

Does Strategic Planning Matter in Enhancing Performance of Zakah Organization? Some Insights from Zakah Management in Indonesia

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ABSTRACT

The paper aims to explore strategic planning practices of zakah organizations in Indonesia and their impacts on the organizational performance. It uses qualitative research approach with semi-structured interviews and a quantitative approach based on financial data from the organizations. The study found several interesting findings. First, from mission statement analysis, different zakah organizations seem to have different idealized views and focus on achieving either particular organizational characteristics or organizational targets/outcomes. Second, the strategic planning processes tend to follow the “by-design” and the “by-flow” strategies which are implemented in all zakah agencies regardless of its type. However, it is notable that only the non-government zakah agencies were flexible enough to run programs based on recommendation of the zakah payers. Third, in terms of performance, it is found that corporate zakah agency has the highest collection capacity, while the private zakah agency has the highest distributional capacity. Based on the findings, it is suggested that the zakah organizations should focus on their targets/outcomes and properly design their programs. It is also argued that all zakah agency has formulated sound mission statements and it is reflected well in the organizational capacity. This implies that there is a positive relationship between strategic planning and organizational performance.

Keywords: Zakat, Strategic Management, Zakah organization

INTRODUCTION

Derived from Arabic words, linguistically, *zakah* means ‘growth,’ ‘increase,’ or ‘purity’ of wealth. When applied to a person, it means to ‘to improve’ or ‘to make better’ (Al Qardawi, 2000). It is stipulated in the Quran that *zakah* is intended only for eight groups of recipients, known as the eight *ashnaf*, in which the two prioritized groups are the poor and needy. This implies that *zakah* is primarily aimed to eradicate poverty by redistributing income as well as stimulate growth and production among previously impoverished society (Kasri, 2016). The poverty eradication objective of *zakah*

institution is reflected in the distribution of *zakah* to the poor and needy. However, as *zakah* management institutions have become formal non-profit organizations in many countries, the objective should not only be reflected by the amount and velocity of *zakah* distribution, but also in the strategic management and performance of the organizations.

Strategic management is started with the establishment of vision and mission, while performance is the measurable outcome expected from an organization. In this respect, there is various literature stresses

the importance of vision, mission and strategic management on organizational performance, both in for-profit and non-profit areas. Among the earliest are Drucker (1974) and Pearce (1982), who stated the importance of mission statements in driving corporate strategy. Wooldridge (1990) also noted that active involvement of manager in the formulation of strategy, including vision, mission, objective and overall strategic planning could improve for-profit company performance. In the non-profit area, many researchers have acknowledged the significance of mission statement in leading the organization, including Kirk and Nolan (2010), Anheier (2005), Phills (2005) and Bart (1997). Furthermore, organizational performance could be measured by using various indicators such as organizational capacity, organizational effectiveness and shareholder's equity (Wilson, 1992; Campbell, 1993; Rarick and Vitton, 1995).

Not all non-profit organizations recognize the strategic value of developing the right strategy formulation. This issue is also often overlooked by religious-based charity organization, including zakat institution. Consequently, there are very few studies attempt to explore the issue. Johari et al. (2014) reviewed global literature related to *zakah* during 2003-2013 periods and did not mention anything about papers/researchers related to strategic management of *zakah* institutions. Vision, mission and strategic planning in non-profit institution often pictured as a part of ethics to stakeholder, corporate governance and Muslim leadership (Beekun, 2006; Sarif, 2015), but there is no attempt to formalize or address the issue in strategic management terms.

With these perspectives, there are three main issues addressed in this study, namely process in formulating vision and mission statement, an approach in implementing strategic planning and impact of strategic management on the performance of *zakah* organizations different types of

zakah organizations in Indonesia (i.e., government, corporate and private based *zakah* organizations). In order to achieve the objectives, this study employs a mixed method which combines a qualitative research approach with semi-structured interviews with key management personnel of several large *zakah* organizations in Indonesia and a quantitative approach based on financial data from the organizations. The data obtained were subsequently analyzed by using content analysis, thematic analysis, and ratio analysis. This paper follows Horton et al. (2003) in using organizational capacity as one of the measures of organization's performance.

The structure of this paper is as follow. Section 2 reviews some literature related to the implementation of strategic planning in charitable organizations, especially religious-based organizations. Section 3 discusses the research methods and introduces the data used in the paper. Section 4 presents and analyzes the empirical findings of the study. The last section summarizes the conclusions and highlights recommendations of the study.

LITERATURE REVIEW

This section discusses several concepts related to strategic planning, such as its definitions and position in strategic management, and implementation of strategic planning for non-profit organizations. It also explains the relationship between strategic planning and organizational performance which becomes the main issue in this study.

Strategic Planning

In a broader sense, strategic management is defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives. The

term strategic management is interchangeably used with strategic planning, and used to refer to the formulation stage in strategic management (See Figure 1).

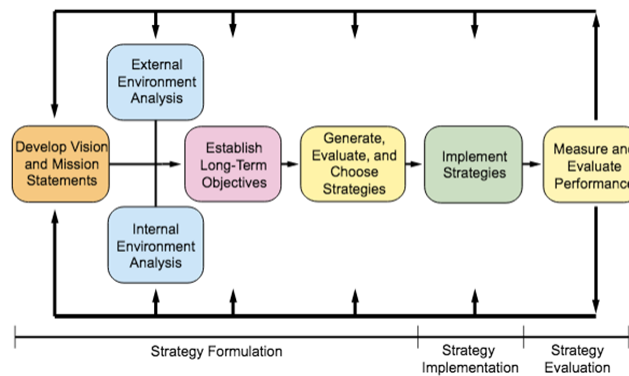


Figure 1. Strategic Management Process

Source: David (2011)

In the formulation stage, an organization needs to develop its vision, mission statement, and objective. The mission statement should cover: (1) customers, (2) products or services, (3) markets, (4) technology, (5) concern for survival, growth, and, or profitability, (6) philosophy, (7) self-concept, (8) concern for public image, (9) concern for employees. It is not necessary to include all of the components of the mission statement, as most organization addresses only some that are relevant to their identity (David, 2011). The output will then be used in the implementation stage to generate several strategies that are most suitable for the organization. Lastly, in the evaluation stage, organizations are measuring the standard or target against the organization's result and decide on the corrective action and further improvement.

Since Drucker (1974) introduces vision and mission statement on his seminal work, 'the Handbook of Management,' the application of mission statement in for-profit and nonprofit management has proliferated. In the for-profit sector, the normative vision guiding strategy formulation is already well established, which is to maximize the shareholder's wealth (Porter, 1980; Jensen,

1998). Why is mission becoming more crucial in the non-profit organization? Unlike in the corporate world, the main target of a non-profit organization is not shareholder's wealth; but the achievement of its social purposes and the satisfaction and loyalty of the donor (Oster, 1995). Developing mission statement is an initial step in strategic planning effort and should be considered as the core its performance assessment process (Blackmon, 2008), and the mission should guide to organization's goals, and it is vital in directing the dos and don'ts of the organization (Brown and Iverson, 2004). Hence, strategic planning is equally important for the non-profit, as well as the for-profit organization (Bryson, 1983), the non-profit organization faces increasing demand to perform ideally, which is to set action based on its mission.

In non-profit areas, strategic planning is often not included in the formal process. The rationale behind this idea is that there are not many non-profit organizations adopting the formal strategic planning; instead, they used it as tactical and operational planning tools (Crittenden, Crittenden & Hunt, 1988; Tober, 1991; Wolch, 1990). Previous literature has found that a lot of non-profit organizations only practice formal strategic

planning when they are required to submit a plan for funding (Brown & Covey, 1987; Stone, 1991). Size of a non-profit organization is among the factors affecting the availability of strategic planning in the non-profit organization (Wolch, 1990). The bigger the organization, the more they need coordination and human resources to suffice the need for formal planning. The number of managers recruited from the for-profit company also contributed to the availability of formal planning in the non-profit organization (Young & Sleeper, 1988). Another factor contributing to the formal planning is the areas of the organization's output; if the organization deals with policy planning, then it is more likely to use strategic planning in its formulation stage (Bryson, 1988).

Relationship between Strategic Planning and Organizational Performance

The impact of strategic planning and organization performance begins as some author analyzes the empirical evidence of the effects of mission statement on performance outcomes (Bart and Hupfer, 2004). Such analysis has been done extensively in the for-profit sector, while the non-profit sector has relatively fewer research (Bart, 1999; Bart and Tabone, 1998; Bart and Hupfer, 2004; Forbes and Seena, 2006). They tried to analyze the impact of mission statement on various aspects of an organization such as performance and strategic planning, and the result is very fragmented. There are various forms of non-profit organizational performance, in which financial ratios and balance scorecards are among the most popular forms (Kaplan, 2001 and Gomes and Liddle 2009). Other types of organizational performance are organizational efficiency, organizational capacity, reachability, and sustainability index (Kendall and Knap, 2000). Several findings support the evidence of mission statement's impact on company's

strategic planning. As stated in Wilson (1992) and Campbel (1993), clear mission statement could result in a 50% increase in organizational effectiveness. By using mission statement actively; such that it is not only used for a slogan but to guide employees in their daily tasks; organizations can obtain business objective (Oghojafor, Olayemi, and Okonji (2011) and significantly increases shareholder's equity and organizational performance (Rarick and Vitton, 1995; Kelly and Harrison 2004; Rhodes and Keogan 2005; Hussein 2007; Blackmon 2008; and Franklin 2011). However, some studies did not find any relationship between formal mission statement with financial performance (Bart and Baetz, 1998; Bart and Hupfer, 2004; Bart and Tabone, 1998; Coats et al., 1991; Pearce and David, 1987). The explanations offered for this inconsistency are the fact that mission's impact on firm's performance is indirect and subtle, therefore will need other intervening variables to understand the link between mission statement and organization's performance (Sheaffer, Landau and Drori, 2008). Later research supports the theory of indirect relationship between mission statement and company's performance.

Macedo (2015) found that organizational commitment is the intervening variable between mission statement and organization's performance. Ekpe (2015) adopted qualitative research and found that an effective mission statement could leverage organization's performance when the mission statement is a starting point of organization's planning process. They later found that, only by improving its mission statement and communicating it well, the mission statement could affect the company's performance.

This paper highlights organizational capacity among several measures of organizational performance to give a clue on what kind of organizational planning leads to a certain situation of organizational capacity. Capacity is 'a set of attributes that help enable an organization to fulfill its missions'

(Eisinger, 2002). Thus, organizational capacity is often defined as the ability of an organization to acquire the resources necessary to fulfill its mission (Eisinger 2002; Hall et al. 2003; Horton et al. 2003).

Note that, although often perceived similar, the term organizational capacity is different from organizational capability. The concept of capability refers to processes and custom to set up resources into the right group or level in the organization (Eisenhardt and Martin 2000); while capacity is about the link between resources and mission. There are many concepts related to organizational capacity (Cairns et al. 2005), but in the non-profit, it usually explains on how a non-profit gets to achieve its mission. Sharpe (2006) stated that organizational capacity affects the culture of a company and its operational activity. Indeed, in practice, many large charities such as Charity Navigator use organizational capacity as a measure of performance of charitable organization.

Zakah organization could be categorized as a religious-based charitable donation or charity agency with the main aim to combat poverty. In this respect, total charity obtained (*zakah* collection) and total charity disbursed (*zakah* distribution) are some of the capacity dimension that could be emphasized as a measure of *zakah* performance. It is realistic to use the financial capacity dimension to represents the ability of such an organization to develop and deploy financial resources. It will be different in another type of non-profits, say, a cancer foundation, or in public organization where the mission is not highly related to donation. There are several studies about strategic planning in non profit organization and in government organization, but there are relatively few studies about strategic planning in *zakah* organization. When explaining about strategic management in Islamic organization, a seminal work of Beekun (2006) only explain about theoretical steps of strategic management process in

Islamic company, including the development of vision and mission statement. More recently, Johari et al. (2014) reviewed global literature related to *zakah* during the 2003-2013 period and did not mention anything about papers/researches related to strategic management of *zakah* institutions. Wahab (2014) try to review literature on Islamic values and principles within the organization. He found the implementation of several terms related to Islamic work ethics and Islamic management practice, yet only one theme referring to Strategic Management out of 11 themes of Islamic Management Practices. Meanwhile, Sarif et al. (2015) discuss strategic management from an Islamic perspective with approaches to explaining strategic management on general and strategic management concept and terminology found in Islamic sources. They rarely touched upon discussion linking strategic planning and organizational performance.

METHODS

As previously explained, *zakah* is an Islamic institution mainly aimed to eradicate poverty and ensure social justice. The *raison d'être* should be reflected not only in the performance of distributing *zakah* proceeds to the poor and needy but also in strategic planning of *zakah* organizations. As the topics are rarely explored, this study aims to analyze strategic planning practices of *zakah* organizations in Indonesia and their impact on the organizational performance.

In achieving the objectives, the study employs a mixed method which combines a qualitative research approach with quantitative research approach. Under the former, which is the main method of the study, semi-structured interviews with key management personnel of several large *zakah* organizations in Indonesia were conducted. The primary data obtained are analyzed using content analysis and thematic analysis.

Despite various methods in qualitative data analysis in social sciences research nowadays, *thematic analysis* is mostly used whenever it is necessary to summarize, interpret and compare the key features (themes) from a large qualitative data set (Braun & Clarke, 2006). This method has been used in some organizational studies (Bryman & Burgess, 2002; Cassell & Symon, 2004; Miller, Dingwall, & Murphy, 2004). Another method utilized was content analysis, which is useful in interpreting documents and communication materials in order that values, intentions, attitudes and cognitions in management and organizational studies might be analysed (Carley, 1997; Duriau, Reger, & Pfarrer, 2007; Huff, 1990; Kabanoff & Holt, 1996; Mophew & Hartley, 2006). Meanwhile, this paper follows Horton et al. (2003), using organizational capacity as the measure of organization's performance. The proxy for the organizational capacity is the growth of collection and distribution of *zakah*, which are calculated based on relevant financial data obtained from the organizations.

It is notable that the qualitative data is made into transcript and analyzed using software Nvivo 8. To provide insights into the strategic management practices of *zakah* organizations in Indonesia; vision statement and mission statement were asked during the interview, and the key manager officer stated some explanation about it as well. They are later asked about the strategic planning, mainly in the design and implementation. The managers are encouraged to talk liberally about where do they get inspiration for the strategic design and do they follow a specific strategic pattern. In presenting the coding results, both the identity numbers of respondents (R1, R2, R3, etc.) and the combination of the respondents' identities and the types of *zakah* agencies they represent (G1-1, G1-2, C1-1, C2-1, etc.) are utilized. The categories of *zakah* agencies are government-affiliated *zakah* agency (G),

corporate affiliated *zakah* agency (C) and Private/ Independent *zakah* organizations (P).

RESULTS AND DISCUSSIONS

After the data is coded and categorized accordingly, two main themes are found and analyzed, namely mission statement and process of strategic planning. Afterward, organizational capacity is measured and analyzed accordingly. It is notable that all *zakah* agencies have formulated its mission statement (vision and mission) and the statement was mostly in line with the standard developed by David (2011). From the strategic planning process, it is found that *zakah* agency has regular program using 'by design' (budgeted, allocated) process, and irregular program using 'by flow' planning. Organizational capacity in all *zakah* agency showed positive growth in fund collection and distribution over years albeit the highest capacity is found amongst the non-profit *zakah* agencies. Below is the explanation on each of the theme and results.

Vision and Mission

Table 1 summarizes the vision and missions, or mission statements, of the *zakah* agencies, studied. Few of the management personnel interviewed knew the statements from memory, indicating that the organization does internalize its vision and mission statement to its employee. Accordingly, during the interviews, some of them responded by pointing out the statements directly from the annual reports or website. According to strategic management's theories, vision represents a self-statement of "what do we want to become?" + Mission statements are built by providing foundation to overall company's preferred vision. The analysis shows that all *zakah* entity's vision provided an answer on the question of 'how do we want to become'; however, a

distinctive pattern between three types of *zakah* agency is also analyzed.

Table 1. Vision and Missions of *Zakah* Organizations

Organization	Vision	Mission
G1	Becoming excellent and trustworthy management of <i>zakah</i> , <i>infaq</i> , and <i>sadaqah</i> .	Realizing optimal management of <i>zakah</i> , <i>infaq</i> , and <i>sadaqah</i> which is trustworthy, professional, transparent, accountable and independent to help create a pious, prosperous and powerful society.
G2	To be a national center of <i>zakah</i> that is trustworthy, transparent and professional.	(i) To increase people's awareness about paying <i>zakah</i> through <i>zakah</i> organizations as well as to direct and guide society to establish social welfare and justice; (ii) To be the coordinator of all existing BAZ ^a and LAZ ^b through effective and targeted synergy; (iii) To be the national data centre, to cover all data of BAZ/LAZ, <i>zakah</i> collection data from BAZ/LAZ, data of <i>zakah</i> utilization, including national data of <i>muzakki</i> and <i>mustahik</i> ; (iv) To be the centre of development and mentoring for national human resources of <i>zakah</i> .
C1	Becoming the engine of society's economic independency to create communities with strong character, growing and caring.	(i) Implementing comprehensive and integrated programs on economic and social empowerment and (ii) Establishing and developing the network of empowerment.
C2	Becoming a prominent <i>zakah</i> , <i>infaq</i> and <i>sadaqah</i> management that is trustworthy, professional and compliant with Islamic law (<i>shariah</i>).	(i) Optimize collection and distribution of <i>zakah</i> , <i>infaq</i> and <i>sadaqah</i> within the organizations and in society in general; (ii) Improve the utilization of <i>zakah</i> funds properly and effectively; (iii) Conduct all activities based on the principle of Good Corporate Governance.
P1	To implement an empowered community that relies on local resources through a fair system.	(i) To develop the value of humanity and independence; (ii) To enhance the society's charitable giving and resources support for empowerment; (iii) To stimulate the synergy of programs and empowerment of the organization's network in the global community; (iv) To develop and utilize people's assets through a fair economy; (v) To develop <i>zakah</i> as an alternative method of poverty alleviation.
P2	Becoming an international philanthropic organization based on professional empowerment.	(i) Actively involved in building international philanthropic networks; (ii) Facilitating society's empowerment and (iii) Optimizing all resource aspects through excellent human resources.
P3	To be the most reliable organization for developing independency.	(i) To efficiently make use of programs such as rescue, rehabilitation, and empowerment to develop self-sufficiency; (ii) To establish partnerships with both national and international communities, corporations, governments and NGOs; (iii) To provide underprivileged societies (beneficiaries) with information, education and advocacy.

Source: Annual Reports, website and interview results; Note: ^a Refers to Government *Zakah* Organization, ^b Refers to Non-Government *Zakah* Organization, ^c For anonymity, the organization's name in the text is replaced with the general term "the organization", ^d Refers to Non-Government Organizations; After 2017, some of the mission statements are changed or adjusted by the organizations.

Into the main analysis, using key-word-in-context (KWIC) method of content analysis, several 'key words' are identified in the mission statements. As portrayed in the

tag-cloud illustration (Figure 2), they include the words 'professional', 'trustable/trustworthy', 'independency', 'empowerment', 'society', 'human', 'people',

and 'accountable'. These words are presumably the most 'common themes', which provide the foundations of what the institutions want to be and achieve with their overall programs and activities. A closer examination of the mission statements

indicates that the common topics can be framed within two main themes. General terms, verbs and prepositions such as 'management', 'through', 'becoming' and 'involved in' are excluded from the analysis.



Figure 2. Key Words of the Mission Statements

Source: Data analysis with NVIVO-9

As summarized in Table 2, the organizations seem to focus on achieving either particular organizational characteristics or particular organizational outcomes. The themes lead to a general understanding that different types of *zakah* agencies have different perspectives and 'idealized views' of their organizations. All *zakah* agencies mention its primary task and its value (self-concept). Government based type of *zakah* agency follows the standardized pattern of mentioning identity in its vision such as

mentioning '*zakah*' and point out its duty of managing *zakah*. Meanwhile, despite the main role as a *zakah* agency, none of the private *zakah* agency ever mentioning the word '*zakah*' or '*infaq*' or '*shadaqah*' on its vision. By not mentioning the word '*zakah*', it appears that most of the private *zakah* agency aims to disentangle from customer's perception of *zakah* fund as their only resource for funding. After all, there are many donation forms other than *zakah*.

Table 2. Focuses of Vision/Missions of *Zakah* Organization

Interview Question	What is the vision and missions of your organization? What are they focused on?
Focused coding	Subthemes/Remarks
1	Focus on characteristics of organization
2	Focus on managerial activities and related outcomes to be achieved
Concluding theme	Different types of <i>zakah</i> organizations have different focuses regarding what they want to be and achieve with their program/activities

Source: Data analysis

Furthermore, by employing the word frequency method of content analysis, it was

possible to identify several organizational characteristics extensively mentioned in the

statements (see Table 3). All *zakah* agencies did mention about its self-concept as a trusted and accountable organization. The most widely cited word is 'trustable/trustworthy/reliable', which was mentioned five times and constituted 1.8% of the total words in the mission statements. The words 'professional' and 'independency/independent' were each found in four locations (1.44%). These characteristics, which could be seen as 'self-concept' that the institutions wanted to achieve, were recognized by all organizations regardless of their type. Two other widely cited words, namely 'international/global' and 'transparent/accountable', were mentioned by different types of organization. In particular, the former was only cited by the private *zakah* organizations while the other

was mentioned by almost all institutions. One based government agency aimed to operate at national level and most of the private *zakah* agency targeted international exposure and networking. Table 4 lists activities and targets/outcomes frequently mentioned in the statements. Corporate affiliated *zakah* agency and private *zakah* agency mention its target beneficiaries (*zakah* receiver) but government *zakah* agency did not. The main managerial activities, such as collection and distribution/utilization of *zakah*, were cited by all agencies in at least 17 locations (5.04%). Similarly, the words 'society(ies)', 'community(ies)', 'people' and 'human', which were the main 'targets' of the institutions, were mentioned in 15 locations (4.69%).

Table 3. Focused Coding 1 for the Vision/Mission Statements

Subtheme	Focus on organization's characteristics
Interview with	Remarks
G1, C2; G1, G2; P3	Trustable; trustworthy; reliable (1.8%)
G1, G2, C2, P2	Professional (1.44%)
C1, P3; G1, P1	Independency; independent (1.44%)
P1, P2, P3	International, global (1.44%)
G1, G2	Transparent; accountable (1.08%)

Source: Data analysis

All of the *zakah* agency addresses its customer and states that society or community is their customer, with only government *zakah* agency mention clearly about its customer (*muzakki*), its recipient (*mustahik*) and its duty to serve other *zakah* agency (BAZ and LAZ). National government related *zakah* agencies (BAZNAS) also supervises other government *zakah* agency (BAZNAS Province, BAZNAS regency/city), they are categorized as government affiliated *zakah* agency (BAZ), while LAZ consists of corporate affiliated *zakah* agency and independent *zakah* agency. Interestingly, when all of the *zakah* organization mentioned their product and

services; the type of product and services mentioned are quite varied.

Government based *zakah* agency mentioned *zakah* along with *infaq* and *shadaqah* as their main services, corporate based agency mentioned *zakah* along with other general empowerment program; and private *zakah* agency mentioned most of their empowerment and advocacy program, did not even mention *zakah* on its mission statement. Stronger outcomes such as 'empowerment' were emphasized only by the private *zakah* agencies. Meanwhile, more 'philosophical' terminologies such as 'prosperous', 'pious', 'welfare' and 'poverty alleviation' were emphasized only by the government agencies. These orientations

could potentially influence the management's direction and practices.

Findings from this paper imply that all types of *zakah* agency have a respectable mission statement, with private *zakah* agency's mission statement being the most sophisticated with regards of targeting activities which are more extensive than 'normal' charity works. Private *zakah* agency did not mention *zakah* as its primary task, did not emphasize on its main duties of collecting and distributing *zakah*; but instead refer to enhancing empowerment and building independency, and aim to serve communities at international level.

There are at least two possible explanations for this finding. Firstly, private

zakah agency has its human resources 'borrowed' or was previously working on for-profit organization (Young and Sleeper, 1988).

Previous research has stated that managers that were once from the for-profit organization are more familiar with strategic planning stages and implementation, thus more likely to implement the strategic planning process and adhere the mission statement in the non-profit. However, this assumption needs further proof to identify whether private *zakah* agency has its human resources from for-profit pool of talent.

Table 4. Focused Coding 2 for the Vision/Mission Statements

Subtheme	Focus on activities and targets/outcomes to be achieved
Interview with.	Remarks
G2, C2, G1, P1, C1; P3; G2; P2	Collection, utilization/distribution programs (economic, social, education, etc.); advocacy; increase awareness (about paying <i>zakah</i>), mentoring; facilitating (5.04%)
G1, G2, C1, C2, NI, P2, P3	Society(ies), community(ies), people, human (4.69%)
C1, P1, P2, P3	Empowerment/empowered (2.53%)
G1; G2; P1	Prosperous; welfare; poverty alleviation (1.08%)
P1, G2	Fair (system, economy), justice (1.08%)

Source: Data analysis

Secondly, private *zakah* agencies have more varied and dynamic sources of retail funding, thus more likely to appeal for bigger pressure to satisfy their stakeholder. For example, as the non-profit has larger stakeholders' based, values such as accountability and professionalism are emphasized in the mission statement (Kasri, 2018). Therefore they are more likely to develop elaborate planning and strategically oriented approach to their marketing, most likely they will learn from international non-profit organizations.

Strategic Planning

Strategic planning involves the process of generating and subsequently choosing

particular strategies and programs to pursue. According to the interviewees, the strategic planning process could be generalized into two themes, namely "by-design" and "by-flow" strategies (Table 5). The former refers to the strategy/program formulation focusing on the planning based on internal processes within the organization. Meanwhile, the latter indicates the planning process that is more responsive to external and environmental forces. The information gathered led to an understanding that the majority relies on the by-design process albeit most of them used both approaches in generating their strategies. However, the latter is maintained by some agencies due to the nature of the *zakah* institution which must be responsive to the urgent needs of society.

Table 5. Strategy and Program Planning

Interview Question	How do you generate and plan the policies and program ideas?
Focused Coding	Subthemes/Remarks
1	By-design (more responsive to internal factors/process)
2	By-flow (more responsive to external factors)
Concluding Theme	Different organizations have different approaches for generating policies and program ideas, which could be classified into (i) by-design approach and (ii) by-flow approach. Most of them, however, rely on the former.

Source: Data analysis

Table 6. Focused Coding 1 for the Strategy and Program Planning

Subtheme	Program generation with by-design approach
Interview with	Remarks
R9 (C1-1), R11 (C2-1), R21 (P2-1), R22 (P3-1)	Adopting and modifying similar programs of other organizations
R9 (C1-1), R21 (P2-1), R4 (G2-2)	Improvement of the current programs
R7 (G2-5), R14 (P1-1), R21 (P2-1), R22 (P3-1), R11 (C1-1)	Poverty and social mapping
R21 (P2-1)	Inspiration/analogies from religious stories, particularly, stories of the Prophets (<i>sirah nabawiyah</i>)

Source: Data analysis

Table 6 provides the responses and insights of respondents who believed that their organizations had practiced the "by-design" strategy. There are at least four processes or 'methods' used under this strategy, as elaborated below:

a) Adoption/modifications of similar programs

Adaptation and/or modification of successful programs implemented by other institutions with similar missions were the methods used by almost all of the agencies to generate the programs. This was emphasized by R11, the General Manager of C2, who stated that, *"Talking about programs...we have almost the same programs as other zakah organizations. We have education, healthcare, economic and socio-religious programs..."* In some cases, the inspiration might come from successful programs initially implemented by foreign institutions. R22, the Deputy CEO of P3, mentioned that, *"...now we have a village-based*

empowerment program. We take an example from Japan: one-village one-product program..." Meanwhile, R9, Executive Director of C1, admitted that its Islamic microfinance program was a modification of the Grameen Bank concept.¹

b) Improvement of existing programs

Evaluations and improvements carried out by the organizations were also mentioned as one of the mechanisms used to create a new and better program. For example, R9 stated that the IT system was implemented after he felt that there was a need to improve and "tidy

¹ It is mentioned that, *"Yes, similar [to the Grameen Bank concept]. Indeed, we adopted some of the ideas from there. However, Grameen was only intended for women. This has weaknesses, because it is said to have negative impacts on families...In our program, the management must be done together [by both husband and wife]. This is so because responsibility to earn a living relies on the husband. So, we take the positive [lessons] from Grameen..."*

up" the previous administration system due to the increased amount of paperwork related to higher *zakah* collections. Others mentioned that evaluation of existing programs based on the feedback of *zakah* payers, mostly obtained from surveys, was the main consideration to improve the existing program. While in general this practice is quite natural for most of the formal organizations, especially corporations, this was not the case for most *zakah* agencies in Indonesia.

c) Poverty and social mapping

Although the idea that links *zakah* with poverty alleviation is relatively new in Indonesia, the interview results suggest that poverty and social mapping have been important drivers of the programs implemented by the agencies. As explained by R7 (G2-5), "*In making policies, we firstly try to map [them] based on the poverty map that we know...After that, we create the program*". Similarly, R14 (P1-1) mentioned that "*...it [the program planning] is started with poverty mapping...*" Furthermore, the mapping was usually done by utilizing various types of poverty data, such as official poverty data, poverty maps created by other organizations and recommendations from third parties. These facts were also acknowledged by R22 (P3-1) and R11 (C2-1) during the interviews.

d) Inspiration from religious stories

One *zakah* agency contended that religious 'mindsets' and historical events play important roles in shaping their programs. In his narrative about the inspiration for an integrated community development program successfully conducted by his organization, R21 explained that they were inspired by the migration (Hijrah) of the Prophet Muhammad

(PBUH) from Makkah to Madinah.²This 'inspiration' is unique, in the sense that it emphasizes the stories of the Prophet (PBUH) and the Islamic values inherently held by a *zakah* agency; something that makes it different from other types of voluntary institutions. In reality, it seems that few have attempted to 'internalize' and use Islamic narratives in the management process. Nevertheless, as also suggested from the other interviews, Islamic values such as trust and hard work have a central place in the organizational culture and seem to correlate with the organizations' "professionalism" orientation.

Proceeding to the second mechanism, Table 7 summarizes two major processes of program planning under the "by-flow" strategy. The explanations are as follows.

a) Responding to the needs of mustahik

This was the most extensive strategy used under the "by-flow" program design. As stated by R8, the Program Manager of G2, "*...in essence, we created our programs*

² It is mentioned that, "*We were inspired by the migration (Hijrah) of the Prophet Muhammad (PBUH) from Makkah to Madinah. When he migrated, what he firstly built was the [people's] mindset. If the mindset has changed, then the Madinah people could be directed towards Islamic belief (aqidah). We were the same. When we came to a village, we changed the people's mindsets... behaviors: that you [the villagers] are capable, have potentials...That's what we wanted to build. Second, after the mindset of the Madinah people [has changed into] 'Islam', the Prophet (PBUH) built a mosque. He prepared the mosque not only for praying but also for the Islamic society's activities, [giving] motivation, education, etc. We built the so-called Bina Mandiri Hall (Balai Bina Mandiri). It could be used for meeting place, for training purpose, etc. The third stage, when the mosque had been built, then he built a marketplace. The market here refers to the real market that could improve the economic growth in Madinah. Similarly, we prepared the marketplace [for the mustahik]...*"

based on *mustahik* needs. Otherwise, why would we make the programs? That is the standard logic built in this organization...” Moreover, according to R22 (P3-1), “So, in many aspects, our programs are very customized...they are always based on the

need and interest of the society”. It is also notable that this style was particularly preferred in administering disaster relief programs, which require a relatively customized program design.

Table 7. Focused Coding 2 for the Strategy and Program Planning

Subtheme	Program generation with by-flow approach
Interview with	Remarks
R7 (G2-5), R8 (G2-6), R11 (C2-1), R14 (P1-1), R21 (P2-1), R22 (P3-1)	Responding to the need (request) of <i>mustahik</i> , which is sometimes triggered by ‘external’ events such as natural disasters
R11 (C2-1), R22 (P3-1)	Input from <i>muzakki</i> and other external parties

Source: Data analysis

b) Input from muzakki (donors) and other external parties

Although not very common, another method found under this strategy was planning based on input from external parties. An example was given by R22 (P3-1) from the non-profit agency, “Quite some time ago, there was a research institution that told us ‘Do you see that village? Pity the child there...’ ‘Why?’ ‘None of the school children have shoes’. So, sometimes this kind of thing encourages us to make the [free shoes] program”. Another example was “the motivation and breaking the fast (*iftar*) program for prisoners”, a popular program implemented by many large *zakah* agencies. The program was created after a former (political) prisoner - who was coincidentally a *muzakki* of that agency - brought the idea to one of the management personnel.

Overall, the findings suggest that *zakah* agencies in Indonesia follow two categories of planning patterns, namely ‘by design’ and ‘by flow’ approaches. Planning by design indicates that the organization has fixed or long-term programs planned before the implementation phase, which is practiced by all types of the *zakah* organizations. The idea could come from (i) adoption/modifications of similar programs, (ii) improvement for existing program, (iii) Poverty or social mapping and (iv) values

inspired from Prophet’s success stories of developing empowered society. The combination of elements of the by design planning constitutes of somewhat a formal planning (Bryson, 1988) which includes modification and improvement of strategy, internal and external audit by doing demand mapping, as well as instilling values and philosophy into its organizational culture through stories, in this case, is religious based stories. It is also notable that, to gain approval for the policies/programs, all agencies have a standard procedure.³

In contrast, the planning by flow approach, does not indicate that the organization is run with a liberal procedure or without a standard of operating procedure, but to imply that its planning is highly adaptable to suit the need of its main

³ Based on the interviews, it is revealed that the procedure generally includes the following mechanisms: (i) discuss the ideas generated in internal meetings; (ii) draft an annual program planning; (iii) bring them to the Advisory Board for approval and (iv) implement the programs, once the approval is received. Furthermore, to guide the program implementation, most organizations have some kind of Standard Operating Procedures (SOPs) for important management procedures. The SOPs were expected to support employees in performing their tasks properly. They were also an inherent part of organizations wishing to acquire international management quality certifications.

stakeholders, that is the beneficiaries (*mustahik*). Indeed, all types of *zakah* agency mentioned that they listened to the need of their *mustahik*. However, it is interesting to note that the *zakah* payers could also indicate their preference concerning the *zakah* that they paid through the corporate and non-profit *zakah* agencies. This finding indicates that the agencies also concern about preference of the *muzakki* and aim to maintain a trust-commitment and long-term relationship, which is often termed as 'relationship marketing' (Sargaent, 1999; Sargaent and Lee, 2004; Kasri 2013) in marketing management of voluntary sector.

The results also imply that, to assume that one strategy fit for all in the non-profit context is rather misleading, because even in the for-profit organization, the plan should be flexible enough to allow alteration and improvement. Especially in the *zakah* areas where combating poverty is the common spirit, the program is understandably depends on the availability of the *ashnaf* (obligatory recipient of *zakah*). There are eight categories of *ashnaf*: the *fuqara* (poor), *al masakin* (needy), *amil* (*zakah* collector), *muallaf* (new muslim), *riqab* (captives/slave), *gharimin* (those in debt), *fiisabilillah* (those who fight in the name of Allah) and *ibnu sabiil* (wayfarer). Except for the first two groups of recipients (i.e. poor and needy), scholars agree that the categories are not in order of priorities (Kahf, 1989); hence it is varied highly depends on the needs of *ashnaf* in certain areas. Some of the *zakah* are meant to serve the poor and needy, some are to build schooling infrastructure and some are directed to build water reservoir and watering system for agriculture (Gumelar, 2018). It is likely for the non-profit organization to have 'regular' beneficiaries such as the needy and the poor or any targeted *ashnaf* the organization wants to serve, but they also have new programs that are at least flexible enough to cater the needs of the new fragile communities such as survivors of natural disaster. After all, Indonesia is one of the

countries with highest number of natural disasters.

To account for the empirical differences in (i) by design and (ii) by flow design, one should understand the demand characteristics of one area and how each *zakah* agency develop its program to cater the needs of their beneficiaries. When the need for beneficiaries is diverse and fragmented, a dedicated non profit does not have to set certain objectives and goals (Bryson, 1988). The by flow design may seems difficult to assess, but what must be accounted during performance measurement for the 'by flow' approach is that the result is not to be measured by any predefined standard, because the target are changing or tailored based on *mustahik* (beneficiaries) needs. Popular tool in strategic management such as Balanced Score Card and efficiency measures such as data envelopment analysis are preferable for both approaches.

Another finding worth mentioned is that in the by design approach, the non-profit should have the ability to conduct poverty or social mapping in most of the *zakah* agency as showed by the most of the *zakah* institution on the sample. This is a beneficial stage as important as SWOT stage in strategic planning. By developing the poverty or social mapping, non-profit has already empirical data in linking the environment to strategy content and implementation (Blackmon, 2008).

Organizational Capacity

Revenue and distribution of *zakah* proceeds are indicated by the growth rates of the funds, as it reflects the organizational capacities in achieving its vision and mission. Collection and distribution of *zakah* in the last three years were measured among all of the *zakah* agency samples to get the growth rate of collection and distribution. As shown in table 8, the result indicates that private *zakah* agency has collected and distributed highest

fund, double the mean amount of funds collected by the government agencies and

triple the amount raised by the corporate agencies.

Table 8. Organization Capacity Data based on Types of *Zakah* Agency in Indonesia

Variable	Obs.	Mean	Std. Dev.	Min	Max
Type =1 (government <i>zakah</i> organization)					
Total revenue (IDR million)	6	48,646.88	18,216.75	26,377.11	75,658.62
Total distribution (IDR million)	6	35,040.26	11,963.70	17,620.23	53,081.87
Growth of total revenue	4	0.2565076	0.0548198	0.2082424	0.3333545
Growth of total distribution	4	0.4176596	0.1929414	0.2910556	0.704738
Type =2 (corporate <i>zakah</i> organization)					
Total revenue (IDR million)	6	28,510.61	15,180.40	11,518.75	52,130.25
Total distribution (IDR million)	6	21,702.53	12,479.16	8,425.65	41,919.15
Growth of total revenue	4	0.8603499	1.784044	-0.1885709	3.525684
Growth of total distribution	4	0.9223124	1.294984	0.071439	2.848854
Type =3 (private <i>zakah</i> organization)					
Total revenue (IDR million)	8	118,420.30	57,961.53	22,528.76	191,706.60
Total distribution (IDR million)	8	113,214.80	60,852.99	5,179.29	172,220.10
Growth of total revenue	5	0.5614448	1.076611	-0.0252147	2.477559
Growth of total distribution	5	2.406975	5.101764	0.0567847	11.5317

Source: Data Analysis

In total revenue growth, the corporate agencies recorded the highest growth rate of 86.03% during the period, even if it is still half the revenue of private *zakah* agency. This is followed by the non-profit and government *zakah* organizations. In distributing the fund, the private *zakah* agency shows a consistent superior growth even if the corporate agency is showing the higher growth rate. The general trend is a gradual increase in both total collection and distribution, and even if private *zakah* agency leads in nominal, corporate affiliated *zakah* agency has the highest growth rates. These results suggest that the corporate *zakah* agency has the highest revenue capacity, while the non-profit agency has the highest distribution capacity compared to the others.

Linking Strategic Planning to Organizational Capacity

From explanations in the previous sections, some interesting findings could be highlighted. The strategic planning process could be generalized into two themes namely "by-design" and "by-flow" strategies and both approach lead to some notable differences in the strategic management practices amongst different types of *zakah* organizations, albeit they are not very strong. It is also known from the qualitative data we found that *zakah* agency is constantly improving its strategic planning by mimicking from international and national benchmark. Siddique and Mohamed (2007) stated that even in the case of Malaysian government based *zakah* agency, constant reform and benchmarking to international standard were part of the planning.

In Indonesia, most of the *zakah* agencies were previously run without formal strategic planning. Small and scattered organization, *zakah* caretaker were mosque administrator that contribute *zakah* voluntary payment by mosque visitor to the needy and poor in the areas. There is no doubt that the emerging of national organization such as DompotDhuafa and Rumah Zakat, along with the increasing awareness of Islam and Islamic economics (including Islamic banking and research on Islamic economics) during the 1990-2000 period is the first attempt to bring *zakah* into mainstream charity. In 2011, the government announced the BadanAmil Zakat Nasional or BAZNAS (National Board of *Zakah*) to become the main collector and the supervisory body for all other private *zakah* institution along with the *Zakah* Act No 23/2011 as the regulatory bases for BAZNAS.

According to strategic management theories, factors that affecting formal planning in the non profit includes the size of the organization, funder requirement, characteristics of board and manager's exposure on formal planning (Stone, 1999). Hence, as those early *zakah* organization grew, they became bigger and began to recruit professionals from the for-profit areas, 'importing' for-profit knowledge and professionalism into the charity world. The results are what we saw from the data in this paper, nowadays, every formal *zakah* organization in Indonesia seems to adopt formal strategic planning.

The study also found that all *zakah* agencies have a dedicated mission statement, with private *zakah* agency being the most sophisticated. There are no distinctive design attributed to a certain types of *zakah* agency and mission statement. Therefore all *zakah* company seems to share both by design and by flow planning with regular program is designed and budgeted and irregular program is planning by flow to adapt to emergency situation which often occurred in prone disaster areas in Indonesia. Nevertheless, in

implementing the by flow approach, it is notable that at that time only the non-government (i.e. corporate and non-profit) *zakah* organizations show concern about preference of *zakah* payers.

Based on the overall findings above, we seek to analyze whether certain strategic design and certain types of *zakah* organizations affect organizational performance. It is evident from the findings that the corporate *zakah* agency has the highest revenue capacity, while the non-profit agency has the highest distribution capacity compared to the others. The highest revenue capacity and distribution capacity are associated with implementing both the by design and the by flow approaches with the most 'comprehensive' tools and strategies in their strategic planning. The superior result shown by the corporate affiliated *zakah* agency are presumably attributed to the readily available resources of revenues, such as parent company's profit and parent company's employee donation. It might also be related to the professional management practices that it adapts from its for-profit parents. Furthermore, the excellent distribution capacity shown by the non-profit agency might be a reflection of trying their best to maintain long-term relationship based on trust and commitment with the donors or *zakah* payers, something which might not be a priority for the others which 'luckily' have stronger based of donors based on internal affiliation.

As excellent growth rate of collection and distribution showed by non profit and corporate affiliated *zakah* agency were in line and positively related with their mission statement, the findings of the study are therefore consistent with the results of previous studies (see,among others, Rarick and Vitton, 1995; Kelly and Harrison 2004; Rhodes and Keogan 2005; Hussein 2007; Blackmon 2008; and Franklin 2011). However, the exact relationship between mission statement and performance in *zakah* company needs to be researched further.

CONCLUSIONS

The study found several interesting findings that presumably attributed to the different type of *zakah* agency in Indonesia. First, in their mission, *zakah* organizations seem to have different idealized views and focus on achieving either particular organizational characteristics or organizational targets/outcomes. Second, the strategic planning processes tend to follow the “by-design” and the “by-flow” strategies which are implemented in all *zakah* agency, regardless of its type. However, it is notable that at that time only the non-government *zakah* agencies were flexible enough to run programs based on the recommendation of their donors. Third, it is found that corporate *zakah* agency has the highest collection capacity, while the private *zakah* agency has the highest distributional capacity.

Based on the findings, it is suggested that the organizations should focus on their targets/outcomes and properly design their programs. It is also argued that all *zakah* agency has been formulating a sound mission statement and it is reflected well in the organizational capacity. This implies that there is a positive relationship between strategic planning and organizational performance. However, to enhance the effectiveness of strategic planning to achieve the institutional objectives (and perhaps go beyond the target), it is also important to allow some program flexibility based on trust and commitment with the main stakeholders (particularly donors). The findings are expected to provide more insights and enrich literature regarding strategic management practices of *zakah* institutions in Muslim countries.

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Discourses of Institutionalization of Zakat Management System in Contemporary Indonesia: Effect of the Revitalization of Islamic Economics

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ABSTRACT

In Indonesia, zakat management was trying restructured in a top-down form based on the system followed in Malaysia and, in 1999, a related law was enacted. Although many previous studies have been conducted on zakat for its fundamental spiritual aspects and social roles, macroscopic research on its history of both theory and practice aspects is lacking. The transformation in the administrative reform of zakat, which focuses on not only the discourse of Islamic intellectuals but also the tone of the emerging Islamic economy and attitude of the management organization's practitioners and players, is important to understand the growth of Islam in Indonesia. This paper discusses how the zakat practice, which was an individual practice, expanded to include new objectives such as community development or financial inclusion without losing its original spiritual significance. Further, the paper clarifies how an institutionalized approach to zakat management helps in the development of new theoretical intervention areas and contributes to community development and empowerment, without compromising the original poverty alleviation programs.

Keywords: Zakat management, Indonesia, Islamic economics

INTRODUCTION

Zakat is the third important pillar of Islam. It refers to the obligatory payment of a determinate portion of one's lawful property by Muslims for the benefit of the poor and other groups of people enumerated in the Qur'an. The lexicological meaning of zakat is 'to purify'. In addition, it carries the connotations of 'growth' and 'increase'. In Indonesian Muslim communities, zakat is of two types: (1) zakat fitrah (*zakāt al-fiṭr*; it is donated at the end of the Ramadan, is calculated as a flat fee for each person, and is similar to a poll tax), and (2) zakat mal (*zakāt al-māl*; it is paid on the basis of a person's wealth). Often, the general term zakat refers to both the aforementioned types. Theoretically, zakat means providing a fixed proportion of one's wealth to eight specific categories of recipients (*asnāf*). The required payment on wealth is 2.5% of

a person's total annual income. Since it refers to the purification of accumulated wealth, zakat is both a type of tax on wealth and a pious act (*'ibādah*). It is an obligation for every Muslim who possesses certain assets, such as gold, silver, jewellery, cash, livestock, and agricultural produce, to pay zakat for every one-year period (*hawalan hawli*) of their ownership. Islamic law regulates that both types of zakat are compulsory (*wajib*) for Muslims, although these types remain moral obligations in the sense that no legal obligation is imposed by the state.

From an Islamic perspective, some systems genuinely promote economic justice, equality, and social welfare by implementing redistribution mechanisms. In particular, zakat is no longer correlated merely with the aspect of religiosity alone; it is strongly connected to economic targets, as well. Zakat is an obligation (*ibādah mahdah*) with socio-economic

objectives (*al-ibādah al-māliyyah al-ijtimaiyyah*), such as redistribute income, reduce poverty, and achieve social welfare. Many scholars have pointed out these tripartite effects.

This paper reviews the existing discourses on the top-down approach to zakat management in contemporary Indonesia. In particular, it clarifies how this institutionalized approach contributes to the development of new areas of intervention and, without abandoning the original programs of poverty alleviation, to community development and empowerment in Indonesia.

LITERATURE REVIEW

According to the classification by Malik (2016: 65-67), the entire literature that has been produced to date on the historical development, juristic requirements, and multi-dimensional applicability of zakat can be classified into two categories. The first category comprises literature that deals with the specific juristic issues pertaining to zakat (*fiqh al-zakāt*). Such literature includes the contributions of classical Islamic jurists¹ (*fuqahā*), as well as those of some contemporary Muslim economists.

According to Qutb (2000), since it corresponds to a mechanism of redistribution, zakat is instrumental in the achievement of economic justice as envisioned in Islam. In addition, it affects the 'purification of property itself, because it means paying what is due on the property, after which its possession is legal

Qutb (2000: 162)'. Similarly, al-Qaraḍāwī (2009), one of the most widely recognized contemporary authorities on zakat jurisprudence, concurs that zakat is a right. Reflecting on the wisdom found in several Qur'anic verses dating back to the Meccan period, he notes that the aim of these verses is to make sincere believers realize that their wealth is not for their personal use alone. A portion of their wealth belongs to the needy as a definite right of the latter, rather than a charitable gift given condescendingly by the payer, without requiring humbleness or pride on the part of the receiver or payer, respectively (al-Qaraḍāwī, 2009: 9). Further, he affirms that the basic objective of zakat is to solve social problems such as poverty, unemployment, those caused by natural catastrophes, indebtedness, and inequitable income distribution. The zakat approach to dealing with these problems is based on the religion's views regarding these social malaises. Often, Prophet Muhammad associated poverty with a lack of faith. It is a type of bondage or slavery for the individuals who fail to fulfil their needs. The system of zakat distribution provides a solution to the social problem of poverty and a relief to the poor regardless of their race, colour, religion, or ethnicity. Further, Hafidhuddin (2002) advocates that Indonesia, which is the most populous Muslim country in the world, should integrate zakat, religious disbursement (*infaq* or *'infāq*), and charity (*sedekah* or *ṣadaqa*) in its poverty alleviation programs. Islam offers these three instruments for promoting the fair redistribution of income.

Sadeq (1994) found that the institution of zakat helps to eradicate poverty. It is noted that poverty encourages begging, which is condemned by Islam. Further, Sadeq suggests that acute inequality does not exist in a properly functioning Islamic economy because various distributional channels guide Muslims towards a reasonably acceptable standard of equality. Therefore, he claims

¹ El-Din (1986) summarizes the viewpoints of the classical schools of thought as follows: the Hanafi School sets a limit of 200 dirhams, whereas the Shafi'i recommends the provision of life support by giving capital goods to eligible individuals. Further, the Maliki School allows the donation of a year's provision. al-Qaraḍāwī supports Maliki's view in the case of zakat disbursement to children and disabled persons and Shafi'i's opinion on disbursement to able-bodied and qualified individuals (Shehu U.R. Aliyu, 2017).

that poverty is not a severe problem in a true Islamic economy.

The second category of zakat-related literature deals with the economics and financial effectiveness of zakat. From the perspective of Islamic economics, Chapra (2001) emphasizes that it is the duty of the state to ensure that all individuals who are unable to take care of their own needs and require assistance enjoy a respectable standard of living (*fakir* and *miskīn*). He showed that the collection and distribution of zakat is one of the most important factors that accelerate the distribution of income and wealth in Muslim societies. Surah al-Hasyr (59:7) suggests this idea in the Qur'an as follows: 'Wealth does not continue to circulate merely among your rich'. Chapra (2001) stresses the importance of realizing distributive justice in the society (moral economy), although it does not imply equal rewards for everyone. Some Islamic economists argue that zakat is intended to encourage Muslims to constantly utilize their assets productively because this utilization and circulation of income promotes prosperity (Kahf, 2002).

Several studies focus on the history of zakat management in Indonesia from the perspective of policymaking. Salim (2008) discusses the policy design and strategic steps that can completely support the future development of zakat in Indonesia. He suggests that zakat disbursement should be managed by the government. Lessy (2009) discusses the development of zakat management for improving Islamic social welfare in Indonesia. This study by Lessy discusses several major issues such as the elements of Islamic welfare efforts, advancement of zakat institutions, and misperceptions of Muslims regarding *zakat fitrah* and *zakat mal*. Further, Lessy (2009) elaborates the role of the Indonesian government in regulating zakat and highlights the problems caused by such regulations. He presented the success story of *Rumah Zakat* Indonesia, which is one of the biggest private institutions of zakat

collection all over Indonesia and was founded with the aim of improving Islamic social welfare through its philanthropic activities. Latief (2013) adopts a political perspective and highlights that the emergence of a Muslim movement in the public sphere through formal and informal institutions is a method to transform Islam into a social system. He argues that institutionalized zakat is Islamizing Indonesia.

From an anthropologist's point of view, Retsikas (2014) conducted a survey in Indonesia and examined the key discourses on the reconceptualization of zakat from philanthropy to obligation. He explained that the 'traditional' understanding of zakat is worship and analysed the jurisprudential arguments and discourses that facilitated the aforementioned reconceptualization.

In a detailed historical description of the evolution of Islamic philanthropy and its organizational dynamics in Indonesia, Fauzia (2013) unveils the dynamic interrelation between the Muslim civil society and state. She points out that when the state administration was weak, the Muslim civil society emerged powerful and used philanthropy to challenge the state. When the state administration became powerful, the Muslim civil society tended to weaken; however, the latter continued to find ways to use philanthropic practices in the public sphere to promote social change.

Brief History of Zakat Management in Indonesia

In the early periods of Indonesian history, the Islamic leaders (*ulamā* or *Kiai*; *Kyai* on Java island) in mosques and Islamic educational institutions (madrasah) or boarding schools (*pondok pesantren*) collected and managed zakat funds. Among Javanese Muslims, zakat funds were chiefly used for building mosques and madrasahs, which are places of religious education. Towards the end of the nineteenth century,

the Kingdom of Ace Darussalam declined and the zakat tax levy was left to the *ulamā*, whereas the land tax continued to be levied by the state. After the decline of the Kingdom of Ace Darussalam, the Dutch colonial government adopted similar policies for levying taxes (Fauzia, 2013: 85). During the Dutch era in Indonesia, religious leaders participated in the collection and distribution of zakat. They used zakat funds to promote the education and welfare of people and to support the armed struggle against Dutch colonization. However, this practice did not last for a long time: once it understood that zakat funds were being used to undermine its authority, the Dutch administration created an effective system to suppress zakat institutions. The political goal of the Dutch was to control zakat, take away a financial resource from Indonesian Muslims, and undermine the Muslims' fight against colonization (Salim, 2008).

After Indonesia proclaimed its independence in 1945, zakat management continued in local communities. There was no coordination among provinces, and there were no mutual programs established to link one province to another for zakat collection and distribution. In the early stages of establishing an independent government in Indonesia, the involvement of the state in managing zakat was unclear. During the Old Order (*Orde Lama*; in this paper, this term refers to the regime of President Sukarno period, the government did not assign matters related to zakat to the Ministry of Religious Affairs. It was only in 1968 that President Suharto of the New Order officially instructed three high-ranking military officers to establish an organizational apparatus for nationwide zakat collection. On November 26, 1968, the president gave a speech during the holiday for Isra and Mi'raj on the capability and responsibility of the state regarding the collection of zakat. After the speech, the president presented Presidential Decree No. 07/PRIN/10/1968 on zakat, which required government offices to establish

mechanisms for collecting zakat in their legislative districts, and encouraged the incorporation of affairs relating to zakat within the responsibilities of the state (Saidurrahman, 2013: 372). Approximately 2 months after the president gave his speech, Ali Sedikin, who was the governor of Jakarta at the time, established a public zakat agency named Badan Amil Zakat (BAZ) (or The Office for the Management of Zakat), which later changed its name to *Badan Amil Zakat Infaq dan Sadaqah* (or The Office for the Management of Zakat and Charity) in 1976.

Eventually, in 1968, the important changes in the discourse of Muslim intellectuals regarding zakat management were supplemented by the following joint statement by the *pesantren* (or Islamic boarding schools in Indonesia): 'the Ulema's urgent task is to formulate the zakat system to innovate the present situation of this society. However, we should not forget about the spiritual value of the religious worship (*ibādah*)' (Ariff, 1991: 53). Following a notable year of governmental interest and involvement in zakat, several public zakat organizations, such as Badan Amil Zakat Nasional (BAZNAS) (or The National Board of Zakat), were gradually established in many states.

Revitalization of Traditional Islamic Economic Institutions

During the 1980s, an Islamic revival movement emerged worldwide and zakat management became an important topic of debate among Islamic intellectuals. In addition, since 2000, the traditional system of Islamic economy has been restored. According to Asutay (2012), The phenomenal growth of the Islamic banks and financial institutions (IBFIs) has been remarkable since it came into existence just over forty years ago. He made reference to the norms and values of IBFIs as formulated by the Islamic moral economy

(IME), which give meaning to the 'Islamicness of IBF' (Asutay 2012: 94), and he made a new framework of IME in order to share the aspiration of Islamic economics and express the distinguishing nature of IBF. In short, he gave new framework in Islamic economics and distinguished growth of IBF for three stages. The first is from 1963 when the *Mith Ghamr* saving bank was established in Egypt as the first Islamic bank and *Tabung Hajj* in Malaysia since 1967 have demonstrated that IBFIs can contribute to the development of society, as the first institutional phase of IBF. The 'commercial' IBF since the mid-1970's constitutes the 'second stage' of the institutionalisation in IB. The third stages are institutions and non-banking-financial institutions, which can include Islamic social banking, Islamic microfinance², economic empowerment oriented *awqaf* (pious foundations), *zakat* funds for development, *ar-rahn* or Islamic pawnbroking institutions, Islamic development banks, social investment institutions, and ethical funds etc (Asutay 2012: 109). He advocated the necessity for the third phase in order to contribute the development of society and manage to touch the lives of ordinary people on the street of the Muslim world and beyond.

Nagaoka (2014) also researched about institutionalization of IBFs. He stated that after the middle of the first decade of the twenty-first century, new trends prioritizing the Sharia Legitimacy Condition emerged in Islamic economics in order to overcome the situation that was

faced by the Sharia-compliant finance and economy. He defines two such trends: the first trend, which is referred to as 'New Horizon 1.0', pertains to the development of new areas in the practice of Islamic finance, and the second trend, which is called 'New Horizon 2.0', pertains to the revitalization of traditional Islamic economic institutions, such as *waqf* or *zakat*, by utilizing Islamic finance (2014: 13-19). He re-evaluated their roles in ensuring the sustainable development of the Muslim community, as well as in tapping new markets for Islamic finance. Both scholars analysed the growth of IBFs into several trends and stressed the importance of traditional Islamic economic Institutions or *zakat* funds. This kind of trends can also be seen in institutionalization of Islam in Indonesia.

Reconceptualization of Zakat Duties in Indonesia: Zakat and Tax

What is the difference between *zakat* and tax? Further, who should have the responsibility of collecting, managing, and distributing *zakat*? Many scholars have discussed this fundamental question. Before enumerating the earlier discourses of scholars, it is important to confirm the type of approaches adopted by Muslim countries regarding *zakat*. Nowadays, Muslim countries practice various approaches regarding the *zakat* system, which can be grouped into three categories. First, some countries have no governmental system for *zakat*, which is the most common approach. Second, in some countries, although the payment of *zakat* is voluntary, it comes under some form of governmental monitoring: in such cases, the government facilitates the collection, management, and distribution of *zakat* to ensure transparency and accountability with varying degrees of oversight and involvement. Bahrain, Bangladesh, Egypt, Iran, Jordan, Kuwait, Lebanon, and the United Arab Emirates adopt this system.

² For details on Islamic microfinance, see Obaidullah, M., and K. Tariqullah, *Islamic Microfinance Development: Challenges and Initiatives*. Jeddah: IRTI-IDB, 2008. For more information on *zakat*-based Islamic microfinance, see Ahmed, H., *Role of Zakah and Awqaf in Poverty Alleviation*, Jeddah: IRTI-IDB, 2004. And and Ismail, A. G., and B. T. Possumah, "Theoretical Model for Zakat-Based Islamic Microfinance Institutions in Reducing Poverty", *International Research Journal of Finance and Economics*, no. 103, 2013, pp. 136-150.

Third, in some countries, zakat is mandatory: it is treated like a tax and distributed as a means of welfare, and zakat evasion is punishable with fines, imprisonment, or both. Countries that have adopted this system are Libya, Malaysia, Pakistan, Saudi Arabia, Sudan, and Yemen (Alfitri, 2017: 102, quoted in Powell, 2009-2010: 58-73). In particular, in Saudi Arabia, zakat is regarded as a property tax and, according to Fukuda (2000: 75, quoted in Saudi Arabian Government, Memorial of the Government of Saudi Arabia, 1955, Saudi Arabian Government, 291-327), the term zakat is generally used to denote a type of tax.

In Indonesia, where the population comprises mainly of Muslims, even though Islam in this country is not stipulated as state religion, discussions regarding zakat and tax or the institutionalization of the Islamic finance system are important. When did the concept of zakat start changing in Indonesia, and who was responsible for this change? Some scholars argue that the redefinition of zakat was done by Islamic intellectuals, and it is seen from approximately the mid-1970s that the discourses of two Islamic intellectuals significantly contributed to this redefinition. This chapter relies heavily on the detailed research conducted by Retsikas on the redefinition of zakat in 2016.

Clearly, the change started during the mid-1970s, and it definitely continued from the 1980s onwards, partly as the result of a broader movement for the 'renewal' of Islamic faith (*gerakan pembaharuan Islam*) and partly in response to the political and economic changes that were brought about by New Order³ policies. During the period 1974–1975, Abdullah (1991) conducted a survey on Indonesian *Ulema* (*Ulamā*) and

the Muslim intellectuals' opinions on zakat management. Most respondents stated that the government is an important factor in zakat management. Whereas a few intellectuals (7%) opined that the government should take over zakat management completely, the majority (59%) supported the collection of zakat through a state-based zakat organization. In addition, approximately half of the respondents (46%) stated that a state-based zakat organization should be responsible for the distribution of zakat, as well (Abdullah, 1991: 53).

During the 1980s, many forums and workshops on zakat management were conducted and actively maintained. The main topics were 'Zakat and Tax' and 'Professional Zakat'⁴, both of which were initiated by one proposal. In 1986, Amien Rais, who was a political scientist and later became a leader of Muhammadiyah (1995–2000), which is one of Indonesia's largest modernist organizations, delivered a controversial speech. He advocated the re-interpretation of zakat within the contemporary context of Indonesia's persistent problems regarding poverty and sought to redefine its purpose in securing people's welfare. From the perspective of Islam as a religion of justice, Rais (1987, see also Latief, 2012: 85–87) proposed the notion of professional zakat, or zakat on regular income (salary and wages). According to Retsikas (2014), Rais's notion dominated the discursive landscape of zakat in Indonesia since it had several salient features. First, it was an innovation in Islamic jurisprudence, since salary and wages had not previously been considered as wealth sources that can be subject to zakat, according to classically trained scholars. Second, the notion reflected the changes that were occurring in the political

³ 'New Order (*Orde Baru*) Regime' is the term coined by President Suharto, the second Indonesian president, to characterize his regime when he came to power in 1966. Recently, this term has become synonymous with the Suharto years (1966-1998), and this paper refers to this use of the term, as well.

⁴ Professional zakat is a type of zakat that is paid from professionals' fees after certain *nisāb*. Regarding formal jobs, which have to pay professional zakat, civil servants, consultants, doctors, notaries, accountants, and so on, are determined.

economy of Indonesia at the time, in particular, the broad transformation from an agriculture-based economy to an industrial one where people practiced different professions and received regular income. The change in the payment of zakat as rice to its payment in cash is indicative of the aforementioned broader transformation. Third, the ratio of zakat to wealth proposed by Rais was significantly higher than the ratio that had been applied to other categories of wealth by classically trained scholars. According to Rais, 2.5% of an individual's wealth was not sufficient for the achievement of public welfare and implementation of social justice (Retsikas, 2014: 345–346).

Amien Rais's proposal was met with dismay by many scholars for being an unlawful innovation (*bid'ah*) until it was finally accepted in 2003 by the Indonesian Ulama Council (Majelis Ulama Indonesia, MUI), almost 20 years after it was first proposed⁵, as discussed by Retsikas (Retsikas 2014: 346)⁵. Two years after his controversial speech, in 1988, the Majelis Ulama Indonesia (MUI) conducted a seminar on zakat and tax and concluded that Indonesian Muslims had to pay both zakat and tax because there are definite differences between them. It was argued that zakat is a religious duty to God, which is stated in the Qur'an or Sunnah, whereas tax is a duty to the nation or state. Moreover, when justified religiously, tax contributes to public welfare (*al-maslahat al'ammah*). According to Salim (2008: 39), this conclusion implied a double burden for Indonesian Muslims to pay both secular tax and zakat.

Five years after controversial speech of Rais, Masdar Farid Mas'udi,

another Islamic scholar, reignited the issue regarding the social relevance of zakat with the publication of his book *The Religion of Justice* (1991)⁶. However, in contrast to Rais, Mas'udi had received training in the classical Islamic sciences and, in his youth, had been involved with faith-based non-governmental organizations. Mas'udi stated that justice is the ultimate goal of the sharia and *ijtihad* is required for applying this divinely inspired justice to the different contexts and circumstances applicable to Muslims. In this regard, the relationship between zakat and economic justice has paramount importance. Both Rais and Mas'udi highlighted the social dimensions of zakat and emphasized its redistributive purpose.

In addition to the aforementioned discussion of Retsikas, I specify Hafidhuddin as the individual who significantly contributed to the redefinition of zakat. With the intensification of the discussion on reframing duties and increase in the emphasis on the obligatory aspects of zakat, issues concerning zakat and taxation topped the agenda. In this context, the Zakat Management Law No. 38 of 1999 and Tax Law No. 17 of 1999 (which amended Tax Law No. 7 of 1983) assert the similarity between the aims of zakat and tax. Both are obligations binding the Muslim citizens of Indonesia; however, according to Hafidhuddin (2002: 143), zakat is considered an absolute obligation, whereas tax is a relative one. K. H. Didin Hafidhuddin (1951-to the present) was born in Bogor, west Java. He obtained a bachelor's degree from the Department of Syariah, UIN⁷ Syarif Hidayatullah Jakarta, and majored in Arabic from Islamic University of Madinah, Saudi Arabia. He obtained a master's degree from Bogor Agricultural University (IPB) and a PhD

⁵ See fatwa no. 3, year 2003, on Zakat *Penghasilan* (Himpunan, 2003: 87). Eventually, a zakat percentage of 2.5% was applied to the ownership of gold and silver. Rais' proposal, by contrast, was based on analogizing professional zakat to zakat for the agricultural produce of irrigated fields (10%) and zakat for natural resources such as oil and precious metals (20%).

⁶ He pointed out the fundamental similarity between zakat and state taxation. The name of the book in Indonesian is *Agama Keadilan: Risalah Zakat(pajak) dalam Islam*.

⁷ Universitas Islam Negeri is the National Islamic University under the Ministry of Religious Affairs.

from UIN Syarif Hidayatullah Jakarta. Regarding his career, he has worked as a lecturer in several universities, such as Pascasarjana IPB, UIN Syarif Hidayatullah Jakarta, and UIKA (*Universitas Ibn Khaldun*) Bogor. He worked as the head of BAZNAS for eight years for two periods as the head of BAZNAS. In addition, he worked on the committee of *Ulama* in DSN (*Dewan Syariah Nasional*) and MUI⁸ and headed the committees in several Islamic banks.

With respect to his written works, he has written approximately 20 books on Dakwa, education, economy, and zakat. He translated five books from Arabic to the Indonesian language, including *Fiqh Zakat* of al-Qaraḍāwī. Hafidhuddin published the *Fatwa of Zakat* in 2011 as one of the members of the *ulama* in MUI. This fatwa can be regarded as a fatwa that strengthens theory. In terms of practice, he established Dompot Dhuafa (DD)⁹, which is one of the largest private zakat organizations (Lembaga Amil Zakat, LAZ) in Indonesia, and this organization received the Ramon Magsaysay Award in 2016. In summary, he has contributed to zakat development in Indonesia from both theoretical and practical perspective. In particular, he was someone who promoted the administration of zakat.

The discourse of Islamic intellectuals contributed to the theoretical

advancement of the objectives of Islamic law (*maqāṣid al-sharī'a*). The legal views advocated by al-Qaraḍāwī (2009), Rais (1987), Mas'udi (1991), and Hafidhuddin (2002) initiated in-depth discussions on a paradigm shift in zakat practices, which considered issues regarding top-down administration and its legal basis.

Legislation of Zakat Management

With the end of the New Order era, the number of Islamic charitable organizations increased and grew rapidly. Zakat Management Law No. 38/1999 was enacted by President Habibie¹⁰, who succeeded President Suharto in 1998. The law promised to regulate and enhance the accountability of zakat-collecting agencies in Indonesia. It covered both the semi-governmental collecting agencies (BAZ) and non-governmental collecting agencies (LAZ). BAZ and LAZ have the same functions: collect, distribute, and utilize zakat proceeds efficiently. Submitting balance sheet audits and annual reports to the government is required, which encourages public disclosure. This piece of legislation regulates zakat management institutions, in general; however, it does not make zakat payments obligatory. The most remarkable thing about Zakat Management Law No. 38 is Article 14, which explicitly states that those who pay zakat (*muzakky*) to BAZNAS are entitled to receive a 2.5% deduction for income tax. Article 9 in Tax Law No. 17 of 2000 contains the same clause. This exemplifies the legislators' consideration of the issues of zakat and tax, which is discussed in Section 4.

On January 17, 2001, BAZNAS, a semi-governmental zakat management organization, was established. Zakat Management Act No. 23 of 2011 amended Zakat Management Law No. 38 of 1999 and delegated the integration of zakat

⁸ *Majelis Ulama Indonesia* is Indonesia's top Muslim clerical body. The council comprises many Indonesian Muslim groups. It was founded by the Indonesian New Order regime under the Suharto administration in 1975 to produce *fatwās* and advise the Muslim community on contemporary issues.

⁹ DD is the largest Islamic philanthropic organization in Indonesia today, in terms of donations received. In 2015, DD collected total donations equivalent to USD 20.2 million. With offices in 12 Indonesian provinces and five foreign countries, DD's 200 employees and 10,000 volunteers have reached 13 million beneficiaries as of 2015, of whom at least 20% have moved out of poverty (<http://rmaward.asia/news/citation-2016-ramon-magsaysay-awardee-dompot-dhuafa/>).

¹⁰ He signed to make a draft of zakat management law in June 24, 1999.

management completely to BAZNAS. According to Fauzia's (2013) survey, around 34% of all zakat management organizations were new institutions established in the first five years of the *Reformasi* period.

The 1980s saw Indonesia at the height of its prosperity as the country opened up its economy to foreign investment and furthered export-oriented industrialization. However, the fruits of economic development were unevenly distributed and did not reach large parts of the country, particularly, the rural areas. A new generation of Muslim intellectuals found this situation difficult and worked hard to rectify it through various interventions. Despite the economic growth, the gap between the rich and the poor did not seem to be shrinking. The dissatisfaction among Muslim intellectuals and zakat management organizations, concerned about the implementation of the concepts of Islamic economics, justice for inequality, and moral economy, was increasing.

The Rise of Islamic Economics: Orientation to Justice and Moral Economy

Although Indonesia gradually achieved economic growth, the generated wealth did not seem to be distributed towards the poor. This situation made Islamic organizations, including the largest Muslim organization in Indonesia *Nahdlatul Ulama*, seek justice in a different arena and guise. The demands were articulated anew in Islamic economics with the claim that an Islamic economic system, based as much on the prohibition of usury (*ribā*) as on the promotion of zakat, would have possibility to achieve better economic fairness than either the capitalist or socialist systems.

Chapra (1992) admonished all economic activities that contribute to the wastage of economic resources and human welfare; recommended individual restrictions, both material and spiritual; and

encouraged the enhancement of overall social welfare. Further, he opined that the objectives of Islamic law (*maqāṣid al-sharī'a*) would be realized by adopting a political and economic system that induces such practices, in addition to individual practices that are consistent with Islamic economics (Chapra, 1992: 213–223).

Mawdudi (1975 [1947]), one of the important modernist Islamic economic thinkers, accepted the private ownership system of modern capitalism and the differences between rich and poor individuals. However, he pointed out that the absence of a redistribution system to rectify these differences constituted a problem. In addition, he discussed the necessity of accepting private ownership unless it is contrary to the philosophy of fairness in Islam and using zakat to improve income redistribution (Mawdudi, 1975 [1947]: 16–17, 36–39).

In Indonesia, a model that incorporates the Islamic sense of justice was sought primarily to revitalize societal norms and practices through promoting Islamic values, not to reconstitute the state. At the same time, the creation of Islamic institutions, such as *sharia*-compliant banks and cooperatives, along with the establishment of zakat management organizations have been actively supported by modern Islamic economic thinkers.

Recently, in 2015, the institutional structure of BAZNAS underwent a drastic renovation. Both the institution's current chairman Bambang Sudibyo and vice-chairman Zainulbahar Noor have an educational background in economics (The National Board of Zakat, 2017), whereas almost all the former presidents of BAZNAS were Islamic jurists. This choice of top managers reflects the strategy of BAZNAS to maintain its image of being a professional, transparent, and trustable organization that is responsible for managing the zakat funds. The vice-chairman is Zainulbahar, who is educated in economics and Islamic finance, as well. He has worked as the director of several

banks. Moreover, one member of the committee is Masdul F. Mas'udi, one of the important Islamic scholar, who is mentioned in the former section as one of the Muslim scholars who discussed about zakat institutionalization in Indonesia and put down some prescriptions regarding zakat and secular tax. In 2016, the Centre for Strategic Studies (*Pusat Kajian Strategis*, PUSKAS) was established at BAZNAS to support the building of a professional zakat institution through research-based programs¹¹. The centre organized a national zakat seminar on December 8, 2016, at the University of Indonesia. In his keynote speech, Bambang Sudibyo, the chairman of BAZNAS, and Didin Hafidhuddin, the former president of BAZNAS, addressed the importance of the duty of zakat. Many shariah scholars, researchers, and staff of the institution engaged in conversations at the seminar¹². Many presentations at the seminar discussed the possibilities of zakat as a financial resource in promoting social welfare.

The zakat management debate between Muslim intellectuals in Indonesia attained maturity before the twenty-first century, as its attention shifted to the economic utility and development of zakat. This shift in argumentation is in line with the theory and concept of Nagaoka's (2014) *New Horizon 2.0*. Jurisprudential arguments and discourses of Muslim intellectuals reconceptualize zakat from a simple ritual of worship to a fundamental instrument for achieving socio-economic justice.

CONCLUSION

This paper summarizes the issues raised by two discourses on the top-down approach to zakat management in contemporary Indonesia. The first is the discourse of Muslim intellectuals on a theoretical reconceptualization of zakat, incorporating the objectives of Islamic law (*maqāsid al-sharī'a*). Legal views advocated by al-Qaradawi (2000), Rais (1986), Mas'udi (1991), and Hafidhuddin (2002) have initiated a discussion on a paradigm shift concerning zakat practices in Indonesia. The in-depth discussions provided a legal basis for further developments and inspired top-down administrative efforts in the country's zakat system. The second discourse advocated by two Islamic economist Asutay (2012) and Nagaoka (2014) refers to the growing interest of Islamic Moral economy regarding to social justice and community development, which has spurred discussions on zakat. Simultaneously, the 'reconceptualization of zakat from philanthropy to obligation' led by Muslim intellectuals and an institutionalized approach to zakat contributed to the development of new areas of intervention.

This study underlines several consequences of the two main discourses of Muslim intellectuals and Islamic economists to find new external viewpoints regarding the role of zakat in achieving sustainable development in Indonesia. Both discourses highlight the impact of zakat as an effective tool in the promotion of social welfare by means of philanthropy, empowerment, and community development in the Muslim society. In other words, an institutionalized approach to zakat helps to find new areas of intervention and, without abandoning the original programs of poverty alleviation, it has found a way to support community development and empowerment in present-day Indonesia. Finally, the two discourses on revitalization are not simply attempts to resuscitate the antique Islamic

¹¹ Based on the details in a website (<http://puskasbaznas.com>).

¹² The content of this seminar, including presentations and video recordings, is available on the PUSKAS BAZNAS website (Center of Strategic Studies, The National Board of Zakat, 2017).

jurisprudence in contemporary Indonesia; they additionally contribute to the recent developments and changes in how zakat is used as an instrument to eradicate poverty.

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Examining the Efficiency of *Zakat* Management: Indonesian *Zakat* Institutions Experiences

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ABSTRACT

This study evaluates the efficiency of Indonesian Zakat Institutions (IZI), including technical, pure technical and scale efficiencies using a production approach. This study also examines the sources of inefficiency. By employing the Data Envelopment Analysis (DEA) technique, this study proposes a solution to improving the efficiency of IZI. The input variables of this study are the number of amil, the number of volunteers, the number of offices, socialization costs, personnel costs, and operational costs. The output variables of this study include the amount of zakat collected, the distribution of consumptive zakat, the distribution of productive zakat, the number of muzakki and the number of mustahiq.

The results indicate that between 2010-2013 IZI Mass technical efficiency were higher than IZI Non-Mass on average. In 2014, IZI Non-Mass exceeded IZI Mass technical efficiency. IZI Mass pure technical efficiency had an upward trend during 2011-2013, but then declined during 2014-2016. However, IZI Non-Mass pure technical efficiency experienced an upward trend during 2011-2012, then slightly decreased in 2013. Although the efficiency increased in 2014-2015, there was a subsequent decrease in 2016. After a period of fluctuation during 2011-2013, the scale efficiency of IZI Mass decreased in 2014 and stabilized in 2015-2016. Similarly, IZI Non-Mass fluctuated during 2011-2012, then stabilizing until 2016.

The increasing problems of IZI Mass and IZI Non-Mass are the socialization costs, the number of volunteers, the amount of zakat collected, and the distribution of consumptive zakat, which cumulatively reduces the intermediation function of zakat institutions. IZI must resolve these issues to ameliorate the efficiency of zakat institutions.

Keywords: *Indonesian Zakat Institutions, Efficiency, Technical Efficiency*
JEL Classification Code: L31, D61

INTRODUCTION

Zakat is one of the five pillars of Islam. It is an obligation of Muslims to donate a specific amount of their wealth to the beneficiaries with the main objective of

achieving socioeconomic justice (Wahab dan Rahma, 2011:1).

The *Zakat* collection system in Indonesia is managed voluntarily. Since it is not a liability under Indonesian law,

zakat collection in Indonesia is far beneath its potential (Beik *et al.*, 2014: 10).

According to BAZNAS (2017: 6), *zakat* funds collected by OPZ in 2015 amounted to IDR 3.7 trillion, which is less than 1.3 per cent of its total potential. The gap between the potential and realization of *zakat* funds collection is an on-going issue faced by *zakat institutions*. *Zakat* regulation in Indonesia is under the 2011 *Zakat* Act No. 23, which brought all major private *zakat* collectors under the supervision of the National Board of *Zakat* (BAZNAS). Yet, the Act does not utterly support the operations of *Zakat* institutions, nor does it live up to expectations. This is evidenced by the incomplete reporting of *zakat* funds collection, which demonstrate a feeble depiction of overall data of Indonesian *zakat* Institutions (IZI) (PUSKAS BAZNAS, 2017: 7).

Jahar (2010:1) maintains that trust and professionalism are vital to supporting the development of *zakat* institutions. Today's organizations are facing challenges that require effective management decisions that will achieve high levels of productivity and efficiency (Wahab, 2013: 1). Likewise, Beik *et al.* (2014: 28-29) state that in their operation, *zakat* institutions are responsible for upholding certain basic principles, such as professionalism, accountability and transparency. Moreover, the management of *zakat* institutions must be effective and efficient.

The gap between the potential and realization of *zakat* funds collection is caused by the lack community trust of *zakat* institutions. A measurement of *zakat* management and efficiency of *zakat* institutions may rectify public mistrust (Lessy, 2009: 106).

This study analyses the technical efficiency and technical issues (including the scale) of Indonesian *Zakat* Institutions (IZI) and examines the efficiency flaws of IZI. By employing the Data Envelopment Analysis (DEA) technique, the study

proposes a solution to improve the efficiency of IZI.

LITERATURE REVIEW

A *zakat* institution is the institution responsible for managing the collection and distribution of *zakat* funds. The Quran describes the appointment of officials to collect and distribute *zakat*, which should be in the form of either a state department or a public fund managed entirely by a public body (Wahab, 2013: 2).

Hence, the state is responsible for collecting and distributing *zakat* in a well-organized system as prescribed by Islam. *Zakat* also involves the Muslim society as a whole. Hence, certain ulama', like Imam Syafie, suggests that *zakat* must be paid to the authority (Buang, 2000:90).

Jahar (2010: 689) explains that in social sciences theory, social capital plays a pivotal role in philanthropic activity (*zakat* and *sadaqah*). Social capital, social networking and community involvement are important instruments for philanthropic activity, as they reinforces the idea that philanthropy is not merely an act of giving, but exists within the category of contribution, impelled by trust.

The Netherlands and Indonesia hold a similar position in terms of *zakat* and *sadaqah* payments. The payment is conducted through bank transfer. Moreover, donors and managers are not explicitly associated, as donations are anonymous. Donors can only acquire knowledge of the *zakat* institution's performance through the report and public information of the *zakat* institution (Jahar, 2010: 689).

Philanthropy management is not only due to the low credibility of public auditing, but it refers to the effectivity and efficiency of funds for programme objectives. It is particularly concerning that while donors are more concerned with the efficiency and objective of the programme, public auditing only provides

finance-related information (Jahar, 2010: 689).

The effectivity and efficiency of *zakat* management is integral to achieving the *zakat* objective of alleviating.

Concept of Efficiency in Islam

Ali and Ascarya (2009: 113) explain the concept of reaching maximum potential from the Islamic perspective, and understand that it can be realised through hard work, whilst still maintaining balance. With this view, this paper will elaborate on the efficiency concept in Islam by presenting previous studies and explaining the input and output approaches of carrying out economic activities according to Islamic teachings. One of the inputs is based on *aqidah* (*amantu billahi thummastaqim*), the principle of having utility (*khairunnasi anfauhum linnasi*), and to be grateful of the achievement (*man lam yashkurinnasa lam yashukurillaha*), and not extravagance (*israf*) and squander (*tabdhir*) with the output.

The authors explain the concept of optimising input and output in accordance with the *Qur'an* and *Hadith*.

a. Optimising Input

Alharitsi (2003: 64) maintains that Muslim producers place a great deal of faith in Allah with respect to business outcomes and profits, as everything is predestined.

Ali and Ascarya (2009: 114) elucidate three main factors required to optimise the production input, as outlined below.

1. Harnessing Natural Resources

The *Qur'an* explains the role of a Muslim as a *khalifah* on earth. By this trusteeship, a Muslim must take care of the usage of natural resources to meet the needs of *ummah*. "And to Thamud [We sent] their

brother Salih. He said, "O my people, worship Allah; you have no deity other than Him. He has produced you from the earth and settled you in it, so ask forgiveness of Him and then repent to Him. Indeed, my Lord is near and responsive." (Huud: 61).

2. Equal and Fair Pay

The Hadith of Rasulullah SAW emphasises that workers are entitled to relevant workers' rights. Abdullah ibn Umar reported: The Messenger of Allah, peace and blessings be upon him, said, "Pay the worker his wages before his sweat has dried." (Source: Ibn Majah 2443, Grade: Authentic (*Shahih*)).

3. Prohibit the Practice of Usury

The prohibition of *riba* is an attempt to improve wealth efficiency and eliminate interest, which would result in a lower production cost, thus improving efficiency (Ali and Ascarya, 2009: 114).

b. Optimising Output

An Islamic perspective of efficient employment practices relates to the following principles:

1. Work Specialization and Division

Specialization will shed light on the uniqueness and results on the professional expertise of the employees [see Alharitsi (2003: 93)]. Having employees perform specialized labor tasks can lead to increased productivity. Hence, division of labor enables increased efficiency, as it maximizes the employee's specific skill. Conversely, if the employee shifts from one task to another, efficiency might decrease.

2. Avoiding Extravagance and Squander Production

Al Mawardi, as cited in Ali and Ascarya (2009: 114), state that *saraf* is the fault of using the right dosage, whereas *tabdzir* is the fault of using the right allocation. Meanwhile, *israf* is concerned about spending, and is therefore related to consumption.

3. Not Expropriating Others' Rights

With respect to the property maintenance obligation, Islam also provides guidance on issues related to contract law or general rules for transactions. Islam prohibits all forms of injustice in economic activity. [Fauzia and Riadi (2014: 436)]

4. The Benefits of Production

In production activity, Islam considers the distribution of production benefits of among the greatest number of people and in the most equitable manner as paramount importance. It also encourages the avoidance of wasting production output, as stated in Surah Al-Mu'minuun: "And they who turn away from ill speech".

5. The Values of Gratitude

As narrated by Ahmad (2001), Abu Dawud and Tirmidzi, Abu Hurairah reports: "The Prophet, peace and blessings be upon him, said, 'He has not thanked Allah who has not thanked people'."

Review on Previous Studies

In 2009, Akbar published a study on the Management efficiency of 9 Zakat Organisations (OPZ) in Indonesia from 2005 to 2007 with 23 Decision-Making Unit (UPK). He employed DEA with a production approach. This research uses both output variables (pooled funds and channeled funds) and input variables (personnel costs, socialization costs and other operational costs). In stark contrast

to 2006 and 2007, the efficiency of *zakat* institutions was better in 2005, with the technical, scale and overall efficiencies exceeding 71.27%.

Wahab and Rahman (2012) conducted another study that related to Efficiency of Zakat Institutions in Malaysia: An Application of Data Envelopment Analysis (DEA). This research consisted of two input variables (total staff and total cost) and three output variables (total of collection, total of distribution, and amount of muzakki). The results of his research indicate that zakat institutions have achieved an average technical efficiency of 80.6%. It also reveals that pure technical inefficiency dominates the scale of inefficiency effects in determining the technical efficiency of zakat institutions in Malaysia.

Wahab and Rahman (2011) also have researched the Efficiency of Zakat Institutions and its Determinants. The analysts studied zakat institutions in Malaysia during 2003-2007 using a two-stage method and data envelopment analysis. The input variables were number of employees and total cost, while the output variables included the amount of funds collected, the amount of funds who channeled and donors. They concluded that pure technical inefficiency over scale inefficiency is the cause of zakat institutions inefficiency. This could be due to the institutional inability to harness technology available to collect more zakat collection and distribute it to the recipients. Examination of the return to scale revealed that more than half of zakat institutions in Malaysia were scale inefficient (operating at DRS or IRS). The empirical findings suggest that the zakat payment system, the computerized zakat system, board size, audit committee and decentralization significantly affect efficiency of zakat institutions in Malaysia.

In examining the determinant of *zakat* institution efficiency in Indonesia and its productivity level, Parisi (2016) measured the efficiency and productivity

level of Indonesian *Zakat* Institutions (IZI). This study aimed to deduce the factors that affect the efficiency level of IZI (DD, BAZNAS, PKPU, YBM BRI and RZ) with yearly data ranging from 2005 to 2014. This research employed Data Envelopment Analysis (DEA), Malmquist Productivity Index (MPI) and Tobit Regression. This study used two input variables (operational cost (X1) and socialization cost (X2)) and output variables (*zakat* collection funds (Y1) and fund distribution (Y2)) respectively. The findings signify that there were 5 DMUs categorized as perfectly efficient (Constant Return to Scale), 10 DMUs categorized as "Increasing Return to Scale" and 12 DMUs categorized as "Decreasing Return to Scale". DD (2010) owned the OPZ with the lowest relative efficiency level (9.63%). Moreover, about 80% of 5 OPZ experienced an increase in productivity level. The researchers believe that the human resources variable negatively correlates with OPZ efficiency, while regulation and type of OPZ positively correlates with OPZ efficiency.

The next study we will review is on Determinants of Efficiency of Zakat Institutions in Malaysia: A Non-parametric Approach. This study consisted of two input variables (total staff and total cost) and three output variables (total aggregation, total distribution and number of muzakki). Wahab and Rahman (2013) found that the Total Factor Productivity (TFP) of zakat institutions in Malaysia increased at an average rate of 2.4 percent during the study period. They attributed this to technical progress rather than efficiency components. The empirical findings based on the Tobit regression suggest that the zakat payment system, the computerized zakat system, board size, audit committee and decentralization significantly affect the efficiency of zakat institutions in Malaysia.

Ahmad and Ma'in (2014) conducted a study titled: The Efficiency of

zakat Collection and Distribution: Evidence from Two Stage Analysis. Four input variables were used (number of *amil*s, number of offices, number of bank agents, and cost of collection and distribution); and two output variables (*zakat* collected and *zakat* channeled). Their research explains that, firstly, both collection and distribution have lagging resources, or technical efficiency. Secondly, the result shows a lower efficiency of distribution than the collection function. Third, from the overall efficiency, allocative and cost efficiency scores demonstrate that maximum efficiency is achieved almost every year. It reveals that zakat institutions in Selangor are leveraging their input proportionately to ensure minimum cost incurred to produce a given output (amount collected and amount distributed) at a given input prices (cost collection and cost distribution).

METHODOLOGY

Data

Researchers used secondary data from the financial statements of each zakat institution. The object of this study is 15 out of 19 national zakat institutions during the period 2010 to 2016 with a total of 7 periods. Due to data limitations, the authors used a sample of 15 zakat institutions during the observation period. In total, this study used 58 DMU. This research uses DEA method with a production approach.

The input variables for the production approach are: 1) The number of *amil*; 2) The number of volunteers; 3) Personnel Cost; 4) Socialization Cost; 5) Operational Cost; and 6) The Number of offices. The output variables of this study are: 1) The amount of *zakat* collected; 2) The distribution of consumptive *zakat*; 3) The distribution of productive *zakat*; 4)

The number of *muzakki*; and 5) The number of *mustahiq*.

Table 1. Indonesian Zakat Institutions

Indonesian Zakat Institutions		
NO	Indonesian Zakat Institutions with community affiliation	Indonesian Zakat Institutions without any community affiliation
1	Badan Amil Zakat Nasional	Baitul Maal Hidayatullah
2	LAZIS NU	Rumah Zakat
3	LAZIS MU	Inisiatif Zakat Indonesia
4	Dompot Peduli Umat Daaruttauhid	Dompot Dhuafa
5	Al-Azhar Peduli Umat	Yayasan Dana Sosial Al-Falah
6	BAMUIS BNI	Nurul Hayat
7	Baitul Maal Muamalat	Yatim Mandiri
8	YBM BRI	

There are 8 IZI *Mass* on the left, and 7 IZI *Non-Mass* on the right.

Operational Definition

Researchers created an operational variable method by using input-output variable of production and intermediation approach. Under the production approach, an institution is a producer. Conversely, the intermediation approach assumes that a DMU acts as an intermediary. For the purpose of this study, the production approach is employed when defining the

inputs and outputs, as it is assumed that zakat institutions are primarily producing zakat collection and zakat payers (in a way of dakwah, promotion etc.) and distributing the funds to the asnaf (beneficiaries). The production approach is more suitable for this study (Wahab, 2013: 115; & Rahman, 2012). Table two represents the operational definition of the input and output variables of both the approach and the research:

Table 2. Input and Output Variables

INPUT	
X ₁ : The Number of Volunteers	Volunteers: External Parties that assists in implementing work programs at related <i>zakat</i> institutions. The number of central and branch volunteers
X ₂ : The Number of <i>Amil</i>	Amil: <i>Zakat</i> managers organized in one agency or institution. The number of <i>Amil</i> : Centre and branch offices
X ₃ : Socialization Cost	Socialization Cost: Socialization Cost of <i>Zakat</i> Institutions
X ₄ : Personnel Cost	Personnel Cost: Wage and Benefit of <i>Amil</i>
X ₅ : Operational Cost	Operational Cost: All distribution of <i>Amil</i> funds in addition to personnel costs, socialization, and the purchase of fixed assets
X ₆ : The Number of Offices	The Number of All Offices (Centre and Branches)
OUTPUT	
Y ₁ : The Amount of <i>Zakat</i> Collected	Total amount of <i>zakat</i> collected
Y ₂ : The Distribution of Consumptive <i>Zakat</i>	Program of <i>zakat</i> consumptive distribution
Y ₃ : The Distribution of Productive <i>Zakat</i>	Program of <i>zakat</i> productive distribution

METHODOLOGY

The concept of efficiency is rooted in the microeconomic concept, namely,

consumer theory and producer theory. Consumer theory tries to maximize utility or satisfaction from individual point of views, while producer theory tries to

maximize profit or minimize costs from the producer's point of views. In the producer theory, the 'S' curved production frontier line describes the relationship between inputs and outputs of production process. This production frontier line represents the maximum output from the use of each input. It also represents the technology used by a business unit or industry. A business unit that operates on the production frontiers is technically efficient (Ascarya, 2017:6).

There are two components of efficiency from production theory (Farell, 1957: 1). Technical efficiency (TE) describes the ability of a business unit to maximize output given a specified input (efficiency in terms of quantity). Allocative efficiency (AE) describes the ability of a business unit to utilize inputs in optimal proportion based on their price (efficiency in terms of price). When combined, these efficiencies produce economic and cost efficiency, that is Overall Efficiency (OE). A company is economically efficient if it can minimize the production costs to produce certain output within common technology level and market price level.

Overall Efficiency (OE) = Allocative Efficiency (AE) x Technical Efficiency (TE). Technical Efficiency can be broken down into Pure Technical Efficiency (PTE) and scale efficiency (SE), so that Technical Efficiency (TE) = Pure Technical Efficiency (PTE) x Scale Efficiency (SE). Therefore, $OE = AE \times PTE \times SE$.

Efficiency can be measured using either a parametric approach or non-parametric approach. Parametric approaches can include stochastic frontier approach (SFA) and distribution free approach (DFA). Measuring efficiency using a non-stochastic approach, such as data envelopment analysis (DEA), tends to combine disturbance into inefficiency. DEA measures the efficiency of a

decision-making unit (DMU) relative to other similar DMUs with the simple restrictions that all DMUs lie on or below the efficiency frontier. DEA can also determine how a DMU can improve its performance to become efficient. Non-stochastic approaches assume that random errors do not exist and that all deviations from the frontier indicate inefficiency. The advantage is that it does not require an a priori assumption about the analytical form of the production function so it imposes very little structure on the shape of the efficient frontier, so that there is no misspecification. The disadvantage is that it is sensitive to extreme observations and measurement error (the basic assumption is that random errors do not exist and that all deviations from the frontier indicate inefficiency), so there is a potential problem of "self-identifier" and "near-self-identifier".

DEA is a method for analyzing the relative efficiency and managerial performance of productive or decision making units (DMUs), that have the same multiple inputs and multiple outputs. DEA allows us to compare the relative efficiency of banks by determining the efficient banks as a benchmark and by measuring the inefficiencies in input combinations (slack variables) in other banks relative to the benchmark. DEA is a non-parametric, deterministic methodology for determining the relative efficient production frontier.

One can approach parametric or non-parametric efficiency measurement, of financial institutions such as banks based on their activities. There are three main approaches to explaining the relationship between input and output of banks. Production (or operational) and intermediation approaches apply the classical microeconomic theory of the firm. The modern (or assets) approach applies modified classical theory of the firm by incorporating some specificities

of banks' activities, namely risk management and information processing, as well as some element of agency problems, which are crucial for explaining the role of financial intermediaries (Freixas and Rochet, 1998).

Production approach describes banking activities as the production of services to depositors and borrowers using all available factors of production, such as labor and physical capital. This approach views financial institutions as the producer of savings accounts and credit loans. Therefore, this approach defines input as workforce numbers, capital expenses on fixed assets and other materials, and defines output as the sum of all deposit accounts or other related transactions. This approach is appropriate for local branch level banks (Freixas and Rochet, 1998).

Intermediation approach describes banking activities as intermediaries charged with transforming the money borrowed from depositors (surplus spending units) into the money lent to borrowers (deficit spending units). In other words, deposits that are typically divisible, liquid, short-term, and low-risk are transformed into loans that are typically indivisible, illiquid, long-term, and risky. This approach views financial institutions as intermediaries. These financial institutions transform and transfer financial assets from units with excess funds to units with lack of funds. Therefore, this approach defines input as financial capital (the deposits collected and the funds borrowed), and defines output as the volume of loans and investment outstanding. This approach is appropriate for main branch level banks (Freixas and Rochet, 1998).

RESULTS AND ANALYSIS

Results

Based on the analysis of 15 Indonesian Zakat Institutions (IZI), the study uncovered annual variations among IZI. However, efficiency measurements were still undertaken to examine the efficiency of IZI in terms of technical, pure technical and scale. The output approach was better suited for addressing the gap between the potential and realization of *zakat* collection.

Zakat management in Indonesia is efficient if its value reaches 100%. If the number exceeds 100% or is close to 0%, the management is assumed to be inefficient. The DEA methodology measures the relative efficiency. The subsequent paragraph presents the results of analysis with Banxia Frontier Analyst 3.2.2 and MAXDEA 6.1.

According to data analysis regarding the efficiency of IZI 38 zakat institutions of 58 DMU (65.51%) are efficient in terms of technical, pure technical and scale. 10 IZI scored below 60%, while the remaining 10 IZI have values above 60%. Thus, one-third of IZI still need to improve their efficiency.

The DEA method can also measure and ensure a DMU is optimizing the level of production, that is, how the optimal use of inputs generates output. DMU has three states: Return to Scale (RTS), Increasing Return to Scale (IRS), Constant Return to Scale (CRS) and Decreasing Return to Scale (DRS).

The result shows that 10 of IZI are in the IRS condition, stated with 1, and there are 10 IZI experiencing DRS condition, stated with -1 (see attachment 1). Overall, the IRS condition shows that zakat management is likely to continue to increase its output capacity by maintaining the available inputs. Addition of input is not effective in the above

circumstances, because the resources used are still not functioning optimally. The condition of the DRS exhibits a lack of ideality in its input, which is required to hold input reductions.

Efficiency of Indonesian Zakat Institutions: A Comparison

To analyze the 15 IZI with different annual variations, DMU is divided into two groups: *IZI Mass* (BAZNAS, LAZIS MU, LAZIS NU, Al-Azhar, DPU, BAMUIS BNI, YBM BRI, BMM) and *IZI*

Non-Mass (BMH, RZ, IZI, DD, YDSF, NH, Yatim Mandiri). In the initial year of the study period, the technical efficiency of *IZI Mass* was relatively low (85.4%). During 2013-2015, technical efficiency increased to 88.2%, and reached 88.4% by 2016 (see Figure 3, left). *IZI Non-Mass* technical efficiency almost mirrored *IZI Mass*, where the initial technical efficiency during 2010-2012 was 86.3%. *IZI Mass* then experienced a significant increase between 2013 and 2015 (91.7%) and decreased to 88.1% in 2016 (see Figure 3, right).

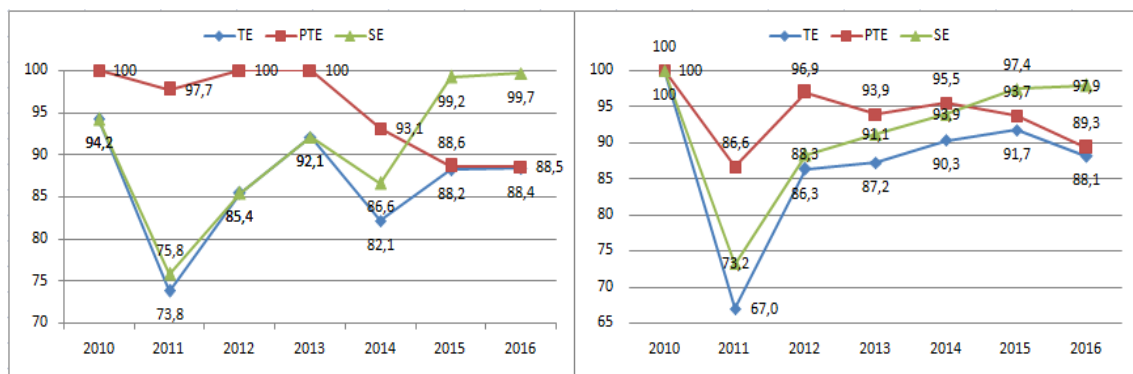


Figure 3. Efficiency of Indonesian *Zakat* Institutions *Mass* (Left) and Indonesian *Zakat* Institutions *Non-Mass* (Right)

The technical efficiency calculation of 8 *IZI Mass* witnessed a downward trend during the period of 2010-2016 (94.2% to 88.4%). With respect to the technical subject of analysis, the most efficient *IZI Mass* is BAZNAS (2012-2016) and LAZIS MU (2012-2016). The most inefficient zakat institution is LAZIS NU, with 4 years of inefficiency. However, LAZIS NU experienced an increase in 2016 with its efficiency level reaching 100%. Another zakat institution that was proven inefficient is Al-Azhar, with 3 years of inefficiency (see Table 6, left). The

technical efficiency calculation of 7 *IZI Non-Mass* shows an increase of efficiency from 67.0% in 2011 to 88.1% in 2016. In 2010, due to data limitation, only one zakat institution was suitable for analysis. The most efficient zakat institutions are YDSF, with 4 years of efficiency (2011-2014, 2015-2016) and BMH with 3 years of efficiency, excluding the year of 2014-2015. The most inefficient zakat institutions are Yatim Mandiri (2015-2016) and RZ, with 4 years of efficiency. However, RZ was efficient in 2010 and 2016 (see Table 6, right).

Table 6. Technical Efficiency of Indonesian *Zakat* Institutions *Mass* (Left) and Indonesian *Zakat* Institutions *Non-Mass* (Right)

TE	2010	2011	2012	2013	2014	2015	2016	TE	2010	2011	2012	2013	2014	2015	2016
BAZNAS	88,5	81,7	100	100	100	100	100	BMH		100	100	100	89,8	95,1	
LAZIS NU		39,9	41,8	62,1	65,5		100	RZ	100	34,0	59,1	49,0	61,9	100	
LAZIS MU	100	100	100	100	100			IZI							100
DPU DT			100	90,9	72,8	100	100	DD				100	100	100	
AL-AZHAR					36,3	41,4	30,7	YDSF			100	100	100	98,8	100
BAMUIS BNI				100	100	100	100	NH					100	100	100
BMM						100	100	Yatim Mandiri						56,4	52,7
YBM BRI				100	100										
TE	94,2	73,8	85,4	92,1	82,1	88,2	88,4	TE	100	67,0	86,3	87,2	90,3	91,7	88,1

The pure technical efficiency level of 8 IZI *Mass* exhibited a downward trend. They declined considerably from 100% in 2010 to 88.5% in 2016. According to this measurement, the most efficient IZI *Masses* are BAZNAS, with 6 years of efficiency (except in 2011), followed by LAZIS MU with 5 years of efficiency. The most inefficient IZI *Mass* is Al-Azhar, which maintained its inefficiency streak for 3 consecutive years (see Table 7, left). Seven IZI *Non-*

Mass experienced an upward trend for pure technical efficiency, with an efficiency level increase from 86.6% in 2011 to 89.3% in 2016. Due to data limitation, only one *zakat* institution from 2010 was suitable for analysis. The most efficient *zakat* institutions are YDSF and BMH, as both experienced 5 years of efficiency. The most inefficient *zakat* institution is Yatim Mandiri (2015-2016) and RZ, with 4 years of efficiency. However, RZ was efficient in 2010 and 2016 (see Table 7, right).

Table 7. Pure Technical Efficiency of IZI *Mass* (Left) and IZI *Non-Mass* (Right)

PTE	2010	2011	2012	2013	2014	2015	2016	PTE	2010	2011	2012	2013	2014	2015	2016
BAZNAS	100	93,2	100	100	100	100	100	BMH		100	100	100	100	100	
LAZIS NU		100	100	100	100		100	RZ	100	73,24	90,85	75,8	77,5	100	
LAZIS MU	100	100	100	100	100			IZI							100
DPU DT				100	81,65	100	100	DD				100	100	100	
AL-AZHAR					70,5	43,0	31,2	YDSF			100	100	100	100	100
BAMUIS BNI				100	100	100	100	NH					100	100	100
BMM						100	100	Yatim Mandiri						62,2	57,6
YBM BRI				100	100	100									
PTE	100	97,7	100	100	93,1	88,6	88,5	PTE	100	86,6	96,9	93,9	95,5	93,7	89,3

A similar pattern is also noted on the scale efficiency level of 8 IZI *Non-Mass*, whereby the efficiency level from 2010 to 2016 increased substantially by 5.5%. The most efficient *zakat* institution is BAZNAS, with 5 years of efficiency (except in 2010-2011), followed by LAZIS MU with 5 years efficiency. The most inefficient *zakat* institution is Al-Azhar, with 3 years of inefficiency (see Table 8, left). There is a clear positive trend of scale efficiency level of 7 IZI *Non-Mass* during 2011-2016, where the efficiency

level increased from 73.2% in 2011 to 97.9% in 2016. In 2010, due to data limitation, only one *zakat* institution was suitable for analysis. The most efficient *zakat* institution is YDSF, with 4 years of efficiency (except in 2015) and BMH with 3 years of efficiency, excluding the year of 2014-2015. The most inefficient *zakat* institution is Yatim Mandiri (2015-2016) and RZ, with 4 years of efficiency. However, RZ was efficient in 2010 and 2016 (see Table 8, right).

Table 8. Scale Efficiency of IZI *Mass* (Left) and IZI *Non-Mass* (Right).

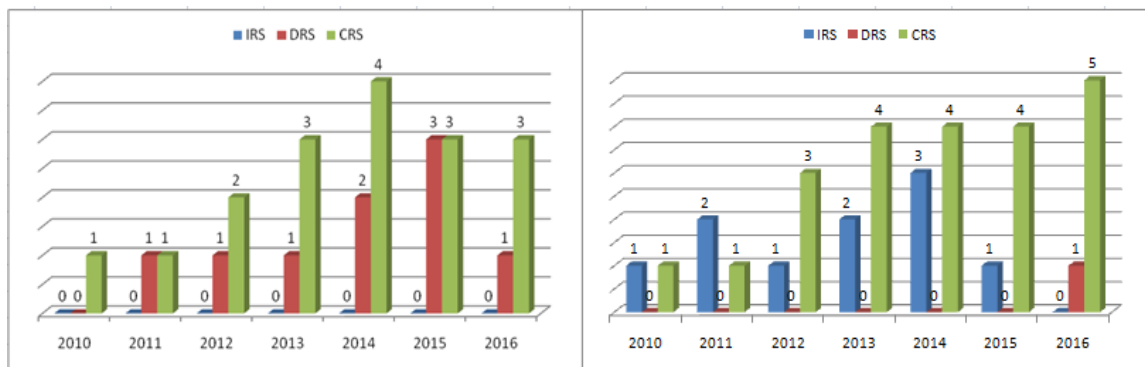
SE	2010	2011	2012	2013	2014	2015	2016	SE	2010	2011	2012	2013	2014	2015	2016
BAZNAS	88,5	87,8	100	100	100	100	100	BMH		100	100	100	89,86	95,16	
LAZIS NU		39,9	41,8	62,2	65,5		100	RZ	100	46,5	65,1	64,7	79,9	100	
LAZIS MU	100	100	100	100	100			IZI							100
DPU DT				91,0	89,2	100	100	DD				100	100	100	
AL-AZHAR					51,6	96,3	98,4	YDSF			100	100	100	98,89	100
BAMUIS BNI				100	100	100	100	NH					100	100	100
BMM						100	100	Yatim Mandiri						90,67	91,68
YBM BRI				100	100	100									
SE	94,2	75,8	85,4	92,1	86,6	99,2	99,7	SE	100	73,2	88,3	91,1	93,9	97,4	97,9

Return to Scale value has three conditions that describe the condition of each DMU, including:

- Increasing Return to Scale (IRS): The addition of 1 unit of input will result in the production of more than 1 unit of output. Therefore, the best strategy for the DMU is to continue to increase its production capacity;
- Constant Return to Scale (CRS): The addition of 1 unit of input will result in the addition of 1 unit of output. Thus, DMU must decrease its input;

- Decreasing Return to Scale (DRS): The addition of 1 unit of input will reduce 1 unit of output.

It is clear from the results that 8 IZI *Mass* CRS improved during 2010-2014, indicating that all IZI *Mass* have maximized their potential. On the other hand, 7 IZI *Non-Mass* CRS improved during 2010-2012, but appeared to stagnate during 2013-2015. In 2016, however, 5 IZI reached CRS and 1 IZI achieved DRS.

**Figure 4.** RTS of IZIs *Mass* (Left) and IZI *Non-Mass* (Right)

DMU is divided into two groups: Indonesian Zakat Institutions with community affiliations (IZI *Mass*), including BAZNAS, LAZIS MU, LAZIS NU, Al-Azhar, DPU, BNUIS BNI, YBM BRI, and BMM; and Indonesian Zakat Institutions without any community affiliation (IZI *Non-Mass*), including BMH, RZ, IZI, DD,

YDSF, NH, and Yatim Mandiri. The number of *amil*, the number of volunteers and socialization costs are the main sources of IZI *Mass* inefficiency. For instance, during 2010-2012, IZI *Mass* had limited efficiency potential for several aspects: i) the number of *amil*, ii) the number of volunteers and operational costs, iii)

socialization costs, iv) the amount of *zakat* collected, v) the distribution of productive *zakat*, and vi) the number of *muzakki* and *mustahiq*. However, in 2013-2016, the number of *amil*, the number of volunteers, socialization costs, operational costs and the distribution of consumptive *zakat* decreased (see Table 10).

Meanwhile, during 2010-2012, IZI *Non-Mass* experienced inefficiency in i) the number of *muzakki*, ii) the distribution of consumptive *zakat* and

iii) personnel costs. In 2013-2016, i) the number of volunteers, ii) socialization costs, iii) personnel costs, iv) the amount of *zakat* collected and v) the distribution of consumptive *zakat* added to the inefficiency of IZI *Non-Mass* (see Table 10). Thus, IZI *Non-Mass* needs to reduce i) the number of *amil*, ii) the number of volunteers, iii) socialization costs, and iv) personnel cost and increase both the amount of *zakat* collected and the distribution of consumptive *zakat*.

Table 6. IZI *Mass-min* and IZI *Mass max*

IZI Mass-min	2010	2011	2012	2013	2014	2015	2016
Number of Amil (X1)	-73	-58	-69	-43	-65	-86	-87
Number of Volunteers (X2)	-72	-58	-65	-27	-55	-97	-98
Socialization Cost (X3)	-75	-60	-58	-52	-60	-89	-93
Personnel Cost (X4)	-47	-18	-58	-41	-49	-58	-69
Operational Costs (X5)	-11	-32	-75	-23	-54	-58	-76
Number of Offices (X6)	17	-18	-90	-48	-59	-58	-69
Amount of Zakat Collected (Y1)	0.0	14	149	30	128	10	0.0
Distribution of Consumptive Zakat (Y2)	0.0	0.0	516	1226	110	0.0	13
Distribution of Productive Zakat (Y3)	169	82	0.0	0.0	18	5	0.0
Number of Muzakki (Y4)	677	963	0.0	40	273105	21	0.0
Number of Mustahik (Y5)	19	75	0.0	0.0	10,0	0.0	0.0
IZI mass-max	2010	2011	2012	2013	2014	2015	2016
Number of Amil (X1)	-70	-49	-26	-34	-46	-67	-60
Number of Volunteers (X2)	-69	-48	-18	-12	-52	-94	-93
Socialization Cost (X3)	-72	-52	0.0	-43,5	-26	-75	-78
Personnel Cost (X4)	0.0	0.0	0.0	-39	-33	0.0	0.0
Operational Costs (X5)	-40	-17	-41	0.0	-33	0.0	-22
Number of Offices (X6)	0.0	0.0	-77	-78	-79	0.0	0.0
Amount of Zakat Collected (Y1)	32	40	496	82,5	224	167	225
Distribution of Consumptive Zakat (Y2)	12	22	1373	709	195	141	268
Distribution of Productive Zakat (Y3)	203	123	139	34,5	96	153	225
Number of Muzakki (Y4)	778	1200	139	57	500666	193	225
Number of Mustahik (Y5)	35	114	139	34,5	101	141	225

Table 7. IZI *Non Mass -Min* and IZI *Non Mass -max*

IZI Non-Mass min	2010	2011	2012	2013	2014	2015	2016
Number of Amil (X1)	0.0	-75	-40	-51	-24	-29	-76
Number of Volunteers (X2)	0.0	-74	-40	-51	-31	-30	-80
Socialization Cost (X3)	0.0	-65	-64	-66	-25	-43	-80
Personnel Cost (X4)	0.0	-67	-48	-50	-38	-32	-68
Operational Costs (X5)	0.0	-65	-40	-50	-54	-33	-47
Number of Offices (X6)	0.0	-65	-40	-50	-24	-21	-47
Amount of Zakat Collected (Y1)	0.0	7	0.0	0.0	-2	80	88
Distribution of Consumptive Zakat (Y2)	0.0	940	2289	474	101	455	493

Distribution of Productive Zakat (Y3)	0.0	0.0	1036	651	0.0	0.0	0.0
Number of Muzakki (Y4)	0.0	31	104	1	23	0.0	0.0
Number of Mustahik (Y5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IZI Non-Mass max	2010	2011	2012	2013	2014	2015	2016
Number of Amil (X1)	0.0	-27	0.0	0.0	0.0	-32	-55
Number of Volunteers (X2)	0.0	-25	0.0	0.0	-21	-74	-63
Socialization Cost (X3)	0.0	0.0	-40	-32	-1	-37,7	-62
Personnel Cost (X4)	0.0	-4	-13	0.0	-45	-29	-40
Operational Costs (X5)	0.0	0.0	0.0	0.0	-35	-52	0.0
Number of Offices (X6)	0.0	0.0	0.0	0.0	0.0	-16	0.0
Amount of Zakat Collected (Y1)	0.0	214	69	104	38	142,3	257
Distribution of Consumptive Zakat (Y2)	0.0	2957	3941	1072	195	440	1023
Distribution of Productive Zakat (Y3)	0.0	193	1822	1433	36	27,7	89
Number of Muzakki (Y4)	0.0	285	245	106	55	27,7	89
Number of Mustahik (Y5)	0.0	193	69	104	36	27,7	89

ANALYSIS

From 2010 to 2013, the average technical efficiency of IZI *Mass* tended to be higher than IZI *Non-Mass*. Whereas in 2014, IZI *Non-Mass* efficiency increased from 87.2% to 90.3% and IZI *Non-Mass* efficiency decreased from 92.1% to 82.1%. Regarding pure technical efficiency during 2011-2013, IZI *Mass* efficiency increased from 97.7% to 100% and experienced a downward trend in 2014-2016 (88.5%). In contrast, IZI *Non-Mass* pure technical efficiency fluctuated during 2011-2016. In 2012, it increased by 10.3% from the previous year. It then began fluctuating until 2016.

IZI *Mass* scale efficiency fluctuated during 2010-2013, decreasing in 2014 (86.6%) and subsequently reaching its highest level during 2015-2016 (99.7%). IZI *Non-Mass* scale efficiency fluctuated during 2010-2012, and then stabilized until 2016.

IZI *Mass* was consistently inefficient in The Number of *Amil* (X1), The Number of Volunteers (X2) and Socialization Costs (X3) during the research period, except in 2012. This impelled high operational costs in every year except in 2013 and 2015. The

amount of *zakat* collected (Y1) was inefficient in every year except 2010 and 2016, indicating the need for an increase in the amount of *zakat* collected.

IZI *Non-Mass* were consistently inefficient in the number of volunteers (X2), socialization costs (X3) and the distribution of consumptive *zakat* (Y3). The number of *mustahiq* (Y5) showed promising results, indicating that IZI *Non-Mass* fulfilled their intermediate function.

In 2010-2011, of 8 IZI *Non-Mass*, 12.5% reached the Return to Scale (CRS) level. The positive trend continued by reaching 37.5% in 2012, 50% during 2013-2015, and 62.5% in 2016. IZI *Non-Mass* CRS levels increased from 14.3% in 2011 to 28.6% in 2012 and reached 42.8% in 2016.

The 2016 efficiency rate of IZI *Mass* and IZI *Non-Mass* reflect that both *zakat institutions* have achieved technical efficiency. Meanwhile, improvement of IZI *Non-Mass* efficiency could occur by reducing the number of *amil* (X1), the number of volunteers (X2) and the socialization costs (X3), as well as increasing the amount of *zakat* collected (Y1). On the other hand, IZI *Non-Mass* inefficiency could be lowered by reducing the

socialization costs (X3), personnel costs (X4), as well as increasing the distribution of consumptive *zakat* (Y2).

The comparative analysis of IZI *Mass* and IZI *Non-Mass* reveal that the main issues that explain the inefficiency of *zakat* institutions are i) socialization costs, ii) the number of volunteers, iii) the amount of *zakat* collected, and iv) the distribution of consumptive *zakat*, reducing the intermediation function of *zakat* institutions.

Zakat institutions that developed and expanded in the corporate environment (banking) tend to be more efficient than *zakat* institutions such as BAMUIS BNI, BMM, and YBM BRI. The rationale underlying this phenomenon may be the salary deduction system, which reduces the pressure to collect ZIS funds.

The list below shows Indonesian *Zakat* institutions (IZI) that steadily improve their level of efficiency from year to year:

- a. Baitul Maal Ummah Islam BNI (BAMUIS BNI) [2013-2016]
- b. Nurul Hayat [2014-2016]
- c. Dompot Dhuafa (DD) [2013-2015]
- d. LAZISMU [2010-2014]
- e. Yayasan Baitul Maal BRI (YBM BRI) [2012-2014]
- f. Baitul Maal Muamalat (BMM) [2015-2016]

CONCLUSIONS AND RECOMENDATIONS

Conclusions

Zakat institutions (IZI *Mass* and IZI *Non-Mass*) play a pivotal role in *zakat* collection in Indonesia by maximizing particular inputs and outputs. Therefore, *zakat* institutions must be effective, efficient, socialized, and produce

enormous impacts on alleviating poverty and improving the prosperity of *zakat* recipients. The subsequent paragraph presents the research findings.

The technical calculation demonstrates that 65.51% of IZI (38 of 58 DMUs) are efficient, with 100% score. While 24.13% scored between 50-99% and 6.89% scored below 50%. The pure technical calculation reveals that 81.03% of IZI (47 of 58 DMUs) are efficient, with 100% score. 15.51% scored between 50-99% and 3.44% scored below 50%, while calculations on a scale basis show that 65.51% of IZI (38 of 58 DMU) are at an efficient point with a score of 100%. 29.31% of IZI scored between 50-99% and 5.17% scored below 50%.

Recommendations

Based on the research findings, the authors propose several recommendations:

1. Indonesian *Zakat* Institutions:
 - 1) Both government and private IZI should issue annual reports in an effort to improve transparency and accountability in the management of ZIS funds. The financial statements of IZI will be useful for academics, students and researchers to improve the development of *zakat* in Indonesia.
 - 2) IZI must optimize the distribution of *zakat* fund to *asnaf* to meet the objectives of decreasing the poverty rate.
 - 3) To increase the number of *muzakki*, amount of *zakat* collected, the distribution of consumptive *zakat*, and to reduce the cost of socialization and the number of

volunteers to improve the efficiency of the management of IZI.

2. Government:

To make accounting standards for zakat institutions and legalize it to make it

easier for academics, communities, and related zakat institutions to obtain information that would meliorate the accountability and transparency of zakat management in Indonesia.

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Appendix
Appendix 1. Level of Efficiency in Zakat Management

NO	Unit Name	TE	PTE	SE	RTS
1	2010-LAZISMU	100	100	100	0
2	2010-Rumah Zakat	100	100	100	0
3	2011-Baitul Maal Hidayatullah	100	100	100	0
4	2011-LAZISMU	100	100	100	0
5	2012-BAZNAS	100	100	100	0
6	2012-Baitul Maal Hidayatullah	100	100	100	0
7	2012-LAZISMU	100	100	100	0
8	2012-Yayasan Baitul Maal BRI	100	100	100	0
9	2012-Yayasan Dana Sosial Al-Falah	100	100	100	0
10	2013-Baitul Maal Umat Islam BNI	100	100	100	0
11	2013-BAZNAS	100	100	100	0
12	2013-Baitul Maal Hidayatullah	100	100	100	0
13	2013-Dompot Dhuafa	100	100	100	0
14	2013-LAZISMU	100	100	100	0
15	2013-Yayasan Baitul Maal BRI	100	100	100	0
16	2013-Yayasan Dana Sosial Al-Falah	100	100	100	0
17	2014-Baitul Maal Umat Islam BNI	100	100	100	0
18	2014-BAZNAS	100	100	100	0
19	2014-Dompot Dhuafa	100	100	100	0
20	2014-Nurul Hayat	100	100	100	0
21	2014-LAZISMU	100	100	100	0
22	2014-Yayasan Baitul Maal BRI	100	100	100	0
23	2014-Yayasan Dana Sosial Al-Falah	100	100	100	0
24	2015-Baitul Maal Umat Islam BNI	100	100	100	0
25	2015-BAZNAS	100	100	100	0
26	2015-Baitul Maal Muamalat	100	100	100	0
27	2015-Dompot Dhuafa	100	100	100	0
28	2015-Dompot Peduli Umat	100	100	100	0
29	2015-Nurul Hayat	100	100	100	0
30	2015-Rumah Zakat	100	100	100	0
31	2016-Baitul Maal Umat Islam BNI	100	100	100	0
32	2016-BAZNAS	100	100	100	0
33	2016-Baitul Maal Muamalat	100	100	100	0
34	2016-Dompot Peduli Umat	100	100	100	0
35	2016-LAZ IZI	100	100	100	0
36	2016-Nurul Hayat	100	100	100	0
37	2016-LAZIS NU	100	100	100	0
38	2016-Yayasan Dana Sosial Al-Falah	100	100	100	0

39	2015-Yayasan Dana Sosial Al-Falah	98,89	100	98,89	-1
40	2015-Baitul Maal Hidayatullah	95,16	100	95,16	-1
41	2013-Dompot Peduli Umat	90,98	100	90,98	1
42	2014-Baitul Maal Hidayatullah	89,86	100	89,86	-1
43	2010-BAZNAS	88,53	100	88,53	1
44	2011-BAZNAS	81,76	93,16	87,76	1
45	2014-Dompot Peduli Umat	72,85	81,65	89,22	1
46	2014-LAZIS NU	65,51	100	65,51	1
47	2013-LAZIS NU	62,19	100	62,19	1
48	2014-Rumah Zakat	61,98	77,53	79,93	-1
49	2012-Rumah Zakat	59,12	90,85	65,07	-1
50	2015-Yatim Mandiri	56,40	62,20	90,67	-1
51	2016-Yatim Mandiri	52,78	57,57	91,68	-1
52	2013-Rumah Zakat	49,00	75,78	64,66	-1
53	2012-LAZIS NU	41,82	100	41,82	1
54	2015 Al-Azhar	41,46	43,04	96,33	1
55	2011-LAZIS NU	39,91	100	39,91	1
56	2014 Al-Azhar	36,36	70,52	51,56	1
57	2011-Rumah Zakat	34,04	73,24	46,47	-1
58	2016 Al-Azhar	30,72	31,21	98,43	-1
Average		87,06	94,08	91,98	

Source: Processed from Software Banxia Frontier Analyst 3

The Reinforcement of Zakat Management through Financial Technology Systems

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ABSTRACT

Financial technology or fintech, as the information media used to execute technology-based financial services, has become a great foundation in the effort toward enhancing the effectiveness and efficiency of financial services. The integrated zakat management system has been developed and needs innovations to be developed; several amil zakat institutions have utilized fintech as a more optimal services device in zakat management. This means that the fintech-based management of zakat will continue to grow and grow well, on both the market and consumer sides (especially for the aspect of demand), so it needs regulation, standardization and effort to guarantee the management of zakat using fintech media. This paper will offer concepts for the innovation, reinforcement, strategy, and legality regarding a technology-based management system for zakat, funded by the government or a relevant authority.

Keywords: Financial Technology, Reinforcement, Management of Zakat

INTRODUCTION

Digital-technology development is increasing in some countries. The digital era in Indonesia is marked by the increasing usage of the Internet by society. According to Global Digital Report Data (2018), the number of Internet consumers in Indonesia has reached 132 million people or, in other words, more than 50% of Indonesian society are able to access the Internet. Therefore, currently, modern society activity tends to use technology more intensively to fulfil its requirements. Everyday activities, which have become the habit of society today when using technology, include, among others, buying food to eat, ordering transportation, shipping goods, ordering tickets, and doing business. Due to the presence of technology, human beings perceive their activities have become more assisted and efficient.

This phenomenon of the effect of an innovation on a system is known as a disruptive innovation. Disruptive innovation is an innovation that is successful in transforming an existing system or market by introducing practicability, easy access, comfort, and an economical cost (Hadad, 2017). The condition also occurs in the financial services industry, for which it has disrupted the landscape of the financial services industry globally. Beginning from the its industry structure, its intermediation technology to the its marketing model to the consumer. This has changed things entirely and encouraged the appearance of a new phenomenon called financial technology (fintech) (Hadad, 2017).

Fintech represents services in the field of finance that utilize the role of technology. Currently, the development of fintech in Indonesia is predominant in the sector of business payments, which accounts

for 42.22% of fintech, and the loan sector or lending it is equal to 17.78%. The rest consists of the aggregator sector at 12.59%, crowdfunding at 8.15%, financial planning at 8.15%, and others at 11.11%.

Furthermore, the number of fintech companies in Indonesia continues to

increase every year. Before 2006, in Indonesia there were only four fintech companies, by 2014 there were forty companies, and a significant improvement was experienced in 2016, when it became 165 companies.

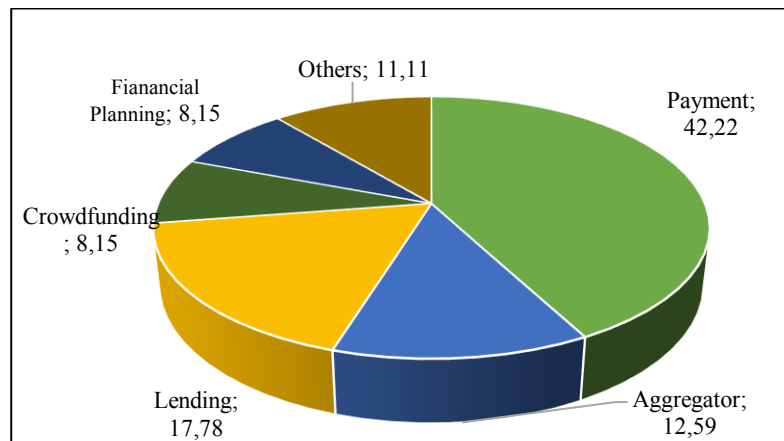


Figure 1. Profile of Fintech in Indonesia based on Sector (by Percentage)
Source: Hadad (2017)

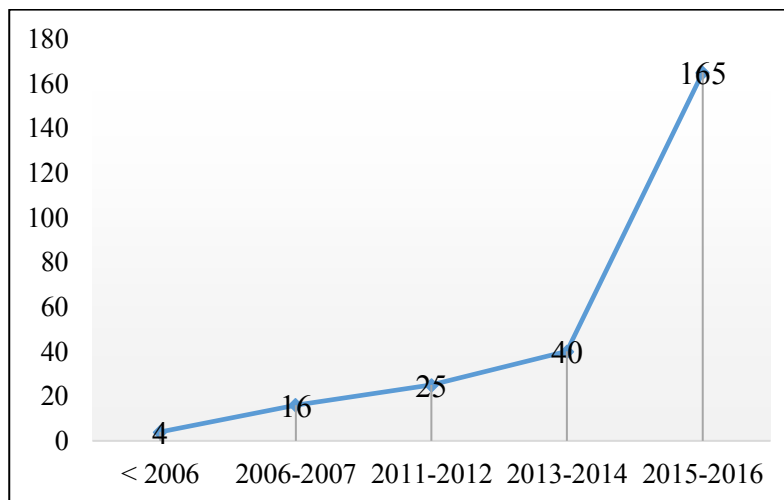


Figure 2. Profile of Fintech in Indonesia based on the Quantity of Companies (in Units)
Source: Hadad (2017)

As a newly developed innovation, it needs an authority to regulate existence of fintech. Jutla and Sundararajan (2016) explain some reasons why fintech needs to be regulated, which are due to the existence of asymmetric information, externality, and the increasingly blurred boundaries between professional and personal who involved. In

addition, according to the chief commissioner of the board of the Financial Services Authority Indonesia (Otoritas Jasa Keuangan [OJK]) some ascertained risks arising from fintech are as follows: *firstly*, there is the risk of the failure of applications related to the technological integrity exercised, and the resistance to virus attacks,

hackers, and so on; *secondly*, there is operational risk from the potential for fraud and risk of the failure to pay; and, *thirdly*, there are risks to the security of big data managed by fintech companies (Imansyah, 2016).

The development of fintech as a business *trend* encourages various sectors to participate in its application. *Zakat*, *infaq*, and *shodaqoh* (ZIS) are as the instruments of social finance, which have great potential for collection to be improved continuously. Therefore, to respond to the digital society today, it is perceived that the institution of *zakat* needs to utilize fintech to easily collect *zakat* payments for the *muzakki*.

Table 1. Total Value of ZIS Collected in Indonesia

Year	In Rupiah (Billion)	In USD (Million)
2002	68.39	4.98
2003	85.28	6.21
2004	150.09	10.92
2005	295.52	21.51
2006	373.17	27.16
2007	740.00	53.86
2008	920.00	66.96
2009	1,200.00	87.34
2010	1,500.00	109.17
2011	1,729.00	125.84
2012	2,200.00	160.12
2013	2,700.00	196.51
2014	3,300.00	240.17
2015	3,700.00	269.29

Source: Outlook Zakat Indonesia, Badan Amil Zakat Nasional (BAZNAS) (2017)

The accumulated ZIS fund has continuously improved and has huge potential, so one way that can be used in an effort to maximize its potential is through utilizing fintech for its payment aspect. There are several studies that estimate the potential for ZIS in Indonesia:

- PBB UIN Syarif Hidayatullah's (2005, cited in Wibisono, 2016) study

estimates the potential of Islamic philanthropy in Indonesia as IDR 19.3 trillion in 2004 (0.8% of GDB for 2004).

- BAZNAS – IRTI IDB / Firdaus et al.'s (2012, cited in Wibisono, 2016) study found the potential of *zakat* in Indonesia has reached IDR 217 trillion (3.4% of GDB in 2010).
- Wibisono's (2015, cited in Wibisono, 2016) study finds that the potential of *zakat* Indonesia in 2010 had reached IDR 106.6 trillion (1.7% of GDB in 2010).

The use of technology in ZIS fund management is also reinforced with BAZNAS's Strategic Plan (*Rencana Strategis/Renstra*). BAZNAS (2016) states that technology information is one of the main topics for national *zakat* management. It argues that the development of a national *zakat* system must utilize the development of technology information as an acceleration device to improve the effectiveness and efficiency of *zakat* management services in the, and to improve the benefits of *zakat* that will realize community welfare and alleviate poverty (BAZNAS, 2016).

Utilizing technology for the management of ZIS represents an innovation that has the potential to improve collection and distribution. The concept of digital philanthropy has evolved significantly in recent years due to the growth of the Internet (Abdelkader, 2017). But, until now, there has been no standard regulation or governance of ZIS management (especially for the management of *zakat*) through fintech media. However, today, many crowdfunding sites, marketplaces, and interface applications used as social-fund-gathering media have emerged. While using fintech itself has various risks, as previously mentioned. In this case, an appropriate government agency (institution) and BAZNAS have roles as the regulator

function and stakeholders, which have authority in reinforcement and monitoring of fintech-based *zakat* management. Therefore, based on this background description, this article offers concepts for innovation, reinforcement, strategy, and legality concerning the management of technology systems based on *zakat*. The purpose of this work is to be able to provide a diagram related to the phenomenon of managing information technology based on *zakat* and to provide a concept for the institution's function in supporting the reinforcement of *zakat* management.

LITERATURE REVIEW

Financial Technology (Fintech) Systems

Fintech is an innovation that uses technology within financial systems and financial services that create products, services, technology, and/or new models of business. It is able to affect the stability of the monetary system; the stability of financial systems; and/or the efficiency, fluency, security, and reliability of the payment systems (Peraturan Bank Indonesia, 2017; GSMA, 2017). The use of fintech is only the effective service devices, so there is no proven apriority that fintech will change the essence of intermediation in a financial system or the needed economic function. For a financial system in general, it is important to observe these functions as the continuous effort to reduce financial friction. This financial friction probably includes asymmetric information, an incomplete market, and negative externality, and can be closely related to an unharmonious incentive, the effect of a network, or behavioral distortion (FSB, 2017).

Service Tools in Zakat Institutions

In general, *muzakki* in Indonesia includes the upper middle class, who have a critical attitude and have a better ability to fulfil *zakat* payments. Therefore, *zakat* institutions need to improve *muzakki* satisfaction in ways such as facilitating *zakat* payments using an electronic approach. This is a new approach to *zakat* management, which is based on the behavior of *muzakki*, and is an important resource in *zakat* institutions. Understanding the behavior of the *muzakki* and maintaining good relations is the concept behind the need for optimizing the collection of *zakat* (Widarwati et al, 2017).

Optimizing the distribution of *zakat* funds is by providing the *muzakki* with facilities to distribute their own wealth to needy people (beneficiaries), while upholding transparency and accountability. That can be realized through an information system; the technology can accommodate the nature of trust in the process of distribution and *zakat* fund management. The use of information systems can streamline the power, streamline the time, and allow flexibility of the distribution range to be unlimited. The form of information system to be used is expected to be a platform that is simply a "web store" for donors and beneficiaries to interact with each other (Khoirun, 2016).

Zakat Management based on Information Technology

Conducting activities with technology media in the management of social funds is considered to be a production input for achieving optimal levels of efficiency and employment acceleration (Razimi et al., 2016). This can be achieved with a management information system. Sclot (2005) states that information systems can be used in real ways to control operations,

strategies and planning, management control, and problem solving. The implementation of media technology by using applications, online, *zakat* payments, and *zakat* computer systems can improve performance and help *zakat* management to cover the wider society (Razimi et al., 2016), and support modernization and innovation (Makhtar and Ahmad, 2010).

There are many empirical studies related to the application of information media in the management of *zakat*. Bayu (2015) examines the level of efficiency of *zakat* management by using an information management system. Wahab et al. (2014) use technological variables with a data envelopment analysis method for a *zakat* institution. Eliyani and Handriani (2016) examine the application of a *zakat* acceptance system in *zakat* management.

CONCEPT OF THE IDEA

The rise in fintech features has increased the management of *zakat* in Indonesia. The development of a digital world of features has provided a convenient mechanism for the integration and management of *zakat*, and is able to involve the BAZNAS authority and the ministry of religion as the authority and regulator of *zakat* management, which has become crucial. The involvement of BAZNAS and the ministry of religion form the acceleration, regulation and supervising system for the management of *zakat* using technology features. It is considered to be important as the management of *zakat*, which is based on the principle of *syariah*, is able to support the effectiveness of management, innovation, velocity of performance growth, and accountability to build the trust of the community. The strategy of reinforcing *zakat* management through fintech was built based on improving the performance of *amil*

through using digital technology (Internet and mobile applications) as the media of delivery of the products. The explanation for each part will be discussed as follows.

Reinforcement System and Integrated Supervising

The strategy of institution reinforcement is the effort to build organizations, systems, processes, rules and the governance of *zakat* related to the individual capability development, and building organizational and institutional capacity. It is considered to be important to create sturdy and strong ecosystems that are dynamic and sustainable. The strategy of reinforcing and supervising the management of *zakat* through fintech include the following basic principles, among others:

1. *Syariah* Compliance

The management system of *zakat* funds must be based on the principle of *syariah*; this means that the management of *zakat* is a religious command (Said et al., 2012). Fintech is a device used to easily access finances, and to run and support the management of *zakat*, which must be in accordance with obedience to *syariah*.

To create management that is appropriate to the principle of *syariah*, the authority institution needs to provide the requirements and standardization for the two basic structures: firstly, the technical structure in the form of *akad* decisions, administration costs, and the objective and calculation of *zakat*; and secondly, the structure of financial reporting that is based on the standard financial accounting of *syariah*. The next step is to provide the continuous function of *syariah* supervision of the fintech systems to strengthen the electability and existence of values that have been built.

2. Legal Compliance

The principle of using fintech as the technology media in the management of *zakat* must be in accordance with the constitution or the rules of government. There are two aspects to the fintech-based management of *zakat*, namely the constitution concerning the management of *zakat* and information technology. Fulfillment of the legal principle is performed by the authority concerned giving permission and authorization to the media and fintech tools. The aspects of *zakat* management include the collection, distribution and utilization of *zakat*, and integrated reporting as contained in Government Regulation Number 14 of 2014 Regarding the Management of Zakat, Law Number 23 of 2011 Regarding the Management of Zakat and The Regulation of the Minister of Religion Number 52 of 2014 Regarding the Requirement and the Manner of Calculation of *Zakat Mal* and *Zakat Fitrah* as well as the Utilization of Zakat for the Productive Business. In addition, the information technology aspects are as contained in Law Number 11 of 2008 Regarding Information and Electronic Transactions.

3. Accountability and Transparency

Aspects that influence the community's perspective and commitment to the payment of *zakat* are accountability and transparency (Bayu, 2015). The fulfillment of the principle of accountability and transparency is realized through the presence of obligations for the *amil zakat* institutions (*lembaga amil zakat* [LAZ]), as well as fintech being the means to deliver the required financial reporting and operational accountability for the two stages of reporting. Firstly, the relevant authority, such as the ministry of religion or BAZNAS,

must ensure that the intended reporting is in accordance with the standard *syariah* accounting and must submit the official report. This is intended so that the relevant authority is able to exercise control, at any time, over all transactions, the financial flow, governance, and the information system for *zakat*. The *zakat* utilization report is submitted periodically to the community, especially *muzakki*, both through information media or mailed through the postal system. The reporting to the community can be submitted only in the form of an official report and a basic financial report. This is intended to build the community's trust, good governance, and transparency of *zakat* management.

4. Security

The fulfillment of the principle of providing security and safety to the community is to be addressed to the donator, *muzakki* or to the *mustahiq*. The security factor is the effort to guarantee the flow and financial transactions, so as to avoid transaction risks, and to prevent criminal actions such as money laundering and manipulation efforts. With the guarantee of a safe and secure system, the community will not hesitate to use the fintech facilities in their funds transactions for *zakat*.

The Big Concept

In the effort to support the fulfillment of the principle of fintech reinforcement, there are four important concepts to be carried out, which are as follows:

1. Integration

Institutional integration between the LAZs and the relevant ministries – such as the ministry of religion, the ministry of social

services, the ministry of information, and BAZNAS – is required in the effort to guarantee the sustainability and consistency of applying the rules, values, and principles to the fintech system that will be specified in the future. Each activity and organization that is directly involved in the improvement of *zakat* management must address mutual use and mutual strengthening, so it can cause greater results and impacts. In this case, the government and BAZNAS run the function to implement the regulation system, and must provide supervision and permissions, policy determination, research, support and protection of the fintech media and LAZs. Then the fintech media and LAZs perform the activities for *zakat* management in line with the specified requirements and regulations.

2. Technology Development System

A technology development system has two main focuses. Firstly, providing infrastructure development and information technology tools; this can be achieved through providing incentives, velocity of computerization system and provides easily networking. Secondly, the improving the skills of human resources, which, according to Silalahi (2000), is conducted through providing training, education, and coaching, especially in the field of information technology.

3. Standardization

Standardization is a method used to provide specific boundaries, and defines the objectives or characteristics of a process, and/or characteristics of running fintech systems. Standardization in the field of fintech includes standards for the infrastructure (both for hardware and software), and the skills and knowledge of the human resources, and refers to the

management of the arrangement. This process must be followed and becomes a reference for each of the media services for fintech or LAZs. The standardization of *zakat* management using technology media includes standards for *syariah*, transaction costs, financial reports, transparency, management (for both the collection and distribution of *zakat*), and analysis. It is performed with the purpose of ensuring security, reducing risks, improving quality and services, and encouraging work effectiveness.

4. Certification

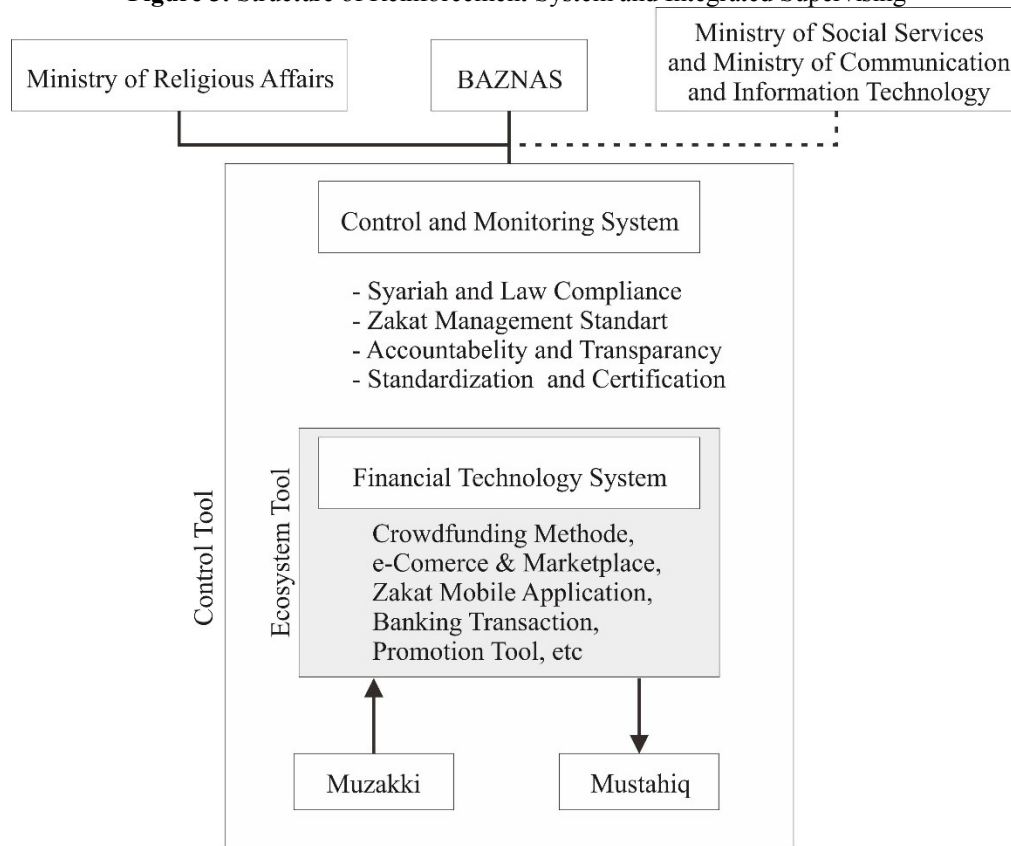
Certification is a determination provided by an authority or institution to a person or institution to indicate their ability to carry out an activity in accordance with the specified requirements. Certification has the purpose of making sure that an activity is performed in a legitimate way and reduces the possibility of authority misuse occurring. In this case, institution certification, especially for the information systems, is issued by the government through BAZNAS or through the forming of an independent third party. This certification institution checks there is a valid identity (such as performing digital certification under Electronic Certification Implementation in Law Number 11 of 2008 Regarding Information and Electronic Transactions); analyses the ability to manage *zakat* through LAZ and fintech; makes sure the transactions are sustainable, for both the collection and distribution of funds; and provides a rating for the marketplace or application in order to encourage the development of facilities and technology means, if needed.

5. Literacy and Education

The implementation of literacy and education is intended to improve the understanding of the community regarding the payment of *zakat* and the fintech-based management of *zakat*. The process for literacy includes activities to emphasize the

education aspect in the community (both for *muzakki* and *mustahiq*) for them to obtain information and knowledge regarding procedures and access, and choose a program. The concept of literacy includes education on information technology, finance and *zakat* management.

Figure 3. Structure of Reinforcement System and Integrated Supervising



Purpose and Benefits

The process of developing and reinforcing *zakat* management through fintech has several purposes and benefits, as follows:

1. Improving the community's trust and growing social capital toward the information media of fintech as a tool and *zakat* management facility, and toward LAZs regarding the security and safety of *zakat* management.
2. Improving optimal services to provide convenience that meets the needs of the

community, through improving both self-service and full-service.

3. Encouraging progress and innovation in digital-technology-based *zakat* management by delivering easy access, and improving the quality of optimal products and services.
4. Improving competitiveness among of technology-based *zakat* management institutions, both among LAZs, technology media, and with institutions or other business fields.

5. Maximizing the transparency and accountability of LAZs through technology media in order to achieve good corporate governance.
6. Improving literacy and education on *zakat* through authorities, *zakat* management institutions and fintech to the wider community.
7. Create an excellent ecosystem for *zakat* management, which is integrated and facilitates the mutual collaboration of human resources and business support.

Technical Concept for Applying Fintech to Zakat

As a broad outline, the concept of the idea of using technology media in the management of *zakat* is not only appropriate for the process of collecting *zakat*, but it is able to be applied to the process of distributing *zakat*. The process for implementing technology media can be explained as follows:

1. Implications of Fintech Model on the Collection of *Zakat*

There are many applications of the process for the collection of digital-based funds understood by the wider community. There are two main concepts in the application of fintech in the *zakat* management, namely the direct collection of *zakat* from the community through crowdfunding, and *zakat* payment through the information technology media such as e-commerce or the marketplace, *zakat* applications, online payments, and Islamic banking transactions. The explanation of both concepts is as follows.

- A. In crowdfunding (especially the donation-based type), the creator (the person or institution collecting the funds) is able to make a campaign to accept donations.

The campaign contains detailed information about the distribution program (Belleflamme et al., 2014), and gives detailed information about that distribution program that will be created and performed. A proposed campaign for a program of *zakat* distribution must be in accordance with the interests, justice, and for the welfare of *mustahiq*. There are three steps to be implemented by the government function or BAZNAS in order to reinforce *crowdfunding*, which are the following:

1. Ensuring legality and providing supervision to two the main objects. Firstly, the actors related to the creator (in this case, LAZ), the government and BAZNAS determine the standards and validate the program to which donations will be given. Secondly, the information media fintech tools need to be examined regarding their legal standing, operational standards, and concept of *akad* in accordance with *syariah*.
2. Issuing certification and a security guarantee to the actors (giving a rating and assessment, if needed). This is perceived to be important in order to avoid the misuse of authority, increase security, provide operational standards, and to avoid criminal risks in the digital and financial fields.
3. Fulfilling their obligation to submit the accountability and integrated reporting, both to the relevant authority and the wider community. Mollick (2014) and Zheng et al. (2014) state that the provision of reporting and reward submissions to the community is considered to improve the performance of crowdfunding.

B. Making transaction payments through e-commerce or marketplaces, *zakat* applications, online systems and Islamic banking tool transactions is not like crowdfunding; this concept only includes the tools and facilities for *zakat* payment transactions. In this case, the government function and BAZNAS, in an effort to reinforce technology-based *zakat* transactions, needs to provide operational standards and *syariah* standards within the facility, means and put infrastructure in place. Furthermore, certification can be obtained to secure the validity of the operations.

2. Implications of the Fintech Model on Zakat Distribution

The distribution of *zakat* funds through fintech is still not really experienced by the wider community, especially if compared with the concept of collecting *zakat* funds. According to Hamid et al. (2016) and Ahmad et al. (2015), the concept of fund distribution is addressed by the *mustahiq* against a background of a low-class community with respect to digital penetration, ownership of tools and infrastructure of lower specification information technology, which causes an information gap between *mustahiq* and *muzakki* emerge. The system of traditional distribution is more established and the limitation of adequately recourses. There are several research projects related to the concept of using technology in an effort to encourage efficiency in *zakat* distribution, but they only perform an external analysis and not do not investigate the technical application of real distribution; for example, the research of Lubis et al. (2011) concerning *zakat* distribution using a geographic information system, Hamid et al.'s (2016) study of the collection and distribution of *zakat* using customer

relationship management (CRM), and Abral et al.'s (2016) research concerning *zakat* applications. To implement a fintech model for the distribution of *zakat*, the writer proposes the following steps and applicative concept:

A. Proposal Submission

The *mustahiq* or the community will suggest the distribution of *zakat* fund by submitting a proposal. Proposal submission is very important to determine the seriousness of the submission, drawing (description), criteria, budget, and data of *mustahiq*. A good proposal must include complete and accurate data, and photo of the conditions and activities to be carried out. This will allow the relevant LAZ to analyze and specify the steps of selection through the file proposed. The proposal can be submitted by filling in an application form provided by the fintech media or through uploading a file containing the proposal submission.

B. Analysis with Rating and Survey Using the Likert Scale Method.

The LAZ can propose several questions and check the completeness of the appropriate evidence. These questions include a character analysis and availability of capital, the capacity of *mustahiq* can be calculated using the Likert scale, and standard feasibility index for the *mustahiq* can be determined. If needed, a field survey will be performed for the LAZ to support the validity of the receiver.

C. Agreement and Recommendation for the Official or Community Figure

To strengthen the argument for the submission, it will be accompanied with the recommendation of the official or community figure for the surrounding

area. The LAZ is able to provide the recommendation through information media and it can be uploaded by the *mustahiq*.

D. Distribution

In this step, the LAZ can distribute the *zakat* using two systems. Firstly, indirect distribution, for which the *mustahiq* or applicant must have a bank account, or the *zakat* funds can be distributed through the local official account. Secondly, through direct distribution, in which the LAZ distributes the *zakat* funds, as currency or in the form of goods, to the *mustahiq* directly without using a banking mediator.

Impact and Challenge

It is expected that the implementation of the concept of reinforcing and supervising *zakat* management through information media will have positive impacts on the various parties.

1. Impact for the Authority and Stakeholders

There is a positive impact for the authority and stakeholders of the policy, such as the government and BAZNAS, as follows:

- a. It assures the sustainability, accountability, and transparency *zakat* management through information media and fintech.
- b. It supports literacy and the provision of *zakat* for the wider community,
- c. It increases the velocity of acceleration for improvements in the use of information technology in *zakat* management in accordance with BAZNAS's *Renstra*.

2. Impact for LAZs

The positive impacts of *zakat* management, for both LAZs and BAZNAS itself, are as follows:

- a. It reduces the gaps in the application of information technology to the management of *zakat*.
- b. It encourage innovation, growth, and the development of existing institutions.
- c. It explores more potential for *zakat* from the wider community.
- d. It improves products for the management of *zakat*.

3. Impact for the Community

The positive impacts for the wider community, or for *muzakki* and *mustahiq*, are as follows:

- a. It provides safe and secure transactions and payments.
- b. It provides easy access to *zakat* services, both for *muzakki* and *mustahiq*.

4. Challenges

There are challenges that must be faced in the effort to apply fintech systems to the *zakat* management. These challenges need to be highlighted more to the institutions that manage *zakat* and the relevant authority:

- a. There are gaps in resources, facilities and governance among *zakat* institutions. It needs to be addressed by providing education, improving competency, and giving incentives in order to enhance the standardization of the optimal management of *zakat*.
- b. Internet penetration in Indonesia is still low; according to the APJII (2017) survey, Internet penetration has only reached 54.68 percent or only half of the total population. Therefore, much greater publication and promotion are needed.

- c. The awareness of the community about *zakat* payments is still low.

CONCLUSION

Fintech has penetrated the financial sector and played a major role in improving the quality and efficiency of financial services. In *zakat* management, innovation is required by applying fintech to *zakat* information systems. Although, recently, information technology has been applied to *zakat* management, there is no related regulation and standard rules. The existence of legal guidelines and guarantees from the government are expected to encourage the improvement of *zakat* management, increase innovation, and foster public trust. The fintech concept itself can create big data and transparency tools for *zakat* management ecosystems to provide more effective and efficient management.

The process of strengthening and supervising *zakat* management should be through using strategic steps that are structured to realize the development acceleration of *zakat* management. These processes include aspects of legal compliance, *syariah* compliance, accountability, and a security structure. This can be realized through institutional integrity, technology development systems, standardization, certification, and education.

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Analysis of the Influence of Tax Service, Tax Advertising, and Zakat Policy as a Reduction of Taxable Income to Tax Paying Compliance for Individual Taxpayers in the Tax Service Office Pratama Sawangan, Depok, West Java

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ABSTRACT

This study aims to understand the influence of independent variables (tax service, tax advertising, and zakat policy as reduction of taxable income) on the dependent variable (taxpaying compliance). Partial test results indicate that the variables (X_1) and (X_2) have a positive and significant influence on tax paying compliance of Muslim individual Taxpayers. The variable significance level (X_1) is 0.310, and the variable significance level (X_3) is 0,506. Partial testing of advertisement variables of tax equal to 0.014, which indicates that tax advertisement partially has no positive and significant effect to Taxpayer compliance. The statistical testing revealed that the variables (X_1 , X_2 and X_3) have a positive and significant influence on the dependent variable (Y). $F_{artihmatic}$ of 29, 395 > F_{table} of 2.69 with a significance level of $0.000 < 0.1$

Keywords: Service, Advertising, Zakat Policy, taxable Income, Compliance

INTRODUCTION

Taxation is a financial instrument with potential, and is part of a country's income. Taxes could serve as an expression of both loyalty and concern of citizens to their country, as most of the state treasury derives from the tax fund. Taxation accounts for 78% of state revenue and budget expenditure (*APBN*). On this basis, the government continues to expand its tax fund acquisition (Mukiyanto & Hendrian, 2008).

Tax funds are allocated to protect the country or public interests, such as funding transportation facilities (roads/bridges) and paying the salary of government employees. Every country

has a different policy system of tax imposition.

Taxation systems differentiate by management practices, legal bases, institutional management, tax rates, citizen status, cost deduction and tax credits (Farid, 2008).

Indonesia validated its tax determination system at the time of independence. The foundation for basis the determination of tax collection in Indonesia was Article 23 A Amendment to the 1945 constitution that reads "other taxes and levies that are of a coercive nature for the purposes of the states shall be governed by the law."

Indonesian economic development was influenced by tax regulation, as tax is the one of instruments that can't be

released by the economic activity. This was corroborated by Putri (2014) who stated that tax is the main contributor to state revenue.

The problem of tax compliance has been a recurring issue until recently. The Tax Service Office, Pratama Sawangan, Depok, West Java, is the institution under direct responsibility to the office of West Java III region, which administrates the Individual Taxpayer and Governmental/ Institutional Taxpayer. An

interview with a staff member in the Tax Service Office Pratama Sawangan, Depok, West Java, revealed that many taxpayers don't report on their tax obligation and pay their tax expenses.

This information can be proved based on the increase of individual and institutional taxpayers registered in The Tax Service Office Pratama Sawangan Depok West Java, while the amount of reporters and taxpayers have significantly declined (2017).

Table 1 The Rates of Taxpayer Compliance Percentage in the Tax Service Office Pratama Sawangan, Depok

No	Tax Period	The number of Taxpayer and SPT Required	The number of Tax Effective Required	The number of Reported Periodic SPT	Ratio of The Rate Taxpayer Compliance
1.	2015	1.777.42	141.731	51.400	36,26%
2.	2016	1.976.26	151.485	57.650	38,05%
3.	2017	2.142.58	169.152	54.500	32,21%

Source: Data from Tax Service Office Pratama Sawangan, Depok, 2018

This table shows the rates of taxpayer compliance percentage in the Tax Service Office Pratama Sawangan, Depok, West Java during 2015-2017. The table highlights that the rates of Taxpayer compliance in the Tax Service Office Pratama Sawangan, Depok, West Java is quite low.

The number of taxpayers have increased but the effectiveness of tax collection and reporting does not follow, and taxes are not paid in a timely manner. It is the challenge for the tax servers in The Tax Service Office Pratama Sawangan, Depok, West Java to explore the factors that affect the taxpayer compliance rate.

In addition to monitoring individual taxpayer compliance, the government as tax regulator also has to pay attention the tax service aspect in order to ensure the taxpayer feels comfortable and secured. To increase taxpayer satisfaction, which would hopefully increase taxpayer compliance, excellent service quantity and quality is required.

Another factor that can influence the taxpayer is tax advertising as found by previous research which stated that advertising was the key to success of an online buy and sell site to intrigue the consumer.

Tax advertising in the television, radio and social-media, was expected to educate and persuade the taxpayer to comply (Winata & Nurcahya, 2017).

Tax advertising part of government efforts to increase taxpayer compliance. In addition to the provision of excellent quality service and socialization of tax advertising, the government also innovates to increase compliance.

The enactment of implementation of zakat policy as a deductible of taxable income occurred so that Muslim taxpayers aren't too burdened but still bear the mandatory contribution. In essence, tax and zakat are two different aspects.

Zakat is the Muslim compulsory action to Allah SWT, which a criteria time and certain level must be upheld. Tax is a government determined rule that citizens must obey (Uzaifah, 2010).

Indonesia is a country with a majority Muslim population. Zakat could be an instrument to ensure of Indonesian Muslims citizen pay taxes. Because of this, the government issued zakat policy as a deductible of taxable income. This policy alleviates Indonesian Muslims obligation to pay taxes.

The government expected a definite advantage of this policy, especially as it's increasing the tax funds received.

LITERATURE REVIEW AND HYPOTHESES

a. The Influence of Tax Service on Compliance of Individual Taxpayers

Attribution theory states that human behavior is caused by external and internal factors. External factors come from outside the individual, while the internal factors come from within the individual.

People are not only a personal being, but also a social being. Therefore, human behavior is also influenced by external factors.

Satisfactory taxation service is an external factor that can improve taxpayer compliance. Taxpayers who feel eased, happy and satisfied will fulfill their voluntary tax obligations (Septarini, 2015).

Hary, Kerthadi, & Riyadi (2014) state that tax service is a service of government agencies, namely the Directorate General of Taxes, that are specifically authorized to handle the tax problem. As explained in the sub-section of tax service as a public service, the services provided by the Directorate General of Taxes, certainly differs from the services provided by the organization or business entity that is profit oriented.

Excellent service enables organizational loyalty by providing the best service and ensuring convenience. Silalahi (2015) showed that there is a

positive and significant influence of tax service on individual taxpayer compliance.

If the taxpayer is satisfied with the services provided by the tax officer, to the taxpayer will be encouraged to comply in carrying out their tax obligations.

Other research that shows the influence of tax service on Taxpayer compliance is research from Utami (2012) and Alabede (2011), which states that the influence of service quality on the level of compliance.

If the quality of service is better, it will increase the level of taxpayer compliance. As the level of service quality increases, this will encourage taxpayers to perform their obligations. The first hypothesis is:

H1: Tax services have a positive and significant effect on compliance of individual taxpayers.

b. The Influence of Tax Advertisements on Compliance of Individual Taxpayers

Nawangarsi (2010) in Rachman, Tahar & Kartika (2014) stated that advertising is a means used by the Directorate General of Taxes to promote and inform the public about the importance of taxes for the development of the country.

Tax advertisements are used as a tool of public socialization to disseminate government programs to influence the broad audiences to encourage compliance with tax laws. The statement is in line with Awareness-Trial-Reinforcement (AATR) theory.

According to Alo Liliweri (1992: 62) in Monica (2015), this theory teaches that: "The audiences can be influenced by advertising, the result is that we get a group of people who still use or buy the products." Components contained in this theory are as follows:

Awareness ➡ Trial ➡ Reinforcement

Communication must be used to get a group of people to use the product regularly. Communication delivery techniques include awareness, trial, and reinforcement. In essence, each ad must be organized in such a way that the contents of the message should be able to awaken and produce awareness (audience awareness). The awareness, both individuals and the public, encompasses that their needs are noticed by the mass media, moreover that their needs are greatly addressed by the mass media, furthermore that their needs are highly noticed by the product companies advertised through mass media. The first attempt is to produce an audience awareness that the product being advertised exists.

The second hope is that after awakening the awareness of each ad must strongly affect the audience, especially cognitively, so that the audience immediately tries (Trial) the process shown by the ad. The third hope is a process of affirmation/reinforcement. The ads displayed must have a certain strength of attitudes (positive attitudes toward the program/product).

If this theory is applied in the context of this study, tax advertisements serve the government by awakening awareness (public awareness). Once the public awareness of the tax advertisement appears, it is expected to make the audience finally decide to try (Trial) the program/product.

By seeing the ad more than once it is expected to generate interest and desire to continue using the product (reinforcement). According to Ibrahim (2007), in Trisnawati & Sari (2014), advertising is a form of presentation of promotions and ideas related to goods or services in a non-personal manner that requires payment.

Advertising is one example of the introduction of goods and services to the public. The goal depends on whether an agency or company is either improving,

persuading or informing. In accordance with functions of persuasion, improvement and informing, of the purpose of tax advertisement is to give information, coax/invite and improve taxpayer compliance.

The existence of tax advertisement display is certainly expected to assist taxpayers in understanding tax laws. The understanding of the tax regulations will affect the level of taxpayer compliance. Trisnawati and Sari (2014) state that tax advertisements influence taxpayer compliance level. The second hypothesis is:

H2: Tax Advertising has a positive and significant effect on taxpayer compliance.

c. The influence of Zakat Policy as deduction of Taxable Income on Compliance of Individual Taxpayers

Theory of Planned Behavior (TPB) explains that the behavior caused by the individual arises because of the intention to behave. Before an individual does something, the individual will have confidence in the outcome of their behavior. Then a decision of whether or not to act will occur (Violita, 2016).

Zakat policy as reduction of taxable income is part of the attitude or behavior of the government with the intention to provide incentives, encouragement or motivation to the taxpayer to be obedient to their tax obligations.

Masutra & Bidin (2015) state that the implementation of zakat policy as a deduction of taxable income by the government is an incentive given to the people in order to increase Taxpayer compliance.

The Government has confidence with the motivation of the implementation of Zakat Policy as Reduced Taxable Income will increase Taxpayer compliance. The statement supports the

research of Siswantoro & Nurhayati (2012), stating that zakat as a deductible of taxable income is a motivation from the government to improve taxpayer compliance.

His research states that zakat as a deductible taxable income represented by motivation variable states that the variable has a positive and significant influence. The third hypothesis is:

H3: Zakat Policy as deduction of Taxable Income has a positive and significant effect on Compliance of individual taxpayers.

RESEARCH METHOD

a. Type of Research

This study uses associative research with a quantitative approach. Associative research is used to find the relationship between variables.

The method and type of quantitative data used is primary data and secondary data. Data collection techniques include surveys and questionnaires (questionnaire) for primary data.

Questionnaires will be given to individual taxpayers registered in the Tax Office Sawangan, Depok, West Java. Questionnaires are distributed so respondents can reveal things that are confidential. The sampling technique in this research use the technique of Incidental Sampling.

b. The Sampling and Population

Sampling was taken by the researcher using slovin formulation or calculation formula of the sample size. The slovin formulation is a formula for calculating the minimum number of samples. The slovin formulation was introduced by Slovin in 1960.

The slovin formulation is commonly used in survey research where

the overall population is so large that a formula is needed to obtain a smaller sample but can represent the entire population. The formulation of retrieval in this study is as follows (Husein, 2008):

$$n = \frac{N}{1 + Ne^2}$$

Explanation:

n = Sample size

N = population size

e = Value of error rate

This study uses the value of error rate (e) of 10%. The rate of belief in this research is significantly equal to 90%. Therefore the calculation is:

$$n = \frac{162.163}{1 + 162.163 (10\%)^2}$$

Then obtained value of **n = 99,93**.

b. Measurement of Scale

The measurement scale used in this research is likert scale 1-5. According to Sugiyono (2010) likert scale explains the answer of attitudes, opinions, and perceptions about social phenomena with a gradation from very positive to very negative.

The research instruments used in the form of questionnaires where questions and statements are submitted by the respondent. After collecting the data, the data can be processed by using a multiple linear regression analysis tool.

ANALYSIS AND DISCUSSION

This research was conducted at Tax Service Office Pratama Sawangan, Depok, West Java, using questionnaires. Questionnaires were distributed directly to subjects that met the predetermined criteria. The study subject is an individual

taxpayer registered in the Tax Service Office Sawangan, Depok, West Java.

Individual taxpayers in the Tax Service Office Sawangan, Depok, West Java as of March 2018 totalled 162.163

inhabitants. 100 questionnaires were distributed to respondents.

The acquisition of questionnaires distributed to the respondents can be seen in below of the table.

Table 2 Distribution of Questionnaires

Questionnaires	Total	Percentage %
Questionnaires distributed	100	100%
Questionnaires returned	100	100%
Questionnaires unreturned	0	0%
Questionnaires could be processed	100	100%
Questionnaires couldn't be processed	0	0%

Source: Questionnaires Distributed, 2018

Table 3 Result of Descriptive Statistic Test

	N	Minimum	Maximum	Mean	Deviation Standard
X ₁	100	1	5	3,81	,499
X ₂	100	2	5	3,82	,562
X ₃	100	1	5	3,82	,661
Y	100	1	5	3,88	,606
Valid N (listwise)	100				

Source: SPSS Output, 2018.

The independent variable of service tax (X₁) has a minimum value of 1, a maximum value of 5, and a mean (3.81) with a standard deviation of 0.499. The tax ad variable (X₂) has a minimum value of 2, a maximum value of 5 and a mean value of 3.82 with a default deviation of 0.562.

The zakat policy variable as a deductible of taxable income (X₃) has a minimum value of 1, a maximum value of 5 and a mean value of 3.82 with a standard deviation of 0.661. The dependent variable (Y) tax pay compliance in this research has a minimum value of 1, a maximum value of 5 and a mean value of 3.88, with a standard deviation of 0.606.

Quality Data Test

a. Data Validity Test

Table 4 The Result of Validity Test on Tax Service Variable

Statements of Tax Service Variable (X ₁)	Value of r _{arithmetic}	Value of r _{table}	Criteria
P1	0,382	0,13	Valid
P2	0,407	0,13	Valid
P3	0,370	0,13	Valid
P4	0,348	0,13	Valid
P5	0,408	0,13	Valid

P6	0,566	0,13	Valid
P7	0,493	0,13	Valid
P8	0,469	0,13	Valid
P9	0,399	0,13	Valid
P10	0,453	0,13	Valid
P11	0,324	0,13	Valid
P12	0,396	0,13	Valid
P13	0,362	0,13	Valid

Table 5 The Result of Validity Test on Tax Advertising Variable

Statements of Tax Advertising Variable (X ₂)	Value r _{count}	Value r _{table}	Criteria
P14	0,257	0,13	Valid
P15	0,240	0,13	Valid
P16	0,435	0,13	Valid
P17	0,522	0,13	Valid
P18	0,540	0,13	Valid
P19	0,422	0,13	Valid

Table 6 The Result of Validity Test on Zakat Policy as Deduction of Taxable Income Variable

Statements of Zakat Policy (X ₃)	Value r _{arithmetic}	Value r _{table}	Criteria
P 20	0,553	0,13	Valid
P 21	0,393	0,13	Valid
P 22	0,614	0,13	Valid
P 23	0,542	0,13	Valid
P 24	0,472	0,13	Valid
P 25	0,595	0,13	Valid
P 26	0,522	0,13	Valid
P 27	0,590	0,13	Valid
P 28	0,561	0,13	Valid

Table 7 The Result of Validity on Tax Paying Compliance Variable

Statements of Tax Paying Compliance (Y)	Value r _{arithmetic}	Value r _{table}	Criteria
P 29	0,559	0,13	Valid
P 30	0,494	0,13	Valid
P 31	0,719	0,13	Valid
P 32	0,655	0,13	Valid
P 33	0,504	0,13	Valid
P 34	0,654	0,13	Valid
P 35	0,634	0,13	Valid
P 36	0,659	0,13	Valid
P 37	0,599	0,13	Valid

Based on the result of data validity for all variables are used in this study can

be concluded valid, caused has a value of $r_{\text{arithmetic}} > r_{\text{table}}$.

b. The Result of Reliability Test

Table 8 The Result of Reliability Test

Variables	Cronbach's Alpha	N of Items	Criteria
Tax Service (X ₁)	0,786	13	Reliable
Tax Advertising (X ₂)	0,671	6	Reliable
Zakat Policy as Reduction Taxable Income (X ₃)	0,870	9	Reliable
Tax Paying Compliance (Y)	0,809	9	Reliable

The table showed that Cronbach's Alpha value of X₁ Variable of tax service is 0,86, X₂ variable of tax advertising equal to 0,671, X₃ variable of zakat policy as deductible of taxable income equal to 0,870 and variable Y tax pay compliance pay equal to 0,809.

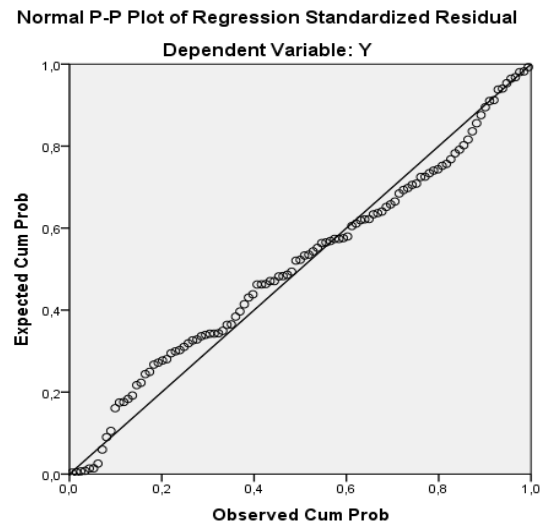
So, it can be concluded that all statements in this questionnaire are reliable because all variables have Cronbach's Alpha value greater than 0,60. The information demonstrates that each statement item in the questionnaire is able to obtain consistent data, meaning that when the items are re-submitted the same relative answer as the previous answer will be obtained.

The Result of Classic Assumptions

a. Normality Test

The normal probability plot graph above that has been obtained from the normality test results highlights that the spots spread around the diagonal line. The spread also follows the direction of the diagonal line.

The graph shows that the regression model is variable, because the normality assumption requirement has been met. The results and explanation of the normality test data in this research are as follows:

**Figure 1** The Result of Data Normality Test Graphically

Source: SPSS Output, 2018

Table 9 The Result of Normality Test Statistically

Individual Taxpayer Compliance	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
	,082	94	,129	,982	94	,213

^a. Lilliefors Significance Correction

Source: SPSS Output, 2018

The table above explains that the value significance obtained is $0,129 > 0,1$. The value of significance obtained is greater than the level of significance level used by

researchers is equal to 0,1. It represent that in the case of normality test in the data processed is normally distributed.

b. Heterocedaticity Test

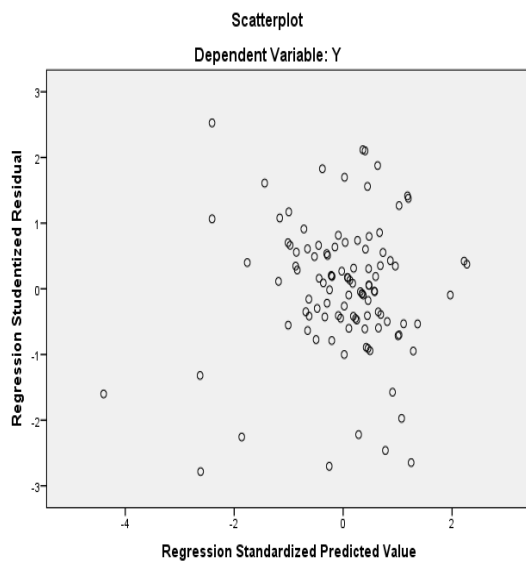


Figure 2 The Result of Heterocedaticity Test
Source: SPSS Output, 2018

The scatter plot charts show that the dots spread randomly and spread either above or below zero (0) from the vertical axis or Y axis.

Based on the results of the heterocedaticity test, as described in the picture above, it can be concluded that this

regression model does not occur heterocedaticity.

The result of multicorolation test can be seen on the below of table:

Table 10 The Result of Multicorolation Test

Model	Collinearity Statistics	
	Tolerance	VIF
X1	,611	1,637
X2	,602	1,661
X3	,695	1,440

a. Dependent Variable: Y

Source: SPSS Output, 2018

The table above explains that the VIF (variance-inflating factor) value obtained from the resulted data is smaller than 10 and the tolerance value is greater than 0,10.

This indicates that no symptoms of multicollinearity occur between the independent variables. The allowed VIF (variance-inflating factor) limit is only 10, so the above data can be sure to avoid multicollinearity symptoms. The result of the Autocorrelation Test can be seen in the below table.

Table 11 The Result of Autocorrelation Test (Durbin Waston version)

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Waston
1	,691 ^a	,477	,461	,44524	2,032

a. Predictors: (Constant), X3, X2, X1

b. Dependent Variable: Y

Source: SPSS Output, 2018

Based on the data that has been processed above, the existence of autocorrelation is:

1. If DW value is between dU to 4 - dU, the correlation coefficient is equal to zero (0). This indicates that there is no autocorrelation.
2. If $DW < dL$, the correlation coefficient is greater than zero (0). This indicates a positive correlation.

3. If DW is between 4 - dU and 4 - dL, no conclusions can be drawn.

Based on the description of several categories, the processed data is in accordance with the terms and conditions in the first category with the representation that the value of DW lies between the value of dU up to 4 - dU, as the value is $1.7364 < 2.032 < 2.2636$.

The Result of Determination (Adjusted R²)

The summary model of the table reflects the value of double correlation coefficient (R) of 0,691. This indicates that the variables of tax service, tax advertisement and zakat policy as a deductible of taxable income on individual taxpayer compliance have a very strong relationship. The table

also highlights that the coefficient of determination (R Square) is 0,477 and the value of Adjusted R Square is 0,461.

This means that 46,1% are explained by tax advertising and zakat policy as tax deductible taxable income and the other 53,9% is explained by other variables that do not exist in this research.

Table 12 The Result of Determination (Adjusted R²) Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Waston
1	,691 ^a	,477	,461	,44524	2,032

a. Predictors: (Contans) (X₁, X₂, & X₃).

b. Dependet variabel: Y

Source: SPSS Output, 2018

The Result of Multiple Linier Regression Equation

The r regression equation in this study has a constant value of 0.858. This signifies that if the variable of tax service, tax advertising, and zakat policy as deduction of taxable income is considered constant or zero (0) then individual taxpayer compliance will increase by 85,8%.

The regression coefficient on tax service variable (X₁) is 0,359. This a. indicates that if the tax service variable increases one unit then the tax compliance variable for Individual Taxpayer will increase 0,359 units or increase 35,9% provided that other variables are considered constant. The regression coefficient on the tax advertising variable is 0, -049.

Therefore, if the tax ad variable increases one unit then the tax compliance variable for the individual taxpayer will

increase only by 4,9% with the other constant variable. Coefficient regression on the variable of zakat policy as a deductible of taxable income is 0,482. This shows that if the variable of zakat policy as deductions of taxable income increases one unit then tax compliance variable for individual Taxpayer will increase 48,2% with other constant variables recorded.

The Result and Analysis of Hypothesis Test

a. The Influence of Tax Service on Tax Paying Compliance for Individual Taxpayer

As variable tax services with a value of 3.127 $t_{arithmetic} > t_{table}$ 1,660 or significance value less than 0,1 (0,002 < 0,1), it can be concluded that H₀ rejected and H₁ accepted, meaning that tax services partially have a significant effect on individual taxpayer compliance.

Table 13 The Result of Partial Statistic Test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1(Constant)	,858	,375		2,291	,024
X1	,359	,115	,295	3,127	,002

X2	-049	,103	, -045	, -476	,635
X3	,482	,081	,526	5,937	,000

The results are consistent with Nafsi's (2014) research titled "Effect of tax authorities Services, Tax Penalties, and Consciousness Taxpayer on Compliance Taxpayers against Perpetrators of Micro Small & Medium Business After application of Government Regulation No. 46 of 2013 period".

The results of this study support Social Learning Theory. This theory states that human behavior emerges as a result of observation and experience. Taxpayers will fulfill their tax obligations if they observe that the process is not difficult, that they are served by qualified human resources that treat them well, and have reasonable references (attentional process).

The results of these observations will be stored in the memory (retention process), and then manifested in the behavior of tax compliance (reproduction motoric).

Excellent service will certainly produce excellent outputs as well. The better the service provided by the tax officers, the more satisfied and happy the taxpayer will be.

Service is an attitude of self-reflection that can lead to positive or negative responses. If the service provided by the tax officer does not satisfy the taxpayer, then the taxpayer compliance level will decrease. Attitudes or actions of tax officials have a major influence on taxpayer compliance levels.

Tax officers are the main foundation that can attract the attention of the taxpayers. Quality tax service from tax officers is part of process of encouraging taxpayer compliance. Tax service is an important point that must be considered by the tax officer. Providing quality service is the most important task that should be done by tax officials.

Tax officers should be able to be role models for taxpayers to be obedient

in paying taxes. The level of service quality will correlate with the level of taxpayer compliance. The quality of service tax officers of course greatly affects the level of compliance of taxpayers.

b. Influence of Tax Advertising on Tax Paying Compliance for Individual Taxpayers

As the tax advertising variable with a value of $t_{arithmetic}$ is equal to 0, $-476 < t_{table}$ 1,660 and the significance value is greater than 0.1 it can be concluded that H_2 is refused and H_0 is accepted. This suggests that tax advertising does not have a partially significant effect on compliance of individual taxpayers. This is based on the data processing that the taxpayer's partial significance to the compliance of paying tax of Personal Taxpayer is based on the significance value of a bigger than 0.1.

The results of this study indicate that there is a very low relationship between tax advertising and individual taxpayer compliance. As for the direction of the opposite negative effect, the taxpayer compliance will decrease.

Tax Advertising has no influence on the compliance of taxpayers. The results of the research on the (X2) variables are not in line with the theory of Awareness-Trial-Reinforcement (A TR), which states that: "If the audience can be affected by advertising, people will use or buy the products of the ads."

The fact that tax advertising aired by the government both in mass media and electronic media has not successfully created an audience awareness.

If the tax advertising does not generate awareness to the audience (taxpayer), then the government's expectation that the message will cause compliance has not been fulfilled.

If the public is not awakened by the tax advertising then there will be no interest to try (Trial) the program/product, and it will not generate interest or desire (reinforcement) to continue to comply with tax regulations from the government. So, the results of tax advertising aired by the government does not have a positive and significant effect on taxpayer compliance.

In this theory, individual behavior arises because of intention. Positive government attitudes to continuously improve taxpayer compliance by providing motivation and knowledge in the form of socialization embodied in tax advertising has not been successful.

Many factors affect these circumstances. Perception is also a major factor in the establishment of taxpayer compliance with tax regulations.

The results of this study are not in accordance with the research that has been done by Trisnawati and Sari (2014), titled "The Influence of Tax Service, Tax Advertising, And Taxpayer Awareness To Taxpayer Compliance in Tax Service Office Pademangan on Period 2011." His research stated that tax advertising has a positive effect on taxpayer compliance.

Another study that states a positive influence between advertising and taxpayer compliance is Christian (2013), whose research proves that taxpayer compliance is influenced by informative factors of tax advertising.

This is contrary to Waluyo's (2014) study, which stated that tax advertising did not had a positive and significant effect on taxpayer compliance.

This can happen because the communication between tax authorities and taxpayers exists through various print media and electronic media, and not all taxpayers know or understand the meaning and message of tax advertising to be submitted by the Tax Authorities.

Another influencing factor is the possibility of the limitations or characteristics of the respondents that

produce different effects. Interviews with several taxpayers in the Tax Service Office Pratama Sawangan, Depok, West Java, Taxpayers suggest that tax advertising is not done regularly, so the information related to taxation can't be absorbed thoroughly.

This is certainly one of the factors that support the absence of influence between tax advertisement variables (X_2) because tax advertising display has not been done on a regular basis, so the public is not awakened if only with the ad publisher once. If the government continues with tax advertisements, they should be broadcasted regularly and repeatedly so that the public understanding of taxes more broadly and public awareness will increase.

In accordance with the assumption of Cognitive Response theory proposed by Aakers and Jhon G. M (1987: 255), there is a weak relationship between the ability of the audience, to remember the contents of a message with changes in the attitude of the audience in accordance with the message be delivered.

Attitudes can be changed by changing the opinions or information that a person has about an object (Nugraha, 2016). In addition to regular tax advertising, submissions should be more effective, and the government should provide an information or socialize taxes by installing banners or slogans related to the importance of compliance with tax regulations.

The installation of banners or slogans in strategic places that can be read and seen by the public societies, will increase the knowledge and information tax regulations. Knowledge will then increase, directly boosting awareness and. Another factor that supports this is taxpayer perception of tax advertising.

Perception of tax advertisement can influence compliance. Jalaludin Rachmat in Monica (2015) argued that "perception is the experience of objects, events or relationships obtained by

inferring information and interpreting messages".

c. The Effect of Zakat Policy as a Deductible of Taxable Income on Taxpayer Compliance

As variables of zakat as a deductible of taxable income with $t_{\text{arithmetic}}$ of 5,937 > t_{table} 1,660 or more significance value $< 0,1$ ($0,000 < 0,1$), it can be concluded that H_0 is rejected and H_3 is accepted, which means that tax service significantly influences partial compliance.

The results of this study is in accordance with Aisyah Pratiwi's research (2016), titled "The Effect of Zakat as Reduced Taxable Income on Taxpayer Compliance for Private persons in the Office of Tax Service Madya of Semarang City".

His research stated that the zakat policy as a deductible of taxable income had a positive effect on compliance, as the significance value obtained is less than 0,1.

The zakat policy as a deductible of taxable income is applied by the government with the aim of increasing compliance and to alleviate the double burden of giving carried by Muslim taxpayers. The policy received a positive response from this cohort.

The double burden considered to incriminate the Muslim taxpayers is minimized by the policy. The results of this study are also in line with the theory of attribution and theory of theory of planned behavior.

In Theory of Planned Behavior (TPB) there are three categories that can influence intentions in determining attitude. One of the factors driving these intentions is the beliefs about the normative expectations of others and the motivation to meet those expectations.

Normative beliefs arise from the influence of others and the motivation to agree to those expectations. From these meanings it can be concluded (normative

beliefs) that motivations that comes from outside the person or (others) will affect t behavior.

The existence of encouragement in the form of motivation from the government with the implementation of zakat policy as a deduction of taxable income is a positive thing that certainly does not invite negative perceptions of taxpayers.

The implementation of zakat as a deductible of taxable income is not solely to lighten the double burden, but to increase individual compliance.

Minimizing the burden of the people is a step that should be done by the government. The implementation of zakat policy as a deductible of taxable income in Indonesia is the government's effort to continuously monitor the compliance of individual taxpayers, especially Muslims.

The policy is applied so that an individual does not evade their obligation to pay taxes.

Despite this policy, tax revenues are reduced and zakat funds will increase. But with the increase of zakat fund receipts the distribution will be widespread and taxpayer funds will benefit.

Government efforts to improve compliance to find a comparable instrument can be taken equally. By understanding the intersection between tax and zakat, the new innovation is set by the government in the form of zakat policy as a deductible taxable income.

Zakat is an instrument deemed to be commensurate with taxes, although the policy is stipulated as an incentive or incentive for an individual Muslim taxpayers to obey government tax regulations.

The government has high hopes for taxpayersto continue to improve their compliance in paying compulsory levies, namely taxes. The loss of multiple burdens borne by an individual taxpayers certainly motivates individual Muslim

taxpayers to obey their obligation to pay taxes.

The main factor driving the results of this study indicates that the zakat policy as a deductible of taxable income is positively influential because Indonesia is a predominantly Muslim country.

The policy is considered appropriate for the Indonesian context. The dominance of the population who embraced Islam became an idea and motivation for the government to apply the zakat policy as a deductible of taxable income. In essence, the policy is the government's efforts to continuously raise awareness and compliance of various individual Islamic taxpayers.

The Result of Simultaneously Statistic Test

F test, or simultaneously statistical test, is performed to prove whether the independent variables simultaneously or in whole have an effect on the dependent variable. The result of F statistic test can be seen in the table below:

If the probability value is less than 0.1 then H_1 is accepted and H_0 is rejected. If the probability value is greater than 0.1 then H_1 is rejected and H_0 is accepted. F statistic test results can be seen in the table above, the table shows that the value of $F_{\text{arithmetic}}$ obtained from the data processing is equal to 29,208 > F_{table} that is equal to 2.083 with a significance level of $0.000 < 0,1$.

Table 14 The Result of Simultaneously Statistic Test

Anova					
Model	Sum of Square	Df	Mean Square	F	Sig.
Regression	17,370	3	5,790	29,208	,000 ^b
Residual	19,031	96	,198		
Total	36,401	99			

a. Dependent Variabel: Y

Source: Output SPSS, 2018

Based on the acquisition value of significance smaller than the significance level it can be concluded that H_1 is accepted the tax service, tax advertising and zakat policy as a deduction of taxable income on tax compliance, have a positive and significant influence on compliance.

Representation of probability values far below 0,1 means the better and the positive. The conclusion obtained from the data is that, if the better quality of tax services provided by the tax officer, compliance level will increase. The more routine the tax advertising and socialization is, the more the level of public understanding of taxation will increase, directly affecting the tax pay compliance rate.

The test results are simultaneously in accordance with the theory of

attribution and theory of planned behavior (TPB). Both theories stated that one's motivation in fulfilling tax obligations is determined by external factors and internal factors. External factors are represented by the attitude of the government that provides motivation and all the ease to continue to improve compliance. This is also evident in the theory of planned behavior (TPB) which explains that behaviors arise because of intention.

The intention of behaving is determined by three factors: by providing quality and optimal services; providing knowledge and understanding embodied in tax advertisement; and endeavoring to lighten the double burden of tax and zakat by the implementation of zakat policy as a deductible of taxable income.

Variable (X_3) Zakat as a deductible of taxable income, the implementation of the policy with a good intention of eliminating the double burden of tax and zakat obligations certainly does not get a negative response from the community.

The implementation of these policies has been embraced by the community as they ease the burden of dependents. Taxation and obligatory zakat will increase zakat tax compliance.

As the probability value is far from 0,1, if all three dependent variables are applied simultaneously then there will be a strong influence on the tax pay compliance level. Applications of the dependent variables that has been done simultaneously will certainly provide a stronger impetus to the taxpayer to be able to fulfill their tax obligations.

Variable tax service may affect positive to compliance pay tax or variable (Y) if supported by the implementation of tax advertisement in which contains elements of education and understanding directly to the taxpayers. With education and understanding taxpayer knowledge will increase. After knowing and understanding the taxpayer will be iobedient to the tax regulation.

Supported by quality services, the Taxpayer compliance level will increase. Another mitigation that can support and encourage Taxpayer compliance rates for Compulsory is by eliminating the double burden it incurs.

CONCLUSION

Based on the data that has been obtained and the using multiple regression model testing (multiple regression) and assistance program software SPSS of 23 version, conclusions are as follows:

1. Multiple linear regression test partially found that X_1 variable of tax service has positive and significant effect to Taxpayer compliance tax for

individual Taxpayer. Quality and optimal service will certainly give satisfaction to Individual Taxpayers. Therefore satisfaction will impact the level of compliance.

2. The results of multiple linear regression test partially found that (X_2) does not positively and significantly effect on the tax paying compliance for taxpayers. Many factors cause this to happen, such things include the implementation of tax advertisements undertaken by the government that is less effective because the delivery is not done in a sustainable manner.
3. Multiple linear regression test partially found that the variable X_3 zakat policy as a deductible of taxable income has a positive and significant impact on tax paying compliance for individual taxpayers. Implementation of zakat policy as a deduction of taxable income that aims to lighten the burden of tax will be motivation to obey and comply with tax regulations.
4. Based on the simultaneously multiple linear regression test, variable X_1 tax service, X_2 variable of tax advertisement and X_3 variable of zakat policy as deductions of taxable income has an influence on variable (Y) compliance to pay Individual Taxpayer Tax. X_3 variable has more dominant influence than X_1 variable and X_2 variable to dependent variable (dependent) or variable (Y) tax paying compliance for individual Taxpayer. This possibly occurred because the implementation of the three strategies are mutually sustainable, as there is no other reason for taxpayersto disobey the tax regulations.

Limitation of Research

1. This study only examines the influence of independent variables (tax service, tax advertising, and zakat policy as deduction of taxable income) on dependent variable tax paying compliance) at Tax Office Pratama Sawangan, Depok, West Java.
2. Authors equate perceptions between an individual who works as an employee and an individual who conducts business or free work.
3. This study used questionnaires in data collection, so the data collected only describes the perception of Muslim individual taxpayers.
4. The sample used in this study has met the minimum limit in sampling but only limited to Muslim individual taxpayers who are reporting their tax obligations in the Tax Service Office Pratama Sawangan, Depok, West Java.
5. Sample selection was only limited to individuals found at the time of sampling, so it can't be known specifically from the sub-district where the Individual Taxpayer came from and nor the percentage of each region of origin.

Recommendations for the Management of Tax Agency

1. Regular evaluations related to government taxes need to be done so that the level of service quality adds to the convenience of taxpayers to encourage compliance.
2. Socialization of taxation that can apply in various ways to follow the pattern of the development of advanced times can be done by the government to provide a deepen understanding about the importance of paying taxes. Education in other forms can also help with these objectives

3. Implementation of relevant and sustainable policies between one strategy and other strategies can also be done, then the implications of one strategy can have a positive impact on other strategies.

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Measuring the Efficiency of BAZNAS in Managing Zakat Funds with Stochastic Frontier Approach Analysis, 2002–2016

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ABSTRACT

This study aims to measure the technical efficiency and identify factors that cause technical inefficiency of Badan Amil Zakat Nasional (BAZNAS) in managing zakat funds on receipt and the distribution of zakat funds. The data used were time series data from 2002 to 2016. The input variables used were total assets and operational costs, while the output variables were the receipt of zakat funds and the distribution of zakat funds. Using stochastic frontier analysis, this study has successfully identified that total assets and operational costs had a positive and significant effect on the receipt of zakat funds. The same results also demonstrated that the operational costs for the distribution of zakat funds had a positive and significant effect. The results for total assets on distribution of zakat funds were positive but not significant. Overall, the technical efficiency regarding the receipt of BAZNAS zakat funds was found to be 94.98 percent, which means that there is 5.02 percent remaining that could still be optimized, while technical efficiency regarding the distribution of BAZNAS zakat funds was found to be 70.99 percent, leaving 29.01 percent that could still be optimized.

Keywords: Badan Amil Zakat Nasional (BAZNAS), Stochastic Frontier Analysis, Technical Efficiency

INTRODUCTION

Background

Zakat is one of the main aspects of Islam, being the third pillar of Islam. The proposition for zakat is found in the Q.S. At Tawbah (9: 103):

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

Meaning: “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 reassurance for

them. And Allah is Hearing and Knowing.”

Al Parisi (2017) explains that zakat can stimulate the economy, resulting in the accumulation of new investments that will encourage increased production for the economic cycle of a region. Even at the macro level, zakat will be able to increase aggregate demand due to increasing the purchasing power of society with regards to goods and services. When zakat is managed properly, it may be implicated in the emergence of new jobs, meaning that a certain amount of unemployment will be absorbed.

Outlook Zakat Indonesia 2017, published by the Center for Strategic Studies of Badan Amil Zakat Nasional (PUSKAS BAZNAS), shows an annual

increase in zakat funds collected. The cause of the increase in zakat funds is the increased participation of institutions and companies to pay zakat. The optimal management of zakat will decrease the poverty levels. The relationship between zakat funds and the poor are disproportional: Zakat funds collected annually have increased while the number of poor people still fluctuates. This comparison shows that zakat funds are still not optimally managed (Nurhasanah & Lubis, 2017).

BAZNAS is a zakat organization that was officially formed by the government. BAZNAS plays an important role in the framework of the collection and distribution of zakat funds. Due to this important role of BAZNAS, therefore, the performance efficiency of BAZNAS should be well-managed, especially in terms of the collection and distribution of zakat funds.

Limitations of the Research

Based on the above background, it is necessary to set boundaries for the problem so that the following discussion is focused and not blurred or unnecessarily expanded. The problems to be focused on are as follows:

1. The object of this study only concerns BAZNAS, with the research period range 2002–2016.
2. The data used is the BAZNAS Annual Financial Report, 2002–2016.
3. The analysis used is the parametric Stochastic Frontier Analysis (SFA) method, with a production approach.

Formulation of the problem

BAZNAS is the organization that manage zakat funds that was officially and solely formed by the government. Zakat potential in Indonesia has not been properly maximized, which means that it has become a challenge as well as an opportunity for BAZNAS to continuously

improve the quality of their performance so as to collect and distribute zakat funds efficiently. Therefore, appropriate strategies are needed to improve the performance of BAZNAS in its role as a zakat management organization. To assess the performance of BAZNAS in the reception and distribution of zakat, one of the approaches that can be used is an analysis of efficiency. Based on these issues, this study will analyze what variables are expected to affect the efficiency of BAZNAS in the reception and distribution of zakat funds so that in the future, BAZNAS operations regarding the management of zakat funds can be more efficient. Based on the above problem formulation, the formulated research questions are as follows:

1. What effect do BAZNAS operating expenses and other assets have on the increase or decrease of zakat funds, for the period 2002–2016?
2. Regarding the receipt and distribution of zakat, does BAZNAS already operate efficiently based on parametric methods, for the period 2002–2016?
3. What are the technical efficiency scores of BAZNAS regarding the receipt and distribution of zakat funds based on parametric methods, for the period 2002–2016?

Research Hypothesis

A hypothesis is a research statement that is tested for its truth. The research hypotheses for the observation period 2002–2016 are:

1. Operating expenses are expected to have an effect on the receipt and distribution of BAZNAS zakat funds, for the period 2002–2016.
2. Total assets have a positive effect on the receipt and distribution of BAZNAS zakat funds, for the period 2002–2016.

Research Objectives

The purpose of this study is to:

1. Understand the effect of BAZNAS operating expenses and other assets on the increase or decrease the receipt and distribution of zakat funds on BAZNAS, for the period 2002–2016.
2. Understand BAZNAS's level of efficiency regarding the reception and distribution of zakat based on parametric methods, for the period 2002–2016.
3. Understand the technical efficiency score of BAZNAS regarding the receipt and distribution of zakat funds based on a parametric method, for the period 2002–2016.

LITERATURE REVIEW

Zakat

Zakat is one of the important aspects of Islamic teachings. Beik (2009) explains that etymologically, the word 'zakat' has various meanings that involve developing (*an-namaa*), sanctifying (*at-thaharatu*), and blessing (*albarakatu*). Terminologically, zakat means the removal of certain property with certain conditions in order to be given to a certain group (*mustahik*) with certain requirements as well. Hafidhuddin (2002) and Beik (2009) have stated that zakat is the only form of worship that is managed by a specialized officer, as stated explicitly in Q.S. At-Taubah verse 60. Management of zakat through *amil* institutions has several advantages, including: (i) ensuring it is more in line with the guidance of sharia, *shirah nabawiyyah* and *shirah* of companions and later generations; (ii) guaranteeing the certainty and discipline of zakat payers; (iii) avoiding feelings of inferiority on the part of the *mustahik* if they deal directly with *muzakki*; (iv) achieving the efficiency and effectiveness

of the management and utilization of zakat; and (v) as *da'wah* of Islam in the spirit of Islamic government. Meanwhile, al-Qardhawi (as cited in Beik, 2009) said that the fundamental purpose of zakat worship is to solve various social problems such as unemployment and poverty, amongst others. The zakat distribution system is a solution to these problems through the provision of assistance to the poor regardless of skin color, ethnicity, or other worldly attributes.

Badan Amil Zakat Nasional (BAZNAS)

Badan Amil Zakat Nasional (BAZNAS) is a non-structural institution established by Act No. 23 of 2011 on Zakat Management. The formation of BAZNAS was first established by Presidential Decree No. 8 of 2001 on the National Board of Zakat as mandated by Act No. 38 of 1999 on Zakat Management, which prevailed at that time. After the regulatory changes, BAZNAS became a non-structural government institution that is independent and responsible to the President through the Minister of Religious Affairs. BAZNAS is one of the few non-structural institutions that contributes to the state in the form of social welfare and poverty reduction through the management of zakat funds. BAZNAS receives financial assistance from the state budget in accordance with the law, but the benefits provided to the state and nation via BAZNAS is greater. Associated with the mandate of the 1945 Constitution Article 34 that "the poor and the neglected children are kept by the state," BAZNAS's role strongly supports the state's responsibility. BAZNAS acts as a provider of social security assistance for the poor. The presence of such institutions supports the task of the state to develop prosperity for society, thus it is naturally supported by the government. BAZNAS's role and contribution to society, especially Muslims, can be measured not only quantitatively but also qualitatively, especially the role of BAZNAS in

disseminating the values of zakat to society. These values include faith and devotion to Allah SWT, work ethic in the finding for *halal* and *thayib* sustenance, and the values of zakat associated with the development of human character (i.e. character building as human beings who provide benefits for others).

Theory of Efficiency

Efficiency is a measure of effectiveness that is produced through a minimization of time, effort, and skill wasted (Archer, 2010, p. 1). This is similar to Silkman (1986), who describes efficiency as the ability to accomplish work correctly or in a mathematical framework, defined as the calculation of the ratio of output and input or the amount of output produced from an input used. As practiced by companies in general, efficiency can also be applied to BAZNAS as a benchmark for its performance, such as allocation, and technical or total efficiency. In this case, efficiency is always associated with the existence of input and output variables; therefore, efficiency is defined as an input-output ratio. There are three factors that contribute to efficiency, among others, as noted by Permono and Darmawan (2000), such as: (1) If using the same input can produce a greater output; (2) If using smaller inputs can produce the same output; (3) If using greater input can result in larger percentage of output

According to Bauer, Berger, Ferrier, & Humphrey (1998), efficiency is divided into two areas, namely :

1. Technical efficiency (microeconomic context)

This is where there is a technical relationship between the input and output variables used in the production process. Using the technical efficiency of the company is expected to produce the maximum output on available inputs used.

2 Economic efficiency (macroeconomic context)

In macroeconomics, the concept of economic efficiency has a wider coverage than the concept of technical efficiency. Here, companies must be able to determine the level of inputs and outputs used to achieve and optimize the economic condition (cost minimization or profit maximization).

Previous Research

Dong, Hamilton, and Tippet (2014) conducted a study on the efficiency of the banking sector in China by using SFA and DEA in the period 1994–2007. The input variables used were total loans, total manpower capital, and working hours, while the output variables used were total financing, acceptance of other assets, and non-interest income. The results showed that the use of SFA and DFA is highly recommended to determine the level of efficiency because it produces more complete data and is reliable in the determination of bank performance.

Nashihina and Harahap (2014) conducted a study on the efficiency of Islamic rural banks in Indonesia in the period January 2009 to December 2012 by comparing the production function approach (SFA) and the approach of financial ratios which using ROA. The results showed that Islamic rural banks generally operated efficiently, with an efficiency score of more than 90 percent. Efficiency based on financial ratios also demonstrated the same thing, which confirmed the findings of the production function approach.

Zuhroh, Ismail, and Maskie (2015) also examined the level of efficiency of Islamic banking in Indonesia (three Islamic banks and 19 conventional banks), using the SFA method for the period 2004–2010. The input variables used were assets and equity while the output variable used was NPL (Non-Performing Loan). The results

demonstrated technically more efficient Islamic banks but that the average of the efficiency costs was still far below that of conventional banks. This suggests that the cause of the inefficiency of Islamic banks is an inefficient allocation of costs.

RESEARCH METHODOLOGY

Research Model

Based on previous studies and with adjustments that are considered to provide expected results to explain the efficiency of BAZNAS in the receipt and distribution of zakat funds, this research used a parametric method of Stochastic Frontiers Analysis (SFA) based on production function. The determination of input and output variables used in this study involved the production approach that considers the function of BAZNAS in managing cost to produce the efficient receipt and distribution of zakat funds. The input variables used were operating expenses and total assets, while the output variables used were the receipt and distribution of zakat. The general form of the SFA method with the production function was written according to the Cobb-Douglas production function, shown in Equation *i*:

$$\ln(Q_n) = \alpha + \beta_1 \ln(P_1) + \beta_2 \ln(P_2) + \epsilon_t \quad \text{---(i)}$$

By entering the input and output into the Cobb-Douglas production function, the equations were rewritten as Equations *ii* and *iii* below:

$$\ln(Q_1) = \alpha + \beta_1 \ln(P_1) + \beta_2 \ln(P_2) + U_t - V_t \quad \text{---(ii)}$$

$$\ln(Q_2) = \alpha + \beta_1 \ln(P_1) + \beta_2 \ln(P_2) + U_t - V_t \quad \text{---(iii)}$$

Where:

Q_1 = Receipt of zakat fund

Q_2 = Distribution of zakat fund

P_1 = Operating expenses

P_2 = Total assets

U_t = Random factors that can be controlled (inefficiency)

V_t = Random factors that cannot be controlled

From equations *ii* and *iii* above, then, P_1 and P_2 indicated the input variables used in BAZNAS for a certain period in this study, while Q_1 and Q_2 indicated the quantity of output used in BAZNAS for a certain period in this study.

Output Variables

This study used two output variables, namely the receipt of zakat funds and the distribution of zakat funds.

a. Receipt of Zakat Funds

The receipt of zakat is the total of the zakat funds that were collected from muzakki within a certain period. Receipt of zakat is the sum of zakat trade, zakat *maal*, and profit sharing on the placement of zakat funds. The total amount of zakat receipts was obtained from the annual financial statements on reports of changes in funds that were published annually by BAZNAS during the period of observation.

b. Distribution of Zakat Funds

The distribution of zakat funds involves a number of zakat funds distributed to mustahik at certain periods both for empowerment program cash disbursement. The amount of zakat distribution was obtained from the annual financial statements at the statement of changes in funds that were published annually by BAZNAS during the period of observation.

Input Variables

This study used two output variables, namely operating expenses and total assets.

a. Operating Expenses

Operating expenses are direct costs that are used for the operational needs of a company. Based on the study object used (BAZNAS), this included the operating expenses of all expenses incurred for purposes that support the management of ZISWAF. The amount of operating expenses was obtained from cash flow statement in annual report that was published annually by BAZNAS during the period of observation.

b. Total Assets

The total assets were all assets owned by BAZNAS: current assets, fixed assets, and assets under management. The total assets were obtained from the annual financial statements on the statement of financial position published annually by BAZNAS during the period of observation.

Types and Sources of Data

The object of this study was the Badan Amil Zakat Nasional (BAZNAS), which remains the official and the only institution formed by the government to manage ZISWAF. The data used is secondary data obtained from financial statements published by BAZNAS from 2002 to 2016 (time series data) and other literature related to the efficiency of the national zakat fund managers.

The population in this research consisted of zakat management organizations, both government and private. In Indonesia, the management of zakat formed by the government is managed by BAZ (Badan Amil Zakat), with BAZNAS as the central coordinator, while the private sector is managed by

LAZ (Lembaga Amil Zakat). The sample used in this research related only to BAZNAS.

Analysis Tools

In this study, the authors used time series data analysis with tools such as Microsoft Excel for data processing, E-Views 6 to determine the estimation modeling, and Frontier 4.1 to determine the value of efficiency in the receipt and distribution of zakat funds.

Test Criteria Statistics

a. Group of Variables Significance Test (Test Statistic F)

By using the F test, it can determine the influence of all independent variables toward the dependent variable. The F-test calculation can be carried out by comparing the value of the F-statistic with the F-table at α or with the statistical probability of the F-statistic at α (significance level of 5 percent).

1. If the F-statistic $>$ F-table on α or prob (F-statistic) $<$ α (0.05), then H_0 is rejected (and H_1 is accepted). That is, the independent variables have a jointly significant effect on the dependent variable.
2. If the F-statistic $<$ F-table at α or prob (F-statistic) $>$ α (0.05), then H_0 is accepted. That is, the independent variables jointly do not have a significant effect on the dependent variable.

b. Individual Significance Test (Test Statistic T)

This is testing to determine the influence of each independent variable can explain the dependent variable.

- If the t-statistic $>$ t-table, then H_0 is rejected or H_1 is accepted. This means that independent variables have a partially significant effect on the dependent variable.

- If the t-statistic $>$ t-table, then H_0 is accepted and H_1 is rejected. This means that the independent variables have a partially not significant effect on the dependent variable.
- c. The Coefficient of Determination (r^2)
- The level of goodness of fit of the regression line corresponding to the data was used to determine the suitability of a sample regression line with the data. The value of r^2 will always be between 0 and 1. The closer to 1, the greater the ability of independent variables to explain the behavior of the dependent variable. So, the value of r^2 provides information on the proportion of variation of the dependent variable described by the independent variables, thus providing an overall measure of the variation of the variables affecting the variation of the other variables.

Stochastic Frontier Analysis (SFA) Test

After the regression equation was determined, the measurement of operational efficiency of BAZNAS regarding the management of zakat funds using the SFA method was carried out, using the Frontier 4.1 program. The results of efficiency values appeared in the form of scores in the range 0–1. This means that SFA scores (technical efficiency) close to one demonstrated a greater level of efficiency on the part of BAZNAS in managing zakat funds.

DISCUSSION

Descriptive Analysis

Before the regression analysis, the authors conducted a descriptive statistical analysis. Descriptive statistical analysis is used to determine the overview of the data. Table 1 shows the results of descriptive statistical analysis on the variables in this research model.

Table 1 Descriptive Statistics Analysis Results

Variable *	Receipt of Zakat Funds	Distribution of Zakat Funds	Operating Expenses	Total Asset
Mean	3.01E + 10	2.43E + 10	7.67E + 09	2.53E + 10
Median	1.94E + 10	1.40E + 10	3.40E + 09	2.06E + 10
Maximum	9.76E + 10	6.77E + 10	2.90E + 10	9.28E + 10
Minimum	2.96E + 08	99895146	1.51E + 08	4.73E + 08
Std. Dev.	3.18E + 10	2.57E + 10	8.35E + 09	2.41E + 10
Skewness	0.916071	0.701878	1.245945	1.641425
Kurtosis	2.565915	1.964390	3.805375	5.294350
Jarque-Bera Probability	2.215733 0.330263	1.901888 0.386376	4.286339 0.117283	10.02572 0.006652
Sum	4.52E + 11	3.64E + 11	1.15E + 11	3.80E + 11
Sum Sq. Dev.	1.41E + 22	9.25E + 21	9.76E + 20	8.13E + 21
Observations	15	15	15	15

Source: Authors (2018)

Description: * value is not in the form of logarithms

Based on the descriptive statistics of 15 observations, the highest value of zakat fund receipts was Rp97,637,657,910, the lowest was Rp296,086,166, and the

average was Rp30,120,218,838. For zakat fund distribution, the highest value was Rp67,727,019,807, the lowest value was Rp99,895,146, and the average was

Rp24,259,187,333. The highest operating expense value was Rp29,035,736,360 and the lowest was Rp150,644,968, with an average of Rp7,670,746,281. The highest value of total assets was Rp92,761,717,010, while the lowest was Rp472,729,642, with an average of Rp25,326,915,062.

Regression Results

The regression estimation method of this study used OLS and was processed with E-Views 6.1. The estimation results of the OLS model for the dependent variable of zakat fund receipts showed an R-Square value of 0.986849 or 98.68 percent. This means that the percentage of the influence of operational expenses and total assets on the receipt of zakat funds as a dependent variable was 98.68 percent, or variations of independent variables used in the model were able to explain 98.68 percent of the dependent variable, while the remaining 1.32 percent was influenced or described by another variable beyond the estimation model.

As for the distribution of zakat funds, there was a relatively high R-Square

value of 0.975392 or 97.54 percent. This means that the percentage of the effect of the operational expenses and total assets on the distribution of zakat funds as the dependent variable was 97.54 percent, or the variation of independent variables used in the model was able to explain 97.54 percent of the dependent variable, while the remaining 2.46 percent was affected or explained by other variables beyond the model estimation.

The estimation model was used for further processing with Frontier 4.1 to find the efficiency score produced by BAZNAS for the management of zakat funds. The efficiency score was also estimated by the maximum-likelihood estimation for the technical effect of the OLS model used. Estimated stochastic frontier model results with OLS and MLE differed slightly. There was a variable that had a significant effect on the OLS estimation model, but no significant effect on the MLE estimation model. The complete results of the OLS and MLE estimates are described in Table 2, as follows:

Table 2 OLS and MLE Regression Results

No.	Variable	Model		Variable	Model	
		OLS	MLE		OLS	MLE
1	Receipt of zakat funds (ln_penerimaan_da)			Distribution of zakat funds (ln_pengeluaran_da)		
	constants	- 2.82526 **	- 2.773022 ***	Constants	-7.171530 ***	- 6.791634
	prob	(0.0123)	(-2.773)	Prob	(0.0005)	(-6.892)
2	Operating expenses (ln_beban_opr)	1.00601 ***	0.926630 ***	Operating expenses (ln_beban_opr)	1.006009 ***	0.279080 **
	prob	(0.0000)	(0.9266)	Prob	(0.0000)	(2.054)
3	Total assets (ln_tot_aset)	0.243466 **	0.243464 ***	Total assets (ln_tot_aset)	0.338184 **	1.06911
	prob	(0.0154)	(0.243)	Prob	(0.0281)	(7666)
5	R ²	0.986849	-	R ²	0.975392	-
6	adj R ²	0.984657	-	adj R ²	0.971291	-
7	F	450.2431 ***	-	F	237.8231 ***	-
	prob	(0.000000)	-	Prob	(0.000000)	-
8	Durbin / Watson	1.968497	-	Durbin / Watson	1.509377	-
9	Sigma-squared	-	0.0389346	Sigma-squared	-	0.193519
10	Gamma	-	0.1100000	Gamma	-	0.999999
	Std. Error of Gamma	-	0.1100000	Std. Error of Gamma	-	0.000396
11	Log likelihood function	-	3.6047742	Log likelihood function	-	-0.344879
12	Mean efficiency	-	0.94985	Mean efficiency	-	0.70985

Source: Authors (2018)

Description: * Significant at 10 percent

** Significant at 5 percent

*** Significant at 1 percent

Receipt of Zakat Funds

Based on the results shown in Table 2, the relationship between BAZNAS operational expenses and the total assets of the receipt of zakat funds, from 2002 to 2016, was analyzed using the following equation:

$$\ln_penerimaan_da_t = -2.77 + 0.927 \ln_beban_opr_t + 0.243 \ln_tot_aset_t + U_t - V_t \quad \text{---(iv)}$$

Based on the results of the maximum likelihood estimate of the value of the SFA approach processed by Frontier 4.1, the obtained models had a gamma value of 0.999999, with a standard error of 0.1100000. The value of gamma coefficients close to one indicated that the variation of the error was more influenced by other random factors. The results of this gamma coefficient indicated that random factors other than independent variables and technical inefficiency dominated the variation of error. To determine the level of significance of the variables, t-ratios were compared with t-tables using the two-tailed test, with the following results:

The operational expenses variable had a positive and significant effect on the receipt of zakat funds. The results of the two-tailed statistical test demonstrated a variable operating expenses value smaller than df 13, at one percent significance level, which indicated the value of 3.01228. Thus, it can be concluded that operating expenses significantly influenced the receipt of zakat. A direct relationship between operating expenses and receipt of zakat can be seen from the value of the coefficient 0.926630. From this figure, it was interpreted that the relationship between operating expenses and receipt of zakat was a one-way relationship (positive) because if the operating expenses increased by one percent, the value of zakat fund receipts

would have increased by 0.927 percent, *ceteris paribus*.

The total asset variable had a positive and significant effect on zakat fund receipts. The statistical results of two-tailed variables of total assets were smaller than df 13, at a one percent level of significance, which indicated the value of 3.01228. Thus, it was concluded that total assets had a significant effect on zakat fund receipts. The relationship between the variable of total assets and the receipt of zakat funds could be seen from the coefficient value of 0.243464. It was interpreted from this figure that the relationship between total assets and the receipt of zakat funds was a one-way relationship (positive) because if total assets increased by one percent then the value of zakat fund receipts would have increased by 0.243 percent, *ceteris paribus*.

Distribution of Zakat Funds

Based on the results shown in Table 2, the relationship between BAZNAS operational expenses and the total assets of the distribution of zakat funds, from 2002 to 2016, was analyzed using the following equation:

$$\ln_pengeluaran_da_t = -6.79 + 0.279 \ln_beban_opr_t + 1.069 \ln_tot_aset_t + U_t - V_t \quad \text{---(v)}$$

Based on the result of maximum likelihood value estimation with an SFA approach that was processed using Frontier 4.1, we achieved the model with a gamma value equal to 0.1100000 with standard error 0.000396. A value of the gamma coefficient less than one indicates that the variation of the error is more influenced by other random factors. The results of this gamma coefficient showed that the random factor, in addition to independent variables

and technical inefficiency, dominated the variation of error. The level of significance of the variables was determined by comparing t-ratios with t-tables using the two-tailed test, with the following results:

The operating expenses variable had a positive and significant effect on the distribution of zakat funds. The statistical results of the two-tailed operating expense value was smaller than df 13, at the significance level of five percent, which indicated the value of 2.160371. Thus, it can be concluded that operating expenses significantly affected the distribution of zakat funds. A direct relationship between variable operating expenses and the distribution of zakat funds was demonstrated by the coefficient value of 0.279080. From this figure, it was interpreted that the relationship between operating expenses and the distribution of zakat funds was a one-way relationship (positive) because if the operating expenses increased by one percent, the value of the distribution of zakat funds would have increased by 0.279 percent,

ceteris paribus.

The total asset variable had a positive and not significant effect on the distribution of zakat funds. The statistical results of the two-tailed variable of total assets was larger than df 13 at a significance level of ten percent, indicating a value of 1.77093. Thus, it was concluded that total assets had no significant effect on the distribution of zakat funds.

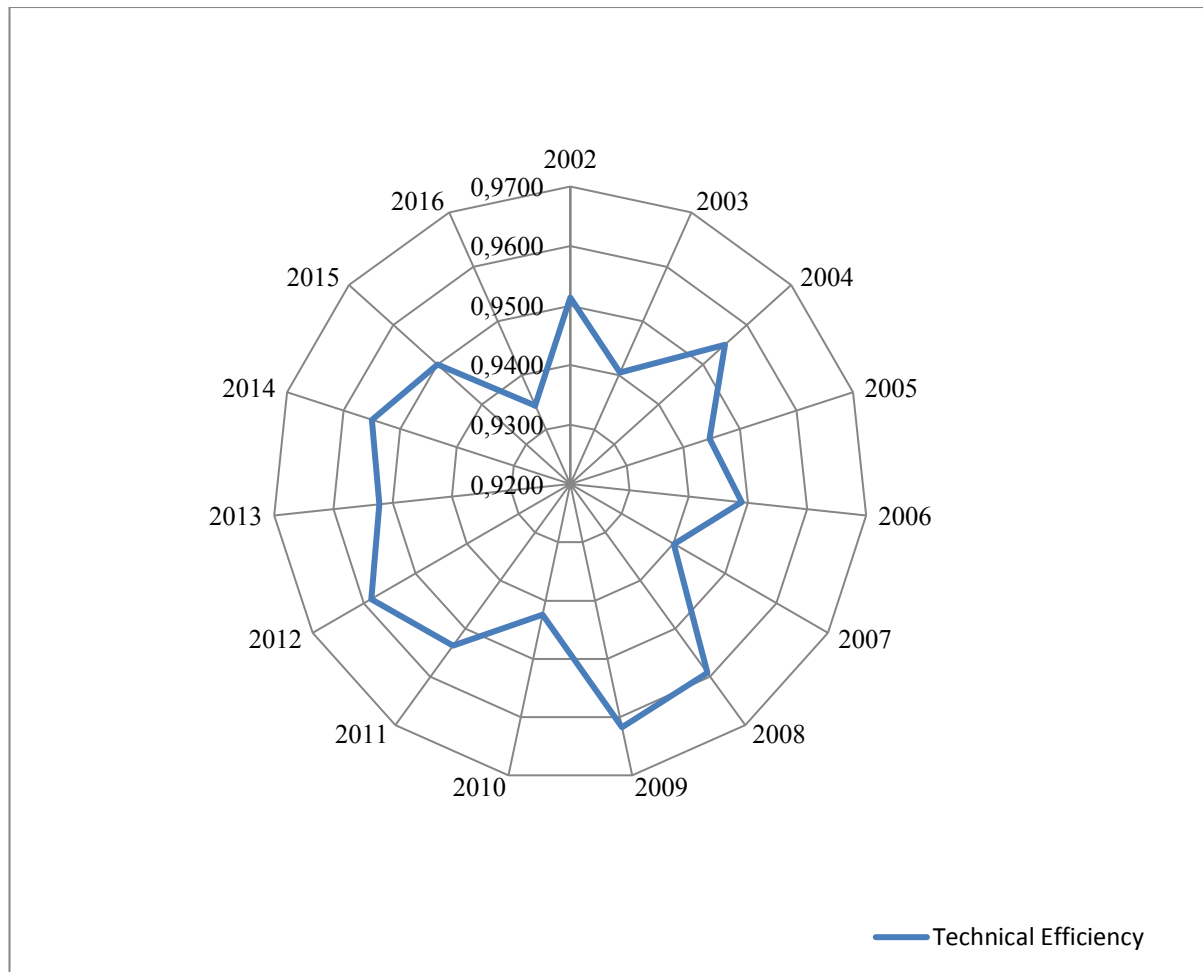
Measurement of BAZNAS's Technical Efficiency on Receipt of Zakat Funds

Following the regression estimation, Table 3 and Figure 1 demonstrate the complete results of the measurement of BAZNAS's technical efficiency score for zakat fund receipts. The measurement of efficiency used the parametric method, resulting in a technical efficiency score on a scale of 0–1. The results that have a score closer to one indicate that BAZNAS operates more efficiently on the receipt of zakat funds, and vice versa.

Table 3 BAZNAS's Technical Efficiency Scores, 2002–2016 (percent)

Year	Technical Efficiency	Technical Inefficiency
2002	0.9513	0.0487
2003	0.9405	0.0595
2004	0.9550	0.0450
2005	0.9447	0.0553
2006	0.9490	0.0510
2007	0.9401	0.0599
2008	0.9592	0.0408
2009	0.9617	0.0383
2010	0.9424	0.0576
2011	0.9535	0.0465
2012	0.9586	0.0414
2013	0.9522	0.0478
2014	0.9550	0.0450
2015	0.9500	0.0500
2016	0.9345	0.0655

Source: Authors (2018)

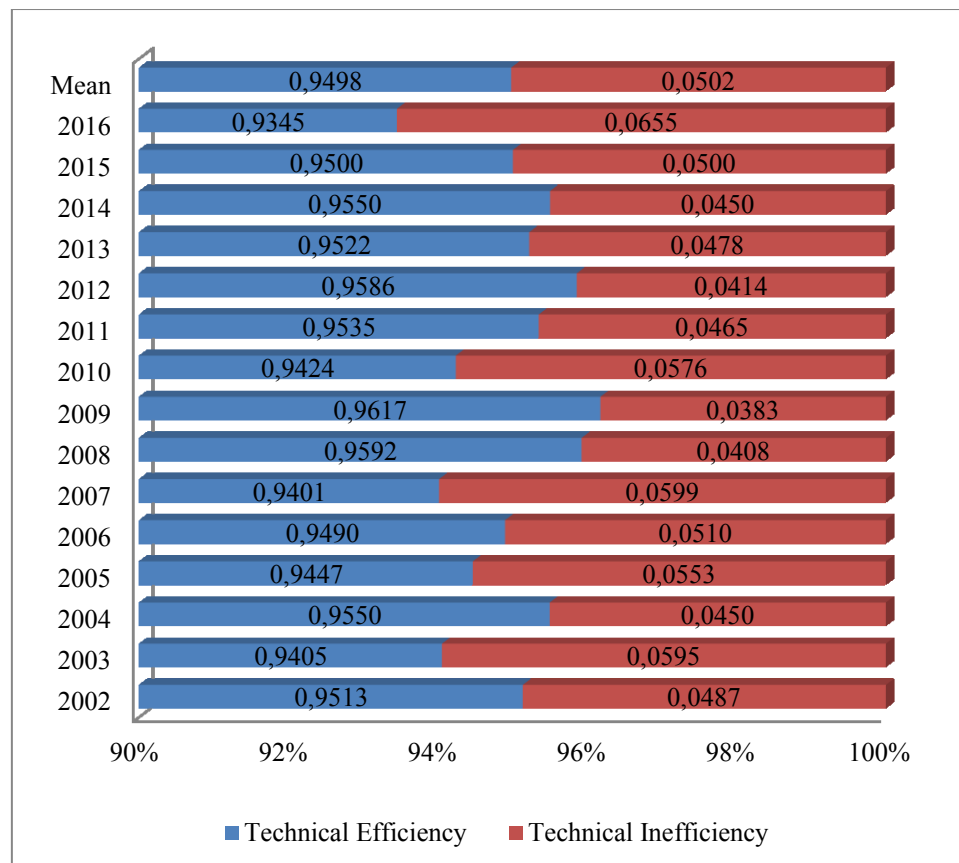


Source: Authors (2018)

Figure 1 BAZNAS's Technical Efficiency, 2002–2016 (percent)

The calculations of the scores for technical efficiency of zakat fund receipts indicated that during the period range of the research, 2002–2016, there was no value with a perfect efficiency score of one. The imbalance in the BAZNAS efficiency scores for 2002–2016 regarding zakat fund receipts (see Figure 2) was seen in the range of technical efficiency scores, where a maximum value of 96.17 percent (2009) and a minimum of 93.45 percent (2016) were obtained. The technical

efficiency score over the period of the study fluctuated and there remained a period of study (2016) which indicated that BAZNAS operations regarding zakat fund receipts carried an average technical efficiency score. When viewed as an aggregate, BAZNAS's technical efficiency regarding zakat fund receipts amounted to 94.98 percent, which means that 5.02 percent of the technical inefficiency of BAZNAS management can be optimized to achieve perfect efficiency.



Source: Authors (2018)

Figure 2 Average Score for Technical Efficiency and Technical Inefficiency Regarding Receipt of Zakat Funds

After obtaining the results of the technical efficiency score, we found the descriptive statistics on the results of the technical efficiency calculation (see Table 4)

for the receipt of the zakat funds, which consisted of a minimum value, maximum value, average, and standard deviation.

Table 4 Descriptive Statistics SFA Efficiency Values

	Min	Max	Mean	Std. deviation
Efficiency	0.9345	0.9617	0.9498	0.00792

Source: Authors (2018)

The average technical efficiency value was 0.9498, which means that the technical efficiency of BAZNAS between 2002 and 2016 reached 94.98 percent. In other words, there was still 5.02 percent of opportunities that could have been optimized to achieve the most efficient operational level. The most efficient period for

BAZNAS regarding the management of zakat fund receipts was found in 2009, with a technical efficiency score of 96.17 percent, while the period found to be the most inefficient was 2013 with the technical efficiency value of 93.45 percent. The technical efficiency value distribution is described in Table 5 below:

Table 5 Distribution of Technical Efficiency Value

Efficiency Value	Frequency	Percentage	Category
NTE < 0.9424	3	20	Not efficient
0.9424 ≤ NTE < 0.9503	4	26.67	Less efficient

NTE $\leq 0.9503 < 0.9629$	7	46.67	Quite efficient
NTE ≥ 0.9629	1	6.67	Efficient
TOTAL	27	100	

Source: Authors (2018)

The grouping of the technical efficiency value was divided into four categories by using the percentile quartile $\pm$ standard deviation equation, among others:

1. The value of technical efficiency < 0.9424 showed that in the receipt of zakat funds, BAZNAS was categorized as inefficient.
2. The technical efficiency value between 0.9424 and 0.9503 showed that in the receipt of zakat funds, BAZNAS was categorized as less efficient.
3. The technical efficiency values between 0.9503 and 0.9629 showed that in the receipt of zakat funds, BAZNAS was categorized as quite efficient.
4. The technical efficiency values ≥ 0.9629 showed that in the receipt of zakat funds, BAZNAS was categorized as efficient.

Based on the classifications, there were three periods (2003, 2007, and 2016) or 20 percent indicating that BAZNAS's management of zakat fund receipts was not efficient; four periods (2005, 2006, 2010,

and 2015) or 26.67 percent where BAZNAS operated less efficiently in the management of zakat fund receipts; seven periods (2002, 2004, 2008, 2011, 2012, 2013, and 2014) or 46.67 percent that were categorized as quite efficient in the management of zakat fund receipts and; only one period (2009) or 6.67 percent that was declared efficient in the management of zakat fund receipts.

Measurement of BAZNAS's Technical Efficiency regarding Distribution of Zakat Funds

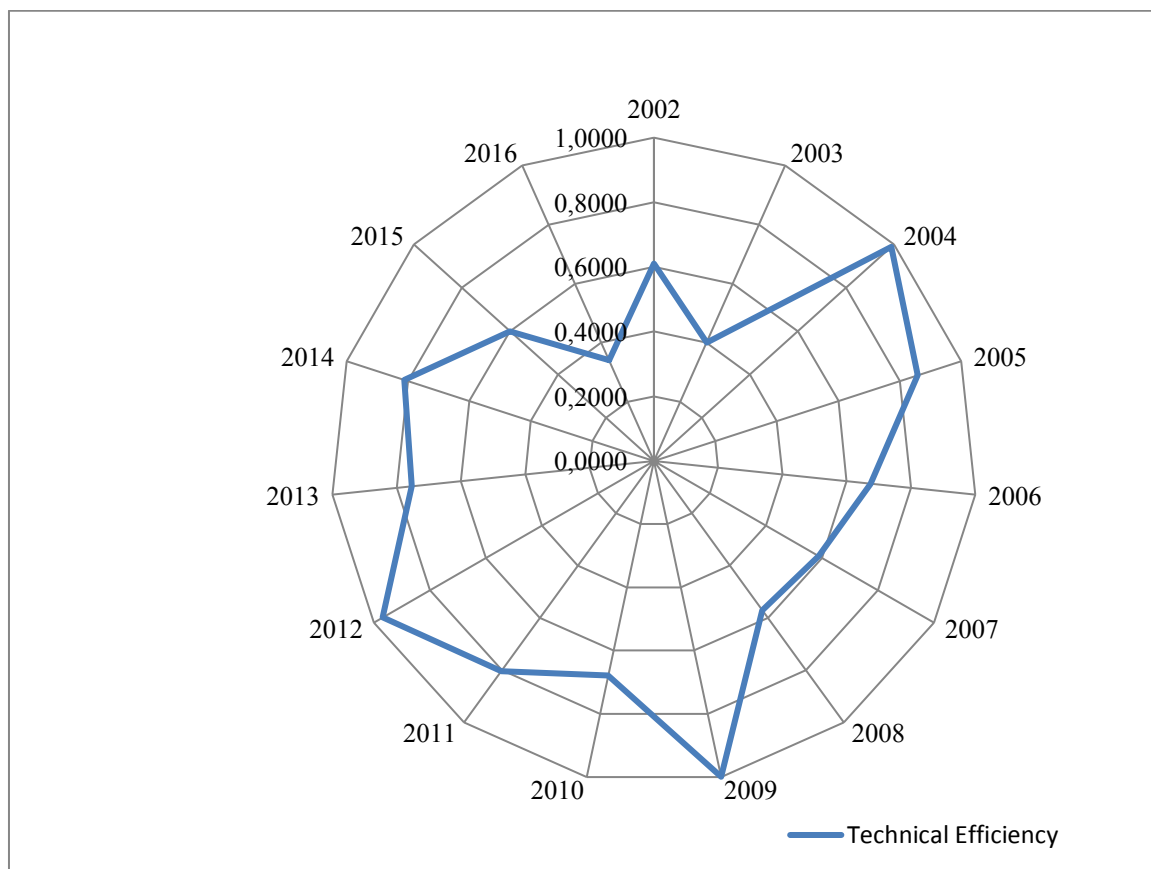
Following the regression estimation, Table 6 and Figure 3 present the complete results of the measurement of BAZNAS's technical efficiency scores for zakat fund distribution. The measurement of efficiency using the parametric method resulted in technical efficiency scores on a scale of 0–1. The result of the SFA, which had a score of one, indicated that BAZNAS operates more efficiently in the distribution of zakat funds, and vice versa.

Table 6 BAZNAS's Technical Efficiency Scores, 2002–2016 (percent)

Year	Technical Efficiency	Technical inefficiency
2002	0.6097	0.3903
2003	0.4015	0.5985
2004	0.9895	0.0105
2005	0.8583	0.1417
2006	0.6746	0.3254
2007	0.5896	0.4104
2008	0.5707	0.4293
2009	0.9990	0.0010
2010	0.6779	0.3221
2011	0.8032	0.1968
2012	0.9690	0.0310
2013	0.7526	0.2474
2014	0.8114	0.1886
2015	0.5991	0.4009

2016	0.3416	0.6584
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Source: Authors (2018)

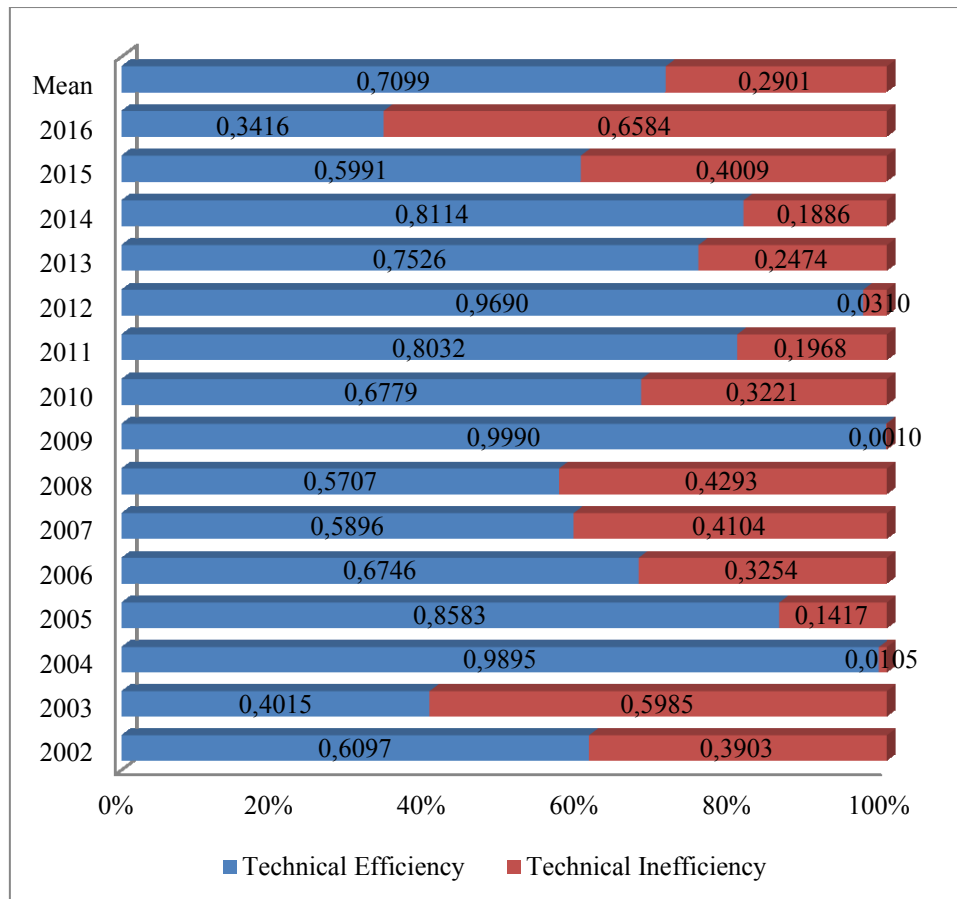


Source: Authors (2018)

Figure 3 BAZNAS's Technical Efficiency, 2002–2016 (percent)

The calculated scores for the technical efficiency of zakat fund distribution indicated that during the period range of the research, 2002–2016, there was no value of perfect efficiency with a score of one. There was an imbalance in BAZNAS efficiency scores for zakat fund distribution in 2002–2016 in (see Figure 3). This was found from the range of technical efficiency scores with a maximum value of 99.90 percent (2009) and a minimum of 34.16 percent (2016) that were obtained. The

technical efficiency score fluctuated over the period of the study and there is still a period of the study which indicated that BAZNAS operations for zakat fund distribution is carried on average technical efficiency score. When viewed as an aggregate, BAZNAS's technical efficiency regarding zakat fund distribution amounted to 70.99 percent, which meant that there was a technical inefficiency of 29.01 percent in BAZNAS management that could have been optimized to achieve perfect efficiency.



Source: Authors (2018)

Figure 4 Average Score for Technical Efficiency and Technical Inefficiency Regarding Distribution of Zakat Funds

After obtaining the results of the technical efficiency score, we found the descriptive statistics on the results of the technical efficiency calculation (see Table 7),

which consisted of a minimum value, maximum value, average, and standard deviation on the distribution of zakat funds.

Table 7 Descriptive Statistics SFA Efficiency Values

	Min	Max	Mean	Std. Deviation
Efficiency	0.3416	0.9990	0.7099	0.20016

Source: Authors (2018)

The average technical efficiency value was 0.7099, which meant that the technical efficiency of BAZNAS for the period 2002–2016 reached 70.99 percent. In other words, there was still 29.01 percent of opportunities that could have been optimized to achieve the most efficient operational level for the distribution of zakat funds. The

most efficient period for BAZNAS on the management of zakat fund distribution was 2009, with a score of 99.90 percent technical efficiency, while the most inefficient period was 2013, with a technical efficiency value of only 34.16 percent. The technical efficiency value distribution is described in Table 8 below:

Table 8 Distribution of Technical Efficiency Value

Efficiency Value	Frequency	Percentage	Category
$NTE < 0.5418$	2	13.33	Not efficient
$0.5418 \leq NTE < 0.7898$	7	46.67	Less efficient
$NTE \leq 0.7898 < 1.0585$	6	40	Quite efficient

NTE $\geq$ 1.0585	0	0	Efficient
TOTAL	27	100	

Source: Authors (2018)

The grouping of technical efficiency value was divided into four categories by using percentile quartile $\pm$ standard deviation equation, among others:

1. The technical efficiency value of < 0.5418 showed that in the distribution of zakat funds, BAZNAS was categorized as inefficient.
2. The technical efficiency value between $0.5418-0.7898$ showed that in the distribution of zakat funds, BAZNAS was categorized as less efficient.
3. The technical efficiency values between $0.7898-1.0585$ showed that in the distribution of zakat funds, BAZNAS was categorized as quite efficient.
4. The technical efficiency values ≥ 1.0585 showed that in the distribution of zakat funds, BAZNAS was categorized as efficient.

Based on this classification, there were two periods (2003 and 2016), or 13.33 percent, which indicated that the management of zakat fund distribution by BAZNAS was not efficient; seven periods (2002, 2006, 2007, 2008, 2010, 2013, and 2015) or 26.67 percent where BAZNAS operated less efficiently in the management of zakat fund distribution; six periods (2004, 2005, 2009, 2011, 2014, and 2015) or 40 percent that were categorized as quite efficient in the management of zakat fund receipts; and no period that was declared efficient in the management of the distribution of zakat funds.

CONCLUSION AND IMPLICATIONS

Conclusion

Based on the analysis and discussion regarding the level of efficiency of the reception and distribution of zakat funds by BAZNAS in 2002–2016, the following conclusions can be drawn.

1. There is a difference of the estimation results between the OLS and MLE methods used in this study. Based on the OLS and MLE results, the operational expenses and total assets on the receipt of zakat funds either partially or wholly both show a positive and significant relationship, with only a different level of significance. The OLS and MLE results on the operational expenses for zakat fund distribution demonstrate a positive and significant relation, with a different level of significance. For total assets of zakat fund distribution, the results of OLS estimation are positive and significant, but based on MLE results, these are positive and insignificant.
2. The efficiency results regarding BAZNAS's average receipt of zakat for the period 2002–2016, using a parametric method (SFA), amount to 94.98 percent, which means that there is still a 5.02 percent chance that this could be optimized to achieve the highest operational efficiency level possible for BAZNAS. Historically, the technical efficiency of BAZNAS's zakat reception fluctuates, with the highest value occurring in 2009 with a technical efficiency value of 96.17 percent. As for BAZNAS's distribution of zakat funds, using a parametric method (SFA), this amounts to 70.99 percent. This means that there is still a

29.01 percent chance that this could be optimized to improve the level of operational efficiency in the distribution of zakat funds by BAZNAS. The technical efficiency of BAZNAS has historically fluctuated, with the highest value occurring in 2009 with a score of 99.90 percent.

3. Regarding the acceptance period of zakat, BAZNAS has been most efficient in 2009 with a score of 96.17, while the most efficient acceptance period of zakat funds is demonstrated in 2016 with a score of 93.45 percent. For the distribution of zakat funds, the most efficient period has been 2009, with a score of 99.90 percent, and the efficiency of the least efficient period, 2016, is 34.16 percent.

Recommendation

Based on other research conclusions, there are certain implications and considerations that can be utilized in order to optimize the potential of BAZNAS so that the value of BAZNAS's efficiency in the management of zakat funds can be increased:

1. BAZNAS should pay more attention to the factors that affect the level of efficiency of the reception and distribution of zakat funds. Based on the results, it is known that the efficiency of the receipt of zakat funds is affected by operating expenses, while the efficiency of the distribution of zakat funds is influenced by total assets. Both of these variables can be focused on internally by BAZNAS in order to further improve efficiency.
2. The efficiency value of zakat fund distribution is relatively small compared with the efficiency of zakat reception, which is an area that BAZNAS could focus on when reevaluating operations, so as to achieve maximum efficiency. This could be done by setting better targets for the distribution of zakat funds to the most vulnerable citizens, and by

ensuring transparency in the publication of financial statements in order to increase muzakki confidence.

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The Evaluation of Mustahiq Training Effectiveness in Rumah Gemilang Indonesia (RGI) for the 16th Generation to Increase Work Readiness

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ABSTRACT

Indonesia is the fourth largest country in the world in terms of population size. However, the potential of large amounts of Indonesia's human resources cannot be optimized due to the continuing high number of unemployed people. Rumah Gemilang Indonesia (RGI) is a program run by the Al-Azhar National Amil Zakat Institute, focusing on the eradication of productive-age unemployment. The purpose of this research is to examine the implementation of the mustahiq training organized by RGI and to evaluate the running of mustahiq training at the reaction level, learning level, behavioral level, and results level. The methods used to process and analyze the data are descriptive analysis and paired data t-test. The result shows that the mustahiq training organized by RGI has been effective. At the reaction level, the respondents were quite contented with the training. The result of the paired data t-test at the learning level shows that there is a significant difference in mustahiqs' competence before and after the training. At the behavioral level, on average, the respondents always apply the training materials to their job. At the results level, RGI's vision to increase the level of work readiness has been achieved.

Keyword: Kirkpatrick model, paired data t-test, productive zakat, training effectiveness, unemployment measure

INTRODUCTION

Based on data from the Central Bureau of Statistics (2015), Indonesia is the fourth most populous country in the world after China, India, and the United States. The population of Indonesia is estimated to be 255,461,070 inhabitants. Based on data from the Central Bureau of Statistics (2016), the current population of Indonesia is dominated by the productive age groups. This shows that Indonesia is entering an era of demographic bonuses, in which an overpopulation of those at productive age can be utilized to enhance development.

Despite the large size of the productive-age population in Indonesia, there are nevertheless problems with harnessing this level of resource. The large potential of Indonesia's human resources has not been translated into opportunities for employment from Indonesia's expanding economic growth. In general, labor conditions in Indonesia are inseparable from unemployment problems. The percentage of unemployment to the total labor force can be seen in the Open Unemployment Rate. In general, the Open Unemployment Rate in Indonesia has fallen (Figure 1).

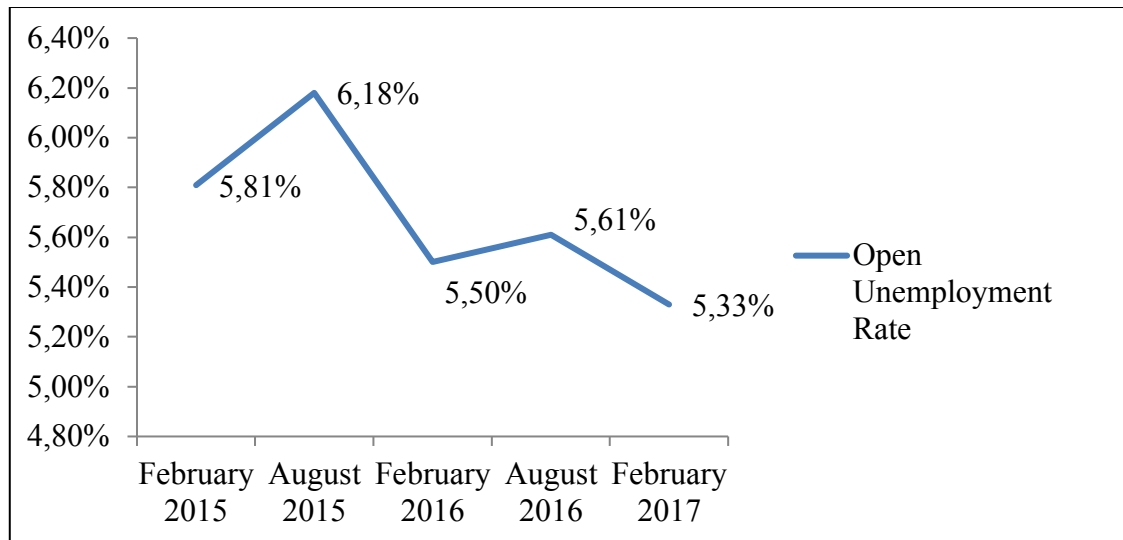


Figure 1 Open Unemployment Rate in Indonesia

Source: Central Bureau of Statistics (2017)

Figure 1 shows that in general, the Open Unemployment Rate in Indonesia has fallen. The greatest single decline occurred in the period August 2015–February 2016. However, the February 2017 unemployment rate of 5.33% is still relatively high compared to the rates in other ASEAN countries such as Malaysia, Singapore, Vietnam, and Thailand. Lack of expertise and low levels of education are among the factors that have meant the available workforce has not been absorbed by the existing jobs.

Based on data from the Ministry of Education and Culture of the Republic of Indonesia (2016), the number of students who drop out remains high, respectively 39,213 students at elementary level, 38,702 students for junior high school, and 109,163 at the high school/vocational school level. In fact, education is one area identified for investment in the field of human resources. Such investment in education is expected to lead to increases in individual income and work productivity.

Indonesia's unemployment problems can be alleviated through use of the zakat instrument that exists within the Islamic economy. Zakat offers the potential to not only address problems of poverty and economic inequality, it can also play a role in human development.

Beik (2010) states that zakat has three main dimensions, namely the personal spiritual dimension, social dimension, and economic dimension.

On the one hand, zakat can increase one's productivity as it encourages the development of a high work ethic. On the other hand, a high work ethic is also a command in a verse in the Qur'an. *Work you, then Allah and His Messenger and the believers will see your work* (Q.S. At-Taubah: 105). The benefits of zakat can be felt by the community in terms of overcoming the economic demands to meeting their needs. This is in line with the purpose of holding zakat, which is to distribute property from people who have excess wealth to people who need property.

However, the amounts currently collected by zakat fund management institutions in Indonesia are still far from the full potential of national zakat. This is due to a tendency for people to surrender their own zakat to mustahiq. Such transference of zakat funds directly to mustahiq leads to such funds being utilized solely for present consumptive needs and does not help to lift the poor out of the poverty cycle. However, if zakat funds are properly managed through zakat fund management institutions in Indonesia, they

can be used as a source of productive funds for development by mustahiq.

Such a development may take the form of the provision of working capital for a mustahiq business. This could be accompanied by training to improve the competence of mustahiq and may also be in the form of education/scholarship. This change in how zakat is distributed is expected to be able to lift the zakat-receiving community from poverty and lead to more people changing status from mustahiq to muzaki. Ultimately, the development has the potential to yield improvements to the Indonesian economy.

Al-Azhar National Amil Zakat Institute is one of the zakat institutions that has been inaugurated as a national zakat institution by the Ministry of Religious Affairs of the Republic of Indonesia. This institute aims to empower poor people through the optimization of zakat funds, infak, alms, and other social funds justified by the religious sharia and resources that exist in the community. One such zakat fund empowerment program that is managed by Al-Azhar National Amil Zakat Institute is Rumah Gemilang Indonesia (RGI).

RGI is an empowerment program and training center aimed at productive-age teenagers who drop out of school and are unable to continue their education to a higher level. RGI adopts the Islamic boarding school platform but focuses on the provision of non-formal education in a short-course format. RGI is one way in which productive zakat is utilized. Through RGI, some of the problems with unemployment that are expected to occur in Indonesia can be minimized. Therefore, this study will focus on the effectiveness of the mustahiq training organized by RGI using the Kirkpatrick model.

There has been wide research into the effectiveness of training using the Kirkpatrick model, especially in the company context. Pajriati (2016) conducted a study related to the effectiveness of entrepreneurship training

for Indonesian Workers in Kuala Lumpur, Malaysia. The results of the study revealed that entrepreneurship training for labor migrants was effective from the reaction level to the result level. The paired t-test data at the result level indicated the presence of significant differences before and after the training activities.

Putri (2016) conducted a study related to the effectiveness of marketing skills training at PT XYZ Insurance company. The result identified two variables at the reaction level that required improvement, namely the module and the facilitator. The variable requiring improvement at the outcome level was motivation. The efficiency analysis result identified three sections that were efficient and one section that was not efficient, as seen from the efficiency score.

Ayuningtyas (2016) carried out research related to the effectiveness of training in Bintang Pelajar Institute. The result of the descriptive analysis in the Kirkpatrick model indicated that implementation of the Bintang Pelajar teacher training had been effective. The results of partial least squares showed that the effectiveness of training had a positive and tangible effect on competence.

The related research on the effectiveness of the mustahiq training organized by RGI was conducted to determine whether the utilization of zakat funds in the form of a mustahiq training program had been effective. Evaluation of the effectiveness of training in this research is conducted at the reaction level, learning level, behavioral level, and results level.

LITERATURE REVIEW

Definition and Zakat Theory

In Qardhawi (2011), in terms of language, zakat means blessing, growing, clean, and good. Zakat, from the term jurisprudence, means a certain amount of property that

Allah requires to be handed over to the righteous. The word zakat is mentioned 30 times in the Qur'an. One of the verses that commands zakat is Q.S. At-Taubah: 103. "Take zakat from their wealth, to cleanse and purify them, and pray for them. Your prayers are indeed (growing) the peace of their souls. Allah is Hearing, Knower."

Objectives of Zakat

The Ministry of Religious Affairs of the Republic of Indonesia, in Suprayitno (2005), states the following aims and objectives of zakat:

1. Improving living standards

Many Indonesians live below the poverty line. Two kinds of activities are undertaken to improve the standard of living of the poor. First, motivational activities such as providing knowledge about the management system (in a simple sense) and guidance related to home industry, etc. Second, activities that provide capital assistance in the form of money for main capital and additional capital such as equipment and livestock, etc.

2. Education and Scholarships

The continuing high level of poverty in Indonesia leads to limited opportunities for education. There are two types of programs that can be implemented to help overcome this. First, provide assistance to organizations or foundations engaged in education, either in the form of money or educational facilities. Second, provide the school fees for certain children whose access to education remains in the form of scholarships.

3. Overcoming Unemployment

The goal of this program is *fuqara*, namely those who do not have a business or permanent job to enable them to meet the needs of everyday life. Other targets are those who drop out of school or who have completed their studies but have not obtained an expected job.

4. Health Service Program

Other programs that can help to tackle poverty through the utilization of zakat funds address the problem of health services for the poor in particular, and in rural areas in general, where there is an uneven distribution of services. Potential activities include the establishment of a polyclinic.

5. Orphanages

Zakat funds can be used for the maintenance of orphaned children. Such a program could include providing assistance to an existing orphanage in the form of money or skill equipment, or by establishing a new orphanage.

Problems of Unemployment in Islam

Unemployment is an issue that is linked to economic activities, social relations, and also humanitarian problems. Qardhawi (2005) outlined the adverse effects of unemployment on an individual in the community, among others, as follows:

1. economically, having no income,
2. healthily, will reduce body movement and activity levels,
3. psychologically, will lead to a person living in a vacuum of time, and
4. socially, lead to envy of others' success.

Qardhawi (2005) explained that unemployment in the Islamic perspective is generally divided into two, namely *jabariyah* unemployment (out of necessity/forced) and *khiyariah* unemployment (by choice).

1. *Jabariyah* Unemployment

Jabariyah unemployment is unemployment that occurs when a person has no right to choose this status and is simply forced to accept it. Unemployment is treated like a disaster that cannot be rejected and this type generally occurs because someone does not have the slightest skill.

But it can also arise if someone does have a certain skill but that skill has been rendered useless due to changes in the environment and/or the development of the times. Or it may be that someone has learned a certain skill but in order to exercise that skill, lots of tools and equipment are required, which he has no capital to acquire.

2. *Khiyariah* Unemployment

Khiyariah unemployment is unemployment where a person is capable of working but instead chooses to be unemployed so that they become a burden to others. Such people choose to waste their potential rather than use it well. Islam aims to counter such people and does not bless them for their actions. It is not lawful for *sadaqah* to be given to a rich person or a worker (H.R. Ahmad, Abu Daud, Tirmidzi, and Hakim).

Definition and Purpose of Training

Swasto (2011) states that training is intended to improve the mastery of a variety of skills and techniques of a specific job implementation for the needs of the present. With training, it is expected that the production process can be carried out in accordance with the plan and the product can be accepted by the community.

Swasto (2011) also states that training will be successful if the process for fulfilling training needs is carried out correctly. Basically, training needs are generated by a lack of knowledge, skills, or the attitudes of each worker, to varying degrees. The purposes of training are thus to:

1. meet the demands of the current job,
2. meet the demands of other positions,
3. meet the demands of change, and
4. have an impact on the need for new knowledge through internal and external changes.

Training Evaluation

Maarif and Kartika (2014) stated that in order to know the results and effectiveness of an activity, especially for training and development programs, it is necessary to evaluate the training program. There are two main focuses with regard to the evaluation of a training program – the effectiveness of the training program and the value of the training program related to whether the effort and cost has a significant and positive effect on the strategy and evaluation. This is reinforced by Rivai and Sagala (2009), who state that training needs to pay attention to the evaluation of the participants who follow the training program.

Definition of Effectiveness

Siagian (2001) defines effectiveness as the utilization of certain amounts of resources, facilities, and infrastructure that are consciously established in advance to produce some of the goods or services of the activities it undertakes. Effectiveness indicates success in terms of whether or not the target has been achieved. The closer the results of the activity to the target, the greater the level of effectiveness.

Kirkpatrick Model

Along with the development of science in the development of human resources, especially in the aspect of training, there has also been development of training evaluation methods. One commonly used training evaluation method is the Kirkpatrick four-level model. Kirkpatrick and Kirkpatrick (2008) explain that the model contains four levels for use in evaluating training, namely:

1. reaction, aiming to measure the level of satisfaction of the training participants on the training program,

2. learning, aiming to identify the extent to which training participants have absorbed the content of the given training materials (as shown by knowledge, skills, and attitudes), usually revealed through testing before and after the training,
3. behavior, aiming to determine the extent to which trainees apply the material that has been learned in their work activities,
4. results, aiming to examine the impact of training on a working group or organization as a whole.

METHODS

This research was conducted at RGI located on Pengasinan Street RT 01 RW 06, Depok City. RGI is a training and empowerment program for unemployed productive-age people, managed by the Al-Azhar National Amil Zakat Institute.

The data used in this research comprise primary and secondary data. The primary data were obtained through interviews with the management of RGI and respondents, while the secondary data were obtained through a review of literature related to research derived from journals, books, and other resources. The respondents in this study comprise 51 participants of the 16th-generation RGI training, spread over every regular program. The regular programs are Computer Engineering and Networking, Photography and Videography, Fashion Design, Graphic Design, Office Applications, and Automotive.

The purposive sampling method was employed as the sampling technique. Data processing was performed using Microsoft Excel and Statistical Product and Service Solutions (SPSS) 22. Data analysis was performed using descriptive analysis and paired data t-test.

RESULTS AND DISCUSSION

Evaluation of Effectiveness at the Reaction Level

In the evaluation at the reaction level, a total of 19 statements were given to the respondents by the researcher, the aim of which was to determine the level of the respondents' satisfaction with the training activities organized by RGI. The statements are based on the five common criteria commonly assessed when using the Kirkpatrick model, listed as follows: training methods, facilitators/instructors, training facilities, training materials, and training time. The statements contained semantic differential scales with six choices ranging from 1 through 6.

Numerical linear scales were used to interpret the data from the semantic differential scales. Simamora (2004) states that the first thing to determine when constructing a numerical linear scale is the Scale Range (SR). The SR in this study is based on the following calculation results:

$$SR = \frac{6-1}{4} = 1.25$$

Based on the scale of satisfaction measurement used in this study, a four-class category standard was used to measure the respondents' satisfaction with the training, which can be seen in Table 1.

Table 1 Scale of Satisfaction Measurement

Scale Range	Information
1.00 – 2.25	Very Dissatisfied
2.26 – 3.50	Not satisfied
3.51 – 4.75	Satisfied
4.76 – 6.00	Very satisfied

Source: Simamora (2004)

Based on Table 1, a higher average score of the questionnaires for the reaction level indicates that the respondents are very satisfied with the training activities held. A higher result in the measurement

of respondent satisfaction indicates that the training activity has been effective (Badu, 2013). The results for the evaluation of effectiveness at the reaction level can be seen in Table 2.

Table 2 Evaluation at the Reaction Level

No.	Statement	Average Value	Info
1.	Existing skills training methods are able to assist me in understanding the material provided.	5.29	Very Satisfied
2.	The existing method of religious coaching is able to motivate me to become a better person.	5.75	Very satisfied
3.	The Islamic boarding school-based training method appealed to me.	5.22	Very satisfied
4.	The training is separate for male and female participants.	5.20	Very satisfied
5.	I like the various rules that exist during the training program.	4.49	Satisfied
6.	The teachers are able to communicate the material to the participants well.	5.29	Very Satisfied
7.	The facilitator's appearance has covered the aurat according to Islamic rules.	5.29	Very satisfied
8.	The learning facilities (classrooms, projectors, practical equipment, modules, etc.) are in good condition.	4.82	Very satisfied
9.	The dorm facilities are convenient to use.	5.31	Very satisfied
10.	The bathroom facilities are in keeping with the sunnah in Islam.	4.47	Satisfied
11.	The food and beverages provided is guaranteed halal.	5	Very satisfied
12.	There is a cozy prayer area available.	5.76	Very satisfied
13.	The training materials were in line with the competencies I need.	5.24	Very satisfied
14.	The training materials were in accordance with the job I wanted.	5.35	Very satisfied
15.	The religious material was in accordance with my needs and capacity.	5.61	Very satisfied
16.	The training time did not neglect prayer times.	5.84	Very satisfied
17.	There are sufficient breaks.	5.41	Very satisfied
18.	The proportion of training between skills development and religious guidance was balanced.	5.14	Very satisfied
19.	The allocation of time between material delivery, practice, and religious coaching was effective.	5.41	Very satisfied
Average Satisfaction of Respondents		5.26	Very satisfied

Source: Author (2017)

Table 2 shows that the average level of respondent satisfaction for the training methods, facilitators/instructors, facilities, training materials, and training time is 5.26. This score indicates that the average respondent felt very satisfied with the training organized by RGI.

The highest average satisfaction rate of 5.84 was found for the variable training time that did not neglect prayer time. The respondents stated that during the training program at RGI, there was a security guard assigned to notify the participants and class facilitators of when it was prayer time. This was done so that the learning activities or training could be paused to enable the performance of obligatory prayers in congregation at the correct time. Furthermore, the lowest average satisfaction rate of 4.47 was found for the bathroom facilities variable. The respondents stated that the available bathroom facilities were dominated by the sitting toilets. In addition, the bathroom is rated less well for its cleanliness because the trainees are less hygiene when using it.

Evaluation of Effectiveness at the Learning Level

For evaluation at the learning level, 15 questions were put to the respondents by

the researcher. The questions were asked to determine the extent of the respondents' ability to respond to the training materials. The questions were formed on the basis of the following three commonly assessed competencies when using the Kirkpatrick model: knowledge, expertise, and attitude before and after training. The questions used a semantic differential scale with six choices, from 1 through 6. The results of the evaluation at the learning level can be seen in Table 3.

Table 3 shows that the greatest increase of 2.57 is for the variable Knowledge of the basic concepts of the chosen regular program. This is because the majority of the respondents had not received any learning related to the regular program chosen prior to them joining the training program at RGI. Increased knowledge is also supported by the ability of a good facilitator. The respondents stated that the facilitator explained the material clearly and patiently when answering questions. The smallest increase of 0.79 was found for the attitude variable Be grateful for everything that happens. This was due to that fact that the majority of the respondents already had an environment to always remind them of the importance of gratitude, prior to them following the training program at RGI.

Table 3 Evaluation at the Learning Level

No.	Questions	Average (Before)	Average (After)	Increase
1.	Knowledge related to Islamic values.	4.20	5.35	1.15
2.	Knowledge of the basic concepts of the chosen regular program.	2.65	5.22	2.57
3.	An understanding of the various terms in the chosen regular program.	2.53	5.04	2.51
4.	Knowledge related to recent developments of the chosen regular program.	2.78	4.96	2.18
5.	Have memorized the Quran juz 30.	3.63	5.25	1.62
6.	Ability to use equipment commonly used in the chosen regular program.	3.08	5.16	2.08
7.	Ability to perform training material.	2.78	5.24	2.46
8.	Ability to think creatively.	3.75	4.92	1.17
9.	Clothing covers aurat.	4.65	5.65	1.00

10.	Be grateful for everything that happens.	4.78	5.57	0.79
11.	Limits interaction with other gender.	3.96	5.37	1.41
12.	Confident in doing anything.	4.00	5.35	1.35
13.	Initiative in looking for information independently.	4.12	5.29	1.17
14.	Enthusiasm in developing self-ability.	4.35	5.43	1.08
15.	Optimistic in facing the future.	4.65	5.63	0.98

Source: Author (2017)

The results of the evaluation at the learning level are in accordance with those of research by Putri (2016). The results obtained from marketing skills training at insurance company PT XYZ showed that the greatest increase occurred in knowledge, while the lowest increase was for attitude.

The results of the paired data t-test for the learning level before and after training in RGI show both -t arithmetic < -t table (-13.410 < -2.009) and significance (0.000 < 0.05); thus, H_0 is rejected, i.e. there was a significant difference before and after training in RGI. The negative t-test result indicates that the level of learning before the training was lower than after the training.

When analyzed further, the significant change in learning level is caused by the concept of training in the form of an Islamic boarding school that is conducted at RGI. Within that concept, the trainees live in a dormitory so they can focus more on the training activities. Furthermore, the long training times

enable the trainees to obtain more training materials.

Evaluation of Effectiveness at the Behavioral Level

For the evaluation at the behavioral level, 14 statements were submitted to the respondents by the researcher with the aim of determining the extent to which the respondents applied the training materials while in the work environment. The statements included a semantic differential scale, with the responses on a scale ranging from 1 through 5. Interpretation of the data from the semantic differential scale was carried out using a SR based on the following calculation results: $SR = \frac{5-1}{4} = 1.00$

Based on the frequency measurement scale used in this study, a four-class category standard was used to measure the frequency with which the respondents applied the training materials at work, with the results displayed in Table 4.

Table 4 Scale of Frequency Measurement

Scale Range	Information
1.00 – 2.25	Always
2.26 – 3.50	Often
3.51 – 4.75	Rarely
4.76 – 6.00	Never

Source: Simamora (2004)

Based on Table 4, a higher average score from the questionnaire at the behavioral level indicates a higher frequency with which the respondents apply the training materials at work. If a

training activity does not produce a change in behavior, it is not deemed to have been effective (Ikramina & Gustomo, 2014). The results of the evaluation at the behavioral level can be seen in Table 5.

Table 5 Evaluation at the Behavioral Level

No.	Statements	Average Value	Info
1.	I will not surrender in the face of various problems at work.	4.02	Always
2.	I use the knowledge/skills I get from the training during work.	4.04	Always
3.	I was able to position myself when to work individually and when to work in teams.	4.35	Always
4.	I obey the rules in the company where I work.	4.67	Always
5.	I am professional in doing the job.	4.63	Always
6.	I am happy to help a friend who is having trouble.	4.00	Often
7.	I try to keep charity even though I'm in need.	4.18	Always
8.	I give my family news about my condition during work.	3.33	Often
9.	I perform the obligatory prayers at the beginning of time in congregation.	4.20	Always
10.	I perform the Sunnah Prayer.	3.88	Often
11.	I read the Qur'an and its translation.	3.20	Often
12.	I do the sunnah fasting.	3.49	Often
13.	I try to be a productive person.	4.69	Always
14.	I behave honestly in my activities.	3.45	Often
Average Application of Training Materials		4.01	Always

Source: Author (2017)

The results of the evaluation at the behavioral level show that the respondents' average frequency level for applying the training material is 4.01. This score indicates that the average respondent always apply the training materials organized by RGI at the time of work. The respondents always implemented the training materials while working since they are placed with partners whose field of business is in accordance with the regular program chosen. For example, trainees from the Graphic Design program are often placed in printing companies. Another example is trainees from the Fashion Design program, many of whom are placed in convection or boutiques.

The highest average frequency at the behavioral level was for the variable I try to be a productive person. Here, the respondents stated that during the training program at RGI, they were always reminded that the best human being is a

useful human being. Therefore, they always try to fill their time with productive activities.

Meanwhile, the lowest average frequency at the behavioral level was for the variable I read the Qur'an and its translation. The respondents stated that they usually read the Quran but not with the translation. However, they still tried to read the Quran while also engaged in their busy work.

Evaluation of Effectiveness at the Results Level

In the evaluation at the results level, six questions were put to the respondents by the researcher. The questions were tailored to the purpose of holding the training at RGI and were asked to determine the level to which the training impacted the achievement of the training objectives themselves. The average readiness of the

participants before and after the training program at RGI can be seen in Figure 2.

Figure 2 shows the highest increase to be for the skill/ability variable. This is the case because the training program at RGI places more emphasis on practice via cooperation between RGI and its partners. Such cooperation is carried out so that the mustahiq who become trainees can improve their skills while working in companies that become partners. Practical activities are also supported by the adequacy of the equipment and facilities for practice at RGI, such as computers, cameras, sewing machines, and automotive tools.

The lowest increase was found for the variable of religious knowledge. This occurred since the majority of the respondents came from a religious family environment or had been educated in religious schools (MI/MTs/MA/Islamic boarding school). The effect was that the respondents already had relatively well-developed religious knowledge prior to attending the training activities at RGI.

The result of the paired data t-test at the results level before and after the

training at RGI show $-t_{\text{arithmetic}} < -t_{\text{table}}$ ($-18.572 < -2.009$) and significance ($0.000 < 0.05$); thus, H_0 is rejected, i.e., there was a significant difference before and after the training in RGI. The negative t-test result indicates that the mustahiqs' work readiness was lower before the training than after training.

When analyzed further, a significant change at the results level is due to the good implementation of training programs organized by RGI. In addition, the participant selection process plays an important role in terms of accepting highly motivated participants. Such participants are expected to make the maximum use of the training activities that are held.

In general, the evaluation at the results level is based on RGI's vision to make mustahiq ready for work in terms of them achieving knowledge, expertise, and a good character. Mustahiq can use the competencies they obtain from the training program, namely knowledge, skill, and good morals, as basic capital to enable them to compete in the world of work or to run a business independently.

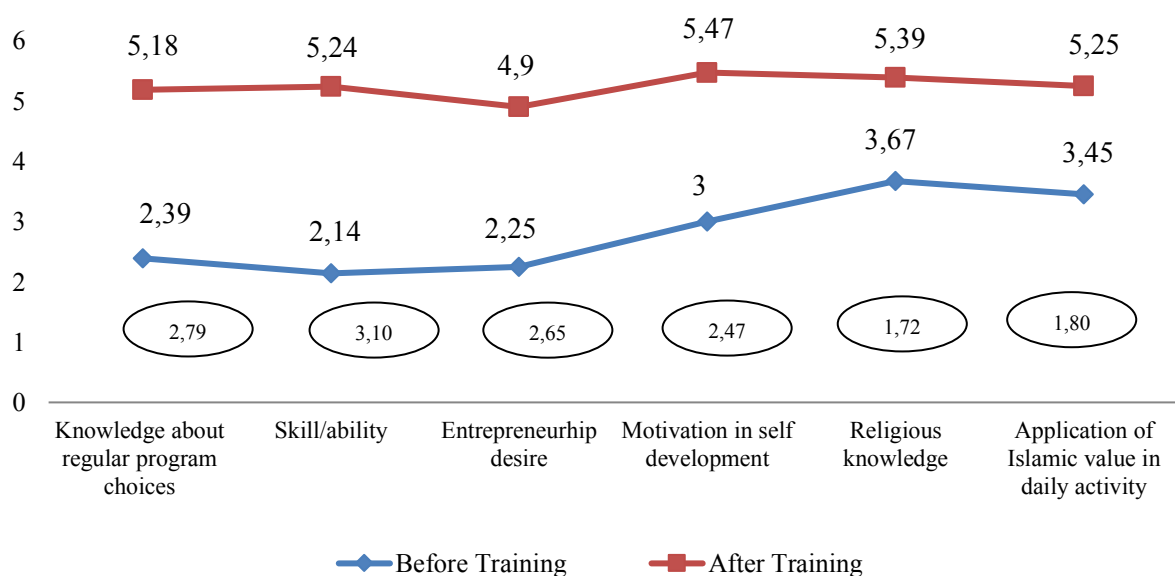


Figure 2 Evaluation at the Results Level

Source: Author (2017)

CONCLUSION

Based on the results of the study, the evaluation of the 16th generation of mustahiq training at RGI at the reaction level indicates that the average mustahiq feels very satisfied with the training that is held. The result at the learning level indicates that the highest increase in competence is for knowledge. The result of the paired data t-test at the learning level shows that there is a significant difference between the mustahiq competence before and after training.

The result at the behavioral level indicates that the average mustahiq always implements the training materials within their work activity. Furthermore, the data from the results level show that RGI's vision to increase the work readiness of mustahiq has been achieved through the holding of the training. The result of the paired data t-test at the results level reveals a significant difference before and after the training.

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