi (2005).

Consequently, the purpose of this study is primarily aimed at that and specifically to try to: (1) Identify the pattern of relationship between Zakat, the financing of Islamic Banking and economic growth; (2) Analyze the financing and economic growth on shocks that occur in Zakat. Thus, it is expected to provide benefits especially to (1) regulators in encouraging the receipt of Zakat and then incorporating it as an important instrument in the public policy it releases; (2) for the Islamic Finance industry to enhance the optimization of Zakat as a potential source of funding; And also for (3) scientific development, especially in conducting empirical studies related to the role of Zakat as one of the determinants of economic growth and Islamic financing in Indonesia.

RESEARCH METHODOLOGY

The study used data from Zakat institutions, Islamic bank’s financing assets, and economic growth from 10 district/cities in West Java during 2011-2015. Data is obtained from the Central Bureau of Statistics of West Java (BPS, 2016; 2015; 2014; 2013; BPS, 2012) and Shari’ah Banking Statistics from Central Bank of Indonesia (Bank Indonesia, 2011; 2012; 2013; 2014; OJK, 2015).

The variables used are Zakat receipts collected by West Java Regional Office of Religious Affairs, Islamic bank’s financing as a representation of commercial finance indicators, and Gross Regional Domestic Product (GRDP) as a representation of the economic growth.

Model and Research Methods

The purpose of the model used in this research is to assess the contribution of West Java’s Zakat receipts on financing and regional economic growth, which is:

$$Fin_t = \beta_1 + \beta_2 Z_t + \varepsilon_t \quad (1)$$

$$PDRB_t = \beta_1 + \beta_2 Z_t + \beta_3 Fin_t + \varepsilon_t \quad (2)$$

VAR is used when there is a theoretical relation between variables, which are tested by stationarity on differentiated and the nonintegrated data (Gujarati, 2004). This research was done with Eviews 9.

Unit Root Test

The stationarity test is performed so that the data used can yield reliable estimation of econometric models. This does not happen if the data is not stationary because it contains the root of the unit and tends to fluctuate not around the average.

Its condition will complicate estimation and produce regression models that have high determinant coefficient values, R^2 , and significant t statistics, but theoretically it has no significant relationship. For that, Augmented Dickey-Fuller test (ADF test) is used as taken from the name of the inventor, Dickey Fuller (1979) and Phillips-Perron test (PP test) as the inventor, Phillips Perron (1988). As shown in the model below:

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta \beta_{t-1} + \varepsilon_t$$

Parameter used is β_1 and $\beta_2 t$, with t shows variable time and trend, while δ explains drift and finally, ε_t is the white noise error term. If the null hypothesis (H_0) shows $\delta = 0$, it means that there is presence of unit root. Therefore, the data series is not stationary. Meanwhile if the alternative hypothesis is $\delta < 0$, then the data series is stationary. Besides, if the statistical result of ADF is above MacKinnon critical values, then H_0 hypothesis is rejected, which means that the data is stationary.

However, the non-stationary data series can be transformed to stationary data with the differentiation process on the first level. The differentiation could be stated as follows:

$$\Delta^2 Y_t = \beta_1 + \beta_2 \Delta Y_{t-1} + \varepsilon_t \quad (4)$$

Philips Perron (PP) test is focused on serial correlation and heteroskedasticity of the error term and hence it is different from the ADF test. If the result of the null hypothesis (H_0) is $\lambda=0$, it means that Z is non-stationary. Conversely, if the alternative hypothesis is found to be valid, then it means that the data is stationary. The model of PP test could be presented as follows:

$$\begin{aligned} \Delta Z_t &= \pm \theta t + \lambda t - 1 + \mu t \\ \Delta Z_t &= \pm \theta_t + \pi_{t-1} + \mu_t \end{aligned} \quad (5)$$

Johansen Co-integration Test

Data could be mutually cointegrated and have long-term relationships if the combination of two non-stationary series move in the same direction toward its long-run equilibrium and the differentiation between the two data is constant.

The purpose of this test is to empirically discover the long-term relationship of Zakat with increasing purchasing power and economic growth of Aceh. (3)

Integration test between Zakat, increasing purchasing power and economic growth is based on Johansen's Vector Autocorrelation Regression (VAR) approach. If Y_t is a vector of endogenous variables in VAR with lag length p, then:

$$Y_t = \Phi_1 Y_{t-1} + \Phi_2 Y_{t-2} + \dots + \Phi_l Y_{t-l} + \beta X_t + \eta_t, \quad t = 1, \dots, T, \quad (6)$$

Explanation:

W_t = endogenous variable vector
 Φ_l = matrix parameters
 βX_t = d-vector of deterministic variable
 η_t = innovations vector

This VAR specification can be presented in first difference with no co integrated relationship between variables. As in the model:

$$\Delta Y_t = \Gamma_1 \Delta Y_{t-1} + \Gamma_2 \Delta Y_{t-2} + \dots + \Gamma_{l-1} \Delta Y_{t-l+1} + \Pi Y_{t-l} + \beta X_t + \eta_t, t=1, \dots, T \quad (7)$$

Explanation:

- Γ = estimated parameters
- Δ = difference operator
- Π = long-term matrix parameters

The number of co-integration vector obtained from the signification of Γ through two tests of likelihood test:

1. Maximum eigen value: $\lambda_{max} = -T \ln(1-\lambda r+1)$ (8)

2. Trace statistic: $\lambda_{trace} = -T \sum \ln(1-r+1)$ (9)

λ = estimated value of *eigenvalue*
 obtained from estimated values on Γ
 T = number of observations

Granger Causality

As an effort to investigate the relationship between Zakat, purchasing power and economic growth, Granger Causality is used to test a mutual relationship. As in the model:

$$\Delta Y_{1t} = \mu_1 + \gamma_{11} (L) \Delta 1_{t-1} + \gamma_{12} (L) \Delta X_{2t-1} \pm 1 (\beta' X_{t-1}) + \epsilon_{1t} \quad (10)$$

$$\Delta Y_{2t} = \mu_2 + \gamma_{21} (L) \Delta 1_{t-1} + \gamma_{22} (L) \Delta X_{2t-1} \pm 2 (\beta' X_{t-1}) + \epsilon_{2t} \quad (11)$$

Explanation:

- μ_1 and μ_2 = constant, a drift of Γ_{ij}
- β' = stationary linear combination of $Y1_{t-1}$ and $Y2_{t-1}$

Impulse-Response Function (IRF) and Variance Decompositions (VD) Analysis

This study uses IRF and VD to analyze dynamic relationships among variables of Zakat, financing and economic growth of West Java. IRF describes the response of an endogenous variable to the shock of a particular variable and that how long is its influence. However, VD would be given a percentage of variable variation which is explained by other variables. As an effort to measure the contribution of Zakat to increase financing and economic growth of this region and the implications of its response, VD and IRF are used.

RESULTS & DISCUSSION

Since the most important purpose in Islamic economics is ensuring stability and economic growth, other purposes such as fulfilling the basic needs, equality of opportunity, distribution and welfare improvements must also be met (Shiddiqi, 2005, pp. 6-7). Therefore, this research is important to do the vital step to prove and make a decision about those purposes. Anyway, before performing the VAR test stages, an Ordinary Least Square (OLS) test of the data is performed, wherein the results explain that the data can be used for further analysis according to VAR criteria.

Table 1. Result of Ordinary Least Square Test

OLS Test	Indicator	Result	Explanation
Multicollinearity	More than 0.8	Less than 0.8	No multicollinearity.
Heteroscedasticity	P-value more than 0.05	More than 0.05	No heteroscedasticity.
Autocorrelation	P-value more than 0.05	More than 0.05	No autocorrelation.
Normality	P-value more than 0.05	More than 0.05	Data are normally distributed.

Table 2. Result of ADF test

Variables	Unit Root	ADF Test Statistic	Critical Value 5%	Levin T-Statistic	Critical Value 5%	Stationary Result
Zakat	Level	6.74157	0.9921	-1.62330	0.0523	Not Stationary
	1 st Difference	19.3137	0.3727	-6.50470	0.0000	Stationary
Financing	Level	16.6129	0.6780	-5.83591	0.0000	Stationary

	1 st Difference	32.2472	0.0000	-10.3336	0.0000	Stationary
PDRB	Level	0.21181	1.0000	16.0342	1.0000	Not Stationary
	1 st Difference	53.1181	0.0001	-7.12334	0.0000	Stationary

Table 3. Result of Optimal Lag Length Test

Lag	LogL	LR	FPE	AIC	SC	HQ
1	-529.2019	NA	1.89e+22	59.80021	60.24539	59.86159
2	-504.9241	32.37037*	3.72e+21*	58.10268	58.99305*	58.22545*
3	-495.7929	9.131233	4.55e+21	58.08810*	59.42365	58.27225

* indicates lag order selected by the criterion.

LR: sequential modified LR test statistic (each test at 5% level).

FPE: Final prediction error.

AIC: Akaike information criterion.

SC: Schwarz information criterion.

HQ: Hannan-Quinn information criterion.

Table 4. Granger Causality Test Result

Independent Variable	Dependent Variable	Probability	Result	Explanation
FIN	PDRB	0.5435	Not Reject H_0	IBF is not an independent variable of PDRB
PDRB	FIN	0.0059	Reject H_0	PDRB is an independent variable of IBF
ZAKAT	PDRB	0.1997	Not Reject H_0	Zakat is not an independent variable of PDRB
PDRB	ZAKAT	0.5107	Not Reject H_0	PDRB is not an independent variable of Zakat
ZAKAT	FIN	0.0004	Reject H_0	Zakat is an independent variable of IBF
FIN	ZAKAT	0.8744	Not Reject H_0	IBF is not an independent variable of Zakat

If the ADF value is less than the critical value (5%), then H_0 is rejected and it means that there is no unit root or stationary data. Moreover, some variables are not stationary at the levels, but are stationary after taking first differences (Table 2).

Determining the lag length is very important in the estimation because it can be used to eliminate the problem of autocorrelation in the system. The used criteria are Akaike Information Criterion (AIC), Schwarz Information Criterion (SC) or Hannan Quinin (HQ). The table shows that the optimal result is in the 4th lag. However, by using VAR in Eviews 9, the maximum lag of 2 is used.

The Granger Causality test is performed to analyze whether endogenous variables can be defined as exogenous if their probability is less than 0.05. It is used to inspect the relation of variables to each other. It examines that how much is the value of a variable in the current period is explained by other variables in the previous period. The results found that Zakat has a correlation with Islamic bank's financing (IBF).

VAR can be used if the model has no integration at the first difference. If there is no co-integration, the results in VAR are identical to Ordinary Least Square (OLS). Therefore, this test is a mandatory step.

Table 5. Co-integration Test Result

Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.633866	21.21162	29.79707	0.3446
At most 1	0.151725	3.126007	15.49471	0.9609
At most 2	0.009075	0.164095	3.841466	0.6854

Trace test indicates no co-integration at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Co-integration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.633866	18.08561	21.13162	0.1267
At most 1	0.151725	2.961912	14.26460	0.9493
At most 2	0.009075	0.164095	3.841466	0.6854

Max eigenvalue test indicates no co-integration at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Co-integrating Coefficients (normalized by b'S11*b=I):

PDRB	FIN	ZAKAT
0.000100	0.001516	0.000393
-0.000411	0.001649	-0.000231
0.000171	0.001558	-0.000295

Unrestricted Adjustment Coefficients (alpha):

D(PDRB)	1.044784	6.010820	20.86841
D(FIN)	122.7825	-162.0081	29.78336
D(ZAKAT)	-143989.6	5408.441	-4530.747

1 Co-integrating Equation(s): Log likelihood -491.3278

Normalized co-integrating coefficients (standard error in parentheses)

PDRB	FIN	ZAKAT
1.000000	15.10452 (6.39023)	3.918099 (1.22330)

Adjustment coefficients (standard error in parentheses)

D(PDRB)	0.000105 (0.00697)
D(FIN)	0.012322 (0.01678)
D(ZAKAT)	-14.45069 (3.81241)

2 Co-integrating Equation(s): Log likelihood -489.8468

Normalized co-integrating coefficients (standard error in parentheses)

PDRB	FIN	ZAKAT
1.000000	0.000000	1.265818 (0.77336)
0.000000	1.000000	0.175595 (0.07993)

Adjustment coefficients (standard error in parentheses)

D(PDRB)	-0.002367 (0.02939)	0.011495 (0.15549)
D(FIN)	0.078955 (0.06737)	-0.081021 (0.35641)
D(ZAKAT)	-16.67514 (16.0661)	-209.3525 (85.0005)

Based on the results obtained, the probability value of more than 5% indicates that there is no co-integration. Thus, VAR is the appropriate model.

The next stage is to form a Vector Auto Regression Estimate to discover the variable relationships, while still allowing

short-term dynamics. Using Wald test, this research found that Zakat has the short-run effect on financing in Islamic banking and gross regional economic growth, as the probability of Chi-Square test statistic is below 5%.

Table 6. Wald Test Result

Test Statistic	Value	df	Probability
F-statistic	3.127614	(2, 21)	0.0647
Chi-square	6.255227	2	0.0438

Null Hypothesis: C(12)=C(13)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(12)	-0.000909	0.000664
C(13)	0.044670	0.026321

Restrictions are linear in coefficients.

Moreover, using t-table value (2.0064), the following results are obtained which are presented in Table 7. According to the estimation result of VAR, it is found that the dependent variable on financing is significantly influenced by Zakat (-2). The estimated equation is presented as follows:

$$FIN = C(1,1)*FIN(-1) + C(1,2)*FIN(-2) + C(1,3)*PDRB(-1) + C(1,4)*PDRB(-2) + C(1,5)*ZAKAT(-1) + C(1,6)*ZAKAT(-2) + C(1,7)$$

$$PDRB = C(2,1)*FIN(-1) + C(2,2)*FIN(-2) + C(2,3)*PDRB(-1) + C(2,4)*PDRB(-2) + C(2,5)*ZAKAT(-1) + C(2,6)*ZAKAT(-2) + C(2,7)$$

With VAR Model - Substituted Coefficients:

$$FIN = 0.799444598805*FIN(-1) - 0.222554827937*FIN(-2) + 0.429211679789*PDRB(-1) - 0.516250867704*PDRB(-2) + 0.00104244661642*ZAKAT(-1) + 0.121879748377*ZAKAT(-2) - 422.189283451$$

$$PDRB = -0.163325084278*FIN(-1) + 0.212001981861*FIN(-2) + 1.82817611253*PDRB(-1) - 0.789398036693*PDRB(-2) + 0.000810976956149*ZAKAT(-1) + 0.0411829977517*ZAKAT(-2) - 289.692102652$$

Table7. VAR Estimation Result

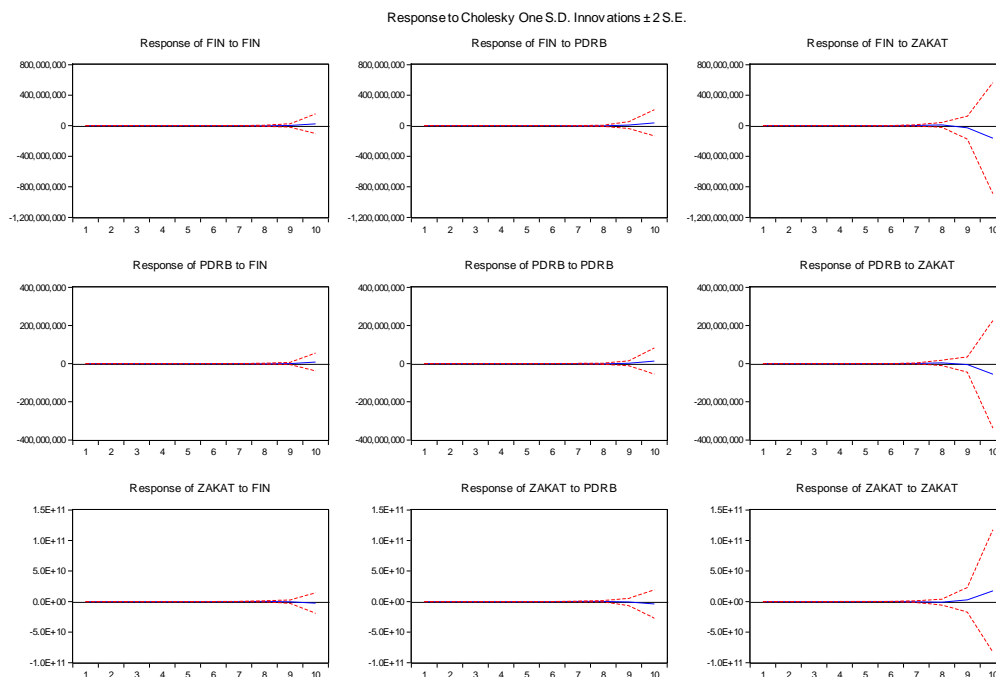
Dependent Variable	Independent Variable	Coefficient	t-stats	Result
FIN	FIN(-1)	0.799445	4.44558	Significant
FIN	FIN(-2)	-0.222555	-0.83912	Not Significant
FIN	PDRB(-1)	-0.429212	-1.29626	Not Significant
FIN	PDRB(-2)	0.516251	1.35692	Not Significant
FIN	ZAKAT(-1)	-0.001042	-1.02867	Not Significant
FIN	ZAKAT(-2)	0.121880	3.04723	Significant
FIN	Constanta	-422.1893	-1.36497	Not Significant
PDRB	FIN(-1)	-0.163325	-1.33825	Not Significant
PDRB	FIN(-2)	0.212002	1.17780	Not Significant
PDRB	PDRB(-1)	1.828176	8.13546	Significant
PDRB	PDRB(-2)	-0.789398	-3.05727	Significant

PDRB	ZAKAT(-1)	-0.000811	-1.17916	Not Significant
PDRB	ZAKAT(-2)	0.041183	1.51717	Not Significant
PDRB	Constanta	-289.6921	-1.38005	Not Significant
ZAKAT	FIN(-1)	-11.83937	-0.29053	Not Significant
ZAKAT	FIN(-2)	-36.66695	-0.61007	Not Significant
ZAKAT	PDRB(-1)	45.80443	0.61044	Not Significant
ZAKAT	PDRB(-2)	-50.04770	-0.58049	Not Significant
ZAKAT	ZAKAT(-1)	0.848818	3.69616	Significant
ZAKAT	ZAKAT(-2)	-13.60388	-1.50090	Not Significant
ZAKAT	Constanta	104694.0	1.49366	Not Significant

Impulse-Response Function (IRF) is used to track how fast a variable takes in responding to changes due to shocks from other variables. The resulting response may be positive, negative, or unresponsive, with horizontal charts close to the horizon line. Based on the IRF results, it is discovered that Zakat is affected when the disturbance variable (e) experiences shocks, by looking at the chart of “response of Zakat to Zakat”, with its

effect increasing over time. This is different from the effect on Zakat when purchasing power experiences shocks. The chart “response of Zakat to Fin” indicates that when purchasing power experiences shocks then the effect will continue to affect Zakat, with declining impact over time. In addition, significant reductions are also experienced by Zakat if shocks occur on economic growth (PDRB).

Figure 1. Impulse-Response Function Result



In the chart of “response of Fin to Zakat”, the effect on Islamic bank’s financing can be seen when Zakat experiences shock. The chart illustrates that when Zakat experiences shock, the effect will continue to affect the financing, with larger impact over time. This is different to the effect on financing when

the disturbance variable (e) experiences shocks. The chart “response of Fin to Fin” shows that the effect will continue to affect Fin, with a small impact over time. The effect rises if shocks occur on economic growth (PDRB).

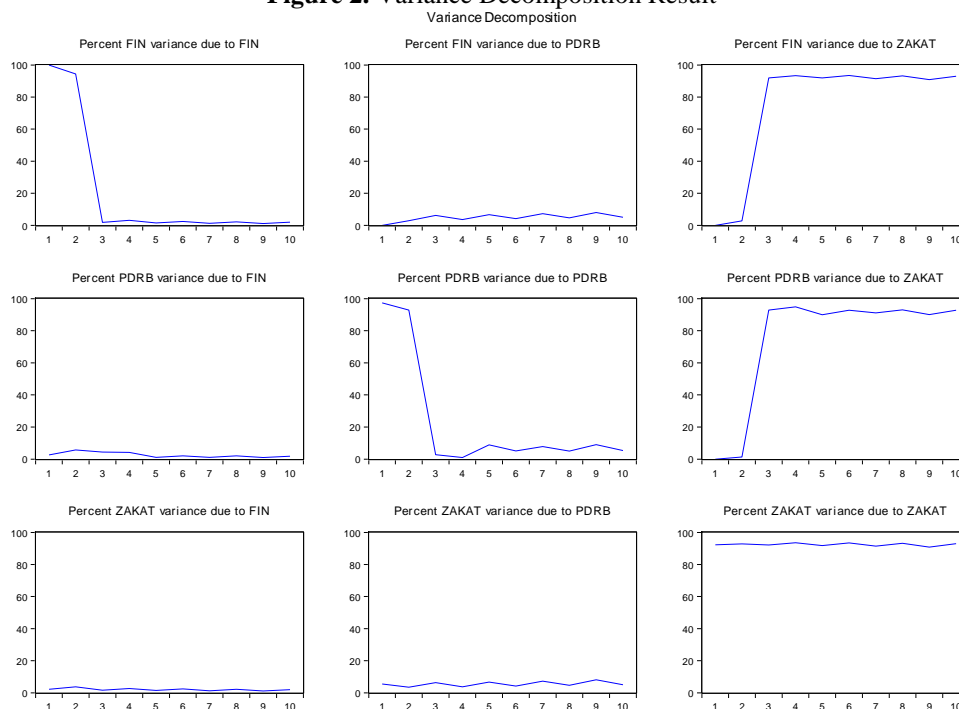
Meanwhile, the chart “response of PDRB to Zakat” is used to see the effect

on PDRB when Zakat experienced shocks. The chart illustrates that when Zakat experiences shock, the effects will continue to affect the PDRB, with increasing effects over time. This is different from the effect on PDRB when Fin experiences shock. The chart of “response of PDRB to Fin” indicates that when PPP experiences shock, then the effect will continue to affect PDRB, but there will be a little impact over time. Same with the increase is due to shocks in the disturbance variable (e).

Thus, it can be concluded that the shocks occurring in Zakat receipts in West Java province will have a positive effect on the financing in Islamic banking and PDRB, with increasing impact over time.

This certainly adds a new research dimension, which previously did not put Zakat as a factor affecting economic growth in Indonesia. Among the important variables are consumption, investment, government spending (Ma'ruf & Wihastuti, 2008), and net exports (Ernita, Amar, & Syofyan, 2013). Furthermore, the Variance Decomposition (VD) analysis illustrates the relative importance of each variable due to shock. It is necessary to predict the percentage contribution of variants of each variable due to changes in a particular variable. Because VD results can provide information about the magnitude and duration of the shock from one variable to itself and from one variable to another variable.

Figure 2. Variance Decomposition Result



From the chart above, it can be seen that in the first period, Financing in Islamic Banking (FIN) is strongly influenced by shock on the variable financing itself. In that period, a shock from Zakat and regional economic growth (PDRB) does not give more influence yet. Furthermore, from period 2 to period 10, the proportion of Zakat shock to Financing is gradually increased by 90% till the end of the period,

more than the shock from the regional growth.

Meanwhile, the shock effect of regional economic growth towards the new Zakat starts from the 3rd period, with an increasing contribution over the period up to 94.8%. Meanwhile, shocks from financing (FIN) had a small contribution that fluctuated during the period with the highest influence in the 2nd period by

5.7%. So, it can be concluded that the shock size of Zakat gives a greater influence on economic growth (PDRB) than the shock on financing (FIN).

However, it also shows that in the first period, Zakat is strongly influenced by shock on the variable Zakat itself. While in that period, shock from financing (FIN) and regional economic growth (PDRB) does not give more influence yet. Furthermore, from period 1 to period 10, the proportion of Zakat shock to Zakat itself is gradually fluctuating until the end of the period. Meanwhile, the shock effect of regional economic growth towards the new Zakat starts from the first period, with fluctuating contribution over the period by up to 8%. Moreover, shocks from financing (FIN) has had a small contribution that fluctuated during the period with the highest influence in the 2nd period by 3.7%. It can be concluded that the shock size of economic growth (PDRB) gives a greater influence on Zakat than the shock of financing (FIN). This is in line with Shiddiqi's theory that Zakat, which collected from the savings, income, and assets of Muslim communities which is a part of Zakat obligations, will, in the long run, contribute to the formation of national income with a positive relationship (Shiddiqi, 2005).

This result explains that Zakat has a central role in realizing social awareness and redistribution of income among Muslims. It also has an important value in the process of economic growth as a source of funds, as stated by Mth (2003).

The role of Zakat is not only limited to the local community. Despite agreeing on a positive role for government intervention in preparing for economic growth, we are yet to find a careful analysis of the relevant strategies and recommendations in this field.

The study of applications that examines the influence of Islamic values in the process of economic growth is almost non-existent in contemporary works. Material writings that often appear

in the West reveal that Islamic values contradict economic growth. So Muslims are faced with a difficult choice between commitment to Islamic values or realizing the efforts of economic development.

The research of Bremer (2013) indicated that some have successfully applied the model in Egypt, such as Nasser Social Bank. In addition, this study also explains the need for Zakat reformation to liberate Zakat from traditional and static management models that dominate the practice of Zakat under state rules. As happened in America, Egypt and Indonesia, private Zakat collection and distribution programs are an urgent thing. This institution together with government institutions experimented with new models to utilize Zakat as a powerful Islamic finance tool to achieve an improvement of prosperity and reduction in poverty.

In relation to Zakat in Indonesia, other researchers using ethnographic fieldwork found that Zakat has undergone a role change from a religious obligation to a fundamental instrument for achieving social and economic justice (Retsikas, 2014). The success of the re-conceptualizing of Zakat efforts depends on the political perspective of the government. Specifically, Rosadi & Athoillah (2015) affirm that from the Indonesian point of view, decentralization is considered the best option in order for a region to collect funds which are returned to solve the problem of poverty in the area. Although historically, Abu Bakar once centralized Zakat to finance and mobilize the war to maintain the existence of religion (*fī sabilillah*), he also decentralized Zakat to achieve the goal of Shari'ah on Zakat.

This decentralization and its relation to how it can be tested by measures of economic growth, a research by Baskaran & Feld (2009) could be a reference. They examined the relationship between fiscal decentralization and economic growth in 23 OECD countries from 1975 to 2001 and

discovered that fiscal decentralization and economic growth are unrelated.

On the other hand, high political temperatures in regional fiscal autonomy indicate a consistent negative signal indicating that it is important to separate politics and fiscal autonomy at the lowest government level when discussing the importance of decentralization or economic growth. It is because the fiscal decentralization is not relevant to the economic outcomes.

The aspect which the researchers find more relevant is related to the efforts to reduce income inequality. The research conducted by Cingano (2014) in the majority of OECD countries confirms that the gap between the rich and the poor is the highest since the last 30 years. Currently, the top 10% of the population in the OECD country has income which is 9.5 times of the 10% of the poorest. Even since the 1980s, the ratio is 7:1 and it continues to increase every year. However, this income inequality is not only related to the highest revenue sharing. Using the last 30-year data with econometric analysis indicates that tax-redistribution and transfer redistribution policies are a key tool for ensuring the benefits of growth being more widely distributed.

It is indeed interesting to analyze that what contributes to economic growth according to conventional theory. Lavoie & Stockhammer (2012) explained that the growth model practice of Neoliberalism and Taxonomy of G20 countries shows that Indonesia is included in the strongly export-led model with China, Germany, Japan and South Korea. While Argentina, Brazil, Canada, Russia, and Saudi Arabia are in the weak export-led group. While France, Italy, India, South Africa, and Turkey are domestic demand-led. The rest of the countries, which are Australia, Mexico, Britain and United States, are including in the debt-led. However, according to Lavoie, the export-growth model was limited and triggered a global imbalance, while the debt-led model

produced unsustainable consumption. Hence, alternatives such as a wage-led model that combines pro-labor distributional social and labor market policies become more appropriate to apply.

The theory of debt-led is also contentious among researchers. It can be seen from some research studies (Herndon, Ash, & Pollin, 2013) which deny the statement 'Growth in Time of Debt' (Reinhart and Rogoff, 2010A and 2010B).

The mean and median economic growth is indicated by Gross Domestic Product (GDP). The public debt of more than 90% of GDP does not differ dramatically from when the ratio of public debt per GDP is smaller. The relationship between public debt and GDP growth varies significantly per period. In fact, this whole study refutes Reinhart and Rogoff's (RR) claim if the public debt / GDP ratio is above 90%, it consistently reduces the GDP growth of a country.

In Indonesia, empirical facts forming economic growth also analyze the influence of determinants in the form of economic growth of the previous year, real government expenditure, real government budget deficit, degree of real economic openness, inflation, population, binary variable of natural resources and location and long-term decentralization dummy on economic growth in 26 provinces in Indonesia from 1980 to 2006. The results show that the high convergence rates of Gross Regional Domestic Product in previous years, government expenditure, openness, natural resources, location and decentralization variables have a positive impact to increase economic growth. While the population with low labor force and inflation has a negative impact on economic growth (Ma'ruf & Wihastuti, 2008).

Previous research (Jonaidi, 2012) in the 33 provinces in Indonesia for 2005-2009 shows that there is a strong two-way relationship between economic growth and poverty in Indonesia. Economic growth

has a significant effect on the reduction of the poverty rate, especially in rural areas. Conversely, poverty has a significant effect on economic growth. With the same approach, (Ernita, Amar, & Syofyan, 2013) explain that consumption, investment, government spending and net exports, partially and simultaneously, have a significant and positive impact on economic growth in Indonesia. Furthermore, (Lubis, 2013) describes the relationship between inflation and economic growth in Indonesia in 1968-2012 which negatively correlated by 4.3%. The causality relationship takes place in one direction, namely the Gross Domestic Product (GDP) affecting the Consumer Price Index. However, there is a significant short and long-term relationship between inflation and economic growth.

The two-way relationship actually occurs in the financial sector. The Granger causality test shows that there is bi-directional causality between real output and loan volume and one-way causality from the spread to real output.

This VECM result tends to support that the financial system can become a growth engine in Indonesia (Inggrid, 2006). There is limited research on documenting the relation of the macro economy with Islamic social finance, especially Zakat. Among the research conducted previously, a research by Rusydiana (2009) used Vector Auto Regression (VAR) and Vector Error Correction Model (VECM) method which shows that the pattern of relationship between export and growth is bi-directional, i.e. growth driven export and export-led growth.

Another interesting finding is that the recent trend in Shari'ah industry has not positively correlated with macroeconomic growth. Moreover, it is well established that the greater growth of Indonesian economy is not accompanied by the increase in Shari'ah finance industry. So, it is needed to have a political

will of the government so that the share of Shari'ah industry is able to grow and develop significantly.

This is in contrast to the study of panel data for the period of 2000-2009 in Malaysia, Indonesia and the Gulf Cooperation Council (GCC) which shows that Shari'ah banking contributes to economic growth in the short and long term, both in the Middle East and East Asian countries. In the short term, Shari'ah banks contribute more to economic growth in Malaysia and Indonesia than in the Middle East (GCC) countries (Yusof & Bahlous, 2013).

CONCLUSION

Based on the analysis of VAR in this study, it is found that Zakat has an effect to boost financing in Islamic banking and economic growth in West Java, especially with a lag of two periods. The pattern of non-causal relationship means that it is not economic growth that encourages people to pay Zakat. On the contrary, based on the results of Granger causality test, it is identified that Zakat proved to be one of the determinants of financing in Islamic banking and economic growth (Zakat-led growth and financing hypothesis). Impulse Response Function (IRF) result also explains that the shocks occurring in Zakat revenue in West Java will have a positive effect on Financing in Islamic banking and regional economic growth (GDRP), with increasing impact over time.

The effectiveness of Zakat on financing and economic growth, by using variance decomposition analysis started to fluctuate from the second year. The amount of Zakat influenced variation in the financing by 2% on the lower side and 93% on the higher side. Likewise, it influenced economic growth by 1% to 94% on the lowest-highest range.

The results of this research are expected to be useful in recommending the Islamic banking industry and the

regulators to continue promoting Zakat. This can be done through an increase in Zakat-raising efforts and the implementation of good governance for it, because of its significant impact on the development of Islamic banking and also the regional economic growth. Hence,

REFERENCES

- Afrizal, F. (2013). *Analisis Pengaruh Tingkat Investasi, Belanja Pemerintah dan Tenaga Kerja terhadap PDRB di Provinsi Sulawesi Selatan Tahun 2001-2011*. Makassar: Universitas Hasanuddin.
- Al-Haritsi, J. b. (2006). *Fikih Ekonomi Umar bin Al-Khathab*. (L. H. Asmuni Solihan Zamakhsyari, Trans.) Jakarta: Khalifa.
- Ariyani, N. (2016). Zakat as a Sustainable and Effective Strategy for Poverty Alleviation: from the Perspective of a Multi-Dimensional analysis. *International Journal of Zakat* , 89-107.
- Azam, M., Iqbal, N., & Tayyab, M. (2014). Zakat and Economic Development: Micro and Macro Level Evidence From Pakistan. *Bulletin of Business and Economics*, 3(2), 85-89.
- Bank Indonesia. (2011). *Statistik Perbankan Syariah*. Jakarta: Direktorat Perbankan Syariah.
- Bank Indonesia. (2012). *Statistik Perbankan Syariah*. Jakarta: Direktorat Perbankan Syariah.
- Bank Indonesia. (2013). *Statistik Perbankan Syariah*. Jakarta: Direktorat Perbankan Syariah.
- Bank Indonesia. (2014). *Statistik Perbankan Syariah*. Jakarta: Direktorat Perbankan Syariah.
- Baskaran, T., & Feld, L. P. (2009). Fiscal Decentralization and Economic Growth in OECD Countries: is going forward, this evaluation is also intended to be a consideration for other local governments, as well as Islamic financial practitioners to continue optimizing the potential of existing Zakat collection to reach more efficiency and greater impact.
- there a relationship? *CESifo Working Paper No. 2721*, 1-19.
- Boeve, L. (2003). *The Particularity of Religious Truth Claims: How to Deal with It in a So-Called Post-Modern Context*. Leuven: Peeters.
- BPS. (2016). *Provinsi Jawa Barat Dalam Angka*. Bandung: Badan Pusat Statistik Jawa Barat.
- BPS. (2012). *Provinsi Jawa Barat Dalam Angka*. Bandung: Badan Pusat Statistik Provinsi Jawa Barat.
- BPS. (2013). *Provinsi Jawa Barat Dalam Angka*. Bandung: Badan Pusat Statistik Provinsi Jawa Barat.
- BPS. (2014). *Provinsi Jawa Barat Dalam Angka*. Bandung: Badan Pusat Statistik Provinsi Jawa Barat.
- BPS. (2015). *Provinsi Jawa Barat Dalam Angka*. Bandung: Badan Pusat Statistik Provinsi Jawa Barat.
- Bremer, J. (2013). Zakat and Economic Justice: Emerging International Models and their Relevance for Egypt. *Third Annual Conference on Arab Philanthropy and Civic Engagement* (pp. 51-74). Tunisia: Takaful.
- Cingano, F. (2014). Trends in Income Inequality and Its Impact on Economic Growth. *OECD Social, Employment and Migration Working Papers No.163*.
- Darwanis, M., & Syukriy, A. (2013, Mei). Pengaruh Pendapatan Asli Daerah dan Dana Alokasi Umum terhadap Belanja Modal serta Dampaknya terhadap Pertumbuhan Ekonomi Daerah (Studi pada Kabupaten dan Kota di Aceh). *Jurnal Akuntansi Pascasarjana Universitas Syiah Kuala*, 2(2), 80-99.

- Dasuki, M. R. (2015). *Teori Keadilan Sosial al-Ghazali dan John Rawls (Studi Perbandingan dalam Konteks Politik dan Hukum)*. Tangerang Selatan: Cinta Buku Media.
- Ernita, D., Amar, S., & Syofyan, E. (2013). Analisis Pertumbuhan Ekonomi, Investasi dan Konsumsi di Indonesia. *Jurnal Kajian Ekonomi*, 176-193.
- Faisal. (2011). Sejarah Pengelolaan Zakat di Dunia Muslim dan Indonesia (Pendekatan Teori Investigasi-Sejarah Charles Peirce dan Defisit Kebenaran Lieven Boeve). *Analitis*.
- Freundenberg, B. (2011). The Constitution in Islam: Are Tax Reforms Possible to Facilitate Islamic Finance? *Revenue Law Journal*.
- Ghadi, Y. M. (1994). *Al-Amwal wa Al-Amlak Al-'Ammah fi Al-Islam wa Al-Hukm Al-I'tida 'Alaiha*. Baghdad: Mu'assah Ram.
- Gujarati. (2004). *Basic Econometrics*. US: The McGraw-Hill Companies.
- Hasan, Z. (2006). Sustainable Development from an Islamic Perspective: Meaning Implication and Policy Concerns. *J.KAU: Islamic Econ*, 19(1), 3-18.
- Hassan, M. K., & Khan, J. M. (2007). Zakat, External Debt and Poverty Reduction Strategy in Bangladesh. *Journal of Economic Cooperation*, 1-38.
- Herndon, T., Ash, M., & Pollin, R. (2013). Does High Public Debt Consistently Stifle Economic Growth? A critique of Reinhart and Rogoff. *Cambridge Journal of Economics*, 1-23.
- Inggrid. (2006). Sektor Keuangan dan Pertumbuhan Ekonomi di Indonesia: Pendekatan Kausalitas dalam Multivariate Vector Error Correction Model (VECM). *Jurnal Manajemen dan Kewirausahaan*, 40-50.
- Jasafat. (2015, Juni). Manajemen Pengelolaan Zakat, Infaq dan Sadaqah pada Baitul Mal Aceh Besar. *Jurnal Al-Ijtima'iyah*, 1(1), 1-18.
- Jaya, I. P., & Dwirandra, A. (2014). Pengaruh Pendapatan Asli Daerah pada Belanja Modal dengan Pertumbuhan Ekonomi sebagai Variabel Pemoderasi. *E-Journal Akuntansi Universitas Udayana*, 79-92.
- Jonaidi, A. (2012). Analisis Pertumbuhan Ekonomi dan Kemiskinan di Indonesia. *Jurnal Kajian Ekonomi*, 140-164.
- Kahf, M. (1997). *Economics of Zakat: a book of Reading*. Jeddah: IRTI-IDB.
- Kahf, M. (1999). The Performance of the Institution of Zakat in Theory and Practice. *The International Conference in Islamic Economics Towards the 21st Century*. Kuala Lumpur.
- Kantakji, S. M. (2008). *Dawabit Al-Iqtishad Al-Islami fi Mu'alijat Al-Azmat Al-Maliyat Al-'Alamiyah*. Damaskus: Dar Al-Nahdhah.
- Keynes, J. M. (2003). *The General Theory of Employment, Interest and Money*. Gutenberg: Gutenberg of Australia eBook.
- Lavoie, M., & Stockhammer, E. (2012). Wage-led growth: Concept, Theories, and Policies. In *Conditions of Work and Employment Series No. XX* (pp. 1-42). Geneva: International Labour Office (ILO).
- Lubis, I. F. (2013). Analisis Hubungan antara Inflasi dan Pertumbuhan Ekonomi: Kasus Indonesia. *QE Journal*, 41-52.
- Mahat, N. I., & Warokka, A. (2013). Investigation on Zakat as an Indicator for Moslem Countries' Economic Growth. *J. Global Business Advancement*, 6(1).

- Ma'ruf, A., & Wihastuti, L. (2008). Pertumbuhan Ekonomi Indonesia: Determinan dan Prospeknya. *Jurnal Ekonomi dan Studi Pembangunan*, 44-55.
- Misanam, M., & dkk. (2008). *Ekonomi Islam*. Jakarta: Rajawali Press.
- Mth, A. (2003). Konsep Pembangunan Ekonomi Islam. *Al-Mawardi*, X, 128-151.
- Mustafa. (2014). Sistem Ekonomi Keuangan Publik Berbasis Zakat. *Jurnal Madani*, 28-42.
- Nahi, S. ' . (1994). *Khawalid min Ara Abi Al-Hasan Al-Bashri Al-Baghdadi Al-Ma'ruf bi Al-Mawardi*. Beirut: Dar Al-Jail.
- OJK. (2015). *Statistik Perbankan Syariah*. Jakarta: Otoritas Jasa Keuangan.
- Ramadhan. (2017). *Kebijakan Publik dan Keadilan Sosial: Analisis terhadap Kitab al-Amwal al-Dawudi*. Jakarta: UIN Jakarta.
- Retsikas, K. (2014). Reconceptualising Zakat in Indonesia: Worship, Philanthropy and Rights. *Indonesia and Malay World*, 337-357.
- Rosadi, A., & Athoillah, M. A. (2015). Distribusi Zakat di Indonesia: antara Sentralisasi dan Desentralisasi. *Ijtihad Jurnal Wacana Hukum Islam dan Kemanusiaan*, 237-256.
- Rusydiana, A. S. (2009). Hubungan antara Perdagangan Internasional, Pertumbuhan Ekonomi dan Perkembangan Industri Keuangan Syariah di Indonesia. *TAZKIA Islamic Finance & Business Review*, 47-60.
- Shiddiqi, M. N. (2005). *Teaching Islamic Economics*. Saudi Arabia: Scientific Publishing Center.
- Sularno, F. M. (2013). *Pengaruh Pertumbuhan Ekonomi, Pendapatan Asli Daerah dan Dana Alokasi Umum terhadap Pengalokasian Anggaran Belanja Modal (Studi Kasus pada Kabupaten/Kota di Provinsi Jawa Barat*. Bandung: Universitas Widyatama.
- Suprayitno, E., Kader, R. A., & Harun, A. (2013, Jan-Mar). The Impact of Zakat on Agregat Consumption. *Journal of Islamic Economics, Banking and Finance*, 9(1), 39-62.
- Susanto, A. A., & Cahyadin, M. (2008). Praktik Ekonomi Islam di Indonesia dan Implikasinya terhadap Perekonomian. *Jurnal Ekonomi Syariah MUAMALAH*.
- Winer, S. L., & Hettich, W. (20004). Structure and Coherence in the Political Economy of Public Finance. *Oxford Handbook of Political Economy*, 1-2.
- Yusof, R. M., & Bahlous, M. (2013). Islamic Banking and Economic Growth in GCC & East Asia Countries: A Panel cointegration analysis. *Journal of Islamic Accounting and Business Research*, 151-172.
- Yussof, M. B. (2011, April). Zakat Expenditure, School Enrollment, and Economic Growth in Malaysia. *International Journal of Business and Social Science*, 2(6), 175-181.
- Zulfa, A. (2013). *Pengaruh Pendapatan Asli Daerah (PAD) dan Dana Alokasi Umum (DAU) terhadap Alokasi Belanja Daerah di Kabupaten Aceh Utara*. Aceh Utara: Fakultas Ekonomi Universitas Malikussaleh.

Ai Nur Bayinah
 STEI SEBI Indonesia
 ai.nur.bayinah@sebi.ac.id

Optimization of BAZNAS Programs on Sustainable Development Goals (SDGs): Analytic Network Process Approach (ANP)

Mohamad Handi Khalifah
University of Indonesia

Mohammad Soleh Nurzaman¹
University of Indonesia

Muhammad Cholil Nafis
University of Indonesia

ABSTRACT

With the release of the United Nations (UN) Sustainable Development Goals (SDGs) program, the Government of Indonesia (BAPPENAS) is committed to realizing Sustainable Development Goals (SDG) in Indonesia. The essence of the spirit of Islam in solving poverty is the inclusive nature that must be attached to the development of Islamic finance and related to issues of poverty alleviation as a basic responsibility in achieving the goals of Shari'ah (al maqashid Shari'ah). In realizing Sustainable Development Goals (SDGs), it will require Zakat Organizational Programs. The purpose of this study is to measure the priority scale of the 7 Grand Programs of BAZNAS on 17 Goals of Sustainable Development Goals (SDGs). This research uses Analytical Network Process (ANP) method, wherein the process performs pairwise comparison and uses super matrix calculations to measure the interrelationship between the elements. The results of the measurements by Analytical Network Process (ANP) and statistics show some of the priority conclusions which include Pillars of Environmental Development ($W= 0.47783$), Partnership for All Development Objectives ($W= 0.00486$) and Zakat Community Development ($W=0.07367$).

Keywords: Zakat Program, Sustainable Development Goals, Optimization, Development

INTRODUCTION

After the end of the Millennium Development Goals (MDGs) by the end of 2015, the United Nations (UN) released a new program called Sustainable Development Goals (SDGs). The program of development planning was compiled in the document "Transforming Our World: The 2030 Agenda for Sustainable Development". This document contains 17 goals and 169 development targets to overcome underdevelopment in a comprehensive sense for developing countries around the world (Hoelman, 2015). In response, the Indonesian

government has been committed to implementing these Sustainable Development Goals.

Waage (2015) states that the problems of modern society in improving public facilities require a well-structured solution in the form of long-term programs for realizing the welfare objectives.

In the development of Zakat institutions, both in Indonesia and internationally, there is no standard measure to evaluate the performance of Zakat in aggregate. This means that we need to assess the progress of Zakat by using a comprehensive indicator. Such

¹Corresponding author: dedenmsn@gmail.com

indicators should capture the macro dimensions such as government support in terms of arrangements and budgets, Zakat databases, as well as the micro dimensions that assess the performance of Zakat management and the impact of Zakat to mustahik (Nurzaman, 2017).

Ahmed (2015) stresses that Islamic finance has a strong potential in promoting financial stability, financial inclusion and shared prosperity and infrastructure development that will create an environment that supports the implementation of Sustainable Development Goals (SDGs).

Zakat has an important economic function to alleviate poverty. Furthermore, Zakat has significant effects on the macroeconomy. But in reality, Zakat's economic function has not been optimal in alleviating poverty due to less professional management (Norvadewi, 2012). Sustainable Development Goals (SDG) are

expected to provide new solutions for the implementation of 7 Grand BAZNAS Programs.

According to Kahf (1999), the main purpose of Zakat is to achieve social and economic justice. Zakat is a simple transfer of a prescribed portion of the wealth of the rich to be allocated to the poor. Thus, the mobilization of Zakat has the potential to contribute through various programs to help in meeting the welfare objectives. Therefore, Zakat can contribute positively towards achieving the Sustainable Development Goals (SDGs)

Based on the research of The National Board of Zakat (BAZNAS), the potential of national Zakat in 2015 reached Rp 286 trillion (2.4% of GDP in 2015). This figure is generated using an extrapolation method that considers GDP growth in previous years as illustrated in Table 1.

Table 1. Number of ZIS Collection in Indonesia (Year 2002 - 2015)

Year	Rupiah (Billion)	USD ² (Million)	Growth (%)	GDP Growth (%)
2002	68.39	4,98	-	3,7
2003	85.28	6,21	24,70	4,1
2004	150.09	10,92	76,00	5,1
2005	295.52	21,51	96,90	5,7
2006	373.17	27,16	26,28	5.5
2007	740	53,86	98,30	6,3
2008	920	66,96	24,32	6,2
2009	1200	87,34	30,43	4,9
2010	1500	109,17	25,00	6,1
2011	1729	125,84	15,30	6,5
2012	2200	160,12	27,24	6,23
2013	2700	196,51	22,73	5,78
2014	3300	240,17	22,22	5,02
2015	3700	269,29	21,21	4,79

Source: (BAZNAS, 2016).

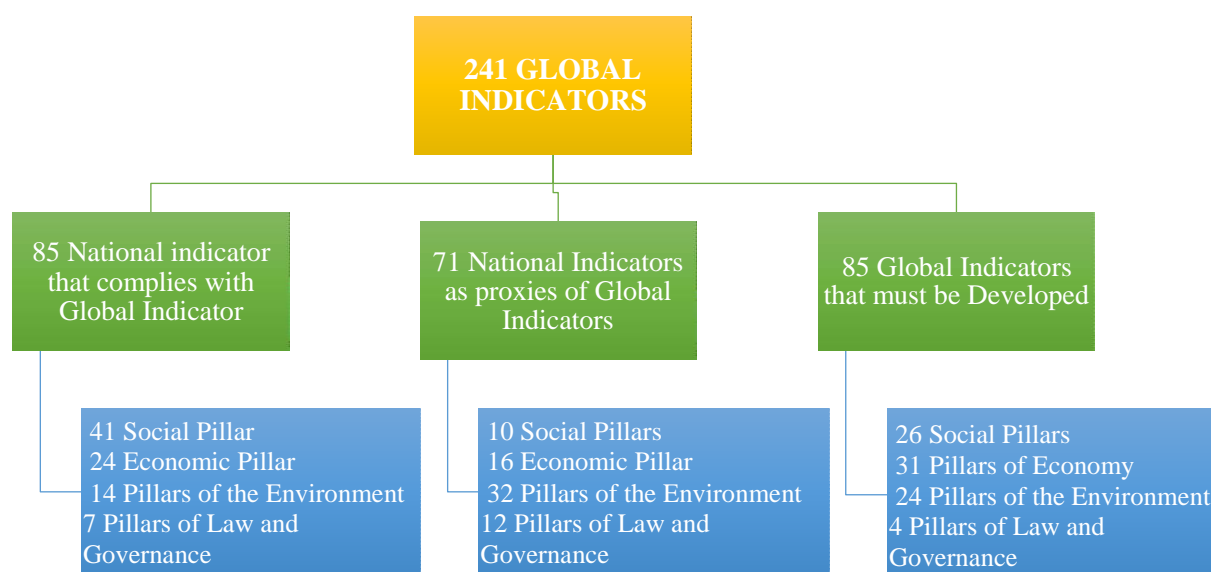
²1 USD = Rp 13.740,00

As part of the Islamic economic elements, Zakat has a very important role in economic growth in Indonesia. The role of Zakat institutions in the economic activities of Indonesia is not less important than the function of any other Islamic financial institutions. The existence of existing Zakat institutions is expected to stimulate the economy of a country. The purpose of zakat institutions in the Indonesian economy is expected to be a stimulus factor for Indonesia's economic prosperity in decisively reducing poverty levels, creating economic justice, creating equitable income distribution and

promoting social security with effective services.

Lawal (2016) concludes that although with the introduction of Sustainable Development Goals (SDGs), it will reduce the problem to a minimum, this success can only be achieved fully with the help of Islamic finance as it has some built-in features that conform to standards. The Sustainable Development Goals (SDGs) are a global and national commitment in efforts to improve the welfare of the community through covering the 17 development goals.

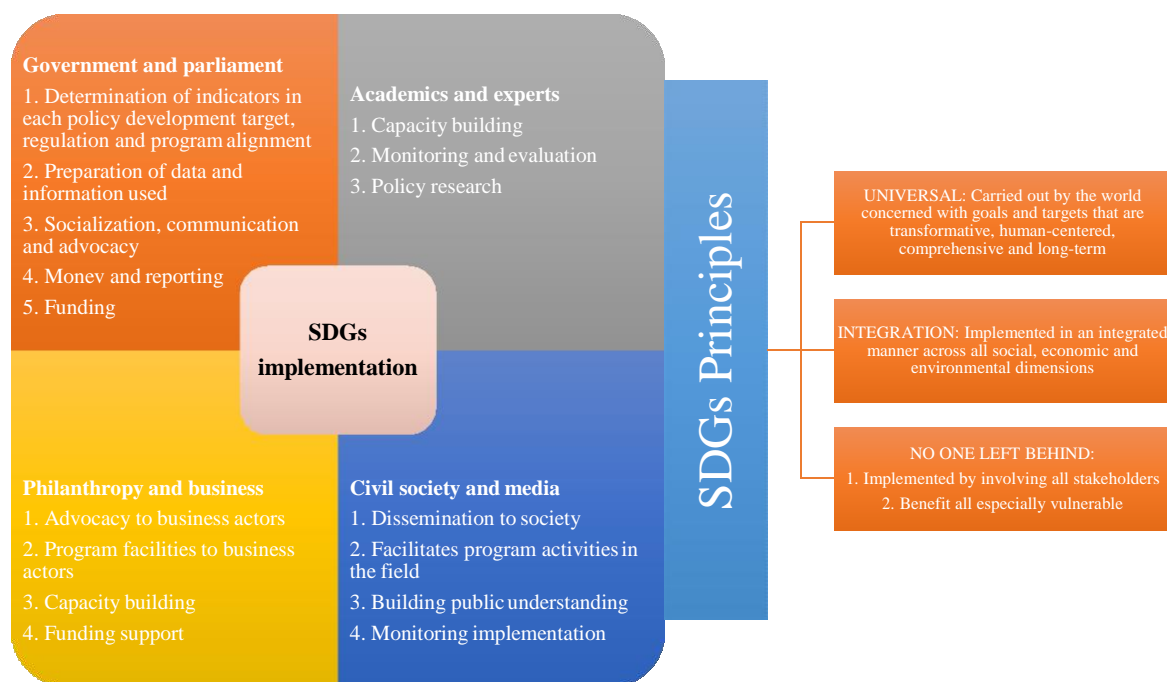
Figure 1. Availability of SDGs Indicators in Indonesia by Pillar



Source: (BPS, 2016)

The Government of Indonesia has committed itself to becoming a leading pioneer and role model in achieving Sustainable Development Goals (SDGs). Sustainable Development Goals (SDGs) also expand funding sources not only from the developed countries but also from the private sector. Furthermore, Sustainable Development Goals (SDGs) emphasize human rights to ensure that there is no discrimination in the effort to eradicate poverty in all its forms. Sustainable Development Goals (SDGs) apply an

inclusive principle involving all parties from the government, civil society, philanthropists, businesses, and the academia. One very ambitious target of the Sustainable Development Goals (SDGs) is that MDGs target only "half", but SDGs target achievement of indicators at the "zero" levels. Sustainable Development Goals (SDGs) do not only include the purpose, but also the means of implementation to ensure that all goals are achieved (BAPPENAS., 2017).

Figure 2. Participation Platform & Principles of SDGs

Source: (BAPPENAS., 2017)

In this setting, the most important task of Muslim intellectuals, politicians, economists, and policymakers is to turn the Zakat institution into a practical philanthropic movement that will foster a culture of cooperation and social justice. As a result, it will enhance the process of economic growth and prosperity throughout the Muslim world.

The Muslim government must form an advanced philanthropic organization and give it whatever support it needs. In a Muslim society, the practice of Zakat evasion is tantamount to promoting corruption and reducing development. Therefore, efficient management of Zakat, from collection to the distribution level, in such situations is the primary responsibility of governments, civil society, and every Muslim individual to contribute to a just division of wealth so

that the weakest part of the society can be strengthened and becomes elevated to a level whereby the basic needs are met. (Malik, 2016).

In this context, if Zakat can be managed in an effective way by involving global programs, then it becomes a promising solution to the problem of poverty alleviation, especially in Muslim countries. In many Muslim countries, the Zakat collection program is slightly more efficient than the Zakat distribution program due to the lack of program mechanisms to ensure sustainable benefits for beneficiaries. This effort is a challenge when combined with the context of today's complex economic situation, where Zakat managing regulators are required to find an efficient way of managing Zakat for the growth and prosperity of society, compared to the

situation when Zakat was first introduced in Islam.

Based on the above explanations, the opportunity presents itself also as a challenge for The National Board of Zakat (BAZNAS) to further optimize the rolling program, by combining the additional reference framework for pursuing the Sustainable Development Goals (SDGs).

LITERATURE REVIEW

It is undeniable that society is always evolving and changing with culture, thinking and so on. Therefore, in maintaining the development and change, there is a need to apply the Zakat rule in light of the Islamic concept of *Siasah al-Shari'ah* which emphasizes the application of all Islamic principles based on *Qiyas* doctrine (analogy) and *Masalih al-Mursalah* (Public interest). Such a measure is necessary to ensure the successful implementation of Islamic Zakat regulations based on the doctrine of *Siasah al-Shari'ah* (Billah, 2016).

Various tools and concepts which support the creation of sustainable development and offer solutions to a wide range of growing problems should be utilized. The overall understanding of sustainable development in the Islamic context has much in common with how they are understood in the mainstream literature, especially with regard to intergenerational equity and quality of life improvement (Kamali, 2016). Nouh (n.d) argues that the goal of sustainable development is linked and in line with Islamic objectives that call for avoiding waste, monopoly, corruption, promoting reform and rationalization of natural resources. The motivation for sustainable development is also reinforced by the Qur'anic verse:

وَالَّذِينَ هُمْ يُؤْتُونَ يُلْقُوا فِيهَا سَامًا بَاطِلًا ۗ

"... Do not make mischief in the earth after God has mended it" (al-A'raf Verse 85)

The five characteristics of development include (1) Comprehensive, (2) Human development, (3) A balanced economy, (4) Quality change, and (5) Distribution resource fairness (Sadeq, 2006).

Therefore, it is important for Muslim governments to restructure their spending in a feasible way, not only reduce their overall expenditure but also to concentrate more on projects that will help to accelerate development and realize the *Maqasid Shari'ah* (Chapra, 1992). Since the concept of sustainable development is a concept of development that has an optimum target achievement in view; hence, the value that is put forward is not only concerned with the present generation, but with far ahead. The concept encourages the emergence of the concept of sustainable management (Hadad, 2015).

Sadiq (2015) states that sustainable development is a concept that combines "the needs of the present generation without diminishing the ability of the future generations to meet their own needs". The core achievement of this vision lies in three things: economic growth, social inclusion, and environmental protection. (Kamali, 2016). Islamic finance plays an important role in the first two aspects. Other models view the environment (natural capital) as the overall foundation of life support system for the inhabitants of the planet.

Furthermore, BAPPENAS, (2017) states that Sustainable Development Goals (SDGs) are development goals that focus on improving the sustainable economic prosperity of the people, social community life, quality of the environment and ensures fairness and implementation of governance that is capable of maintaining the quality of life from one generation to the next.

RESEARCH METHODOLOGY

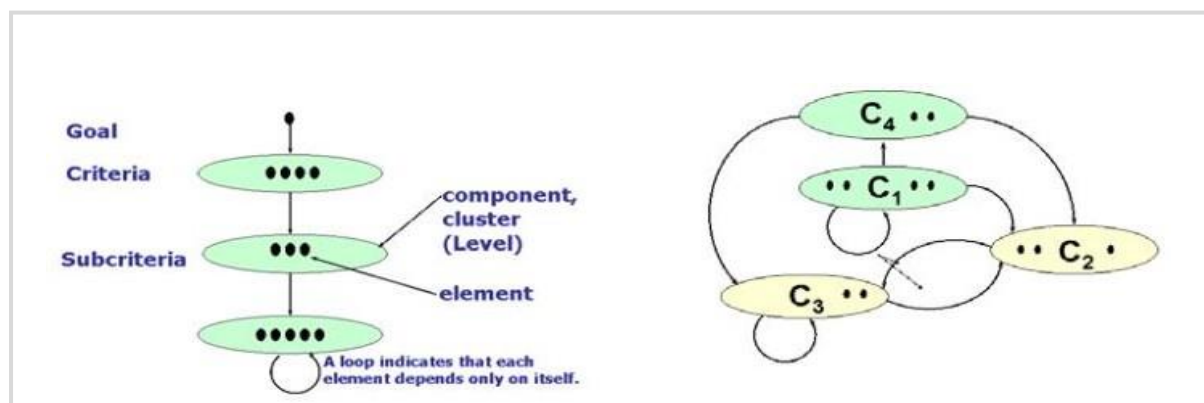
Analytic Network Process or ANP is a general theory of relative measurement used to derive a composite priority ratio from an individual ratio scale reflecting relative measurements of the effects of interacting elements with respect to control criteria (Saaty, 1999).

Analytic Network Process (ANP) is a mathematical theory that allows one to deal systematically with dependencies and feedback. ANP captures the effect of

feedback and interaction among all elements. It is assumed that there is no such feedback on hierarchical models, such as Analytic Hierarchy Process (AHP). Therefore, AHP is a special case of ANP (Azis, 2003).

Analytic Network Process or ANP is a new approach of qualitative, nonparametric and non-bayesian methods for a decision-making process that provides a common framework for treating decisions without making assumptions about the independence of elements.

Figure 3. Differences Linear Hierarchy and Feedback Network



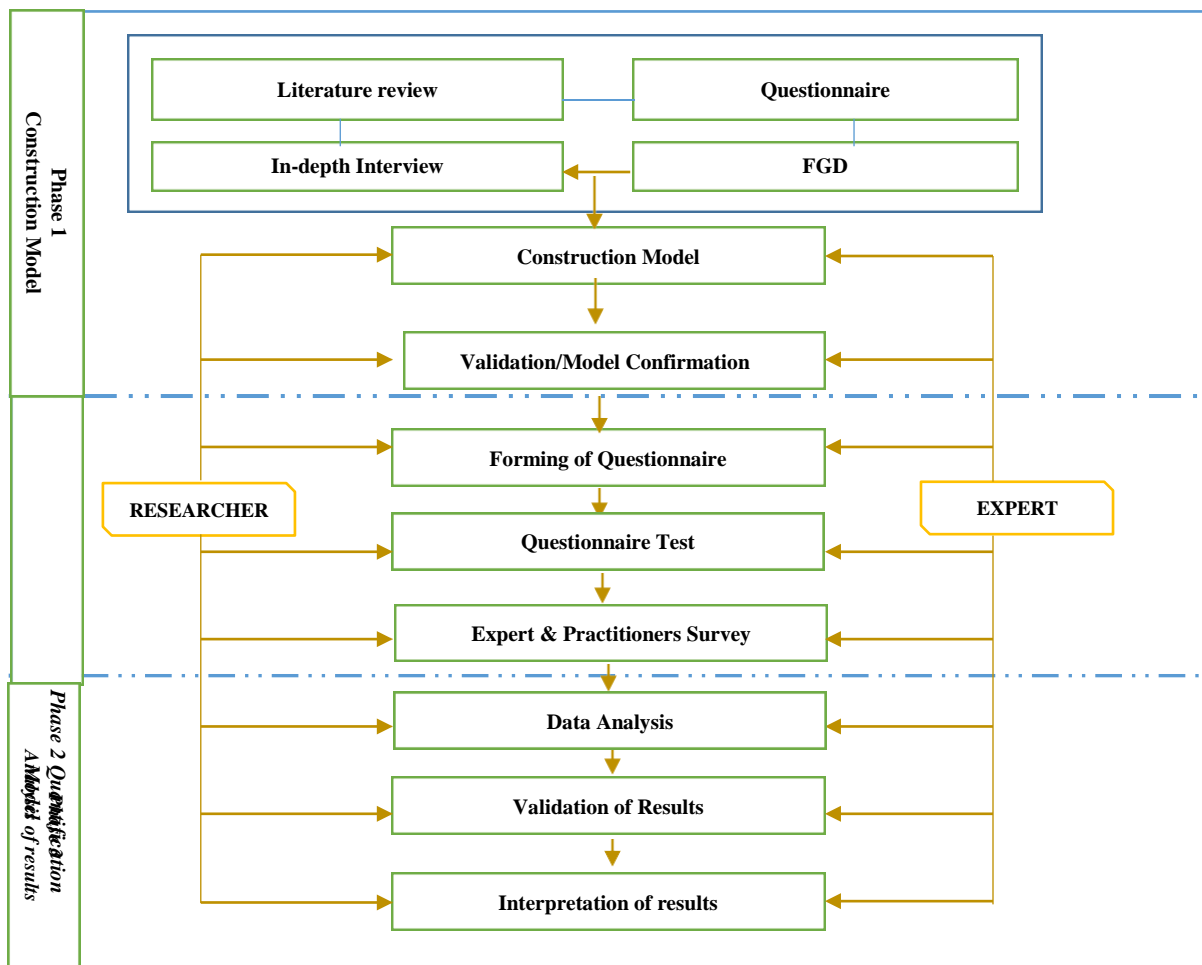
Source: (Azis, 2003)

Analytic Network Process (ANP) is a combination of two parts. The first part consists of a control or network hierarchy of criteria and sub-criteria that controls interactions. The second part is the network of influences between elements and clusters (Ascarya, 2015). In the ANP method, the number of respondents is not important. The most important element is that the selected respondent is the person who is competent and an expert in the field.

The Analytic Network Process (ANP) Questionnaire is presented in the form of pairwise comparison between elements in the cluster to see the comparison and magnitude of influence. The scale used is a numerical scale of 1-9 to translate verbal judgments.

Ascarya (2005) suggests that the basic principles of AHP / ANP are three, namely decomposition, comparative judgments, and hierarchical or synthesis composition of priority.

Figure 4. ANP Research Stage



Source: (Ascarya, 2010)

a. The geometric mean is used to find out the results of the individual assessment of the respondents and determine the results of the opinions of one group. An assessment is done by calculating the geometric mean (Saaty, 2006). The question of comparison (Pairwise comparison) of the respondents will be combined so as to form a consensus. The geometric

mean is a type of average calculation that shows a certain tendency or value (Rusydia, 2012).

b. Rater Agreement is a measure showing the level of respondent's agreement (R1-Rn) to a problem in one cluster. The tool used in measuring the rater agreement is Kendall's Coefficient of Concordance ($W: 0 < W \leq 1$). $W = 1$

indicates perfect fit. To calculate Kendall's (W), the first step is to rank each answer and sum it up (Ascarya, 2010).

Based on the results of the research and data using the software Super Decision 2.0.8 and Microsoft Excel 2007, following are some conclusions, which are presented below:

RESULTS & DISCUSSIONS

Table 2. General conclusions of ANP data processing results

Aspect	Respondent NR	Ranking
4 PILLAR OBJECTIVES OF SUSTAINABLE DEVELOPMENT GOALS (SDGs)		
SOCIAL DEVELOPMENT PILAR	0.2277	3
ECONOMIC DEVELOPMENT PILAR	0.2419	2
ENVIRONMENTAL DEVELOPMENT PILAR	0.2742	1
INKLUSIF DEVELOPMENT & IMPLEMENTATION PILAR	0.2182	4
17 GOALS OF SUSTAINABLE DEVELOPMENT GOALS (SDGs)		
Goal 1. No Poverty	0.1484	16
Goal 2. Zero Hunger	0.1384	17
Goal 3. Good Health and Well-Being	0.2005	7
Goal 4. Quality Education	0.1590	13
Goal 5. Gender Equality	0.1557	15
Goal 6. Clean Water and Sanitation	0.1577	14
Goal 7. Affordable and Clean Energy	0.1824	11
Goal 8. Decent Work and Economic Growth	0.1905	9
Goal 9. Industry, Innovation and Infrastructure	0.1680	12
Goal 10. Reduced Inequalities	0.1880	10
Goal 11. Sustainable Cities and Communities	0.2160	6
Goal 12. Responsible Consumption and Production	0.2914	3
Goal 13. Climate Action	0.2333	4
Goal 14. Life Below Water	0.1921	8
Goal 15. Life on Land	0.2300	5
Goal 16. Peace, Justice and Strong Institutions	0.3999	2
Goal 17. Partnership for the Goals	0.5866	1
7 GRAND BAZNAS PROGRAMS		
BAZNAS Health House	0.1141	6
Smart House of the Nation Children	0.1285	7
Zakat Community Development	0.1732	1
Baitul Qiradh	0.1355	2
Regeneration of 1000 Ulama	0.1245	5
Mustahiq Service Counter	0.1488	4
BAZNAS Disaster Response	0.1434	3

* NR = Average value

* Source: data processed, 2017

The overall assessment according to experts on the Relevance of the 7 Grand Programs of BAZNAS in Table 2, placing the Pillars of Environmental Development a top priority in Aspects of the 4 pillars of Sustainable Development Goals (SDGs) (0.2742).

From the above data, it is indicated that Partnership for All Development

Objectives is the most important priority in integrating 17 Goals for Sustainable Development Goals (SDGs) to the BAZNAS program with an average rating (0.5866) with details of priority on 17 Sustainable Development Goals (SDGs) as follows:

Table 3. Overall Details of Aspects 17 Sustainable Development Goals (SDGs)

Goal 17. Partnership for the Goals	0.5866	1
Goal 16. Peace, Justice and Strong Institutions	0.3999	2
Goal 12. Responsible Consumption and Production	0.2914	3
Goal 13. Climate Action	0.2333	4
Goal 15. Life on Land	0.2300	5
Goal 11. Sustainable Cities and Communities	0.2160	6
Goal 3. Good Health and Well-Being	0.2005	7
Goal 14. Life Below Water	0.1921	8
Goal 8. Decent Work and Economic Growth	0.1905	9
Goal 10. Reduced Inequalities	0.1880	10
Goal 11. Sustainable Cities and Communities	0.1824	11
Goal 9. Industry, Innovation and Infrastructure	0.1680	12
Goal 4. Quality Education	0.1590	13
Goal 6. Clean Water and Sanitation	0.1577	14
Goal 5. Gender Equality	0.1557	15
Goal 1. No Poverty	0.1484	16
Goal 2. Zero Hunger	0.1384	17

In an overall assessment of Aspects of the Grand Program of BAZNAS, Zakat Community Development Program (0.1732) appears to be a top priority in aligning the program towards the 17 Sustainable Development Goals (SDGs). The priority sequence of the 7 Grand Programs of the next BAZNAS is occupied by Baitul Qiradh (0.1355), BAZNAS Disaster Response (0.1434), Mustahiq Service Counter (0.1488), Regeneration of 1000 Ulama (0.1245), BAZNAS Health House (0.1141) and

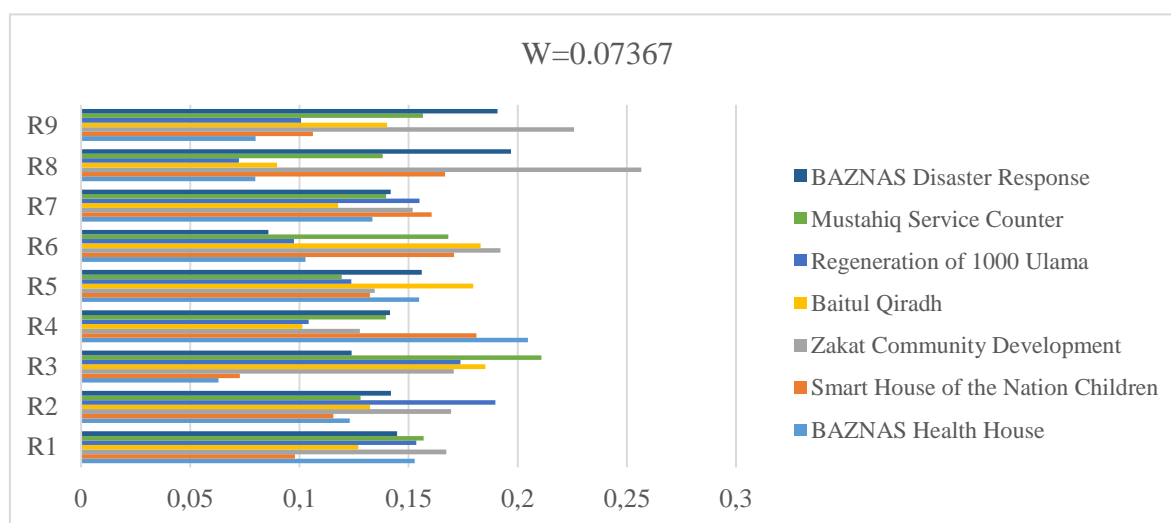
Smart House of the Nation Children (0.1285).

The results from statistically obtained data with the consensus of experts show that the pillar of Environmental Development is the main priority in 4 pillars of Sustainable Development Goals (SDGs). In the case of this assessment, the level of agreement among the respondents is quite high with the rater agreement of (W=0.47783).

As we can see in Figure 7, the respondents coming from Academics, Indonesian Ministry of National Development Planning (BAPPENAS) and The National Board of Zakat (BAZNAS) tend to vary in response that Zakat

Community Development occupies the top priority in developing the BAZNAS Program towards Sustainable Development Goals (SDGs). This shows that the agreement level of the respondents varied ($W=0.0736$).

Figure 7. Priority Aspect of Grand Program BAZNAS



CONCLUSION

Based on the results of the data, the researcher concludes that respondents are relatively united in their opinion related to the development of The National Board of Zakat (BAZNAS) program, where its relevance has priority in the following order.

1. General conclusions based on data analysis using the Analytic Network Process (ANP) method show that the Pillars of Environmental Development having the top priority among the 4 Pillars of Sustainable Development Goals (SDGs) with an average rating of (0.2742). The Goal 17, „Partnership For All Development Goals” received top priority in the 17 Sustainable Development Goals (SDGs) in terms of synergy with 7 Grand BAZNAS Program with an average score of (0.5866). In terms

of the Grand Program BAZNAS, Zakat Community Development Program is the main priority of the program in regards to 17 Goals of Sustainable Development with an average value of (0.1732)

2. Results from statistically obtained data with the consensus of experts show that Pillar of Environmental Development is a priority on the 4 Pillars of Sustainable Development Goals (SDGs) with a rater agreement of ($W = 0.47783$).
3. Geometric mean indicates that Goals 17 „Partnership for All Goals” occupies the main priority with the rater agreement of ($W = 0.00486$).
4. In the priority assessment of the 7 Grand BAZNAS Program, the respondents tend to vary in their view as to whether Zakat Community Development occupies the top priority in developing the

BAZNAS Program towards Sustainable Development Goals (SDGs) or not. For the National Board of Zakat (BAZNAS) Program against Sustainable Development Goals Objectives (SDGs), the rater agreement has a value of ($W = 0.07367$).

REFERENCES

- Al-Qur'an*
- Ahmed, H. (2015). On Sustainable Development Goals and the Role of Islamic Finance. *World Bank Policy Research Working Paper 7266*.
- Ascarya. (2005, Januari). Analytic Network Process (ANP): Pendekatan Baru Studi Kualitatif
- Ascarya. (2005, Januari). Konsep Dasar ANP: Pendekatan Baru dalam Penelitian Kualitatif.
- Ascarya. (2010). *Determinan dan Persistensi Margin Perbankan Konvensional dan Syariah di Indonesia* (working paper series ed., Vol. No.WP/10/04.). Pusat Pendidikan dan Studi Kebanksentralan Bank Indonesia.
- Ascarya, D. Y. (2015, Juni). Mencari Solusi Rendahnya Pembiayaan Bagi Hasil di Perbankan Syariah Indonesia. 30.
- Azis, I. J. (2003, November). Analytic Network Process With Feedback Influence: A New Approach to Impact Study. 2.
- BAPPENAS. (2017). *Draft Pedoman Teknis Penyusunan Rencana Aksi Tujuan Pembangunan Berkelanjutan*. Jakarta: Kementerian PPN/Bappenas.
- BAPPENAS. (2017). *Prsiapan Pelaksanaan Tujuan Pembangunan Berkelanjutan/Sustainable Development Goals Tahun 2016*. Booklet TPB/SDGs, Kementerian PPN/BAPPENAS, Bidang Kemaritiman dan Sumber Daya Alam, Jakarta.
- BAZNAS. (2016). Outlook Zakat Indonesia 2017, 21.
- Billah, M. M. (2016). Creating an Eco-Sustainable Community: the Role of Zakat. *International Journal of Zakat*, 1(1), 7.
- BPS. (2016). *kajian Indikator Lintas Sektor : Potret Awal Tujuan Pembangunan Berkelanjutan (Sustainable Development Goals) di Indonesia*. Badan Pusat Statistik, Subdirektorat Indikator Statistik. Jakarta: Badan Pusat Statistik Indonesia.
- Chapra, M. U. (1992). *Islam and the Economic Challenge* (Vols. Islamic Economics Series - 17). Leicester: The Islamic Foundation and The International Institute of Islamic Thought.
- Hadad, I. d. (2015). *Sustainable financing, industri jasa keuangan dalam pembiayaan berkelanjutan*. Jakarta: PT. Elex Media Komputindo.
- Hoelman, M. B. (2015). Panduan SDGs Untuk Pemerintah Daerah (Kota dan Kabupaten) dan Pemangku Kepentingan Daerah.
- Kamali, M. H. (2016, Januari). Focus Islam Sustainable Development. *Islam and Civilisation Renewal*, 9-11.
- Lawal, I. M. (2016, Agustus). Islamic Finance; A Tool For Realizing Sustainable Development Goals (SDG) In Nigeria. *International Journal of Innovative Research and Advanced Studies (IJIRAS)*, 3(9)

- Malik, B. A. (2016, Januari). Philanthropy in Practice: Role of Zakat in the Realization of Justice and Economic Growth. *International Journal of Zakat*, 1, 74
- Nouh, M. (n.d.). *Sustainable Development in a Muslim Context*. Retrieved from Earthcharter.org: https://earthcharter.org/invent/images/uploads/11%20Manuscrip_Muhammad.pdf (diakses pada tgl 14 Mei 2017)
- Norvadewi, M. (2012). Optimalisasi Peran Zakat dalam mengentaskan kemiskinan di Indonesia. 74.
- Nurzaman, M. S. (2017, Januari). Methodology, National Zakat Index: Framework and. (N. A. Ridho Gusti Hendharto, Ed.) *Puskas Working Paper Series, 04*, 3.
- Rusyiana, A. D. (2012). Aplikasi Metode Analitic Network Process (ANP) Untuk Mengurai Problem Pengembangan Baitul Maal Wat-Tamwiil (BMT) Di Indonesia. 15.
- Saaty, T. L. (2006). Decision Making with the Analytic Network Process. Economic, Political, Social and Technological Applications with Benefits, Opportunities, Costs and Risks. *Springer*.
- Saaty, T. L. (1999). Fundamentals of The Analytic Network Process.
- Sadeq, A. M. (2006). Development Issues in Islam. 3
- Sadiq, R. (2015). The Role of Islamic Finance in Sustainable Development. *Journal of Islamic Thought and Civilization*, 5(1), 47.
- Waage, J. (2015, March). London International Development Centre, London Governing the UN Sustainable Development Goals: interactions, infrastructures, and institutions. [http://dx.doi.org/10.1016/S2214-109X\(15\)70112-9](http://dx.doi.org/10.1016/S2214-109X(15)70112-9) or www.thelancet.com, 3.

Mohamad Handi Khalifah
University of Indonesia
handikhalifah@gmail.com

Mohammad Soleh Nurzaman
University of Indonesia
dedenmsn@gmail.com

Muhammad Cholil Nafis
University of Indonesia
nafismdr@yahoo.com

The Implementation Strategies of Good Corporate Governance for Zakat Institutions in Indonesia

Irman Firmansyah
Siliwangi University

Abrista Devi
Ibn Khaldun University

ABSTRACT

Zakat institutions are aimed to contribute to poverty alleviation in a country. In order to ensure that the Zakat institutions can perform well, it is urgently needed to have professional good governance. This research is aimed to find the best strategies to improve the management quality of the Zakat institutions in Indonesia. The research method used in this study comprises both qualitative and quantitative approach using Analytic Network Process. The research results show that to enhance the quality of good governance in Zakat institutions, following are the key elements. The top three main priorities in transparency principles are financial report standardization, followed by Zakat distributions transparency, and the knowledge about decision making. The top three main priorities in responsibilities principles are working compliance with SOPs, followed by prudential principles, and Shari'ah compliance. The top three main priorities in accountability principles are the effectiveness of internal control, followed by performance measurement, and competencies compliance with job descriptions. The top three main priorities in fairness principles are giving priority to the common interest, followed by equal treatment for all stakeholders, and prudential principles in asset management. To achieve all these priorities, the main strategy which should be prioritized is independent human management system, followed by having Shari'ah board and audit committee and the computerized Zakat system.

Keywords: Zakat institutions, Good Governance, Analytic Network Process
JEL Classification: L31, G34

INTRODUCTION

Zakat is one of the five pillars of Islam, which has been made obligatory by Allah for each and every Muslim to carry out. According to the basic principles of Zakat, the Zakat institution has to be established first within the Muslim society in a well-organized way (Al-Habshi, 2005). Zakat is a worship containing two dimensions, i.e. there is *hablum min alloh* dimension (the relationship between human and Allah) and *hablum min annas* dimension (the relationship among humans). Zakat also

has an important role to actualize the creation of justice in an economy through ensuring that the wealthy people in Muslim societies fulfil the requirement to pay Zakat, and then the Zakat funds should be distributed among all the mustahik of Zakat. Zainul Bahar Noor as vice chairman of Badan Amil Zakat Nasional Indonesia (BAZNAS) clearly stated that the potency of Zakat in Indonesia stands at 217 billion rupiah. The potency of Zakat funds is considered to have the capability to help the government to solve the problem of poverty in Indonesia. Unfortunately, the

realization of Zakat fundraising has just reached 1.2% or IDR 3 billion thus far.

The great potential of Zakat funds in Indonesia attracts a great deal of attention by the management and academicians on how to improve the management quality of Zakat institutions to manage the Zakat funds professionally. The management of Zakat institutions (read: *Amil*) must have good knowledge about the management of Zakat and especially according to Zakat distribution. From the literature review, there are some problems encountered in Zakat institutions which have been highlighted, such as: a) Not applying the principle of accountability and transparency (Hamid, 2009), b) Charity fund managers do not have optimal quality of human resources which are competent, trustworthy, and have high level of work ethics (Azzaini, 2008), c) Muzaki's awareness level in Indonesia is still low at only 55% and, d) Bureaucratic system and good governance are still weak in regards to the management of Zakat in Indonesia, so this negatively impacts in terms of lack of accountability and transparency LAZ (Jahar, 2008).

Hence, it is important to have good corporate governance implementation to show persistence and professionalism in Zakat institutions in order to enhance public trust. A good institution is able to practice good corporate governance in their corporate management. This research is aimed to analyze good corporate governance in Indonesia, and to also identify the priorities in strategy to enhance the implementation of good corporate governance in Indonesian Zakat institutions.

LITERATURE REVIEW

Zakat

Zakat is one of the important pillars of Islam and its importance is widely known

by all Muslims. Zakat is obligatory only for those who have fulfilled their basic needs and possess some surplus wealth above the value of Nisab. The person who pays Zakat is known as muzakky, and the recipient of Zakat is called mustahik. In literal terms, *Mu'jam Wasith* stated that the word Zakat is a basic word (*mashdar*). Zakat means blessed, growth, purify, and good (Qaradawi, 2006). Zakat means growth and development, and if somebody pays Zakat, it means that such a person is good.

In literal terms (*lughat*), Zakat means: grow, develop and blessed (HR. At-Tirmidzi) or can be translated as to cleanse or purify (QS. At-Taubah: 103). Paying Zakat because of belief in Allah undoubtedly will inherit much of goodness in life. Allah SWT says:

“Take, (O, Muhammad), from their wealth a charity by which you purify them and cause them increase, and invoke (Allah's blessings) upon them. Indeed, your invocations are a reassurance to them. And Allah is Hearing and Knowing” (QS. At-Taubah: 103)

This ayah also contains another meaning, i.e. “grow” and “purify” means that the after-Zakat wealth is a blessing from Allah to muzakki (Qaradawi, 2006). On the other hand, according to Shari'ah terminology, Zakat means a certain portion of wealth paid as a charity to mustahik (or who have the right to that wealth). The word of Zakat in the form of *ma'rifah* (definitions) was mentioned 30 times in Al-Qur'an (Qaradawi, 2006). The word Zakat is mentioned along with shalat, except in only one ayah in Al-Qur'an, but it is still in the same context, “*and they who are observant of Zakat*” after the ayah “*they who are during their prayer humbly submissive*” (QS. Al-Mu'minun: 2 and 4).

Besides being the obligation of Islam, Zakat is also a worship that has two dimensions at once, i.e. vertically (the

form of obedience to Allah) and horizontally (the form of income transfer to *dhu'afa*). In Islamic economic theory and practice, Zakat is a major distinct system that is not matched by other economic systems in the world. It is because Zakat is a regulation from Al-Qur'an and it has been pre-determined as to who are the persons who have the rights to receive the Zakat fund (*mustahik*). In Islamic economic theory, Zakat is an institution that implements fairness.

Zakat also plays its role as a fiscal mechanism. Zakat performs some of the major functions of modern public finance, which deal with social security entitlements, social assistance grants for childcare, food subsidy, education, health care, housing, and public transportation in a welfare state (Yusoff, 2012). Besides that, Zakat creates a balanced growth cycle. When a certain percentage of one's wealth is spent annually over the foregoing eight categories as prescribed in the Qur'an, Zakat has a significant economic impact on the society.

The institution of Zakat is among several instruments instituted by Islam to combat and enhance welfare in the society. Zakat helps to generate a flow of funds and recruit the necessary manpower. The word Zakat means growth, cleanness, and purity in Arabic. The Qur'an mentions the word Zakat 30 times and at three places, it appears as being commanded by God (Allah s.w.t). The importance of Zakat as an obligation on Muslims is also emphasized in many sayings of the Prophet Muhammad (pbuh). The importance of the institution may be established from a saying of the Prophet (pbuh) in which He (pbuh) indicates that refusing to pay it represents a rebellion against the Islamic State (Qaradawi, 2006). Hence, Zakat can be considered as an essential form of worship and spiritual purification.

Good Corporate Governance (GCG) Principles

The definition of Good Corporate Governance is 'a system which manages and controls the organizations or corporations to create value addition for all stakeholders'. According to OECD, corporate governance is the system by which business corporation is directed and controlled (OECD, 1999). The corporate governance structure specifies the distribution of rights and responsibilities among different participants in a corporation, such as the board, the managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance. Then, to ensure good corporate governance, some principles are required to be introduced in corporate governance implementation.

A good corporate governance principle is a reference point for all regulators (government) in developing a good corporate governance principles framework in a corporate/organization. The scope of corporate/organization involves the institution of Zakat as a charity organization which collects and distributes charity funds. The implementation of good corporate governance in Zakat institutions is expected to enhance the quality management of Zakat in internal management.

The principles of Organisation for Economic Co-operation and Development (OECD) contains that corporate governance should protect the rights of shareholders and ensure the equitable treatment of all shareholders including minority and foreign shareholders. It should also recognise the rights of other stakeholders and ensure the timely and accurate disclosure and transparency of all material matters regarding the corporation. Good corporate governance should ensure the strategic guidance of the company, the

effective monitoring of the management by the board and the board's accountability (Hafeez, 2013).

The Islamic jurists claim that Islam as a religion is a complete code of life that covers all spheres of social, economic and legal structures including trade and commerce. The Islamic law (*Shari'ah*) provides a comprehensive system to cover not only religious rituals, but also many aspects of social and economic life, politics, business and contract law. The Islamic business principles direct to the business community to conduct their business in accordance with the *Shari'ah* rule of fair trade, honesty and justice towards others. The accumulation of wealth subject to constraint restrictions are allowed in Islamic system because wealth is regarded as a trust and a test for wise utilisation of wealth to benefit the society and poor people rather than to make wealthy more wealthier at the cost of poor (Tapanjeh, 2009).

RESEARCH METHOD

This study applies the ANP methodology in three steps. First, the questionnaires and in-depth interviews are administered and conducted respectively with scholars, experts, practitioners, and regulators of Zakat institutions in Indonesia. Second, the results of the preliminary stage are used to develop an appropriate ANP network and a relevant questionnaire to glean the necessary data from the experts and practitioners of Zakat institutions. Third, the ANP analysis is applied to set priority policy strategies in order to formulate optimal policy

recommendations. From the following steps as mentioned above, ANP is a methodology with a qualitative and quantitative approach which was developed by Thomas L. Saaty and Louwis S. Vargas. The implementation of this methodology is supported by *super decision* software.

Population and Sample

The election of respondents/informants in this study uses purposive sampling technique by considering their understanding of Zakat good governance in Indonesia. The respondents consist of five experts and practitioners related to the topic discussed. There is no maximum or minimum quote to choose informant. The most important thing to be considered is that the respondents must have good knowledge about Zakat institutions good governance in Indonesia. The questions in the ANP questionnaire are in the form of *pairwise comparison* among elements in clusters to identify which aspect has the most impact (most dominant) and the scale effect from the current aspect. The numerical scale used is 1-9 as translated from the verbal valuation.

The fundamental scale of values to represent the intensities of judgments is shown in Table 1. This scale has been derived through stimulus-response theory and validated for effectiveness, not only in many applications by a number of people but also through the theoretical justification of what scale one must use in the comparison of homogeneous elements (Saaty & Vargas, 2006).

Table 1. The Fundamental Scale of Absolute Numbers

	Intensity of Definition Importance	Explanation
1	Equal Importance	Two activities contribute equally to the objective.
2	Weak	
3	Moderate importance	Experience and judgment slightly

4	Moderate plus	favor one activity over another.
5	Strong importance	Experience and judgment strongly favor one activity over another.
6	Strong plus	
7	Very strong or Demonstrated	An activity is favored very strongly over another; its dominance demonstrated in practice.
8	Very, very strong	
9	Extreme importance	The evidence favoring one activity over another is of the highest possible order of affirmation.
Reciprocals of above	if activity i has one of the above nonzero numbers assigned to it when compared with activity j , then j has the reciprocal value when compared with i .	A reasonable assumption.
Rationals	Ratios arising from the scale	If consistency were to be forced by obtaining n numerical values to span the matrix.

The informant filling the questionnaire must be accompanied by the researcher to keep the consistency of the answers given by the informant. Usually, the questions in the ANP questionnaire are large in number, so the inconsistency might happen in the answers.

Data Analysis Method

Data obtained from the research is analyzed through the ANP method. ANP is one tool which is commonly used in the various qualitative studies involving decision making, forecasting, evaluation, mapping, strategizing and resource allocation, for instance. ANP has three main functions, as follows:

a. Complexity Structuring

Saaty and Vargas (2006) in their research use the same form of example on how humans solve the complex problems each period of time. The complexity was structured in the hierarchy form into homogenous clusters (Saaty & Vargas, 2006).

b. Ratio scale measurement

Previous decision-making methodology commonly uses low-level measurement (ordinal or interval measurement), while ANP methodology uses ratio scale measurement that is believed to be the most accurate in measuring some factors forming hierarchies. The measurement level from the lowest to the highest is nominal, ordinal, interval, and ratio. Each measurement level has the entire meaning which had the lowest level of new additional meaning. Interval measurement has no ratio meaning but has interval meaning, ordinal, and nominal. Ratio measurement is required to identify the proportion. To keep the simplicity of ANP methodology, the ratio valuation is used for every *pariwise* factors in the hierarchy to measure ratio scale measurement (indirect in giving the value) (Saaty & Vargas, 2006). Each methodology with hierarchy structure must use ratio scale priority for the element above

the lowest level of the hierarchy. It is important because the priority (or weight) from each element in every element from the hierarchy is determined by multiplying priorities from an element in a level with priority in its top element. The multiplying result from the two interval-level measurements mathematically has no meaning. The ratio scale is required in this multiplication step. ANP uses ratio scale in each of the lowest levels of hierarchy/network and includes the lowest level (alternative in the determined model). A ratio scale is more important if the priority is used not only in the determined application, but also in another application, such as resource allocation cases.

c. *Synthesis*

Synthesis is the opposite of analysis. If analysis means material entity or abstract into its elements, then synthesis means to unite all parts as one. The complexity, decision making, forecasting and resource allocation often involves too many dimensions for humans to do the synthesis intuitively. Thus, we need one way to do the synthesis from too many dimensions. Although ANP facilitates analysis function, the most important function in ANP is its capability to help us in doing the measurement and synthesis of some factors in hierarchies or networks.

1. *Geometric Mean*

The *geometric mean* is the average of set products which shows the tendentious or determined value which has the formula as follow (Ascarya, 2011):

$$\sqrt[n]{\prod_i^n a_i} = \sqrt[n]{a_1 a_2 \dots a_n} \quad (1)$$

2. *Rater Agreement*

Rater agreement is a measure of the degree of agreement among raters (informant/respondents R1-Rn). It gives a score of how much homogeneity, or consensus there is in the ratings given by the judges. The tool used to measure rater agreement is *Kendall's Coefficient of Concordance* (W ; $0 < W \leq 1$). $W=1$ shows perfect agreement among raters (Ascarya, 2011). To calculate Kendall's (W), the first step is to give the ranking for each answer and then calculate the total value.

$$R_i = \sum_j^m = 1r_{i,j} \quad (2)$$

The average value of total ranking is:

$$R = \frac{1}{2} m(n + 1) \quad (3)$$

The sum of deviation quadratic (S) is calculated with the formula:

$$S = \sum_i^n = 1(R_i - \bar{R})^2 \quad (4)$$

And then, Kendall's W is obtained as follows:

$$W = \frac{12S}{m^2(n^3 - n)} \quad (5)$$

If the value of W is 1 ($W=1$), we can conclude that the valuation or the opinion of the respondents have a perfect agreement (totally agreed to the case). While if the W value is 0 or closer to 0, then it shows disagreement among the respondents, or the respondents have various answers about the problems (Ascarya, 2011).

RESULT AND DISCUSSION

Decomposition of the problems (model decomposition) is obtained from literature related to good corporate governance in Zakat institutions and also obtained from an in-depth interview from some experts who have good knowledge about good corporate governance in Zakat institutions in Indonesia. Results found some strategies of good corporate governance in Zakat institutions. Good corporate governance principles involve transparency, accountability, responsibility, and fairness. The result shows that there are some priorities which can be used to enhance good corporate governance of Zakat institutions in Indonesia. The priorities result from each cluster of GCG principles are as follows:

1. Cluster of transparency consists of clear information access, clarity of vision and mission, easy access for supervisors, financial information, standardized financial statements, knowledge of decision making, objectivity of data collecting and transparency of Zakat distribution.
2. Cluster of accountability consists of clear job descriptions, competency compliance with job desk, deep attention to job desk, good documentation, the leader must report regularly, performance measurement, effectiveness of internal control and working with business ethics.
3. Cluster of responsibility consists of CSR, avoiding harmful activities, compliance with the law and basic principles, prudential principles, Shari'ah compliance and working compliance with SOPs.
4. Cluster of fairness consists of clarity of muzakki rights, devotion to the common interest, equal treatment of all stakeholders, prudential principle in asset management and regulations to protect muzakki.

From the decomposition result, the Good Corporate Governance strategies in Zakat institutions network using ANP methodology can be formed as follows:

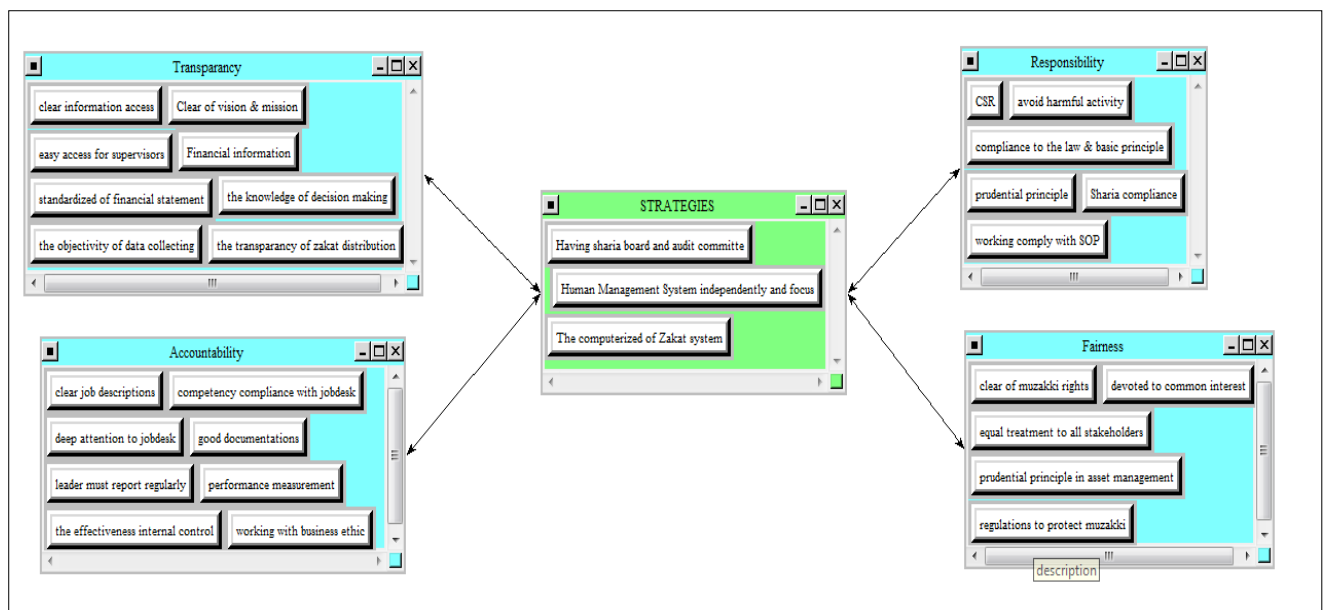


Figure 1. ANP Network Model

According to the consensus result from all the respondents, it can be found that from 4 GCG principles, there are some priorities which can be used to enhance good corporate governance of Zakat institutions in Indonesia. The first principle is transparency. The most important priority that must be taken into account to increase transparency is financial statements standardization. A good financial statement complies with its concerned regulatory standards and it will provide clear and comprehensive information regarding all the activities of the Zakat institutions. In Indonesia, the Indonesian Institute of Accountants has published the standards regarding the financial statements of Zakat institutions. This standard must be used by the Zakat institutions as a form of good corporate governance in providing transparent information to all societies, especially to muzakki.

The second priority is the transparency of Zakat distribution. It shows that Zakat distribution is an important activity in Zakat institutions as per the respondents' consensus. The level of trust of muzakki in the institutions is going to increase if Zakat institutions are

able to provide transparent information regarding where the Zakat has been distributed supported by effective reporting in financial statements. Zakat funds distributed through a transparent system means that the Zakat institutions have distributed to all the parties who have the rights to receive the Zakat funds (mustahik) and there should be no hidden activities unknown to mustahik of Zakat.

The third priority is the knowledge about decision making. The management of Zakat institutions must have good knowledge about the urgent problems in decision making. This is important because external parties of Zakat institutions will give their complete trust to the management, and the public does not expect any mistake to happen in decision making, especially with regards to two main activities of the institutions as managers and distributors of the Zakat fund. In addition, the knowledge about decision making is also important for internal management of Zakat institutions itself which will build safe and comfortable atmosphere if the important problem is decided very speedily and appropriately. More detail about the other priorities is presented in Figure 2.

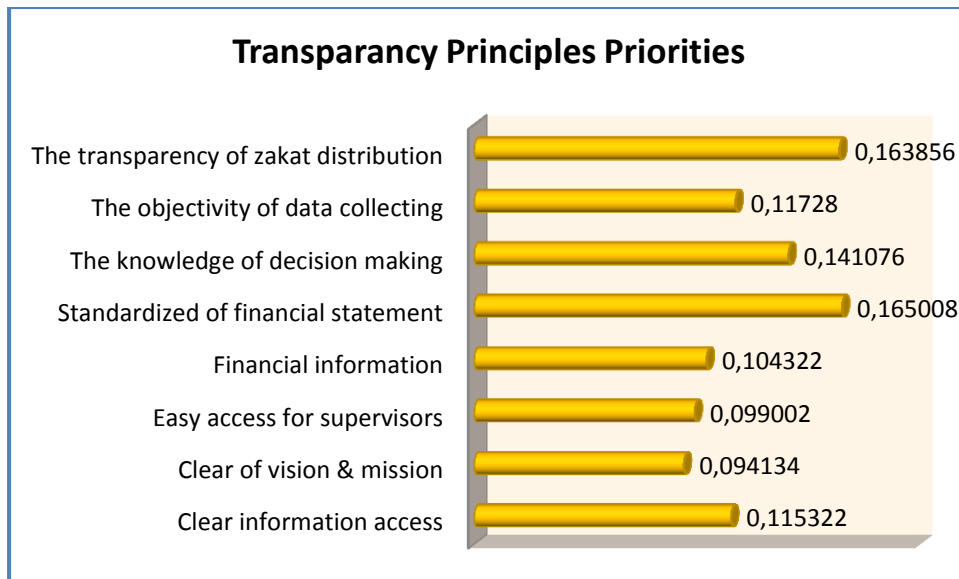


Figure 2. Transparency Principles Priorities

The second GCG principle in Zakat institutions is responsibilities. In order to increase the responsibilities of institutions, the important priorities of this cluster are working compliance with operational procedure standards. Operational procedure standards or commonly known as SOPs are created by institutions in order to enhance the management capability in ensuring compliance with operations with determined requirements and standards. It is aimed to achieve orderly work and good productivity. Hence, this priority is a top priority as a responsibility form of good corporate governance.

The second priority is to follow the prudential principle. Working properly and orderly is a requirement of being prudential in carrying out various jobs. A

fault that occurs due to the lack of prudence in doing the job is affected by the low responsibility for a task assigned. Hence, running the prudential principle will directly increase individual responsibility to the institutions, and ensure individual responsibility to the public.

The third priority is Shari'ah compliance. As institutions whose purpose is to help muzakki in distributing their Zakat, the management of Zakat institutions should run all of their activities based on Shari'ah compliance, starting from the procedures of Zakat acceptance form muzakki, the management of Zakat fund, and Zakat distribution. More detail about the other priorities is presented in Figure 3.

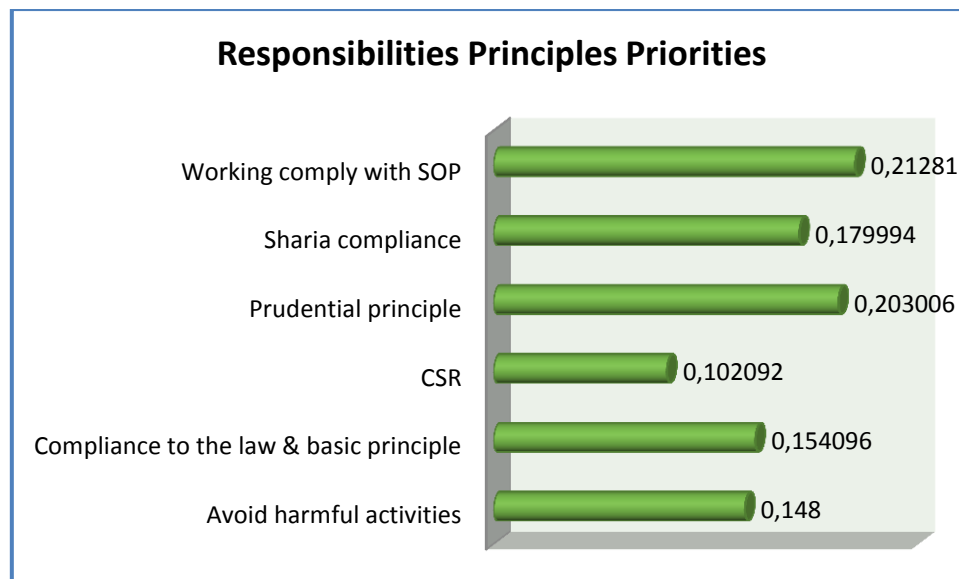


Figure 3. Responsibilities Principles Priorities

The third GCG principle in Zakat institutions is accountability. The main priorities that urgently need to be done in order to increase Zakat institutions accountability are internal control effectiveness. Internal control is important considering that human error can always happen anywhere including Shari'ah based management institutions. In order to keep the management always working with Shari'ah compliance or regulation compliance, it needs good internal control. Respondents view that the internal control effectiveness is considered as the most important factor to achieve good accountability as a form of responsibilities to the public.

The second priority is performance measurement. In order to ensure whether the accountability that has been implemented complies with the determined standards, the Zakat institutions must have the measurement of their performance. Performance measurement can be implemented across all managers and institutions. The absence of performance measurement will affect the institutions'

ability to value their performance, and then indicators of measurement would remain absent. In order to maintain and increase the operational performance of Zakat institutions, the performance measurement must be assessed for each period. Evaluation strategies regarding Zakat institutions development must be informed frequently to the public especially to muzakki.

The third priority is competency compliance with the job description. According to the respondents' consensus, it is required to have competencies which comply with the job description in order to achieve the Zakat institutions accountability improvement. Competency is important to complete a job adequately with required resources on demand. In terms of corporate governance, it is required to have expertise in management, accounting and other fields so that the Zakat institutions follow and improve the accountability principles easily. More details about the other priorities are presented in Figure 4.

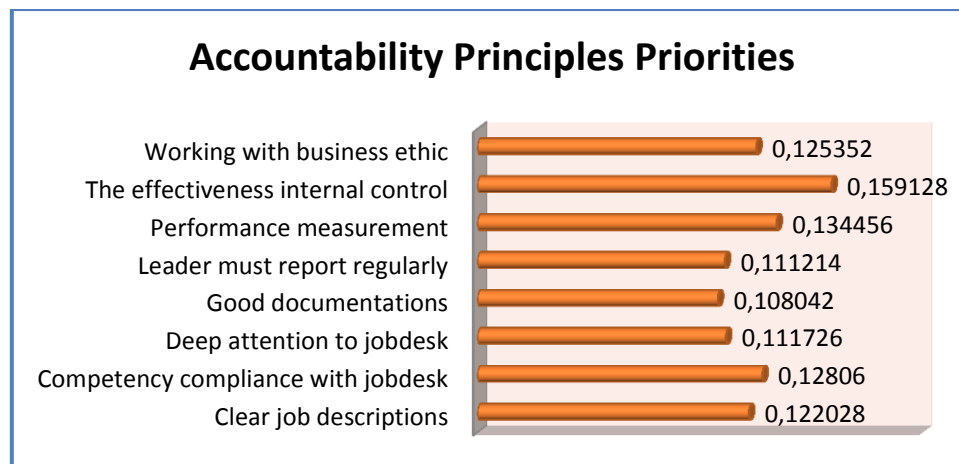


Figure 4. Accountability Principles Priorities

The fourth GCG principle is fairness. The main priorities that are urgently needed to be done in order to increase Zakat institutions fairness are devoted to common interest. If the institutions are devoted to the common interest, then it will be fair to all parties. The fairness of a job is ensuring that a job complies with the task. In a situation where no party is wrong, then it will create a comfortable and conducive atmosphere. In addition, fairness can be perceived also by the public, especially muzakki. Muzakki must perceive that the Zakat funds are well-managed by the institution to create the fairness to external parties.

The second priority is equal treatment to all stakeholders. Respondents feel important that the institution must treat equally to all stakeholders, not only for muzakki but also to all managers and the public. Good corporate governance of Zakat institutions is clearly different with

other institutions (especially for-profit organizations) because Zakat institutions must be based on Shari'ah compliance, which upholds the principle of justice.

The third priority is to follow the prudential principle in asset management. Assets controlled by Zakat institutions including assets in the form of funds taken from muzakki and the assets owned by the institution must be managed well. Current assets (funds collected) from the public must be maintained properly because Zakat institutions are mandated with the task to distribute these funds to the mustahik. While the management of other assets such as fixed asset owned by the institutions also must be maintained properly because if a mistake happens in managing the asset, it will decrease public trust to Zakat institutions management. More details about the other priorities are presented in Figure 5.



Figure 5. Fairness Principles Priorities

To obtain the most important priorities in each GCG principles of Zakat institutions in Indonesia as already explained above, it is required to have best strategies alternatives. According to consensus result from all the expert respondents, there are three best strategies, namely (a) Having Shari'ah Board and Audit Committee, (b) Independent and Focused Human Management System, and (c) The Computerized Zakat System.

Based on those three strategies as mentioned earlier, all the respondents agree that the main strategy to enhance the capability of Zakat management institutions to implement GCG is Human Management System independence and focus. This explains that to create good corporate governance, the priority must be

on the party who manages the institutions itself (human resource). To obtain the good human resource, good recruitment is required which is free from the interest of certain parties. The next step is to make good human resource management system which is free from the intervention of certain parties. Then, the human resource will be focused on the job (managing Zakat institutions in order to achieve good corporate governance in Zakat institutions).

The second most priority strategy is Having Shari'ah Board and Audit Committee and this is followed by the computerized Zakat system. More details about the other priorities of alternative strategies are presented in Figure 6.

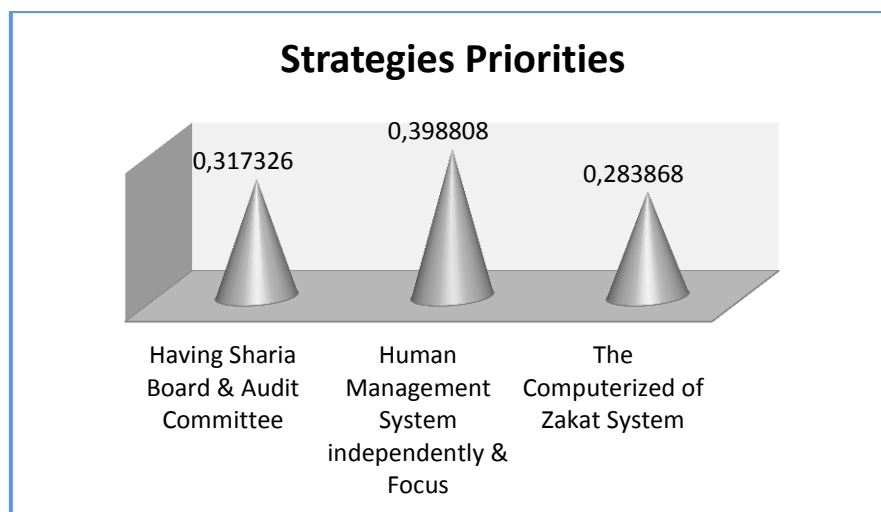


Figure 6. Strategies Priorities of GCG Implementation in Indonesia Zakat Institutions

The average value of Kendall's Coefficient of Concordance (W) in entire respondents' answers is 0.993 (99.3%). This value is closer to 100% and it means that all respondents have a good level of agreement (high agreement level) on the priorities answers given in every cluster of GCG principles.

CONCLUSIONS

Based on the result of this research and the discussion regarding Zakat

institutions GCG practices in Indonesia, we can conclude with the following important points:

1. There are four GCG principles in Indonesia Zakat institutions; these are transparency, accountability, responsibility, and fairness.
2. To obtain the transparency, Zakat institutions have to create financial statement standards, followed by transparency in Zakat distribution and

- knowledge about decision making.
3. To obtain the responsibility, Zakat institutions have to work in compliance with the current SOPs, followed by prudential principles and Shari'ah compliance.
 4. To obtain the accountability, Zakat institutions have to increase the internal control effectiveness, followed by performance measurement and human skill compliance with job descriptions.
 5. To obtain the fairness, Zakat institutions have to give priority to the common interest, followed by equal treatment to all parties (all stakeholders) and prudential principles in asset management.
 6. The alternative strategies priorities can be used to achieve good corporate governance include independent and focused human management system, having a Shari'ah Board and Audit Committee, and finally having a computerized Zakat System.

REFERENCES

- Al-Habshi, S. M. (2005). *Zakat recognition and measurement of business wealth: an analysis of the growth condition*, Ins. Shanmugam et al. (edit.), *Issues in Islamic Accounting*. Serdang: University Putra Malaysia Press.
- Ascarya. (2011). The Persistence of Low Profit and Loss Sharing Financing in Islamic Banking: The Case of Indonesia. *Review of Indonesian economic and business studies*, 1.
- Azzaini, J. (2008). Empower Institute Amil Zakat, p. 5.
- Hafeez, M. M. (2013). An Analysis of Corporate Governance in Islamic and Western Perspective. *International Journal of Business, Economic and Law*, 2(3), 6.
- Hamid, A. (2009). He fate of Amil Zakat Institutions in Indonesia, *Republika*, p. 10 & 13.
- Jahar, A. S. (2008). Zakat Between Muslim Nations: Considering Position Realistic Government and Civil Society Organizations. *Media Journal Zakat dan Empowerment*, 1, 2.
- OECD. (1999). *Business Sector Advisory Group on Corporate Governance*.
- Qaradawi, Y. (2006). *Fiqh al-Zakat - A Comparative Study of Zakat, Regulations and Philosophy in The Light of Quran and Sunnah*. Kingdom of Saudi Arabia, Jeddah: King Abdul Aziz University
- Saaty, T. L., & Vargas, L. G. (2006). *Decision Making with the Analytic Network Process*. USA: Springer.
- Tapanjeh, A. M. A. (2009). Corporate Governance from the Islamic Perspective: A Comparative analysis with OECD principles. *Critical Perspectives on Accounting*, 20, 11.
- Yusoff, M. B. (2012). Zakat distribution and growth in the federal territory of Malaysia. *Journal of Economics and Behavioral Studies*, 4(8), 8.

Irman Firmansyah
Siliwangi University
Indonesia

Abrista Devi
Ibn Khaldun University
Indonesia

