

## ZAKAT EMPOWERMENT MODEL THROUGH ISLAMIC CORPORATE SOCIAL RESPONSIBILITY OF BANK SYARIAH INDONESIA

Ega Rusanti<sup>1</sup>, Sri Herianingrum<sup>2</sup>, Syarifuddin<sup>3</sup>, Andi Syathir Sofyan<sup>4</sup>

<sup>12</sup>*Faculty of Economic and Business Universitas Airlangga, Indonesia*

<sup>34</sup>*Faculty of Islamic Economic and Business, UIN Alauddin Makassar, Indonesia*

*Corresponding email: ega.rusanti-2022@feb.unair.ac.id*

### Article History

Received: 22 February 2023 Revised: 22 May 2023 Accepted: 22 June 2023

### Abstract

*This study aims to determine the potential and collaborative scheme between BSI and IMIs in utilizing ICSR zakat more productively. The research method used is qualitative research with a grounded approach which begins with analyzing empirical data and literature leading to the conceptual-theoretical level. The author conducted content analysis on secondary data in the form of BSI 2021 journals and sustainability reports. The results of the research show that there is potential for collaboration between BSI and IMIs in terms of utilizing zakat to improve the living standards of the poor and encourage micro-enterprises through the qadhrul hasan financing scheme where the beneficiary will only be charged return on initial capital then profits can be given to the manager. This collaboration will not only provide social benefits to both parties but will also increase the commercial function where people will feel the direct impact of the benefits of Islamic financing so that they can be more educated and will ultimately increase Islamic financial inclusion in Indonesia.*

**Keywords:** *Empowerment, Zakat, Shariah Banking, Islamic Corporate Social Responsibility, Islamic Microfinance Institutions*

**JEL Classifications:** *G2, G21*

### 1. INTRODUCTION

Islamic banks have priority in carrying out financial activities based on Islamic principles. Not only focused on commercial functions, but more than that Islamic banks have a social responsibility where this institution is obliged to provide benefits to the people (Hanic & Smolo, 2022). Bank Syariah Indonesia (BSI) as the biggest Islamic bank in Indonesia has merged by three different banks namely Bank Rakyat Indonesia Syariah (BRIS), Bank Mandiri Syariah (BMS), and Bank Negara Indonesia Syariah (BNIS) carry out its social function through the disclosure of Islamic Corporate Social Responsibility (ICSR) which is published annually. Being responsible for all aspects of company performance is the most important part of business strategic planning especially on sharia basis.

Various studies have proposed that high levels of corporate performance can be obtained by considering Islamic Corporate Social Responsibility (ICSR) as an important part of all top management responsibilities (Wan Jusoh & Ibrahim, 2020). As part of a business entity and at the same time guided by sharia principles, sharia banks such as BSI face greater expectations in carrying out ICSR as Islamic financial institutions (IFIs) (Bukhari *et al.*, 2020). Its status as a financial institution fulfilling religious obligations collectively and its exemplary position as a financial mediator (Farook, 2007). In addition,

the ICSR practices of Islamic banks including BSI must be based not only on collective religious obligations (*fardh kifayah*) and presenting a positive corporate image but also poverty alleviation and achievement of the true goals of Islamic economics (Wan Jusoh & Ibrahim, 2020).

BSI's ICSR funds come from Policy Funds and Zakat which are then channeled into various social and environmental programs. From the Zakat side, BSI recorded zakat funds in the amount of IDR 158.9 billion, up 43.55% from the same position in 2020 which was only IDR 110.7 billion. These funds are obtained from internal zakat (corporate zakat and employee income zakat) as well as external zakat, namely payments made by customers through zakat services on BSI mobile.

In terms of distribution, in 2021 BSI distributed zakat funds to other institutions (mostly to National Amil Zakat Institution (BAZNAS)) of IDR 127.6 billion, an increase of 21.58% compared to the realization in 2020 of IDR 105.0 billion. This shows an increase of Rp. 31.3 million, so that the final balance of the bank's zakat funds in 2021 will be Rp. 104.2 million. This also illustrates that 45% of zakat funds at ICSR BSI have not been distributed either consumptively or productively. So that a more effective distribution model funding scheme is needed, especially in charitable empowerment to improve BSI's commercial and social performance simultaneously.

On the other hand, Islamic Microfinance Institutions (IMIs) as an extension of Sharia Banks in Indonesia are still facing various main obstacles in terms of regulation and funding polarization (Rozzani *et al*, 2015; Suryanto, 2018). Whereas in Herianingrum & Shofawati (2019) it is stated that IMIs are sharia microfinance institutions that have a crucial position to support the business activities of the people based on Islamic law. This effort is an integral part of IMIs as a supporter of sharia-based small-scale community economic activities whose main goal is to alleviate economic problems mainly in terms of providing capital and financing (Mawardi *et al*, 2017).

Many factors influence the poor performance of IMIs, including according to Nurfadilah *et al* (2018) low income, lack of monitoring and reporting, unprofessional management, managers who do not follow orders will create public distrust which triggers the withdrawal of large capital. In addition, less innovative product lines and lower returns compared to conventional counterparts will influence customers to switch to other micro institutions. Therefore, the issue of service quality and product diversification in Islamic microfinance institutions must be considered as an important matter by bank practitioners to increase the volume of bank depositors and maintain its sustainability (Rozzani *et al*, 2015).

Zakat funds as part of BSI's ICSR should be a new way for IMIs to increase product innovation and also public trust by providing productive assistance mainly to micro-enterprises in the regions. Through the utilization of zakat, BSI and IMIs can carry out cooperation that is not based on the mutual profit relations that have been running so far. However, it can carry out its social function to increase public trust which will ultimately have an impact on the level of Islamic financial literacy and inclusion in both the form of IMIs and Islamic banks.

Therefore, this article will analyze the challenges and opportunities underlying the collaboration between BIS and IMIs to utilize ICSR zakat and provide an overview of the design of the collaboration carried out so that it can be implemented in the management of ICSR funds, both BSI and other Islamic banking in general.

## **2. LITERATURE REVIEW**

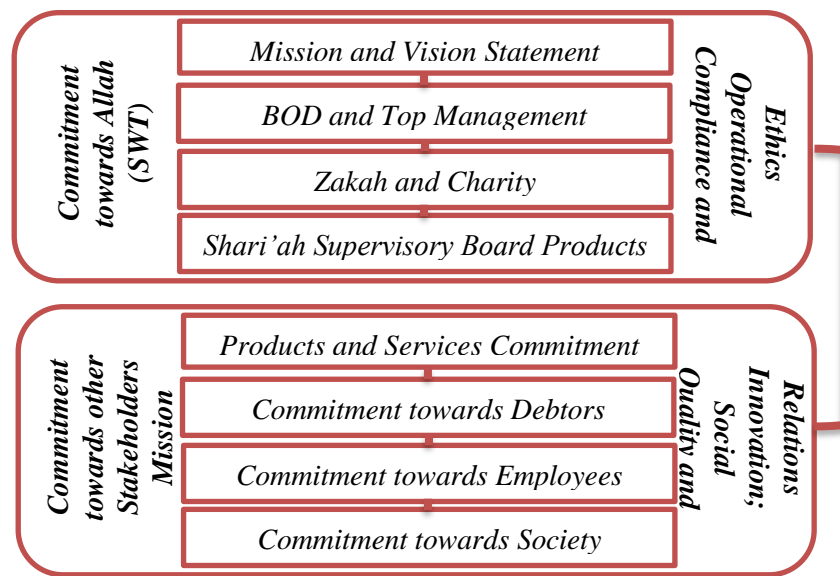
### **2.1. Utilization of Zakat in the Economy**

Empowerment according to Steven Shardlow focuses the discussion on the problem of how individuals or groups or communities try to control their own lives and try to shape the future according to their wishes (Shardlow, 1998). Meanwhile, the empowerment process according to Malcolm Payne is basically intended to help people gain the power to make decisions and determine the actions they will take regarding themselves, including reducing the effects of personal and social barriers to taking action (Payne, 1997). Thus, empowerment is a force that arises as an effort to make changes in order to make improvements and increase the quality of life of a community. The occurrence of a change in society certainly involves various elements. Community participation is important in community development.

Utilization of productive zakat funds is supported by empowerment programs so that productive zakat can be used optimally. Stakeholders are Sharia Microfinance Institutions (LKMS), Amil Zakat Institutions (LAZ), Zakat Community Development (ZCD), and other institutions. The main goals of empowering zakat are meeting basic needs (clothing, food, shelter, education, and health), ensuring the right to productive work, creating independent employment opportunities, and developing facilities that enable production for zakat recipients (Irmawati & Malia, 2022).

In a study conducted by Saripudin *et al* (2020) argues that a zakat-based economic empowerment model must be built in an integrated model, so as to provide added value to the community, as well as good institutional management through the provision of capital assistance and capacity building, and the provision of production facilities. Meanwhile, in Mufidati (2016) the utilization of zakat will be most effective in reducing poverty if it is given not only for consumption but also as an investment. Therefore, zakat can be used to support the MSME sector through the distribution of financing in a *qadrul hasan* manner.

In a business or human life the Prophet taught to always fear Allah SWT. Thus, customer-centred marketing theory (Sheth *et al*, 2000), trust-commitment theory (Morgan and Hunt, 1994) and service dominant logic (Vargo and Lusch, 2004) will prevail in Islamic banking with little change. Islamic banks have to serve their customers with the best service efficiency however, through establishing their single belief in Allah (SWT). The responsibility framework of Islamic banking must follow a top-to-bottom approach, which means that banks must serve customers as they follow the commands of Allah SWT. Therefore, a customer-centric ICSR framework in Islamic banks must start serving customers while keeping the satisfaction of Allah (SWT) at the center of all activities. ICSR is built on two commitments from top management, namely to Allah SWT (top of top) and then to other stakeholders. As described in the following framework:



**Figure 1. CSR for Islamic banks**  
**Source:** Rashid *et al*, 2013)

In this study, it was stated that Islamic banks are committed to Allah SWT with four main aspects including zakat and social funds. Therefore, in managing ICSR, the bank is responsible in terms of whether zakat has been paid, the sources of zakat funds, the use of zakat funds, the remaining zakat that is not distributed and the reasons, and the approval from the Sharia Supervisory Board (DPS) that they have been calculated correctly and that the sources and the use of these funds is lawful based on the rules of Allah SWT. In another study conducted by Probohudono *et al* (2022) if Islamic Banks mobilize Zakat at its source in social responsibility with a participatory form of development financing instruments. This is known in Islamic economics and finance as *Qard Hasanah* (grant and interest-free loans), *Mudarabah* (profit and loss sharing projects where the poor can participate as shareholders by mobilizing their Zakat portion), *Muharabah* (where the use of Zakat can be made revolving for the benefit of Zakat recipients).

## 2.2. The Role of Islamic Microfinance Institutions (IMIs) in the Utilization of Zakat

Utilization of zakat through IMIs can be used as a way to increase development and reduce poverty (Nurfadilah *et al*, 2018). According to Suryanto (2018) micro-institutions that are based on Islam will encourage the function of zakat financially and socially with the concept of brotherhood, local philanthropy (decentralization) and volunteerism. Therefore, these zakat-based IMIs organizations will provide and manage zakat for consumption and production, with a focus on the economic and social needs of the poor.

From a microfinance perspective, the management of Zakat Funds increases on an important issue according to research conducted by Obaidullah (2016), which relates to whether poor people should be given grants or loans. It was explained that the flow of zakat funds in contemporary Muslim society is very inadequate and erratic. Providing revolving credit through *qardh hasan* loans from the collected zakat ensures that the funds will now automatically increase in value each time the loan is repaid or the capital is returned.

Sustainability arguments are also used to justify the investment policy of zakat

funds in mudharabah and other sharia-compliant investments (Rozzani *et al*, 2015). While this is legal, it may be desirable only in terms of providing start-up capital to those who have more ability to start a business (additional material capital) and not with the intention of generating maximum return on investment without any burden on profit sharing. In the event that there is an undistributed surplus, this scheme can be applied for a temporary period, but must avoid high-risk paths considering that not all poor people are able to manage a business and make profit-sharing payments to financial institutions (Amran *et al*, 2014).

### **3. METHODOLOGY**

This research is a qualitative research using grounded research methods, starting from the empirical to the theoretical level. The qualitative method was carried out with the aim of providing a descriptive description of the findings that the authors obtained during the research period (Amran *et al*, 2014). While in empirical research studying similar facts that have occurred before to see possible opportunities and obstacles that will be faced when the design of a new scheme is carried out (Suryanto, 2018). This is done to develop a theory/model through empirical studies on the use of zakat by Islamic Microfinance Institutions (IMIs).

The data source used by the author is secondary data in the form of an annual report and sustainability report of Bank Syariah Indonesia in 2021. This source is used as the main reference to find out the polarization of the use of zakat in BSI ICSR funds after a merger or merger in 2020. Meanwhile other supporting data are articles -Scientific articles containing research on the utilization of zakat through IMIs both in Indonesia and internationally. Data analysis was carried out using the content analysis method, in which the author will make a thorough observation of the data obtained (Harun *et al*, 2016). Then triangulate the data to get conclusions and construct a scheme that can be implemented in an effort to utilize BSI ICSR zakat through IMIs.

### **4. RESULT AND DISCUSSION**

#### **4.1. Opportunities and Challenges of Utilizing ICSR BSI Zakat Through IMIs**

Based on the findings in the Annual report, the empowerment method used by BSI for their ICSR zakat funds is based on a partnership system. Of the total Rp. 158.9 billion which was collected in the amount of Rp. 104.2 billion is shared with other zakat management institutions (Bank Syariah Indonesia, 2021b). As much as 47% was handed over to the National Amil Zakat Agency (BAZNAS) while the rest was managed with BSI's main partner in managing zakat funds, namely the Amil Zakat Foundation, the Bangun Sejahtera Mitra Umat Foundation (BSMU Foundation) (Bank Syariah Indonesia, 2021a).

BSI has great potential in terms of collecting zakat and this zakat should be able to be distributed as much as possible both through consumptive and productive utilization. However, based on the facts above, it can be seen that the distribution that has been carried out by BSI is still focused on things that lead to constructive needs and has not been able to optimize in a more sustainable sector. In fact, Islamic Banks have more optimal capabilities in utilizing ICSR zakat funds through the development of qualified human resources and standardization of work in a professional manner compared to other financial institutions. When ICSR, especially zakat funds, can be utilized more optimally, it will help improve the company's image (Aracil, 2019; Aribi & Gao, 2011; Hanic & Smolo, 2022; Jaiyeoba *et al*, 2018; Khurshid *et al*, 2014; Poon *et al*, 2021). Therefore,

Islamic Banks are required to support various philanthropic activities, such as poverty alleviation; and by giving something back to the community, companies can gain the trust of the community (Alfakhri *et al*, 2018; Jusoh & Ibrahim, 2020; Zafar & Sulaiman, 2021).

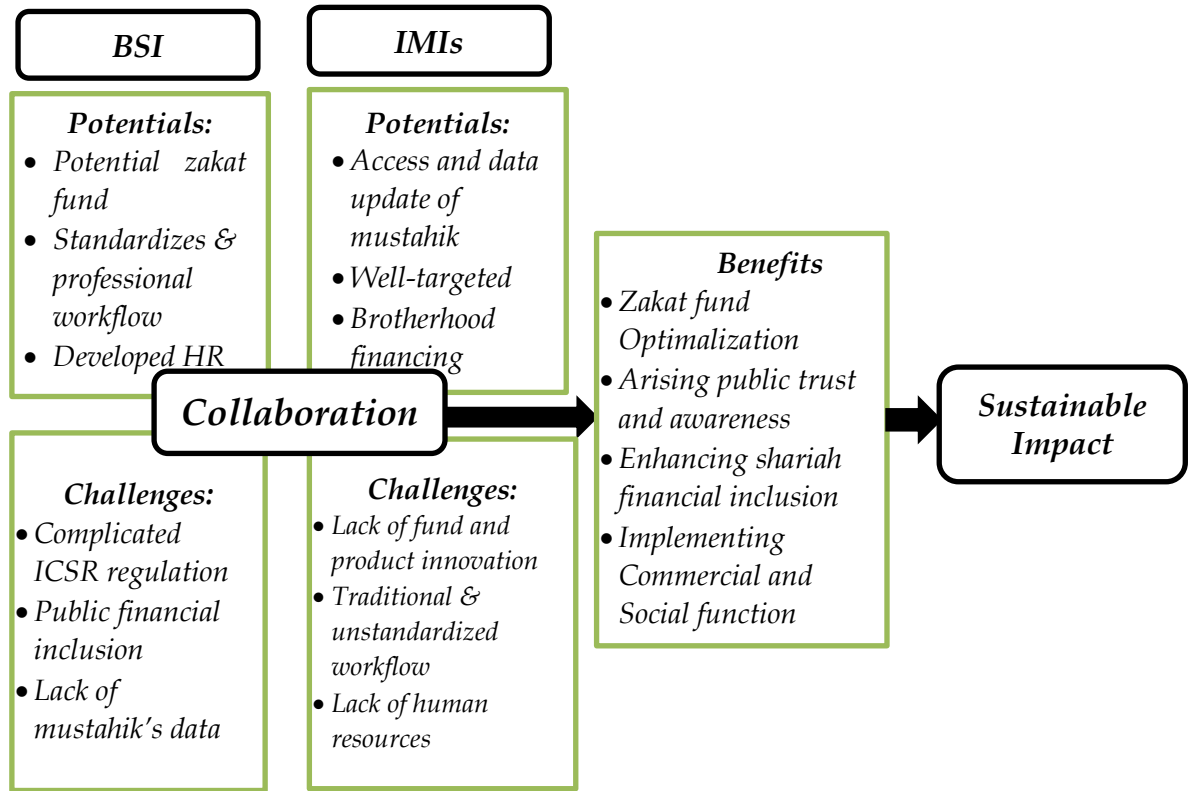
However, in fact Islamic banks still face various limitations in efforts to utilize zakat independently and sustainably without a partnership relationship with LAZ or other microfinance institutions (Aribi & Gao, 2011). In terms of collecting zakat, Islamic Banks have the ability to encourage the public to fulfill their zakat obligations, mainly through mobile banking services, but in terms of distribution, Islamic Banks in general still lack *mustahik* data that is more integrated (Hanic & Smolo, 2022; Firmansyah & Devi, 2017; Ali *et al*, 2019). Islamic banks, which essentially carry out commercial functions as collectors and distributors of productive funds to the public, have limitations on the latest data regarding *mustahik* who are entitled to receive zakat funds (Zafar & Sulaiman, 2021). Therefore, the existence of partners in the form of LAZ and BAZNAS is the best option for Islamic banks to distribute zakat on target. In addition, Islamic banks are also still facing problems with the ICSR regulation itself. In particular, zakat as an ICSR fund needs to be carried out more carefully because it is included in people's funds and its collection and distribution does not only focus on positive law from the government but also needs to follow sharia rules where banks need to really ensure that the distribution of zakat is given to *mustahik*, progress and the achievement of its main objectives whether it has been achieved or not. Based on this, Islamic banks require greater costs and a longer time to carry out all these regulations independently (Aribi & Gao, 2011).

On the other hand, IMIs actually experience much more different problems. The lack of quantity and quality of resources often becomes an obstacle for IMIs in developing and even only ends with the emergence of a negative public paradigm for implementation which is generally carried out in a less professional and traditional manner (Abdullah, 2014). This is one of the factors why the Islamic microfinance sector has not developed, even at the expected minimum level (Banihani, 2012). In addition, another problem comes in terms of sources of funds, IMIs, which are generally in the form of Baitul Maal, only rely on two sources of funds, namely from members and mutual funds from Islamic banks (Sulayman, 2015). This limited funding ultimately makes IMIs have very limited sharia products which are generally only in the form of *mudharabah* and *murabahah* in a smaller nominal amount.

Whereas IMIs have capabilities and inclusion that are more oriented towards the funding needs of small communities and micro enterprises. Therefore, through intensive social zakat ICSR funds, BSI is able to build polarization and utilization that is more optimal and well targeted. In addition, some IMIs who already have legality in managing zakat funds have more data on *mustahik*, who are generally small communities who live where IMIs operate (Awaluddin *et al*, 2022). An IMIs work system that is more based on the concept of kinship and membership as well as regulations that are not too difficult will help the community or *mustahik* especially for those who have the desire to run a micro business so that they will get more helpful financing.

Collaboration based on the opportunities and constraints of these two organizations will be a new model in the utilization of ICSR zakat, especially in BSI. Through this scheme, the two institutions are able to benefit primarily from carrying out their commercial and social functions as financial institutions oriented towards economic development. In addition, other things obtained are increased trust and brand image in which Islamic financial institutions are able to provide financing voluntarily. As a longer impact, Islamic banks and IMIs will encourage the creation of greater Islamic financial

inclusion where this problem is still the main factor why Islamic economics and finance is difficult to develop (Zulkhibri, 2016).



**Figure 2.** Potential collaboration BSI and IMIs

In this collaboration, BSI will become a funding source that will provide excess zakat funds to its ICSR to be managed by IMIs who are deemed capable of making a more optimal distribution. Therefore, BSI will still be able to work with previous partners, namely BAZNAS and LAZ BSMU, and conduct decentralized partnerships with selected IMIs. IMIs will then be responsible for the aspect of collecting the latest *mustahik* data according to the reality in the field and then carry out an assessment of the prospective beneficiaries. The relationship between beneficiaries and IMIs will continue to create micro-enterprises that will be run and have sustainable prospects so that they can help them remain economically independent without receiving zakat intensively again. So that this will be a form of realization and function of productive zakat, namely increasing the standard of living of the recipients.

IMIs as the main managers of zakat funds do not only function to provide financing, but more than that IMIs need to provide continuous assistance and carry out periodic supervision as professional management functions can be carried out. This is done in order to avoid misuse of zakat funds by recipients which were originally intended for productive needs but become consumptive funds because there is no supervision. In addition, the relationship between IMIs and BSI will continue through the provision of periodic progress reports which will then be taken into consideration by BSI and IMIs for the distribution of ICSR zakat funds in the next period. In addition, BIS is also able to interact directly with beneficiaries by providing education and motivation regarding

sustainable and systematic business governance.

The relationship pattern between IMIs, BSI and beneficiaries can be described in the following scheme:

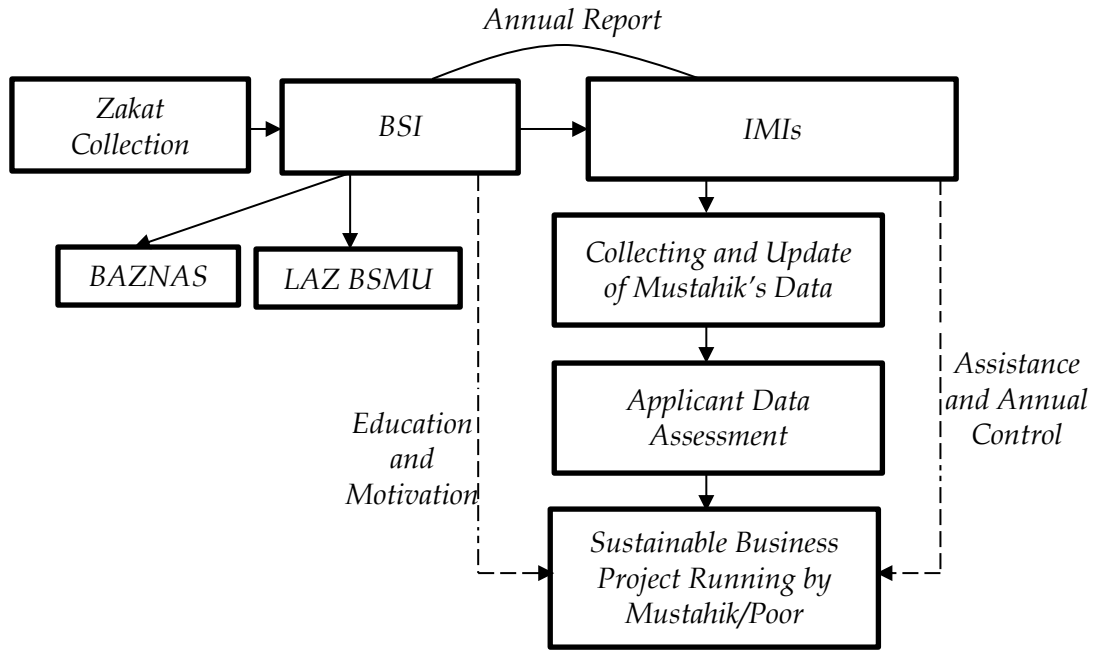


Figure 3. Flow-chart Nexus of BSI, IMIs and Mustahik

#### 4.2. ICSR BSI Zakat Empowerment Scheme based on IMIs

Utilization of zakat by Islamic Banks can be carried out with a partnership scheme in which Islamic Banks will act as collectors of zakat funds from muzakki then other institutions as distributors to *mustahik*. In the case of BSI, which has excess zakat funds which are not channeled even though it has partnered with two main institutions, namely BAZNAS and LAZ BSMU, it is necessary to carry out a new scheme with a target that is more oriented towards productive utilization of zakat in micro businesses.

The management of ICSR zakat funds by IMIs will be different from IMIs products in general which are in the form of profit-sharing schemes in the form of *mudharabah* or *murabahah* considering that the funds being managed are corporate social funds in which there may not be an element of profit in them. Therefore, the pattern of financing can be done with a *Qardul Hasan* (loan) contract. In several countries, microfinance institutions have been able to help the poor and poor overcome their economic problems. In Iran, for example, the *qardul hasan* microfinance scheme (*Qardul Hasan* Microfinance-QHMF) has succeeded in boosting the productivity of small farmers and entrepreneurs. Meanwhile in Bangladesh, informal microfinance loan schemes have succeeded in helping especially small business owners and street vendors in urban areas who are experiencing financial difficulties (Ibrahim & Ghazali, 2014).

The choice of the *qardul hasan* scheme can be seen from the two approaches to shared obligations and decentralization. In the first approach, assuming that the contract underlying IMIs is on the utilization of zakat without margin in the form of micro business groups. Each IMIs is responsible for the loans provided to individuals or groups of micro-



enterprises. This indicates that IMIs and beneficiaries must have been connected beforehand and must have gone through a selection process. The benefits of having a joint liability loan (as stated by researchers such as Aghion and Morduch (2000), Lensink and Mehrteab (2001), Agarwal *et al* (2010) and Zulkifly (2010) can help in: (a) group formation; (b) avoiding costly audits; and (c) encouraging borrowers to repay their loans by imposing costly penalties. By forming groups, they say that IMIs and beneficiaries have a shared obligation to do better than banking in general in some social contexts because (i) community members (IMIs and *mustahik*) may know each other better, and (ii) the mentoring and supervision process can be carried out more intensively. Through this scheme IMIs can offer a variety of Islamic financial products and services without compromising the issue of institutional viability and sustainability. with the aim of developing the economic conditions of the beneficiaries. In addition, *qardh* contracts also allow contracts *hiwalah* was introduced in case of default. Borrowers who are deeply in debt and unable to generate enough cash to pay off their debts (Awaluddin *et al*, 2022).

The second approach is based on decentralization policies. Zakat provides a permanent system of mechanisms from within the economy, to continuously transfer income from the rich to the poor, so that regardless of the number of poor people in a society or whatever the causes of poverty there is always a continuous flow of transfers to maintain the welfare of the poor. Allocation of Zakat and its distribution between the poor, the needy and other recipients on the one hand and between capital goods and consumer goods on the other hand, as well as the principle of *tamlík*, which means giving to the poor and those in need on the basis of grants, is considered to lead to a more specific in addressing the problem of poverty alleviation, because Zakat is aimed at certain poor groups (Uddin, 2016).

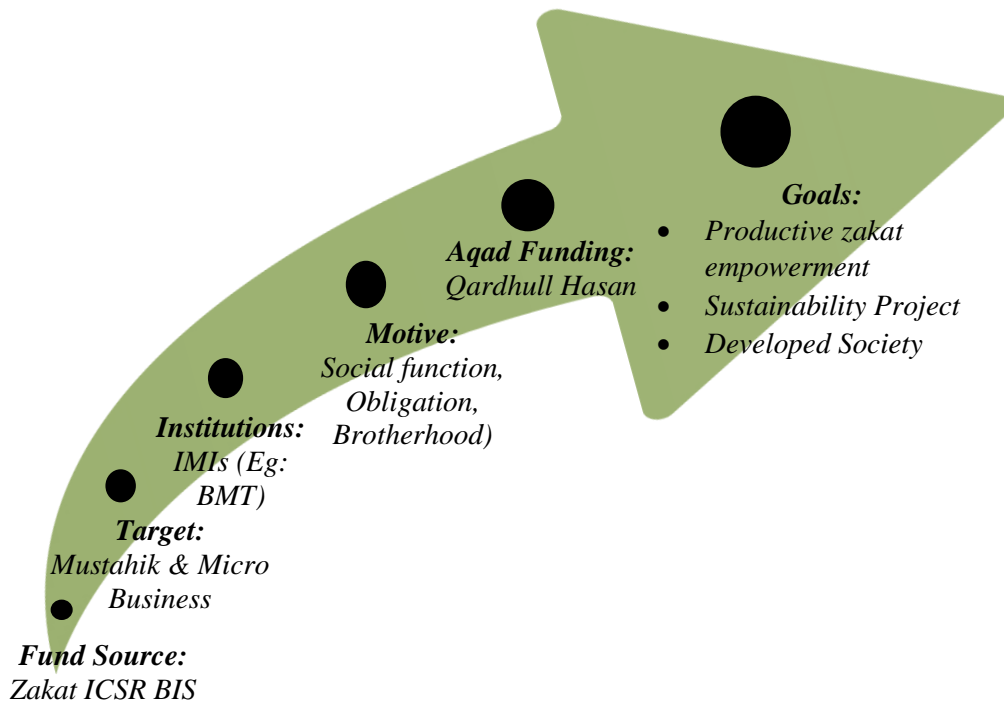


Figure 4. Zakat ICSR Empowerment based IMIs

In practice, *qardhul hasan* financing is carried out by first collecting data on the community or IMIs groups who are classified as zakat beneficiaries (*mustahik*) and then carrying out empowerment socialization, which then *mustahik* will register if they have a desire and an economic situation that must be encouraged by productive fund incentives. However, considering that this program is oriented towards business continuity and improving living standards, IMIs certainly need to conduct a selection and analysis first to ensure that *mustahik* are able to be given responsibility and ability to manage the business. If it has been declared passed, IMIs will provide 100% of the funds in the form of initial capital in the form of *qardhull hasan* (interest-free loan). The beneficiary or *mustahik* is then given the authority to run his business but with assistance and direct control by IMIs. Refunds are carried out in stages with conditions agreed upon by both parties before the contract is executed. This confirms that *mustahik* still has the obligation to return the funds given to IMIs to be utilized again by other *mustahik*. Meanwhile, the profit or profit derived from the business being carried out will fully become the right of the beneficiary/*mustahik*.

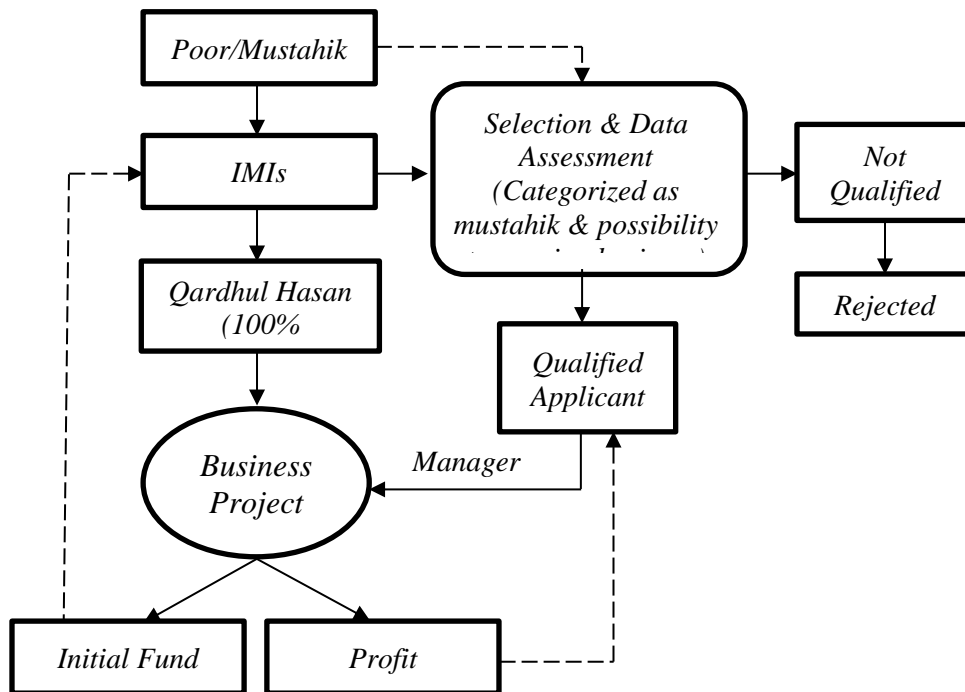


Figure 5. Financing Scheme of *Qadhrul Hasan* by IMIs

## 5. CONCLUSION AND RECOMMENDATION

ICSR funds obtained by BSI are classified as social funds originating from zakat funds and other social funds. In terms of zakat collection, after undergoing the merger, BSI was able to make achievements as the largest zakat collection and distribution bank in Indonesia. However, this utilization is still oriented towards the consumptive needs of the community through a partnership work program with BAZNAS and LAZ BSMU. While on the other hand, IMIs have a great opportunity to utilize zakat funds more, but due to a lack of resources and a lack of product innovation, IMIs are still not developing optimally and carrying out their commercial and social functions effectively. Therefore, the collaboration between BSI and IMIs in efforts to utilize productive zakat will have a

positive impact on both of them. Also in this collaboration, BSI acts as the main supplier of funds which will then be managed by IMIs as a mediator who will select *mustahik* and provide periodic assistance and control as long as the business is run by *mustahik*. This utilization can be carried out by prioritizing the social aspect where BSI and IMIs are not allowed to benefit from the financing provided, so the financing model that can be carried out is *the qadhrul hasan* scheme, namely by providing interest-free loans where the profits from the business may only be given to *mustahik*. The selection of this scheme is also supported on the basis of optimizing social functions whereby the poor who need funds will be freer from the existence of additional funds and can return the funds provided in stages and not be burdensome without any sharing of benefits. Through this scheme, it is hoped that IMIs and BSI will be able to have a real impact on society to improve their economic level and will have a sustainable impact on wider Islamic financial inclusion.

Zakat empowerment needs to be done more seriously and directed. Not only on the consumption side, but zakat must also be utilized from a productive side through several schemes including through IMIs mediatory to manage BSI ICSR zakat funds. Therefore, the authors hope that researchers will carry out a more integrated model analysis through the analytic network process (ANP) method to find out expert views on this idea so that it is more reliable as a basis for decision making.

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