

## Zakat Management and Welfare Distribution: Evidence from 34 Provinces in Indonesia

**Dzuliyati Kadji<sup>1</sup>, Dynda Fadhillah Aulia<sup>2</sup>, Girindra Mega Paksi<sup>3</sup>**

<sup>1</sup>Universitas Brawijaya, Indonesia

<sup>2</sup>Universitas Brawijaya, Indonesia

<sup>3</sup>Universitas Brawijaya, Indonesia

Paper was presented at the 6<sup>th</sup> Indonesian Conference of Zakat (ICONZ)  
30 November – 1 December 2022, Semarang, Indonesia

### ABSTRACT

*Indonesia has the most Muslim population in the world and is among the most generous countries. One of the instruments of philanthropy, especially those that are mandatory against Muslims, is Zakat. Proper zakat management can alleviate poverty and address inequalities in society. Especially if Zakat can be used to economically empower the poor, increasing their capacity and allowing them to meet their own needs. This study tried to observe the zakat management and welfare distribution by looking at the National Zakat Index (IZN) score and also analyzed its implications in improving mustahiq welfare represented by the BAZNAS Welfare Index (IKB). The results of this study will show the quadrant position of the IZN and IKB achievement levels of 34 provinces in Indonesia in 2020 and 2021. Four quadrants are formed to answer whether zakat management and its impact on welfare have been evenly distributed throughout the 34 provinces in Indonesia.*

*Keywords: Zakat, National Zakat Index (IZN), BAZNAS Welfare Index (IKB)*

### INTRODUCTION

Indonesia, as the country with the world's largest Muslim population, has the potential to develop Islamic social fund instruments for Indonesia's social and economic development. Zakat is one of the instruments of Islamic philanthropy. Zakat is a mandatory levy imposed on all Muslims. As a result, zakat can improve Muslims' well-being, reduce wealth disparity, and serve as a safety net for the community's needs. In this case, Zakat aims to address the fundamental cause of poverty, namely society's inability to conduct business or actively participate in economic activities. The poverty that must be solved by the zakat system does not help the poor with their consumption needs, but rather empowers them to break the cycle of poverty. Zakat obligations are more than just a means of transferring wealth from the

rich to the poor. Zakat must also function as an economic mechanism with implications for improving people's social welfare. Therefore zakat must also be an instrument that empowers the poor's economy (economic empowerment) so that they can break free from the cycle of poverty and become Muzaki.

According to the mandate of Law Number 23 of 2011, BAZNAS, as an institution appointed by the government to build a national zakat ecosystem, has a great responsibility to synergize all zakat stakeholders. BAZNAS must be able to maximize the potential of zakat, which necessitates structured and systematic zakat management. With the enormous potential of Indonesian zakat, BAZNAS's main task is to explore this potential and realize it by collecting and distributing it efficiently and appropriately. All of these efforts, as the Main Institution for the Welfare of the

People, aim to improve the welfare of mustahik, reduce poverty, and reduce inequality in society. According to the results of measuring the impact of zakat distributed by all Regional BAZNAS and all LAZs in Indonesia, namely by using the BPS poverty line, zakat given to mustahik under the BPS poverty line alleviated 44 per cent or 28,859 people. As a result, zakat has significantly contributed to reduce poverty in Indonesia, as evidenced by many mustahik who have been lifted above the BPS poverty line of 313,922 people. OPZ also successfully transformed mustahik into muzaki, which has a population of 166,800 people (Puskas BAZNAS, 2022a).

Based on Puskas BAZNAS, the provincial zakat potential in Indonesia in 2022 is Rp. 4.37 trillion (Puskas BAZNAS, 2022b). The magnitude of this potential is supported by Indonesia's selection as the world's most generous country by the Charities Aid Foundation in the World Giving Index 2021 and 2022. Even though the conditions of the Covid-19 Pandemic are not an impediment for the Indonesian people to engage in philanthropic activities based on three indicators that are evaluated: helping others, donating money, and volunteering. CAF also stated that this achievement could not be separated from the condition of most Muslims in Indonesia, who are required to participate in charitable activities such as zakat. Those demonstrate that Indonesia has enormous potential for collaborative poverty alleviation. On the other hand, many previous studies have examined zakat's role in alleviating poverty. However, it has yet to be able to demonstrate whether these findings are applicable in all Indonesian provinces. BAZNAS also has developed a measuring tool in the form of the National Zakat Index, which serves as a performance indicator for zakat management in Indonesia (Puskas BAZNAS, 2020). The BAZNAS Welfare Index (IKB), now a component of the IZN, was also created. IKB is an index developed to assess the impact on a person's welfare

condition of an intervention in a poverty alleviation program aligned with Maqashid Syariah principles, including zakat funds (Badan Amil Zakat Nasional, 2022).

Therefore, this study aims to analyze whether the management of zakat and its impact on people's welfare has been evenly distributed in 34 provinces in Indonesia. In achieving this goal, the success of zakat management in Indonesia uses the National Zakat Index, and the impact on mustahik welfare is measured by the BAZNAS Welfare Index (IKB). The results will be displayed in a quadrant analysis regarding the relationship between the IZN and IKB values of each province.

## LITERATURE REVIEW

### *Zakat and Welfare*

Zakat is a form of worship included in the Islam pillars, which Muslims believe in (Atabik, 2015). Zakat can be interpreted as an obligation for every Muslim to distribute wealth or property owned by muzaki to people entitled to receive zakat (mustahik). Allah SWT emphasizes the obligation of zakat in several verses in the Qur'an, one of which is in Surah An-Nur verse 56. He says: "So establish regular prayers and alms; and obey the Messenger, that you may receive mercy." In Indonesia, zakat is regulated in Law no. 23 of 2011 Chapter 1, paragraph 2 concerning Zakat Management, that zakat is an amount of money or property that must be paid by Muslims or corporations to be given to those who are entitled according to Islamic rules. Al Mawardi explained that special funds mean only funds whose zakat has been decided and must meet the requirements and be given to certain recipients. Following this statement, As-Syaukani emphasizes the concept of certain assets as certain assets that reach certain proportions and zakat must be given to certain recipients, including the poor and

others that are not prohibited by sharia (Pangestu, 2018).

In its implementation, zakat has various benefits. One of them, zakat, is expected to help mustahik get a better life to reduce economic inequality in society so that a more harmonious life is realized in all circles (Rais, 2009). That is, zakat can be used to alleviate poverty through economic empowerment of the poor, especially those requiring attention from all parties pihak (Kambali & Rahman, 2021). In order to realize the purpose of zakat distribution, there are two kinds of zakat management institutions based on Law no. 23 of 2011, namely the National Amil Zakat Agency (BAZNAS) and the Amil Zakat Institution (LAZ). BAZNAS is authorized to carry out zakat management tasks and has duties in the collection, distribution, and utilization of zakat. The community can also establish the Amil Zakat Institution (LAZ) to assist BAZNAS in carrying out zakat management tasks. As an institution formed by the government, the management of zakat by BAZNAS is a measure of success for other zakat institutions. Optimal zakat management should affect reducing the number of poverty.

#### *National Zakat Index (IZN)*

The National Zakat Index (IZN) is a measuring instrument for national zakat management standards that can be a parameter for the development and performance of Indonesian zakat. The calculation estimation technique is carried out in obtaining the IZN value using the Multistage Weighted Index method. This method combines several stages of the weighting process in which each index component must be carried out in stages and procedurally. The weighting process is carried out after the index is calculated for each variable using the formula.

$$I_i = \frac{(S_i - S_{min})}{(S_{max} - S_{min})}$$

$I_i$  = Index on variable  $i$

$S_i$  = The value of the actual score on the measurement of the variable  $i$

$S_{max}$  = Maximum score

$S_{min}$  = Minimum score

The resulting index value is between 0.00 and 1.00. That is, the lower the index value obtained, the worse the performance of the national zakat, and the higher the index value obtained, the better the condition of the zakat. A value of 0.00 means that the lowest received National Zakat Index is "zero". A value of 1.00 means the highest index value is "perfect". The development of this IZN is expected to become a standard for measuring the national standard of zakat performance, which is measured regularly to allow for continuous evaluations. In addition to the national level, the calculation of IZN can be carried out at the provincial level so that comparisons can be made between regions and estimates of the distribution of zakat benefits. More specifically, in each of its subcomponents, such as in the institutional section, the index calculation can also be done separately so that its application to zakat management organizations can be carried out both at the centre and in the regions. Those are intended so that all parties who pay zakat can measure and improve themselves in terms of zakat performance and increase public understanding of the impact of zakat in Indonesia.

#### *BAZNAS Welfare Index (IKB)*

IKB is an index compiled by the Center for Strategic Studies of BAZNAS (Puskas Baznas) measures the impact of social welfare conditions from the Poverty Reduction Program measures aligned with Maqasid Syariah's principles. The BAZNAS Welfare Index (IKB) consists of three standards: the poverty line, kifayah, and zakat niqab. IKB, based on the poverty line, is the first standard used in measuring

IKB. There are three indices: the CIBEST/CIBEST Model Index, the Modified Human Development Index (HDI) and the Independence Index. If applied, the IKB can be used globally to measure the impact on human welfare because it affects poverty alleviation programs, including the zakat fund. The closer the IKB value is to 1, the better the effect of the implemented program (Badan Amil Zakat Nasional, 2022).

Table 1. IKB Indicator based on Poverty Line

<b>CIBEST Wellbeing Index</b>	
Quadrant*	Quadrant I
	Quadrant II
	Quadrant III
	Quadrant IV
<b>HDI Modification Index</b>	
Compiler Index	Health Index
	Education Index
<b>Independence Index</b>	
Variable*	Regular Income
	Non-Routine Income
	Assets Rented
	Savings
<b>BAZNAS Welfare Index</b>	

Source: Puskas BAZNAS, processed (2022)

### RESEARCH METHOD

This study uses quantitative research methods using panel data. The combination of time series and cross-sectional data increases the number of observations. At least three methods can be used for panel data: the common effect model, fixed effect model, and random effect model. The simplest technique for estimating the panel data regression model is to combine time series and cross-sectional data and then perform estimation (pooling), commonly referred to as interaction modelling techniques. Data were collected without

taking into account time and individual differences. This approach uses the OLS method to estimate the model (Sukendar & Zainal, 2007).

$$IKB = \alpha + \beta IZN_1 + \epsilon \dots \dots \dots (1)$$

- IKB** = BAZNAS Welfare Index
- IZN<sub>1</sub>** = National Zakat Index
- ε** = Constant

The determination of the model to be used in the study needs to be considered statistically. Those are expected to obtain an efficient estimate in addition to using panel data regression. This study also uses quadrant analysis to see the point of distribution of index values per region. According to Shia et al. (2016), IPA (Impance-Performance Analysis) is a technique to identify service attributes that can be improved and identify attributes that need to be prioritized. Also known as quadrant analysis, this method is widely used in various research fields because of its simplicity and showing the analysis that leads to improved performance or quality. Rangkuti (2006) describes a combination of perception measurement and a two-dimensional graph of the level of satisfaction/importance (importance). This analysis is divided into four quadrants, Quadrant I High Leverage; Quadrants II and III Attributes to maintain; Quadrant IV Low Leverage, as illustrated in Figure 1.

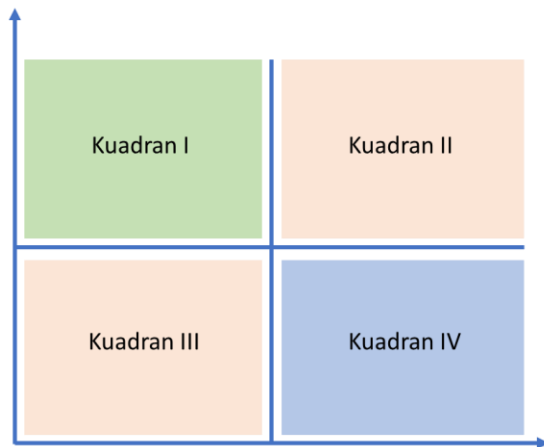


Figure 1. Quadrants  
Source : Authors (2022)

## RESULTS AND DISCUSSION

### *Analysis of the Relationship between IZN and IKB*

The first step in performing panel data regression is to choose the best model specification to be used between pooled OLS, random effect model, and fixed effect model. The initial method used is the chow test and the Hausman test, which is a test to determine whether to use the pooled OLS model or the most appropriate fixed effect model used in estimating panel data.

Table 2. Chow Test

F test that all $u_i=0$ : $F(33,33) = 1.23$
Prob > F = 0.2790

Source: Estimation using STATA (2022)

The calculated F value is greater than the table F value based on the results above. This figure shows the acceptance of the  $H_a$  hypothesis, which means that the best regression model used is the pooled OLS model. The next test is the Hausman test, which compares the results of the fixed effect model and the random effect model.

Table 3. Hausman Test

$\chi^2(7) = (\mathbf{b}-\mathbf{B})'[(\mathbf{V}_b-\mathbf{V}_B)^{-1}](\mathbf{b}-\mathbf{B})$
= 1.24
Prob> $\chi^2$ = 0.2663

Source: Estimation using STATA (2022)

Based on the test results obtained, a significance value of 0.2663. A small significance value of 5% alpha indicates that the accepted hypothesis is  $H_a$ , which means that the regression model used is a random effect model. Next is panel data regression, where the panel data itself combines cross-section data and time series data. The cross-section unit refers to 34 provinces in Indonesia, while the time series is measured over two years (2020 and 2021). The results of this study are as follows. The estimation results using panel data regression showed that IZN significantly affected IKB. As for how big the effect will be explained below.

Table 4. Result of IKB Estimation

Variable	Coef.	Z	P> z  value
IZN	.8249965	5.28	0.000
_cons	.0586416	0.68	0.497

$R^2$  : 0.3512,  $\chi^2$  : 27.88, Prob: 0.00

Source: Estimation using STATA (2022)

Table 4 shows the estimation results of IKB. The IZN variable is a proxy for zakat management, which positively increases IKB. IZN has a significance level of less than 1%. The coefficient value of the IZN is 0.8249965, which means that the higher the IZN is by one unit, the IKB will increase by 82.4%. The constant coefficient is insignificant, implying that if the IZN variable is zero, the IKB has no effect.

### *Quadrant Analysis of IZN and IKB 34 Provinces in Indonesia*

From the results of the National Zakat Index (IZN) and BAZNAS Welfare Index (IKB) scores obtained by 34 provinces in Indonesia, the authors conducted a quadrant analysis using a scatterplot. This illustration is divided into two periods, namely 2021 and 2020. Quadrant I shows that the IKB is highly valued while the IZN is below average. Furthermore, Quadrant II shows that the IKB and IZN scores are both high,

so the management of zakat greatly impacts welfare. Quadrant II is an ideal condition that is expected. On the other hand, Quadrant III shows that the results of the IKB and IZN are both below average. Meanwhile, Quadrant IV indicates that the IKB is below average, while the IZN is of high value. This condition is not ideal because optimal zakat management does not impact welfare.

The correlation result between IZN and IKB for 34 provinces in Indonesia in 2020 is 0.06, which is the root of  $R^2 = 0.003$ . So it shows that the correlation between the IZN and IKB variables is weak. Figure 2 shows that in quadrant IV, there are eight provinces, namely Bengkulu, Bangka Belitung, DKI Jakarta, NTT, Central Kalimantan, South Kalimantan, Central Sulawesi and West Sulawesi. The conditions in quadrant IV must concern the Provincial BAZNAS and the Regional Government. Because high IZN results show good zakat management performance but have not been able to improve welfare as the IKB produced is still below the national average. While in Quadrant II, 9 Provinces show their IZN and IKB achievements above the national average, namely the Provinces of West Sumatra, Jambi, South Sumatra, Riau Islands, West Java, Central Java, DI Yogyakarta, Banten, and Southeast Sulawesi.

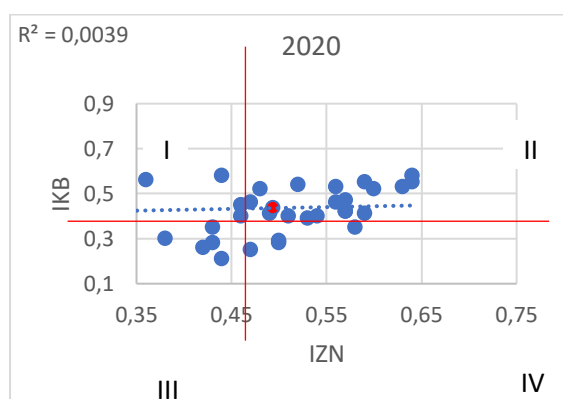


Figure 2. Results of Quadrant Analysis 2020

Source: Processed (Authors, 2022)

As for 2021, the correlation between IZN and IKB has increased, reaching 0.74, indicating that after the pandemic, the management of zakat has had a major impact on the welfare of mustahik. The achievement of  $R^2$  also increased to 0.558, indicating that the IZN influenced the IKB by 55.8 per cent, while other variables explained the remaining 44.2 per cent. There was an increase in the number of provinces included in quadrant II to 17 provinces, namely Riau, Jambi, South Sumatra, Lampung, Bangka Belitung, Riau Islands, West Java, Central Java, DI Yogyakarta, Banten, NTB, West Kalimantan, South Kalimantan, East Kalimantan, South Sulawesi, Southeast Sulawesi, and Gorontalo. In comparison, quadrant IV has decreased to 2 provinces, namely Aceh and West Sumatra. Aceh Province was previously in quadrant I because the achievement of an IZN of 0.36 rose to 0.63 in 2021. However, this increase was not accompanied by an increase in the IKB. On the other hand, West Sumatra Province has experienced an increase from 2020 both IZN and IKB increased from 0.56 to 0.6 and 0.46 to 0.50, respectively. This shows that the increase in IZN and IKB in West Sumatra Province is relatively slower than the national average. An optimal impact must accompany improved zakat management performance on the welfare of mustahik.

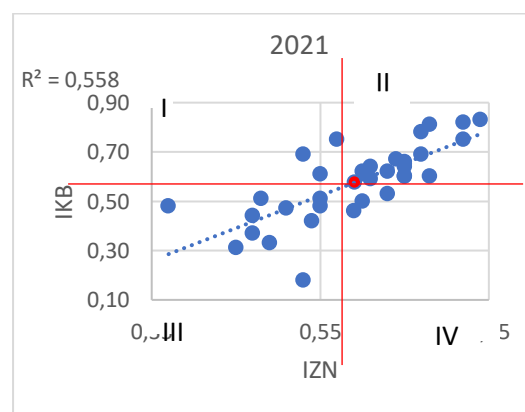


Figure 3. Results of Quadrant Analysis 2021

Source: Processed (Authors, 2022)

## CONCLUSION

From the results of this research, it can be concluded that in 2021 the impact of the performance of zakat management on the welfare of mustahik in 34 provinces in Indonesia is better than in 2020. Those also indicate an improvement in the performance of zakat management nationally.

Even so, the government still has to re-evaluate the performance of zakat management and its impact on the welfare of mustahik, especially in areas where the IZN and IKB scores are still below the national average.

## REFERENCES

- Atabik, A. (2015). Peranan Zakat Dalam Pengentasan Kemiskinan. ZISWAF: Jurnal Zakat dan Wakaf.
- Aldelbaki, Hisham H. 2013. The Impact of Zakat on Poverty and Income Inequality in Bahrain. Review Integrative Business and Economics Research. Vol 2(1)
- Badan Amil Zakat Nasional. (2022). *Laporan Kaji Dampak Program BAZNAS RI 2022*. [www.baznas.go.id](http://www.baznas.go.id);
- Jamaludin, Nur & Muizzudin, 2021. Literacy, Relifiosity, and Awarness on Zakat of Millennials: Case Study on the Intention of Zakat among the Youth in Tangerang. Interational Conference of Zakat Proceedings. ISSN: 2655-6251
- Kambali, M., & Rahman, F. (2021). Pengaruh Aplikasi Muzakki Corner Terhadap Minat Masyarakat Berzakat.
- QTISHADUNA: Jurnal Ilmiah Ekonomi Kita, Vol 10, No. 2. Puskas BAZNAS. (2020). *Indeks Zakat Nasional 2.0*.
- Pangestu, I. (2016). Analisis dalam Faktor-Faktor yang Mempengaruhi Motivasi Muzaki Membayar Zakat di Lembaga Amil Zakat Kota Semarang. Fakultas Ekonomi Universitas Negeri Semarang.
- Puskas BAZNAS. (2022a). *Outlook Zakat Indonesia 2022*.
- Puskas BAZNAS. (2022b). *Potensi Zakat BAZNAS Provinsi*. [www.baznas.go.id](http://www.baznas.go.id);
- Rais, I. (2009). Muzakki dan Kriterianya dalam Tinjauan Fikih Zakat. Al-Iqtishad: Vol. I, No. 1.
- Rangkuti, F. (2006). Measuring Customer Satisfaction: Gaining Customer Relationship Strategy. Teknik Mengukur dan Strategi Meningkatkan Kepuasan Pelanggan & Analisis Kasus
- Shia, B.C., Chen, M., Ramdansyah, A.D., and Wang, S. (2016). Measuring Customer Satisfaction toward Localization Website by WebQual and Importance Performance Analysis (Case Study on AliexPress Site in Indonesia). American Journal of Industrial and Business Management, 6, p117-128. <http://dx.doi.org/10.4236/ajibm.2016.62012>
- Sukendar. G., dan Zainal, A. 2007, Faktor-faktor yang Mempengaruhi Permintaan Ekspor Sepatu Olah Raga dan Sepatu Kulit Indonesia (tahun 2000-2006), Makalah Paralel, Wisma Makara, Universitas Indonesia. Depok.