

## ZAKAT DEVELOPMENT: THE INDONESIA'S EXPERIENCE<sup>1</sup>

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### **Abstract**

*As the third pillar of Islam, zakat has very strategic role in the development of the ummah. Indonesia, being the most populous Muslim country, experiences rapid zakat development for the last decade. This could be observed from both collection and distribution sides of zakat, which indicate remarkable improvement. However, Indonesia still faces a number of challenges including the wide gap between zakat potential and its actual collection. Hence, exchange of experience between Indonesia and other OIC member countries is highly needed.*

### **I. Introduction**

As we have already known that zakat has a very fundamental meaning in Islamic teaching. It is related to socio-economic aspect in addition to *ubudiyah* aspect. This can be observed in the implementation of zakat since the beginning of Islam in which zakat is considered as an integral part of the development process of the *ummah*.

It has been the duty of the *ulama* and the leaders in every nation to increase public comprehension and to set up good example of zakat obligation fulfillment. When these duties are consistently performed, they may affect social condition of the have not. It is expected that this unfortunate group of people can be released from the chain of poverty and backwardness.

We are also so grateful knowing that the attention paid by the *ulama*, intellectuals, and Muslim leaders towards management of zakat has grown up rapidly for the past years. Given this momentum, the next important agenda for the Islamic countries is to strengthen the role and contribution of zakat in the reduction of unemployment, poverty and income inequality that still exist until today.

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## II. The Problem of Poverty

Poverty and unemployment are among basic problems faced by the world society. They can not be fully alleviated by the government unless all of the society's components get involved in bearing this responsibility. The existence of these problems has implied to the low level of human resource quality, which end up with backwardness problems.

One of the potentials that must be utilized as a remedy of the problem is through optimization of zakat instrument. As we have realized that one of the key performance indicators of the success of zakat lies on the issue of poverty reduction. Hence, all the Muslim countries should creatively and actively develop distribution and utilization mechanism of zakat, which are relevant with the needs of the poor and the needy so that they will not be depending heavily upon the government assistance.

Zakat mechanism in various countries has been designed in line with poverty eradication programs of the government, in the sense that they are complementary and strengthening each other. The success stories of zakat development in some countries should be the role model that may be adopted and implemented by other countries, obviously with some local adjustments.

In relation to the international cooperation, we observe that the opportunity to arrange zakat distribution cooperation among the Islamic countries should be opened widely. It is because we have common interest to protect the dignity of the Muslims based on the fundamental values of Islam. Poverty may degrade this *ummah* and even may lead to the belief conversion. Therefore, Islam offers zakat and other Islamic financial instruments as the way out from the valley of poverty. This has also been explicitly stated by the Prophet in a hadith reported by Imam Thabrani.

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

## III. Zakat Development in Indonesia

Indonesia is the most populous Muslim country in the world. We have around 220 millions of population; 88 percent of which is Muslims. In Indonesia, implementation of zakat is based on the Zakat Management Act No. 38/1999. This Act regulates only managerial aspect of zakat, while other issues including *fiqh* of zakat are regulated based on the shariah law, which is the living law in the society.

The objectives or the targets of zakat management as stated in the Zakat Management Act are as follows.

1. To increase the service for the community in performing zakat obligation according to the Shariah.
2. To improve the role and function of religious institution in realizing people's welfare and social justice.
3. To increase the benefit and advantage of Zakah.

According to the Act, zakat is not managed directly by the government, but by the Board of Zakat (*Badan Amil Zakat* abbreviated as BAZ) which is established by the government at various levels, and the private zakat institutions (*Lembaga Amil Zakat*

abbreviated as LAZ), which must be approved by the government. As of current report, there are 1 National Board of Zakat, 33 Provincial Boards of Zakat, and around 400 city or regency boards of zakat. In addition, there exist 18 national private zakat institutions, which can operate throughout the country.

The role of the government of Indonesia is as regulator, motivator, facilitator, coordinator and conducting control function to all zakat institutions. Furthermore, in order to implement facilitator function, the government has actively initiated and facilitated both domestic and foreign cooperation of zakat.

Zakat Management Act also regulates the relationship between zakat and tax. In Indonesia, zakat is not tax deductible. Instead, zakat is considered as tax expense, i.e. a component of cost that can reduce the amount of income before tax.

Furthermore, the Act does not regulate punishment for the individuals who do not fulfill their obligation. However for the institution of *amil* the Zakat Act has clearly mentioned punishment or penalty for the institution that does not record zakat collection or misuse the collected zakat fund or does not properly distribute zakat to the eligible beneficiaries. These kinds of actions are classified as against the law, and hence, must be sentenced to the jail for three months and or paying fine for Rp 30,000,000 (thirty million rupiah or equals USD 3,160).

In the presence of the Act, zakat managed by both the Board of Zakat and the private institution of zakat has shown remarkable improvement for the last decade. This can be observed from collection as well as distribution side of zakat. In the year 2009 as an example, the amount of zakat that can be collected exceeds Rp 1.20 trillion (USD 127 million), which record an increase of 53.80 percent compared to the previous year, despite the country's economic performance affected by the crises. This collection comprises zakat *maal* and zakat *fitr*. The former consists of zakat on properties, income, profession and corporation.

In terms of utilization of zakat, we distribute the fund via two types of programs, i.e. consumptive-based and productive-based programs. The Board of Zakat and private institution of zakat do not only provide short term assistance to the beneficiaries but also socio-economic empowerment that can cut down the chain of poverty in the longer term. For example: providing financing source for small and micro entrepreneurs, scholarship program, establishing cost-free schools and hospitals for the poor and the needy, and building *Baytul Qiradh*, which functions as micro-financing institution. In addition, since Indonesia suffers a number of natural disasters for the last five years, zakat is also used to assist the victims living in the affected areas.

The performance of zakat institutions is quite impressive. The National Board of Zakat for instance, has been awarded the 9001:2008 ISO Certificate on December 10, 2009 by the World Quality Assurance. This provides the evidence that this institution has been able to demonstrate convincing management performance, which is professional, transparent and accountable. A number of empirical researches have also proven the success of zakat programs in reducing poverty level of the zakat recipients.

Beik (2010) for example, in his PhD dissertation at the International Islamic University, Malaysia, by taking the Province of DKI Jakarta as case study, able to prove that current zakat programs can help reducing the incidence of poverty of the zakat beneficiaries by an average of 16.97 percentage points. The depth of poverty can be decreased as the poverty gap and the income gap show the reductions of 13.90 percent and 13.72 percentage points, respectively. Similarly, the severity of poverty can also be lowered as evidenced from a 26.69 percentage point increase in the Sen Index and a 36.70 percentage point increase in the FGT (Foster, Greer and Thorbecke) index.

Nevertheless, despite these remarkable achievements, Indonesia also faces a number of challenges that must be addressed properly. At least, there are three agendas which are very important for betterment of our future zakat system. First: extensive effort to minimize the gap between zakat potential and its actual collection. This is our top priority since the actual collection of zakat is still less than one-tenth from its potential. Second: amendment of Zakat Management Act, which aims at enhancing the national zakat system. Third: the availability of human resource who fulfils the requirement standard and capabilities.

#### IV. Closing Remark

We know that in some Islamic countries, zakat as a system has been well-developed. However, in some other countries, there is a need to increase the acceleration of zakat as part of development system. This includes the need to enhance regulatory framework, increase the awareness of the Muslims to fulfill their zakat obligation, and the need to reform zakat management in order to acquire public confidence and to provide better access for *muzakki* (zakat payers) to pay zakat and for *mustahik* (zakat beneficiaries) to receive their rights.

Professional, trustable and transparent zakat management is a key instrument that can elevate dignity and prosperity of the Muslims in each Islamic country. Hence, we are of the view that this kind of conference among zakat institutions throughout the world should be institutionalized effectively for the benefits of the whole *ummah*.

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