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Optimization of Zakat Instrument in Indonesia's Poverty Alleviation Programme¹

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Abstract

Economic paradox, which is resulted from the conflict between economic growth and distribution, has created poverty problem in Indonesia. Hence, it is in the best interest of the country to utilize zakat as one of the major instruments in alleviating poverty. Several studies have shown that zakat, which is managed by institutions of amil (i.e. BAZNAS and LAZ), is able to reduce the incidence of poverty, the depth of poverty and the severity of poverty in Indonesia. It also shortens the time taken to exit poverty. This paper attempts to discuss optimization of zakat instrument in the endeavour to release the poor from poverty line and to realize zakat potential that reaches 3.40 percent of the country's GDP. There are at least four steps needed in this regard. Those are continuous socialization and public education on zakat concept, strengthening government regulation support, accelerating organizational capacity of BAZNAS and LAZ under BAZNAS leadership, and strengthening international zakat cooperation. Models of zakat regulation comprising comprehensive model, partial model, and secular model, are also elaborated.

Keywords: zakat, poverty alleviation, models of regulation

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1. Introduction

One of the major problems faced by Indonesia is economic paradox. On the one hand, Indonesia is the country that enjoyed positive economic growth during the global financial crises, even until now, and occupies the third rank as the country in Asia Pasific that produces the largest number of high net-worth individuals². The growth rate of super-rich individuals, which reached 16 percent, was almost double compared to the regional average rate, which was at 8.60 percent (Investor, 2007). On the other hand, the number of the poor people also quite significant, which is still more than one-tenth of the total population. Table 1 below depicts the number of the poor for the last five years.

Table 1
The Number and the Percentage of Poor People in Indonesia
2008-2012

Year	No. of Poor People (million)			Percentage of Poor People to the whole Population		
	Urban (1)	Rural (2)	Urban+Rural (3)	Urban (4)	Rural (5)	Urban+Rural (6)
2008	12.77	22.19	34.96	11.65	18.93	15.42
2009	11.91	20.62	32.53	10.72	17.53	14.15
2010	11.01	19.93	31.02	9.87	16.56	13.33
2011	10.95	18.94	29.89	9.09	15.59	12.36
2012	10.51	18.08	28.59	8.60	14.70	11.66

Source: Central Board of Statistics (processed)

Although the number of the poor can be gradually reduced as can be observed from the table above, but critics on economic policy of the country is very strong. Critics mostly on economic policy, which does not totally favour the poor³, and on the poverty line⁴ standard which is considered too low for Indonesia. The current poverty line is estimated to be equal to Rp 259,520.00 (USD 26.87) per capita per month, or less than USD 1 per day (Central Board of Statistic, 2013).

Conventional distribution theories, which are usually based on two schools of

² High net-worth individual is the one that is classified as the rich person whose income and assets are much higher than the average.

³ For instance, Susilowati, Sinaga, Limbong and Erwidodo (2007) argued that economic development in Indonesia had created a trade-off between economic growth and distribution. Therefore, the number of poor people for the last two decades did not fall significantly.

⁴ The poverty line standard is measured in terms of per capita. It is based on the basic needs approach. The Central Board of Statistics has used two measurements in order to determine the poverty line per capita, i.e. food-based poverty line and non food based poverty line. Food-based poverty line is measured based on calories consumed daily, which is equal to 2,100 kilocalories. It can be fulfilled from basic food package consists of 52 different types of food. Meanwhile, the non-food based poverty is measured based on the basic non-food package that consists of 51 different commodities for urban area and 47 different commodities for rural area.

thought, i.e. orthodox (classical) school and structural school⁵, have failed in overcoming the problem of poverty. Progress to achieve the Millennium Development Goals (MDGs)⁶ at global level is very slow. The situation is worsen by economic downturn that still exists until today. Most probably the target may not be achieved in the year 2015.

The other alternative tools and strategies, hence, are highly needed. In this regard, Ishaq (2003) concludes that one of the major causes for the failure of international development agencies in fighting poverty was due to failure of the development instruments used. Therefore, it is in the interest of every nation to start using new tools which are more familiar, i.e. in line with local religion and culture, and fit the needs of the society. Ishaq (2003) argues that zakat can be used and integrated in muslim-majority countries.

Indonesia, as the most populous Muslim country in the world, should integrate zakat⁷, infak and sadaqah⁸ in its poverty alleviation programme. Islam has offered these three instruments for promoting fair and just income redistribution. In one of the hadiths reported by Imam Thabrani, the Holy Prophet Muhammad P.B.U.H stressed the importance of zakat to alleviate poverty (Hafidhuddin, 2002).

Rasulullah said: "Indeed Allah SWT has made zakat obligation for the wealthy muslim that can alleviate poverty. It is not possible for the poor to suffer hunger or lack of clothes unless it is caused by tight-fisted wealthy Muslims...." (reported by Imam Thabrani)

This hadith indicates that zakat development, which depicts a tremendous rise for the last decade in the country, should be given more attention in the discussion of poverty alleviation and reduction of income inequality. The main question is on how to accelerate zakat development and to integrate it with government economic policy? This requires commitment from all stakeholders to seriously struggle for incorporating zakat in economic scene of the country.

Politically, domestic struggle has resulted Zakat Act No 38/1999 which is then amended by Zakat Act No 23/2011. This new Act has mandated stronger integration of zakat management in the country. According to the Act, zakat institution is divided into two: (i)

⁵ Susilowati *et al* (2007) argue that these two schools of thought have different approach. The orthodox school emphasizes more on the concept of resource allocation balance and free market. This school believes that the difference among various sectors of the economy will cause an exchange and will allocate resources efficiently without government intervention until pareto optimum is achieved. This exchange basically is a development process. Meanwhile, the second school, the structural one, believes that the role of the state is needed in economic development. If this intervention is removed, then income and wealth distribution can never exist. In practice, this school uses two extreme approaches: capitalism based approach and socialism based approach. The former is based on "grow first then redistribute" principle while the latter uses the opposite rule.

⁶ The MDGs consist of eight goals aimed to be achieved by 2015. These goals are: (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empower women; (iv) reduce child mortality; (v) improve maternal health; (vi) combat HIV/AIDS, malaria, and other disease; (vii) ensure environmental sustainability; and (viii) develop a global partnership for development.

⁷ Zakat is the obligation for the muslim, whose net saving after meeting all essential expenditures exceeds the exemption limit.

⁸ Infak is spending money and wealth in the way of Allah, while Sadaqah is giving away material and or non material things for the sake of Allah. Infak and sadaqah have no limit for minimum exemption like that of zakat.

government board of zakat and (ii) private zakat institution. The former is known as *Badan Amil Zakat Nasional* (abbreviated as BAZNAS) or the National Board of Zakat, and the latter is known as *Lembaga Amil Zakat* (abbreviated as LAZ). BAZNAS is given mandate to lead this integration process and to coordinate all other zakat institutions comprising BAZNAS at Provincial and City/Regency levels and LAZ.

This paper attempts to discuss policy design and strategic steps which can fully support future development of zakat in Indonesia. It uses literature survey and library research as its methodological approach. The paper is divided into five sections including introduction as the first one. Section two shall elaborate literature review followed by analysis on the performance of amil institutions in the poverty alleviation endeavours in the third section. Section four shall discuss policy design to optimize zakat instrument. Last section concludes the paper.

2. Literature Review

Poverty is a multidimensional concept. Shirazi (1994), Narayan (2000), and Pramanik (1993) are of the view that poverty basically is an imprecise term. It is not possible to capture the idea of poverty based on unidirectional approach. They suggest that poverty is typically used to refer to a situation where individuals do not have sufficient resources to cover their basic needs to lead a reasonably comfortable life, not only by economic but also by social, psychological and even spiritual dimensions. Determination of general level of poverty in a society requires information on mortality and morbidity, malnutrition, literacy and educational levels, housing and neighbourhood conditions. They seem to suggest that the perception of poverty and its conceptualization are greatly influenced by the social, economic, political, and agricultural environments.

Moreover, Oxford Dictionary of Economics (Black, 2003) defines poverty as inability to afford an adequate standard of consumption. What this standard is once actual starvation is avoided is very much subject to variation between countries and over time. On the other hand, Pramanik (1993) defines poverty as the standard of living below that of subsistence. He includes the term 'standard of living' in poverty definition. To Sen (1987), the term 'standard of living' refers to a personal well-being related to one's own life.

Pramanik (1993) further defines a poverty-stricken person as one whose income is too low to buy those goods and services which would sustain a decent living through basic needs, such as food, clothing, shelter, good health and education. This definition, according to Todaro (1997), reflects the concept of absolute poverty, which is meant to represent a specific minimum level of income needed to satisfy these basic needs. So, the poor are defined as those who are unable to command sufficient resources to satisfy basic needs (Todaro, 1997).

Hagenaars (1986) defines poverty as a situation in which needs are not sufficiently satisfied. Nevertheless, according to Piven and Cloward (1993), inability to obtain basic needs is just only showing one dimension of poverty, i.e. material deficiency. There are two

other dimensions of poverty comprising income deficiency and social needs. Income deficiency is different from material deficiency in the sense that the former is based on poverty line income while the latter on basic needs. Poverty in social needs perspective, alternatively, is defined as a situation of scarcity on social service and low accessibility to social service institutions, such as education, health, and information.

Another important aspect of poverty is related to the causes of poverty – why does poverty exist in a society? In this regard, Fitzpatrick (2001) has identified five causes of poverty. Those causes are: (i) being poor is because of poverty genetics; (ii) being poor is because of cycle of deprivation; (iii) policy failures; (iv) there exists structural constraints which restrain the poor to lift up their poverty status; and (v) poverty as the result of capitalistic exploitative conditions. Hence, the poor have become an easy victim of capitalistic institution.

Another scholar, Bradshaw (2005) identifies five reasons explaining the existence of poverty. First, it is caused by individual deficiencies. Second, it is resulted from the presence of culture which supports sub-culture of poverty. Third, there is economic and political distortion as well as socio-economic discrimination. Fourth, there is a regional disparity, and fifth, there exists environmental cumulative background.

In response to Bradshaw's argument, Waidl *et al* (2008) have classified the reasons for the existence of poverty into two broad categories. First, poverty is caused by the behaviour of the poor, such as laziness, which perpetuates the culture of poverty. This behaviour is basically caused by two aspects, which are genetics and cycle of deprivation.

Waidl *et al* (2008) also agree with Sen (1987; 1992) who argues that poverty is a sign of capability deprivation instead of mere income deprivation. Capability approach, according to Sen (1992), is a framework offering a way to think about normative issues and make evaluations. It provides a framework to analyze a variety of social issues, such as well-being and poverty, liberty and freedom, development, gender bias and inequalities, justice and social ethics. To Sen, poverty is not only seen as a matter of being relatively poorer than others in the society, but of not having some basic opportunities of material well-being – the failure to have minimum capabilities. The criteria of minimum capabilities are absolute in the sense that they must not vary from society to society or overtime but that people's deprivations are judged absolutely, and not simply in comparison with deprivation of others in the society.

Furthermore, discussion on poverty has an important place in the Islamic teaching. The issue of poverty has drawn the attention of Islam since the time of the revelation. Al Quran and al hadith, as the two supreme sources of Islam, have discussed various issues of poverty in great details. A number of Islamic scholars have been involved in this poverty dialectics.

Ibn Hazm (994 – 1066 AD) as cited by Sadeq (1992) discusses poverty in relation with basic needs fulfilment. He states that non-fulfilment of basic needs is basically an indicator of the existence of poverty. He lists out four forms of needs which make up the

essentials of a basic standard of living for a human being: food, drink, clothing, and shelter. Ibn Hazm also argues that the state and the rich must bear the responsibility of ensuring satisfaction of these basic needs.

Al-Ghazali (1980) defines poverty as a state of not being able to fulfil one's needs. Inability to satisfy what is not needed is not poverty. If the needed items are available and affordable by a person, then he will not be treated as poor person. Al-Ghazali divides poverty into two parts: i) poverty in relation to material needs and ii) poverty in relation to spiritual needs. Similar argument is also made by Ahmed (2004). He says that poverty does not only represent deprivation of goods and services, but also lack of poverty in spirit. Even Rehman (1980) argues that in Islam individuals can improve their spiritual life by improving their material life. Furthermore, Chapra (2001) is of the view that Islam, being a religion of balance, has given equal emphasis on both the spiritual and worldly affairs.

Al-Ghazali further states that each and every being that exists is poor, except for the eternal being, Allah. This is the meaning of the verse (47:38) “*wa Allah al-ghaniyy wa antum al-fuqara*”, which means ‘and Allah is rich and you all are poor’. To him, this is an absolute poverty (*faqr mutlaq*), which has both material and spiritual dimensions. In response to Al-Ghazali's argument, Sadeq (1992) says that the term *faqr mutlaq* in contemporary economics refers to two different meanings. First, it refers to a state below some absolute level of income that could purchase some minimal level of sustenance. Second, it refers to poverty of the individuals or households in absolute terms without reference to their relative condition as compared to others. In this sense absolute poverty is used against relative poverty.

The concept of poverty is indeed determined by the definition of the poor (*faqir*) and the needy (*miskeen*). Hence, Shirazi (1994) argues that the jurists from the four prominent schools have different ideas in this regard. According to Shafi'ite and Hanbalite schools, a person is called *faqir* if he possesses no wealth and earning, or earns income and wealth which satisfy less than half of his needs. A person is called *miskeen* if he earns income and wealth which satisfy more than half, but less than 100 percent of his needs. On the other hand, the other two schools, i.e. Hanafite and Malikite, have the opposite perceptions. However, Shirazi (1994) argues that opinions are not much different from practical point of view. It is because both are not in a position to meet their needs without the provision of assistance provided by the society or state.

Islam has stressed the importance of zakat in the poverty alleviation endeavour. Al-Qardawi (2002) affirms that the basic objective of zakat is to solve tricky social problems such as poverty, unemployment, natural catastrophes, indebtedness, inequitable income distribution, etc. Zakat approach to dealing with these problems is based on the position of the religion towards these social malaises. Poverty is likely to be associated with lack of faith in some of the sayings of the Prophet Muhammad P.B.U.H. It is a kind of bondage or slavery for those who fail to fulfil their needs. The system of zakat distribution provides a solution to the problem of poverty and a relief to the poor regardless of their race, colour, religion, and ethnicity.

In his study on the survey of zakat institutions, Sadeq (2002) finds that the institution of zakat helps eradicate poverty that brings untold sufferings. Poverty encourages begging which is condemned by Islam. He also suggests that extreme inequality will not exist in a properly functioning Islamic economy since a variety of distributional channels tend to lead the Muslims towards a reasonably acceptable standard. As a result, the problem of poverty is not expected to be a severe one in a true Islamic economy. There also exists consensus among Islamic scholars that the higher priority in zakat disbursement is for the eradication of poverty.

Chapra (2006) stresses that it is the duty of the state to ensure a respectable standard of living for every individual who is unable to take care of his own needs and who requires assistance. He says that collecting and distributing zakat is one of the essential elements in accelerating the distribution of income and wealth in Muslim society so that, in the words of the Surah Al-Hasyr (59:7), “wealth does not continue to circulate merely among your rich”. He stresses the importance of distributive justice in the society, although it does not mean equal reward for everyone irrespective of his contribution to society.

Mannan (2000), on the other hand, examines that zakah revenue redistributes wealth into consumption flows for the poor, raises their productivity, reallocates ex-ante saving by checking the tendency to hoard idle cash, and stimulates production through inter-sectoral allocation of resources. It is assumed, however, that if all the fiscal measures are not well-coordinated, the redistribution effects of the zakah revenue maybe cancelled out. It is also argued that the size and composition of family as an income unit does affect the assessment of zakah, because a narrower definition of family unit whose income is being measured implies greater incidence of poverty, and vice versa.

Mannan stresses the need to have a national guideline dealing with the size of the family for the purpose of the calculation of zakah, the meaning of the standard of living in a particular social context at subsistence, sufficiency and comfort level. He also argues that when zakah revenue is spent for provisioning “public good” which is non-rival consumption in character and where exclusion is infeasible, attempts must be made to diffuse the benefits of the public good among the most deserving recipients of zakah. The transfer of zakah fund to the poor should also be reduced rapidly as their income increases so that the transfer becomes zero at the break-even income level. Otherwise, it may create the problem of intra-poor distributional equity.

Hassan and Ahmed (2000) argue that zakat proceeds must be sufficient to make an effective redistribution of wealth and income for the benefit of the poor. The ultimate objective of zakat is the enrichment of the poor and to transform them from being zakat recipients to zakat payers. In principle, zakat must be given as a direct transfer payment to the poor. This redistribution of income aims at raising not only the income of the poor and their available capital, but also their ability to make responsible decisions concerning the use of their income.

3. The Performance of Amil Institution in the Poverty Alleviation

The role of zakat in the poverty alleviation is extremely important as has been highlighted in the previous section. However, the number of studies attempting to prove empirical role of zakat in the context of Indonesia is still limited. Among those studies, which will be discussed in this paper as main indicator determining the performance of amil institutions, are the study by Beik (2010), Beik *et al* (2011) and Mintarti *et al* (2012). They attempted to observe and analyze the impact of zakat programmes enjoyed by the *mustahik* (zakat beneficiaries), whether or not the impact met theoretical expectation.

Various poverty measures were employed in those studies, such as headcount ratio (H)⁹ to measure the incidence of poverty, poverty gap (P1)¹⁰ and income gap (I)¹¹ ratios to measure the depth of poverty, and Sen index (P2)¹² and FGT (Foster, Greer, and Thorbecke) index (P3)¹³ to measure the severity of poverty. In addition to poverty studies, this section will also elaborate the performance of amil institutions from the perspective of zakat collection.

Beik (2010) study was based on field survey in which 1,195 households in the Province of DKI Jakarta were selected as respondents. He found that that zakat fund had increased monthly income of the *mustahik* households by 8.94 percent. The income share of the bottom 40 percent of the respondents could be increased by 1.90 percent while that of the top 20 percent could be reduced by 2.20 percent. In general, the presence of zakat was able to reduce the income inequality by an average of 0.57 percent. Furthermore, the existence of zakat was decreasing the poverty incidence by an average of 16.79 percent. The depth of poverty could be reduced as the poverty gap and the income gap showed the reductions of 13.90 percent and 13.72 percent, respectively. Similarly, the severity of poverty could also be lowered as evidenced from a 26.69 percent increase in the Sen index and a 36.70 percent increase in the FGT index.

Furthermore, in the following year's research in the Province of DKI Jakarta, Beik *et al* (2011), as depicted in the Indonesia Zakat and Development Report (IZDR) 2011, by

⁹ It simply counts the number of the poor and validates the percentage of the total population, which belong to the category of the poor.

¹⁰ Poverty gap is basically the aggregate shortfall of the income of all the poor taken together from the poverty line (Sen, 1976). it is a mean distance which separates the population from the poverty line, with the non-poor being given a zero distance. This measure can capture the resources that are needed in order to lift all the poor out of poverty through perfectly targeted cash transfer.

¹¹ Income-gap ratio was proposed by Sen in order to normalize poverty gap into a per-person percentage gap *I*. It is because the poverty gap does not touch the issue of the number of people who share this gap.

¹² To overcome limitations of the previous poverty gap and income-gap ratios, Sen develops another index, which is called Sen Index. This Sen Index of poverty (P₂) incorporates three factors, namely, the head-count ratio, the income-gap ratio, and the Gini coefficient of the poor as an indicator of income distribution among the poor. It is the most popular and comprehensive poverty index (Patmawati, 2006).

¹³ This measure is additively decomposable in the sense that total poverty is a weighted average of subgroup poverty levels. Patmawati (2006) identifies several characteristics of FGT index: (i) it is additively decomposable with population-share weights; (ii) It satisfies the basic properties proposed by Sen (1976), and (iii) it is justified by a relative deprivation concept of poverty.

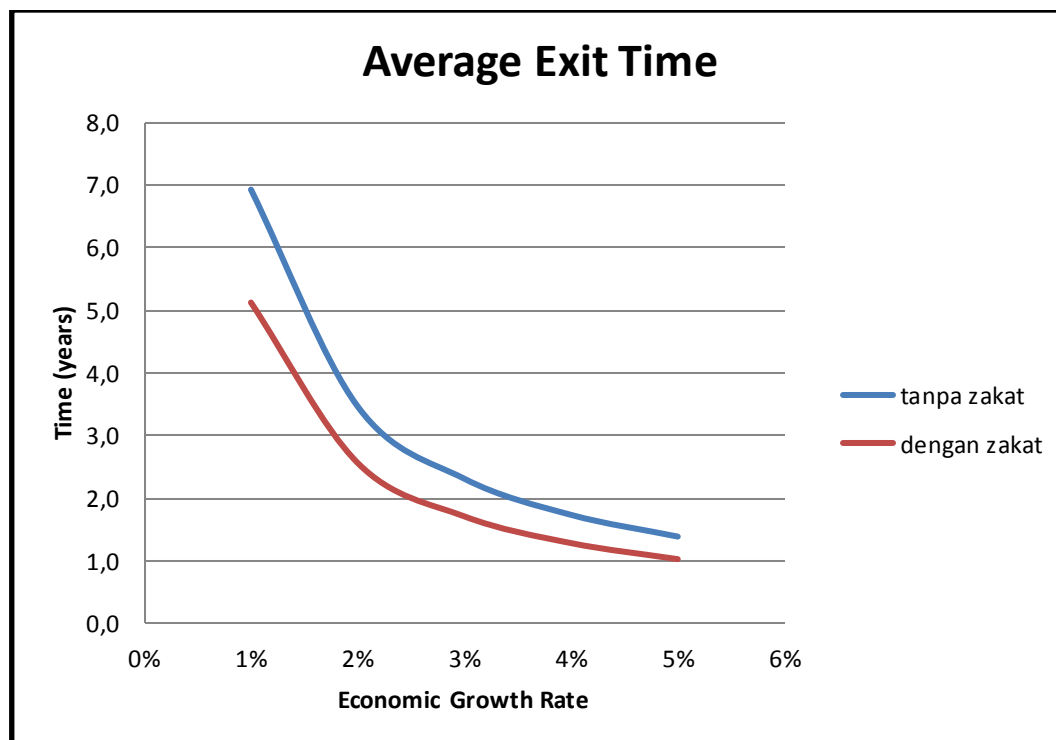
taking 879 respondents, found also similar results. The presence of zakat programmes was able to lower the number of incidence of poverty by 10.79 percent. It indicated consistency and success in the zakat distribution programmes. In terms of the depth of poverty, the research showed 4.69 percent reductions in poverty gap and income gap ratios, respectively. As for the severity of poverty, the study found that the values of both Sen index and FGT index were decreased by 12.12 percent and 15.97 percent, respectively.

Similarly, after observing 1,639 respondents from five different provinces, Mintarti *et al* (2012) – as depicted in the Indonesia Zakat and Development Report (IZDR) 2012 – portray convincing poverty reduction results. Zakat programmes conducted by various institutions of amil in the country have positive impact towards the reduction of poverty. The number of the mustahik that could be released from poverty line reached 21.11 percent. This is a 95.64 percent increase as compared to the previous year's performance of amil institutions. The presence of zakat programmes was also able to reduce the depth of poverty as indicated by reduction of 2.34 percent in the poverty gap ratio and 4.84 percent in the income gap ratio. Finally, the severity of poverty could be minimized as both Sen index and FGT index showed reductions of 25.22 percent and 30.14 percent, respectively.

It is interesting to note that Mintarti *et al* (2012) have attempted to observe the time taken to exit¹⁴ poverty. According to their study, it was found that without zakat distribution, the time needed to release the poor from poverty line was around 7 years. The existence of zakat distribution was proven to be able to shorten the time needed from 7 years to 5.1 years (vide Figure 1). It was under the assumption that the poor enjoyed only 1 percent from the current economic growth. When the proportion of economic growth enjoyed by the poor is increased, then the time taken to exit poverty will be faster. Therefore, their study suggested more serious efforts to include zakat instrument as one of the major instruments in alleviating poverty in Indonesia.

¹⁴ It is the time it will take it to reach a given poverty line via income growth (Morduch, 1998). It assumes that economic growth enjoyed by the poor per annum grows positively. An increase in the share of the poor towards economic growth will accelerate poverty alleviation and shorten time taken to exit poverty.

Figure 1. Time Taken to Exit Poverty



Notes: *tanpa zakat* = without zakat; *dengan zakat* = with zakat

Source: Mintarti *et al* (2012)

Based on the studies above, it can be concluded that zakat programmes managed by National Board of Zakat (BAZNAS), BAZNAS at provincial and city/regency levels, and private zakat institutions (LAZ – *Lembaga Amil Zakat*) in Indonesia, are able to contribute positively to the poverty alleviation programmes. The performance of amil institutions in the country in terms of distribution is quite impressive. In terms of the number of the mustahik that can be covered by amil institutions in the country, the data issued by BAZNAS (2013) shows that the number of zakat beneficiaries reaches 1.8 million people in the year 2012, or approximately 6.30 percent of the total poor living in the country.

Despite improvement in the distribution aspect of zakat, actual zakat collection in the country is far behind its potential. There is a huge gap between the two. Firdaus *et al* (2012) have calculated that the potential of zakat in the country reaches 3.40 percent of GDP, or equivalent with Rp 217 trillion.

This potential can be divided into three groups. Those are: group of individual (household) zakat potential, group of corporate zakat potential, and group of zakat potential of outstanding private deposits in commercial and rural banks and deposits in Islamic banks. Table 2 below summarizes Indonesia's zakat potential.

Table 2. National Zakat Potential

No	Variable	Zakat Potential (trillion rupiah)	Percentage of GDP
1	Individual (household) zakat potential	82.7	1.30
2	Zakat of industry consists of: - Corporate zakat - Zakat of state-owned companies (BUMN) Total	114.89 2.4 117.29	1.84
3	Zakat potential of outstanding private deposits in commercial and rural banks and deposits in Islamic banks	17.01	0.26
	TOTAL	217 USD 22.41 billion	3.40

Source: Firdaus *et al* (2012)

It is known from the table above that corporate zakat occupies the largest portion of the national zakat potential, i.e. 1.84 percent of total GDP, or equivalent with Rp 117.29 trillion (USD 12.11 billion). As for individual zakat potential, its value reaches Rp 82.7 trillion (USD 8.54 billion). In general, the zakat potential of Indonesia is still within the range of zakat potential that has been observed by Kahf (1989). Kahf stated that the potential of zakat in Islamic countries throughout the world was around 1.8-4.34 percent of the GDP.

In terms of actual collection, nevertheless, data of the National Board of Zakat of Indonesia (BAZNAS) indicates that the collection is still less than 2 percent of its potential. BAZNAS (2013) has recorded that national zakat collection in the year 2012 reaches Rp 2.2 trillion (USD 207 million). This data combines total collected zakat from both government board of zakat and private zakat institution. This figure depicts 27.24 percent increase as compared to the previous year, or 31 times greater as compared to the year 2002. Therefore, the data indicates that there is a substantial increase in terms of zakat collection within a decade. Table 3 below depicts the data of actual collection of zakat in Indonesia.

**Table 3. National Zakat Collection
2002, 2008 – 2012**

Year	Total Amount of Zakat (Billion Rupiah)	Annual Growth (%)
2002	68	-
2008	920	24.32
2009	1,200	30.43
2010	1,500	25.00
2011	1,729	15.25
2012	2,200	27.24

Source: The National Board of Zakat (2013)

From the table, it can also be concluded that people confidence to pay zakat through formal amil institutions tend to rise for the last decade. However, BAZNAS and all zakat institutions should improve their organizational capacity and transparency, so that the zakat potential can be realized fully.

4. Policy Design to Optimize Zakat Instrument

Previous section has highlighted the performance of amil institutions in Indonesia. The main point that has been raised is related with the importance of optimization of zakat potential as one of the major tools for poverty alleviation. Given its potential and its performance in releasing mustahik from poverty line, zakat has a good prospect to strengthen government poverty alleviation programme.

Based on the National Budget (APBN), budget for poverty alleviation programmes tend to rise for the last decade. Directorate General of Budget of the Ministry of Finance states that the poverty budget has been increased from Rp 21.5 trillion (USD 2.2 billion) in the year 2002 to Rp 99.2 trillion (USD 10.24 billion) in the year 2012. It implies to the reduction of the number of the poor during the same period.

In order to optimize the role of zakat as one of the major tools for poverty alleviation, there are four important steps which need to be implemented. Firstly, continuous socialization and public education on zakat concept. Secondly, strengthening government regulation support. Thirdly, accelerating organizational capacity of BAZNAS and other zakat institutions under BAZNAS leadership. Fourthly, the need to strengthen international zakat cooperation.

As for the first step, studies done by Mukhlis (2011), Sariningrum and Alhasanah (2011), and Firdaus *et al* (2012) are worth mentioning. They have attempted to identify factors affecting willingness to pay zakat through formal institutions of amil. One of major findings from those research lies on the importance of massive public education and

socialization on zakat concept. Awareness to fulfill zakat obligation should be developed through proper and effective method of socialization. They suggested to optimize mass media as an effective mean of socialization. Mass media is believed to have huge impact towards people's perception and awareness.

There are three main issues which need to be resolved in this public education. The first issue is related with the presence of zakat of profession or income, corporate zakat and other modern sources of zakatable items. The second issue is related with the importance of paying zakat through BAZNAS and its amil institutions network, and the third one is related with lessons or *hikmah* behind God's commandment on zakat.

The second step is strengthening regulation support. This is extremely important since the nature of zakat collection requires strong regulatory support. In terms of this regulatory framework, Beik (2012) has constructed various models of zakat regulation which exist in the Islamic world (vide Figure 2). These models are comprehensive model (Type 1), partial model (Type 2), secular model (Type 3) and impossible model (Type 4).

Figure 2. Models of Zakat Regulation

	Obligatory Zakat System	Voluntary Zakat System
Regulation	Type I: Comprehensive model	Type II: Partial model
No regulation	Type IV: Impossible model	Type III: Secular model

Source: Beik (2012)

In the Type 1 Zakat Regulation, there exists Zakat Act, and zakat payment has been made obligatory by the state system. Failure to fulfill zakat obligation will lead to legal penalty and sanction, either administrative sanction or criminal sanction. In other words, this Type 1 implements zakat as *wajib shar'i*¹⁵ and *wajib siyasi*¹⁶. These two terms were made by the Central Board of *Nahdatul Ulama* (NU), which is the largest Islamic organization in Indonesia.

There are several characteristics of Type 1 Zakat Regulation (Beik, 2012). Firstly, there exists Zakat Act. Secondly, there exists standardization on collection, distribution, reporting system, and management aspect of zakat. Thirdly, availability of standard

¹⁵ *Wajib shar'i* means that zakat is a religious obligation. Therefore, all muslims must obey this obligation irrespective of the presence or the absence of zakat act in the country.

¹⁶ *Wajib siyasi* means that zakat payment has been made mandatory from legal perspective. It is signed with the presence of Zakat Act, which threatens those who are eligible to become muzakki (zakat payers) but unwilling to fulfill their obligation.

regulation on sources of zakatable items, which cover all shariah compliance economic sectors. Fourthly, the presence of integrated and efficient structure of zakat institutions. Fifthly, integration of zakat into fiscal policy and national taxation and economic system. Sixthly, the existence of good amil governance, which may be different from good corporate governance¹⁷.

Furthermore, in the Type 2 Zakat Regulation or partial model, zakat is not made as *wajib syasi* although Zakat Act exists. However, the existence of Zakat Act does not implement zakat as mandatory from legal perspective, but more on regulating management aspect of zakat. Indonesia is an example of this partial model. The presence of Zakat Act No 38/1999 which is then amended by Zakat Act No 23/2011 regulates only management aspect of zakat. The Act focuses more on National Board of Zakat but does not make zakat payment as mandatory from legal perspective. Hence, given this condition, zakat collection is dominated by the people awareness rather than by force. As for other characteristics, Type 2 model may have the same characteristics with the Type 1.

The third type is secular model. In this model, no state involvement in zakat management. Zakat collection and distribution are purely becoming society's domain and they are based on people willingness to manage zakat. Zakat is considered as pure individual matter. No supervision and standardization exists in this model. Moreover, the last model is impossible model (Type 4). It is not possible to make zakat as mandatory from legal perspective without regulation basis.

In the case of Indonesia, there are three areas which require strong regulation support for further development of zakat. Firstly, there is a need to integrate zakat into the fiscal policy. Tax incentive is highly needed in this regard. This incentive should be in the form of zakat being tax credit. Current legal structure places zakat as tax expense. This can be done through amendment of the Income Tax Act No 36/2008. Integration also requires involvement of zakat in national economic policies, especially policies in reducing poverty and income inequality.

Secondly, although zakat payment is not made mandatory from legal perspective by the Zakat Act No 23/2011, there is no prohibition for the government to oblige eligible muzakki to pay zakat. However, it needs political courage from the government. Thirdly, the government should support the National Board of Zakat, as an independent and non-structural government institution, in terms of budget support. It is important to accelerate zakat development process in the country.

The third step is accelerating organizational capacity of BAZNAS and other zakat institutions under BAZNAS leadership. As has been mentioned in the introduction part, Zakat Ac No 23/2011 has mandated BAZNAS to coordinate other zakat institutions and to lead the integration process of zakat development. This requires paradigm shift of BAZNAS from

¹⁷ Nature of amil institutions and corporation/company may not be the same. Corporation is business-process and profit oriented institution, while amil is social empowerment-process and social-oriented institution. Corporation focuses on asset growth, while amil focuses on beneficiaries coverage mentioned in the Holy Quran. However, both institutions must be professional, transparent, and accountable.

operator-oriented towards coordinator-oriented. The Zakat Act has made instruction to integrate current management of zakat in order to increase efficiency and effectiveness of zakat collection and distribution so that poverty alleviation objective can be achieved.

In this integration process, BAZNAS has issued its 5 years strategic planning for the period of 2013-2017. It is divided into 5 stages, that is, foundation year (1st year), consolidation year (2nd year), growth year (3rd year), acceleration year (4th year) and expansion year (5th year) (BAZNAS, 2012). There are several indicators in each stage. In the foundation year, or first year (i.e. 2013), the indicators are: issuance of BAZNAS regulation that refers to the Zakat Act and Government Regulation, establishment national vision and mission of zakat management, and standardization of management system for zakat institution and services system for muzakki and mustahik.

In the consolidation year (2014), the main indicators are: standardization of national reporting and accountability system of zakat management, completion of confidence index towards amil institutions, 50 percent of zakat collection growth, and coverage for mustahik services reaches 40 percent of city and regency throughout the country. In the growth year (2015), the main indicators which must be realized comprise 100 percent of zakat collection growth, an increase in the confidence index, and coverage for mustahik services reaches 75 percent of the city and regency nationwide.

The main indicators for the acceleration year (2016) are 100 percent of zakat collection growth, an increase in the confidence index, and coverage for mustahik services reaches 75 percent of the city and regency. Furthermore, the expansion year (2017) requires several indicators, which are: 100 percent of zakat collection growth, an increase in the confidence index, coverage for mustahik services reaches 100 percent of the city and regency throughout the country, measurement standard for zakat in its contribution towards humanity, inclusion of zakat in the Middle Term national Development Planning as part of non- State Budget financing.

In order to successfully execute this strategic planning, BAZNAS require availability of capable human resources. This is highly important since the implementation of the programmes will be highly depending upon human factor. Therefore, BAZNAS should have special road map for human resource fulfillment.

Furthermore, the last step is related with international zakat cooperation. This is extremely important since one country may be blessed by Allah with abundant economic resources while other country may face excessive burden of poverty. The fact that majority of poor are living in Islamic world should motivate OIC (Organisation of Islamic Cooperation) member countries to strengthen their zakat cooperation. If Kahf's calculation is used as the basis, then at least the Islamic world will have USD 600 billion of zakat fund per annum that can be utilized to fight against poverty. This is a promising potential instrument that should become one of the main agenda discussed seriously by the leaders the OIC member countries. Strong commitment and political will will lead to the standardization of global zakat management.

5. Conclusion

Economic paradox, which is resulted from the conflict between economic growth and distribution, has created poverty problem in Indonesia. Regarding this, Ishaq (2003) has argued on the importance of zakat instrument to be included in the government economic policy. Zakat is believed to be able to minimize the problem of poverty as long as it is managed by professional and trustable institution of amil.

Looking at the performance of amil institutions in the country, a number of studies have proven positive effect of zakat distribution programmes in reducing the number of poverty incidence, the depth of poverty and the severity of poverty. It indicates that amil institutions in the country have shown good performance in managing zakat fund. This needs to be enhanced continuously in the future.

People awareness and confidence to pay zakat through amil institutions have increased over time. This should be utilized in order to realize zakat potential which reaches 3.40 percent of the GDP. Time taken to exit poverty can be made faster when distribution of zakat runs well. Therefore, in order to realize this, comprehensive policy design is highly needed.

There are at least four steps, which need to be implemented. Firstly, continuous socialization and public education on zakat concept. Comprehensive understanding is the basic key to open people's willingness to pay zakat. Secondly, strengthening government regulation support. It is very essential since government regulation support will have huge and significant impact. Thirdly, accelerating organizational capacity of BAZNAS and other zakat institutions under BAZNAS leadership. This is the key of good performance of zakat management. Fourthly, the need to strengthen international zakat cooperation.

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