



# **ICONIEB FAKULTAS EKONOMI DAN BISNIS ISLAM**



Conference Paper

## The Function Of Sharia Financial Institutions In Social Activity

Alias Candra\*, Muhammad Ridho Muttaqin

Faculty of Islamic Economics and Business, State Islamic University of Sulthan Aji Muhammad Idris, Samarinda, Indonesia

*\*Corresponding author:*

Email:  
[alias.candra@uinsi.ac.id](mailto:alias.candra@uinsi.ac.id)

### ABSTRACT

This study examines the underlying motives of Islamic Financial Institutions in Social Activities. A qualitative descriptive approach was used to obtain primary data through interviews with 24 informants of Islamic Financial Institutions. Secondary data is collected from public companies with annual reports on the IDX in 2021. The data is sampled and researched using triangulation and content analysis techniques. The results of the study indicate that there are 2 motives in Sharia Financial Institutions, especially social and economic. Furthermore, the motive economy is more dominant and expects the provision of input money. As a result, Islamic Financial Institutions become less effective and most programs do not follow the actual needs of stakeholders. The dignity of Islamic financial institutions needs to be restored by implementing the social dimension. There are 2 approaches used to implement Sharia Financial Institutions, including a support system that utilizes pressure. The transcendental approach is initiated by corporate actors through religious values from social activities, so that the implementation is more humanistic and oriented to stakeholders.

**Keywords:** Social motives, economic motives, Qardhul Hasan system support, transcendental support

## Introduction

In today's advanced and developing era, there is a lot of growth in Islamic financial institutions in the archipelago (Alberto:1997). The emergence of this growth can raise the standard of living in the community's economy. The upper class, middle class, and lower class people can realize their needs in terms of material to Islamic financial institutions in the form of banks and non-banks (Angrist, 1999: Pp. 77– 96).

Now we must be ready to look at the conditions around us and be committed to the small people struggling to change the economic system that has been unfavorable and changed by working hand in hand and together with the community, in accordance with the reform agenda which states that national development policies will be implemented. direct the community that small entrepreneurs are prioritized to be independent and free themselves from the shackles of poverty (Putra, R, 2018: 224–228). Namely, an Islamic financial institution, in this case, a bank or non-Islamic financial institution, should not only be oriented to business but also social, this institution does not only focus on concentrating wealth or only looking for a profit only for a small portion of the capital owners (founders) by suction on the majority of people who have only capital but institutions whose wealth is distributed evenly and fairly (Sumarni: 2020).

LKS is born from the people's awareness and has the mission and vision to help the majority in this society who lack the capital to open a business, namely the entrepreneurs of small/micro. LKS is not stuck in the game business for personal gain, but to build mutual or

any ukhuwah Islamiyah to achieve shared prosperity in this case there is also an empowerment program for small communities. In addition, the institute is not stuck on the minds of pragmatic but has the concept of an idealist and righteousness. The agency is the LKS (Wright, Gavin A. 1974: 30-56). Problem poverty is a major factor that has kept the community of well-being. Poverty has led to a lot of people can not meet the needs of everyday life, because banking institutions have not been able to accommodate small communities, especially in rural, (World Bank:1998) the banking transactions are still relatively high, Then here's one role such as business capital productive, benefit, groceries, check-up, scholarships, and help others get in shape funds card hasan, BMT can help members in terms of capital so that the community is self-sufficient by way of entrepreneurship through pick up the funds in BMT. Due to advances in economic growth at the start of the rural sector, the granary of the economy in rural economic good will automatically help the economic turnaround in the urban (Lindbeck, 1987: 79- 84).

This effort sees the function of LKS as very meaningful for the community because BMT is an institution in micro sharia able to solve the problems of fundamentals such as poverty faced by small and medium entrepreneurs, especially in the field of capital (Pambuko Z.,2018: 35- 40). Providing business knowledge with how to manage the business better, LKS not only works in the distribution of capital, capital raising, or looking for a profit but also serves to handle social activities for people who need capital, the help of donations, check-ups, scholarships, and other assistance (Alias candra, 2019: 2-11). LKS as Islamic microfinance institutions that operate under the principles of sharia, which has the function to empower the economy of the ummah for the sake of the benefit and have a puncture social with a row also as an institution that manages zakat, infaq, and sadaqah that institutions BMT has an important role in empowering the economy of the ummah so that people also feel assistance funds to make the effort (Iskandar, 2020: 1-10). Examined effectiveness of social responsibility disclosure for drive economic, environmental, and social performance. These studies conclude that there are inconsistencies in the results or effectiveness of disclosure in social responsibility. Furthermore, the emotive content in the LKS contains seriousness in implementation accuracy, which determines its effectiveness.

This article focuses on 3 main factors in the hypothesis that LKS implementation affects effectiveness in Indonesia companies. These factors include the causes of implementation, the effect of shifting motives and social views as a response to the transcendental dimension of Illahiyah. Operational motives determine the type, pattern, and seriousness of the company in implementing LKS. The inclusion of these dimensions makes the LKS program designed to be more humane, stakeholder-oriented, and balanced.

## **Literate Review**

### **1. Social Contract Theory**

Company existence in a community is directly and indirectly bound by a set of values (Hadi, 2018). According to Wijaya (2016), the community value system is upheld by rights and is the basis for orderly agreement relationships or social contracts. Hobbes (1588-1679) and Locke (1632-1704) stated that the nature of the social environment is political in which

actors have a responsibility to obey established laws (Baier, 1988; Distefano, 1991; Gauthier, 1990). According to Locke (1632-1704), the social contract is needed to protect other parties' ownership and rights because everyone has their own desires. Furthermore, social contracts are also needed in contemporary management since companies involve many stakeholders (Hadi, 2017; Mouritz, 2010; Nbeta, 2012; Rawls, 1999).

A company has an obligation to maintain congruence between its wishes and expectations to exist in a community (O'Donovan, 2002; Ika Era Pratiwi, 2018). Congruence is achieved when the company's operations consistently adhere to a system of values, norms, rules, and social agreements (Adams & Kuasirikun, 2000; Belal, 2008; Buniamin, 2010; Gray, 2002; Hadi, 2018; O'Donovan, 2002). Therefore, the social contract is a Pareto optimal potential for conflict between the parties.

Medina Charter shows Islamic social contract between the Muhajirin, the Ansar, and the Jewish tribes during the Prophet Muhammad's time. The Medina Charter is based on respect for the pluralistic freedom value. Six basic values were developed and became the determinants social contract. These values include appreciation for implementing good customs, freedom from deprivation, fear speech and religion and persecution rights. The Muhajirin and Quraish groups adhered to good customs and believers should not let someone bear the burden of debt and family. According to the Medina Charter document, the Jews had a right to protection and equality without persecution against. Also, people who lived in Medina had the freedom to remain safe unless they sinned. Article 37 which stated that people were allowed to give good advice and embrace deeds without sin. The Medina charter determination provides answers to social situations such as diversity in religious communities and urban beliefs (Fahrudin, 2013; Fauzi, 2005; Patamatta & Jumardi, 2020). Conclusively, the Medina Charter is a social Islamic contract based on Al-Qur'an noble values. This is explained in the Qur'an, surah al-Maidah:

O believers! Stand firm for Allah and bear true testimony. Do not let the hatred of a people lead you to injustice. Be just! That is closer to righteousness. And be mindful of Allah. Surely Allah is All-Aware of what you do (QS: al-Madinah: 8).

## **2. Social Responsibility**

Companies are community groups which directly and indirectly impact the environment and society. Carroll & Buchholtz (2011) and Deegan (2002) stated that companies have a responsibility to shareholders, society and the environment. Carroll (2016) developed 4 categories of corporate responsibility, including economy, law, ethics, and philanthropy.



Figure 1: Carroll's Pyramid of CSR (Fadun, 2014)

Economic responsibility refers to improving shareholders by increasing profit per share, competitiveness, and efficiency (Carroll, 2016). To adhere to legal responsibility, companies should maintain business stability by complying with applicable regulations, constitution, and laws (De Schutter, 2008; Phillips, Freeman, & Wicks, 2003). Companies must uphold ethical principles, respect values in society, code of conduct, and conventions that apply in society (Carroll, 1991). Philanthropic responsibility is achieved by upholding humanity, empathy, charity, and responding to community problems.

Social responsibility is an important medium in managing a company more humanely by paying attention to the planet and people (Carroll 2016). According to Elkington (1997), social responsibility refers to systematic, proactive, structured, and sustainable realization in socially acceptable and environmentally friendly business operations. The EU Commission (2002) stated that CSR allows companies to integrate social and environmental concern in business operations and interactions. Therefore, the company's operations need to synergize by protecting the social and physical environment. CSR directs corporate management to several orientations, including mandatory and voluntary serious commitment, partial physical and social environmental concern, charity and community development, sustainability, internal and external stakeholders improvement, accountability, disclosure, business ethics, economic growth and value feedback.

### 3. *Qardhul Hasan*

Qardhul Hasan is interpreted as a loan given to those in need with certain criteria. These criteria include (1) unpaid loans with only repay the loan principal at once or in installments within a certain period of time, (2) intended for people who cannot afford (poor and/or poor) sustainable business capital, or for social assistance (alms). Furthermore, the implementation of Qardhul Hasan includes two models, namely:

- a. **Productive Loan Distribution** Productive loans are loans that produce goods continuously or also help to increase the production of an item
- b. **Distribution of Social Funds** This social fund is a distribution of funds that solely intended for those who need it for consumption or also to meet needs urgent.

The targets for distributing Qardhul funds are: These Hasan are those who belong to the eight asnap, especially the Fakir and the Poor. Furthermore, if explored further, in accordance with the published Financial Statements, Qardhul Hasan's sources of funds

consist of Infaq, Alms, Fines, Non-Halal Funds, Donations, and others. However, in its implementation, financing Qardhul Hasan uses more funds Zakat, Infaq, Alms, and Waqf.

## Method

This study focuses on the worksheets that underlie implementation motives, types, and strategies. The study used a descriptive-analytical approach with triangulation, carried out through the methods of observation, interviews, and documentation as shown in the picture below

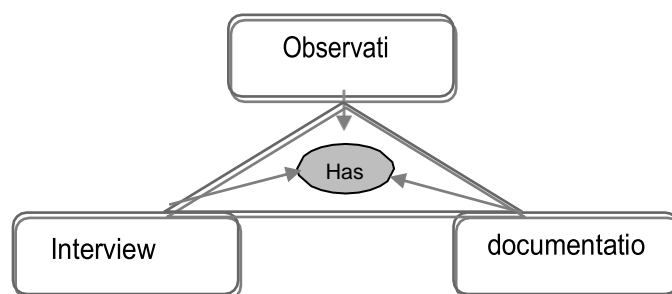


Figure 1 shows several data analysis steps, including collection by reading and in-depth examination of the annual report and interviews with informants. Data as checked to determine its relevance before reduction or grouping according to certain characteristics. Furthermore, comparisons and patterns were conducted to find the initial insight, which is validated in the last step.

## Result

The motives behind the LKS implementation determine the form, pattern, and strategy. Two types were analyzed, including 24 annual company reports from various industries and interviews results from 2 LKS management executives. The results showed that there had been a shift in LKS implementation motives which determines typology and influences effectiveness levels.

| DATA RECIPIENT FUNDS |         |        |                       |        |
|----------------------|---------|--------|-----------------------|--------|
| Productive (KARITY)  |         |        | Consumptive (CHARITY) |        |
| LKS                  | Bina BU | BMT BF | BMT BH                | BMT BU |
| 320 orang            | 100     | 110    | 150                   | 85     |

Source:Annual Report 2020

### 1. Motive of LKS Implementation

LKS implementation in Indonesia has experienced significant developments. In the annual report, social disclosures show changes in patterns and forms of implementation, strategies used, involved external parties, and costs incurred. According to the Annual Report in 2019, there are 2 types of motives, including social and economic. The social motive is

concerned with company responsibility to reduce the negative impact of operations and community problems. Also, social LKS activities are based on the intention to ease community burdens. LKS provides corporate charity to society through compensation for blood donors, cataract surgery, nursing homes, mass circumcisions, orphanages, street lighting, religious holidays, religious harmony (Annual Report, 2020 and interview results).

The economic motive provides value feedback company on image building, promotion and legitimacy. This motive often distorts LKS effectiveness by focusing more on stakeholders than corporates and the community. Economic motives are characterized by programs intended more for internal stakeholders, activities tailored to the company's operations, promotional content, limited charity and strong trade-off costs and benefits considerations. Moreover, these motives improve employee welfare through promotion, skills, education, health and job security. LKS activities for external parties are directed to promotional value, image and company operations.

## **2. System and Transcendental Support**

System and transcendental support can be used to achieve stakeholder value alignments in LKS. System support is related to government authority which incorporates awareness and pressure through issuing regulations and monitoring. LKS implementation is managed in a structured and institutionalized manner through foundations and management departments. Therefore, its implementation is managed in a systematic, planned, sustainable binding manner. Transcendental System is corporate awareness involving transcendental aspects based on spiritual values and corporate religious dimension. LKS programs are matched or developed with religious teachings from the maqasid al-sharia principles. Its implementation is primarily focused on the response to religious values and not a matter of fulfilling the litigation and strategy. Incorporating the social activity value into LKS designs places religious teachings into the actor's empirical behavior based on the Lillah-Billah intention. Corporate operations have become more humanistic, generous and stakeholder-oriented. LKS programs are directed to helping others, preventing exploitation and other needs affecting the society.

## **Discussion**

This study results showed that LKS program form and strategy could not be separated from the underlying motives. Generally, the 2 types of LKS design and implementation motive include social and economic. The social motive solves problems and difficulties faced by stakeholders through empathy and responsibility. Contrastingly, the economic motive contains economic interests, such as building an image, promotional value, and legitimacy (Hadi. Nor, et al., 2018; Carroll, 2016; Low, MP, 2016; Shin, Y, & Thai, VV, 2015). The company's original goal was to develop society and the environment. Also, the other intended purpose is to responsible for the reported negative impacts and have economic feedback. LKS is more humane and partial value will be stronger attention is paid to transcendental (Divine) values based on the dimensions of social activity. This value gives worksheets that are more productive because they are more stakeholder oriented. The values of social activities include

Helping business capital (Hafidz, 2007; Farook, 2007; Al-Ubaidi, 1992; At-Thohir, 2001; Dusuki & Abdullah, 2007)

The company pays attention to the trade cost and benefit principle for all decisions. This attitude brings LKS out of its original spirit, which was charity, responsiveness attitude on the environment, and economic values. LKS was more than just fulfilling the prevailing regulations (litigation), and its implementation was not about regulations. However, the LKS program's deviation is high and the implementation does not match the real needs felt by stakeholders and does not provide solutions. Therefore, LKS implementation motives need to be reconstructed and returned to the original spirit. The company management should be humanist and responsive to society and the environment. LKS construction needs to consist of the sincere intention to do charity in obedience to religious teachings or Illahiyah response. Companies need to conduct managerial functions on profit orientation and also worship form through provision for eternal life.

The transcendental support is an LKS implementation strategy based on Islamic values that operationally incorporate the social activity dimension. Incorporating religious values into the LKS program design is easy when directors realize leadership or management is religious. This can be achieved by integrating existing LKS programs with the social activity dimension. It includes making religious teachings an actus in a khaffah or a source that benefits nature and humans. The incorporation of social activity into LKS can be completed by conducting a theoretical study of Islamic teachings or fiqh and analyzing assisted stakeholders' contextualities. Lastly, integrating the social activity dimension with existing LKS programs to obtain the religion- based on LKS dimensions.

Islam provides good corporate governance, by paying attention to society, the environment and not neglecting its business objectives. Islam is present with the messenger of Allah and mercy upon the universe (QS. Al-Anbyaa: 107). Table 3 shows several verses of the Qur'an and Hadith that can be referenced to develop socila activity integrated LKS.

**Table . The Basic of LKS in Al-Qur'an and As-Sunnah**

| <b>Responsible</b> | <b>Verses of Al-Qur'an &amp; Hadith</b>  |
|--------------------|--|
| Community          | Al-Baqarah: 2, 11, 12, 43, 167, 245; At-Taubah: 103; Al-Maidah: 2, 11; Al-Mujadilah: 11; Al-Kahfi: 95; Al-Qhashas: 34-35; Al-Fath: 29; Al-Hujarat: 9-10, and others. |
| Environment        | Al-Baqarah: 205; Ar-Rum: 41; Ali-Imron: 134; Al-Mulk: 3- 4, HR. Tirmizi, No. 653, and othres.  |
| Energy             | Yasin: 80; Al-Waqrah: 72-73; Nuh: 15-16; Yunus: 22; Al-Isra': 69; Al-Ambyak: 81; Al-Furqon : 48; Ar-Rum: 46; Al-Fatir: 9; dan lain lainnya.                          |



|          |  |
|----------|--|
| Employee | As. At-Taubah: 9; Al-An'am: 135, Hud: 36; At-Thalaq: 6; Az-Zuhurf: 2; Az-Zumar: 39; Al-Baqarah: 279, and others.<br>HR. Malik: 795, 980; HR. Bukhori: 30, 2227; HR. Ibnu Majah: 2442; HR. Muslim: 2328, 2310; HR. Abu Daud: 4786, 4773; dan lainnya. |
| Ethic    | Al-Baqarah ayat 167, QS. 31: 20; (QS. 15: 29; QS. 75: 36; QS. 31: 28; An-Naim: 3; Al-Furqan: 23; Al-An'am: 152; AS-Syuaro': 181, and others.   |
| Economic | Al-Humazah: 1-4; Al-Taqabun: 64; Ali Imron: 14; Al-Baqarah: 164, 275, 282; At-Taubah: 24, An-Nur: 37; Al-Fatir: 29; At-Taubah: 18; An-Nahl: 90; Al-Qasas: 77; Al-An'am: 152; As-Syuaro' 181, and others.   |

Sources: Al-Qur'anul Karim and Sunnah Rasulullah

Applicable verses and hadiths are translated into fiqh or operational practice procedures. Al-Quran requires translation to provide maslahan or benefits values that take into account contextuality.

This study examines the motives behind LKS implementation and the implication of shifts on effectiveness. Novelty is shown through the development of an effective LKS strategy known as transcendental support. In previous studies, LKS effectiveness is bias on the corporate side or economic perspective, (Aupperle, Carroll, & Hatfield, 1985; Belkaoui & Karpik, 1989; Choi et al., 2010; Guthrie & Abeysekera, 2006; Mackey et al., 2007; Naser. & Hassan, 2013). The research concluded that social disclosure has a positive effect on profitability, market performance, and the environment. Similarly, (Basu & Palazzo, 2008; Brammer & Pavelin, 2006; Hassan & Nareeman, 2013; Mankelow, 2008; Shin & Thai, 2015; Spence, Coles, & Harris, 2001) stated that social disclosure affects customers satisfaction and SMEs.

## Conclusion

The motives behind LKS implementation determine its form and orientation, which cause effectiveness issue. This study focused on 2 LKS implementation motives, specifically social and economic. There has been a shift from social to economic motives directing program more to internal stakeholders who can provide valuable feedback. This condition has cost LKS its original charity-based values. Placing the LKS motive to the essence of origin and constructing LKS principles and dimensions is essential. System support and transcendental support are relevant in creating a principles program. The support system develops a structured authority as binding pressure, while transcendental incorporates social activity dimensions. These dimensions give value to LKS, such as philosophy, principles, motives, and indicators.

Shifting to social activity value and support system will solve effectiveness problems because of binding pressure and religious power. Transcendental values provide therapy and direct LKS intentions aimed at gaining *ukhrowi* or the afterlife. LKS programs will be designed to match community needs. The social activity dimension will teach company management aspects of balance, trust, usefulness, stakeholder protection and corporate awareness.

Research limitations were related to LKS dimensions development in social activity perspective, which is contextual to stakeholder conditions. Also, the model design was not empirically validated. Therefore, further research needs to develop and factorial test a contextual dimension of social activity. Moreover, the research could design an empirical model through a developmental approach.

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Conference Paper

## The Significance of Islamic Model of Waqf For Human Sustainable Development (HSD) in North-Eastern Nigeria

Adamu Abubakar Muhammad<sup>1\*</sup>, Ibrahim Dahiru Idriss<sup>2</sup>, Fadimatu Ahmed Jika<sup>3</sup>, Murjanatu Bagari<sup>4</sup>, Musa Ibrahim<sup>5</sup>

<sup>1</sup>Department of Religious studies, Faculty of Humanities, Federal University of Kashere, Gombe State, Nigeria

<sup>2</sup>Department of Primary Education Federal College of Education (Technical), Potiskum Yobe State, Nigeria

<sup>3</sup>Department of Islamic Studies, School of Continuing Education, Admawa state Polytechnic, Yola, Adamawa State Nigeria

<sup>4</sup>Government Day Secondary School Kofar Wambai Bauchi, Bauchi State, Nigeria

<sup>5</sup>GJSS Pindiga, Ministry of Education Gombe, Gombe State Nigeria

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*\*Corresponding author:*

Email:  
abubakaradamu1980@gmail.com

### ABSTRACT

Islamic endowment (Al-Waqf) is a key non-profit institution in Muslim societies that historically played an important role in providing social services and contributing to human sustainable development (HSD). Nigeria in particular, the Waqf sector has become dormant, and contributing little to social and economic development within the societies. This paper is an attempt to explore the significance of Islamic model of Waqf for human sustainable development (HSD) in North-Eastern Nigeria by enlarging its scope and enhancing the efficiency, effectiveness, and productive capacity. The qualitative method has been developed for the study through a literature review as well as an interview with relevant people. The results of the research revealed that the poverty level of individuals in the study area is higher than any other geo-political zone in Nigeria, the societal attitude about people with post-trauma cases needs to be given urgent reconsideration by educating and providing accurate information on their cases, the utilization of Waqf income is a key for strengthening the spirit of Islamic brotherhood among Ummah especially through empowerment lineups for earning a minimum standard source of living. This research is to be used as an effective way to support the implementation of Sustainable Development Goals in North-Eastern Nigeria and to alleviate the consequences of a short term and long term poverty in the society.

**Keywords:** Al-Waqf, Alleviation, Nigeria, Poverty, Post-Trauma, Sustainable.

## INTRODUCTION

Waqf is one of the basics principles in Islamic Economic system that played a significant role in economic, political, social and religious sustainable development in human history. It has proven that conventional economic programs are not succeed in reducing poverty and income inequality among people despite numerous programs and targets like MDGs and SDGs. Looking at human sustainable development as a center of any kind of development, Waqf can be one of the vigorous alternatives to solve the economics and social challenges of humans as provided by Waqf institutions around the world where it remains as tool for human economic development and poverty reduction (Adamu, 2022).

Waqf as one of the sources of Islamic Economic system refers to the voluntary charity which has unique presence in Islam as a civil societal institution. Waqf before Islam was always a religious

exercise when a rich person assigns a property to the temple and monks would use it for the shrine expenses. In present, it has proved around the globe that Micro Credit and Safety Net Programs are not successful in reducing poverty and income inequality among members of the societies. In this current situation, economic experts see Waqf as one of the vital alternative for human sustainable development as early history indicates free education, scholarship, orphanage management, free treatment and many more were provided by Waqf institutions (Masoud, 2015).

Islam is a comprehensive religion that covers all aspects of human life including economic system that place Waqf, as one of the strong economic instruments, which literally means religious endowment that related to religious, pious or charitable donation. It has been a source of human sustainable development such as the building of mosques, educational institutions, libraries, travelers' lodges, medical bills and many more. Its benefits are not restricted to the Muslim community alone rather goes beyond religious, cultural and religious boundaries (Kahf, 1998). Waqf is one of the underlying instruments in Islam to eradicate poverty and to improve the socio-economy of the Muslim ummah. On that purpose. The institution of waqf has played a significant role throughout Islamic history, from the time of the Prophet (PBUH) to this millennium century (Masoud, 2015).

## RESEARCH FINDINGS

Discussions of research findings will be touched on significance of Waqf model on human sustainable development in Northeastern Nigeria from an Islamic perspective, but segmented in to waqf concept, the concept of human development, concept of sustainability of human development, the problems of Waqf institutions in Northeastern Nigeria. The detail discussions as followed below.

## ISLAMIC CONCEPT OF WAQF

Literally, Waqf is defined as:

- An Arabic word originated from the word 'al-Waqf' which means to stop (al-sukun) to prevent, (al-mana'a) to suppress or to detain (al-habs) (Ayub 1998). Al-habs could also be defined as to prevent (mana'uhu), to hold (amsakahu) and to detain (sajjanahu). Al-hubays which is the objective form of the al-habs means the type of property which is held with the intention of distributing or donating its benefits for a good cause. Thus, the words al-ahbas and al-awqaf, the plural of al-habs and al-waqf, respectively, reflect the same meaning which is to hold something from being consumed and distributing its benefit for the purpose of ibadah (Abu al-Fadl 1982 cited in Adamu, 2022).
- An Arabic form of waqafa, simply means to endure, stop or stay in an area. The word Waqafa, yaqifu, waqfan or Wuqufan is similar to ḥabasa yaḥbisu taḥbisān (AlKhâthib, 26 in Adamu, 2022). Therefore, the synonym of al waqf is "al ḥabsu" to endure or "al man'u" to prevent. To prevent mean that waqf is preventing from destruction, bequested, selling and un-appropriate way of selling not accordance to waqf.

Technically, Waqf is defined as:

- An instrument of Islamic economy which applied by Muslims in 1400 years ago. This situation results in decreasing the government's role in facing economic matters for improving human and non-human welfare in society.
- Holding certain property and preserving it for the limited benefits of certain philanthropy and prohibiting any use or disposition of it outside that specific objective" (Kahf 2015:2).
- Restriction of using an owned property for the purpose of worship (ibadah) by means of allocating the derived revenues from that property to the poor and the needy (Al-Khassaf 1904 cited in Adamu, 2022).
- To protect something by preventing it from becoming the property of a third party" (Tahir & Abdul Hamid 2014:14 cited in Adamu, 2022).
- It embodies any property whose benefits are used for a charitable purpose be it public or specific according to the principles of Shari'ah (Jasni 2013, cited in Adamu, 2022).
- An eternal dedication of moveable or immovable asset or property for a good and charitable cause.
- An Islamic endowment of property to be held in trust and used for charitable or religious purposes.
- An inalienable charitable endowment under Islamic law typically involves donating a building, plot of land, or other assets for Muslim religious or charitable purposes with no intention of reclaiming the assets.
- To protect something by preventing it from becoming the property of a third party" (Tahir & Abdul Hamid 2014:14 cited in Adamu, 2022).
- It embodies any property whose benefits are used for a charitable purpose, be it public or specific according to the principles of Shari'ah (Jasni 2013, cited in Adamu, 2022).
- An eternal dedication of moveable or immovable asset or property for a good and charitable cause.
- Therefore, the English term of waqf means a philanthropic endowment, trust or foundation. Different countries prefer different usages that all carry the same meaning of waqf. For example, the term waqf is used in Nigeria and almost all Arabs countries like Saudi Arabia, Lebanon, Jordan, Palestine, Iraq, United Arab Emirates, while the term habs are commonly used in North Africa like Algeria, Egypt, Libya, Tunisia, Morocco, Mauritania, Guinea, and the term vakif or evkaf is used in Turkey, and the term waqf is usually spelled as wakaf in Malaysia, Indonesia, and Bangladesh. All these terms have the same meaning, which is the holding and preservation of a particular sadaqah (charity) to prohibit any use or disposition of the property outside the specific purposes to which the property is dedicated.  
We can conclude that the concept of Waqf in Islam is a voluntary, permanent, irrevocable dedication of a portion of one's wealth in cash or kind for seeking the pleasure of Allah and be utilized for any shari'ah-compliant purpose (Adamu, 2022).

## **NORTH EASTERN NIGERIA AND HUMAN DEVELOPMENT**

Nigeria is made up of six (6) geo-political zones namely; North West, North East, North Central, South East, South West, and South-South. The North Eastern Nigeria covers six (6) states which includes Adamawa, Bauchi, Borno, Gombe Taraba, and Yobe states. The dominant of the region

are Muslims with 80% population but accidentally faced a high level of insecurity which attributed to a group called Boko Haram terrorist. The insecurity situation in the region creates a number of problems which include a high rate of poverty, school dropouts as well as economic fall down across the region (Ibrahim and Jidda, 20219).

In the early 21<sup>st</sup> century, Northeastern Nigeria has witnessed several acts of terrorism, violence, and insurgency that caused ample harm to the region in areas of mortality, economic backwardness, ineligibility to fully participate in agricultural activities during rainy and dry season that resulted in a high rate of unemployment, shortage of among Muslim youths in the affected areas (Muhammad, 2019).

## **CONCEPT OF HUMAN DEVELOPMENT**

Human development is a proactive process for developing and improving the quality of human life (Darus et al., 2017; Nik Hassan, 1999). Mohammed, Iman, and Awang (2009) stated that Human development is a process of transformation or change of human life from a failure or less successful to a more productive one to create something beneficial in human life. Every human development must aim to generate benefit and profit for humanity (Anuar, Bahari, &Doktoralina, 2019; Hassan, 2014).

## **CONCEPT OF SUSTAINABILITY OF HUMAN DEVELOPMENT**

Generally, sustainability is often associated with development and the environment. Bruntland (1987) stated that sustainability means meeting current needs without compromising the needs of future generations. However, in the eyes of Islamic leaders, sustainability is more about equilibrium, equality and justice in managing and administering natural resources for the sake of humanity. Hasan (2006) stated that sustainability is a balance between economics, society and the environment in meeting spiritual needs of human by considering the material as economic measures. Nouh (2011) divided sustainability into two components: first, achieving economic, social and spiritual balance for human development; second, achieving environmental balance for the benefit of human beings. According to them, the use and distribution of resources among the inhabitants must be efficient and optimal, considering the limited resources.

From the view of Islamic scholars, it can be concluded that sustainability from an Islamic perspective is a balance in the use of natural resources for the economic, social, and spiritual benefits of the past, present, and future. In short, sustainability is balanced, fair, and continuous in all aspects of human life, including spiritual and physical development. There are seven principles of sustainability of human development as proposed by Khan (2001) which is to avoid waste; establishing rules, and evaluating oneself through history; maintaining a balance in the thinking, actions, and the usage of resources; accountability in governance and administration; creating equity and justice in the economy and business; purification of the soul (*tazkiyyah al-nafs*); and conversation and development of resources in the service for humans and other beings.

However, according to Matali (2012), there are eight principles of sustainability in the Quran which includes al-‘adl (justice), al-mizan (balance), al-wasat (simplicity), al-rahmah (mercy), al-amanah (trust), al-taharah (spiritual purity and physical cleanliness), al-haqq (justice of rights) and al-‘ilm al-nafi‘ (the use of knowledge and science). Nouh (2011) proposed five principles for achieving sustainability of human development which comprises of human dignity, comprehensive environment, equilibrium, resource availability and environmental protection. The views of these three Muslim scholars differ in numbers but the principles were addressed with the same major



ground of justice and equality as the fundamental principles of sustainability of human development in Islam.

In addition, Majid, Hanita, and Hussaini (2011) presented six conditions for achieving sustainability, namely understanding and belief in line with shahada; performing the duties of a khalifa; uphold the rules of Allah SWT; establishing strong foundations based on Qur'an and Hadith; persevering Islamic identity and principles in all aspects of life; and the creation of Islamic state that is based on sharia law. Meanwhile, Hossain (2014) presented four aspects of sustainability, namely equilibrium, economic equality, prohibition on usury, and prioritizing ethics in various aspects. These aspects refer to the elements of sustainability of human development in Islam.

According to the views of the scholars of Islam, principles of sustainability in Islam involves the three-dimensional relationship between human beings and Allah SWT, human beings amongst themselves, and human beings with the environment. These relationships need to be treated fairly and equitably and should be maintained as much as possible so that everything done is for the appeasement of Allah SWT. Based on the previous discussion, it can be concluded that several aspects need to be studied in understanding the concept of sustainability of human development from an Islamic perspective. The first aspect is related to the definition; second, primary sources of reference; third, principles; and fourth, sustainability elements.

## **PROBLEMS OF WAQF INSTITUTIONS IN NORTH-EASTERN NIGERIA**

Waqf institutions in Northern Nigeria have not been performing well to the expectation of stakeholders, even though laws have been enacted for their administration, but several attempts have been made to improve the level of compliance in the collection and distribution Waqf in the region (Jamila, 2021).

Jaffri (2019) found that lack of uniformity in fatwah, the centralized administrative authority for waqf to few people, and low compliance from potential donors in the society were partly responsible for the weak waqf control in Northeastern Nigeria.

Hamzah and Saheed (2018) found that improper administration was one of the causes of the underperformance of waqf institutions in Nigeria. Maidoki and Sani (2018) found that in Sokoto State and home of the caliphate, in particular, one of the problems of waqf institutions is poor participation from rich people amidst a high number of vulnerable in the area that is in high need of receiving prompt assistance and waqf shares for their daily need.

Rashid (2011) outlined a list of problems, which have worked against the optimal utilization of waqf. He suggested a way forward for revolutionizing waqf institutions to achieve their inherent objectives. He also discussed six issues as follows: the survey of waqf properties, their importance and suggested legal structure, the need for democratization of waqf administration, the revival of family awqaf, how to avoid wastage of waqf funds on litigation, how to recover seized waqf properties without going to the court and future directions in the development of waqf properties. Obaidullah (2014) asserted that most waqf laws were affected by colonial influences and dominated by secular laws in many Nigerian communities. Obaidullah's findings were in consonance with the findings of Oseni (2012), who concluded that the Nigerian waqf arena was distorted by colonial powers in Northern Nigeria. But their works did not focus on the strongest and current problem facing waqf administration in North-eastern Nigeria which is lack of knowledge and awareness on the role of waqf institutions in youth empowerment, reducing security challenges in the region as

well as general aspect of human sustainable development. Below are the key problems faced by Waqf institutions in the study area:

1. **Poor Administration:** Improper administration was one of the causes of the underperformance of waqf institutions in North-eastern Nigeria.
2. **Poor Participation:** It is believed that in the North-eastern Nigerian States, one of the problems of waqf institutions is poor participation from wealthy people amidst high numbers of the beneficiaries in the area. This scenario reflects a true mismatch between potential waqf incomes and potential consumption rates in the affected areas.
3. **Low trust and confidence:** This is one of the major factors responsible for the low public patronage to waqf institutions in North-eastern Nigeria. It is considered as the major factor for the institution's inability to alleviate poverty and to promote human sustainable development.
4. **Stakeholders' Negligence of their responsibilities:** The stakeholder's authority and influence on waqf institutions may be responsible for either the successful administration of waqf or for their underdevelopment and mal-administration. If the leaders performed their responsibilities properly, waqf would work effectively to alleviate poverty and sustain human development in various capacities.
5. **Lack of Knowledge and awareness:** It is observed that there was a lack of awareness and knowledge among people regarding the donation of waqf more especially in local villages across the region where many people among the farmers, herders, businessmen, and women are unaware or unprepared to sacrifice a portion of their wealth as waqf (Mahadi, 2019).

In light of this, an attempt on how the integration of Waqf properties play a commendable role for human sustainable development especially youth and women empowerment in Northeastern Nigerian is highly needed.

## **ROLE OF WAQF MODEL ON HUMAN SUSTAINABLE DEVELOPMENT (HSD) IN NORTHEASTERN NIGERIA**

Different types of researches from different angles by different scholars from various subdivisions have been conducted on challenges faces people living in rural areas, the impact of poverty on their social and religious practices particularly the northeastern region where several recommendations are highlighted but still people are suffering tremendously.

It is believed and attested that achieving the objectives of human sustainable development (HSD), is not an easy task. One of its major challenges is relying solely on limited source of financing by the government and NGOs, official development assistance, and loans from multilateral financial institutions that becomes a deadly virus in the struggle of achieving the desired agenda. (Adamu, 2022).

In Islam, the vision of human sustainable development (HSD) does not only rotate around the realization of income and wealth equity but also to fulfill spiritual and non-material needs in addition to sustaining long-term economic development (Chapra, 2008). The need for achieving this prosperity has been discussed in Islamic literature with the concept of maqasid al-shariah. The reason for the existence of maqasid al-shariah is to fulfill the interests of all mankind (jalb al-masalih) and avoid danger (daf 'al mafasid). Imam al-Ghazali classified the maqasid al-shariah into five main categories, namely protection of faith (deen), protection of life (nafs), protection of intellect ('aql), protection of lineage (nasl), and protection of wealth (mal) (Chapra, 2008).

North-eastern Nigeria witnessed numerous challenges for achieving human sustainable development (HSD) and many alternatives have been discussed in several attempts and occasions for finding a proper and long-lasting alternative for achieving the goal where many Nigerian researchers recommend Waqf as a great alternative to the task (Adamu, 2022).

Waqf or Islamic endowment (plural Awqaf) is a key non-profit institution in Muslim societies that historically played an important role in providing social services and contributing to human development. In many Muslim countries, the Waqf sector has become dormant and it contributing little to social and economic human development. There have been some attempts in some countries to revive Awqaf by providing an enabling environment for the human development and to increase the impact of the Awqaf sector by enlarging its size and enhancing the efficiency, effectiveness, and productive capacity for sustaining human development in their communities. Looking at the economic situation of Muslim countries today where Nigeria is included in terms of the high rate of unemployment, literacy, lack of good and standard healthcare facilities, inadequate standard and reliable means of transportation facilities, lack of affordable and clean energy, water, and sanitation facilities, the spread of poverty and low level of food production as well as other different challenges necessitated to look at the institution of Waqf more profound as an authentic, reliable and relevant socio-economic tool for minimizing or solving such problems and to serve as an alternative for achieving human sustainable development (HSD).

Aliyu (2018) found that over its historical development, active waqf institutions have helped in lessening the burden of tax and budget deficits, promoting the public good, addressing inequality between rich and poor, removing greediness, and alleviating poverty. Abdullahi (2019) said that waqf institutions if incorporated and properly connected and channeled as ordained by Allah SWT, have the potential to boost Nigeria's infrastructure. Raimi et al. (2010) argue that if religious charity of waqf is properly administered it would be a relevant way of eradicating poverty in Nigeria and actualizing the millennium development goals (MDGs). Similarly, Adebayo (2011) agrees that waqf institutions would play a vital role in alleviating poverty in Nigeria if it were properly harnessed. Raimi et al. (2010) also concur with Ammani et al. (2014) that the northern states of Nigeria have adopted various measures such as zakat and waqf practices to curb the growth of poverty among individuals in the region. Moreover, they did not discuss the imposition of zakat on employment and empowerment among youth in the region. The current research seeks to fill the gap in their treatment of that topic.

Audu (2011) argues that waqf has the fiscal potency to stimulate economic growth of Muslim state if was properly administered within the central public economic policies of a state. This argument supports the central objective of the Shari'ah economic administration which is wealth circulation from rich to poor as mentioned in a hadith of the Prophet (peace be upon him):

*“..that it is taken from the rich and given to the poor” (Al-Bukhari, 1987, Vol. 2, p. 104).*

This proved that if waqf institutions perform well, the poverty alleviation through redistribution of wealth maintained, it can promote social justice in the society, create a friendly relationship between the rich and the poor, and lead to a crime-free society as well as sustaining human development.

Youth in North-Eastern Nigeria are in the dilemma, many of them are adversely affected by the conflict that disturbed their access to education and social services, and they have been pushed into violence or evil acts that directly or indirectly affect their social and psychological well-being. Even prior to the conflict, educational levels in the region was very low, and the average rate of

unemployment in the region is much higher than other regions. Unemployed people, out of school wards, widespread poverty, lack economic opportunities and other evil factors are still affecting human sustainable development at this critical point (Jamila, 2021).

To ensure human sustainable development remain stable, there must be a designed program to promote a multi-sectoral and integrated approach, these programs include entrepreneurship and vocational training, capacity building workshop, conflict resolution training, leadership and social cohesion activities such as inter-generational dialogues, youth-security providers' dialogues and recreational activities and all can be finance by waqf properties (Umar, 2021).

## **CONCLUSION**

Waqf is an important tool in the Islamic socio-economic and human sustainable development. It played a significant role all through Islamic history where waqf institutions have provided social welfare services in many places around the globe. The formation of waqf institutions all over the Muslim world was indeed the result of kindness and act of religious observance towards God and it resulted in human social and economic sustainability as well as poverty reduction, poverty is commonly understood to exist when people lack the means to satisfy their basic needs. Practically, poverty reduction refers to a set of economic and humanitarian measures taken by authorities, corporate organizations and non-governmental organizations (NGOs) in order to distance people from the bondage of poverty permanently. There are so many ways established by Islam to handle poverty problem in the society. The best way is through charitable act which significantly played a dynamic role in alleviating poverty in many Islamic countries. Waqf is one of the long-lasting forms of charity established by Islam to alleviate poverty and to burst human sustainable development. To improve human sustainable development in a society though waqf some of the following steps are to be followed which includes Financing entrepreneur programs, Providing source of financing entrepreneurship to the poor or less privilege who are restricted from accessing external finance, this will easily enhance the poor to be able to be self-reliant.

## **RECOMMENDATIONS.**

1. Leaders in the region like traditional rulers, government officials, and religious leaders are to double their effort in ensuring the effective administration in the available waqf institutions to function well and deliver their mandate.
2. Academic and administrative leaders in higher learning institutions in the region have a collective responsibility to ensure the proper organization of public lectures and leadership training courses on the administration of waqf in their respective areas.
3. The lack of adequate knowledge of waqf from people who are living in rural areas prevents the institutions from receiving maximum support and patronage from the masses more especially the farmers and herders, if corrected the problem will be solved.
4. The leadership of waqf institutions should be dominated by respected Muslim scholars, not politicians nor non-educative or those with questionable characters.
5. Serious measures need to be taken to have waqf institutions adhere to high standards of accountability like regular auditing, publicizing financial reports, and transparency.
6. Establishing new and contemporary programs like entrepreneurship training, opening skills acquisition centers, and job creation section under waqf institutions to address the existing challenges facing human sustainable development in the region.

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Conference Paper

## CONTRIBUTION ISLAMIC SOCIAL FINANCE PHILOSOPHY BAZNAS OF D.I. YOGYAKARTA IN MALIOBORO MSMEs EMPOWERMENT POST COVID-19 PANDEMIC

<sup>1</sup>Novi Febriyanti\*, <sup>2</sup>Dhidhin Noer Ady Rahmanto, <sup>3</sup>Rahmad Nursyahidin

<sup>1,2</sup>Alma Ata University of Yogyakarta, Indonesia

<sup>3</sup>State University of Yogyakarta, Indonesia

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\*Corresponding author:

E-mail: [novikfbr@gmail.com](mailto:novikfbr@gmail.com)

### ABSTRACT

BAZNAS D.I Yogyakarta as one of the Islamic philanthropic institutions that collects and distributes Islamic Social Finance has a MSMEs empowerment program that aims to make MSMEs bounce back from adversity during the pandemic. The formulation of the problems raised in this research are, 1) What are the efforts of BAZNAS DIY in improving the welfare of the Malioboro MSMEs which have fallen due to the Covid-19 pandemic with Islamic Social Finance? 2) What are the results of BAZNAS DIY empowerment program on the resilience and development of Malioboro MSMEs during the Covid-19 pandemic? The type of research used is a qualitative research method with a case study approach. The research location is BAZNAS DIY, as well as the location of the assisted Malioboro MSMEs. The results of this study indicate that in the collection and distribution of ZISWAF by BAZNAS DIY it is not only given for consumption or short-term purposes, but also pays attention to productive or long-term interests. In the management of ZISWAF by BAZNAS DIY adheres to 3 pillars, namely trust, professionalism and transparency. This program uses the MbP or Management by Process method. The Malioboro MSMEs assisted by BAZNAS DIY are in accordance with the characteristics of MSMEs and the MSMEs empowerment program guidelines written in the RI Law Number 20 of 2008 Article 4. It is proven by a total of 49 Malioboro MSMEs assisted by BAZNAS DIY, 42 MSMEs were able to survive the pandemic, 2 MSMEs experienced growth and 5 MSMEs experienced a slump.

*Keywords: Islamic Social Finance, MSMEs, BAZNAS, Yogyakarta, Covid-19*

### Introduction

As a result of the Covid-19 pandemic, the market demand weakened, so that many MSMEs lost their consumers. Based on data written by Kompas on March 27, 2021, information obtained from the Ministry of Cooperatives and SMEs was at least 949 reports from affected MSME actors. and also drinks up to 27%. For small businesses, food and beverage has an impact of 1.77%, while for medium-sized businesses it has an impact of 0.07%. This pandemic has had a significant impact on micro-enterprises, reaching 17.03%. Small businesses in the handicraft sector, both wood and rattan, have an impact of 1.77% and medium enterprises by 0.01%. On household consumption, this pandemic has an impact of between 0.5% to 0.8% (Kompas, 2021).

Arief Yahya, a former Minister of Tourism, said that the post-pandemic global economic recovery was assessed by experts not to be able to run quickly. This pandemic is predicted by the government to make economic growth in the second quarter of 2020 minus 3.8%. If minus growth does not stop until the third quarter of 2020, it is certain that Indonesia will experience a recession (Istiqmah, Fajaryanti and Dewi, 2020). Therefore, the government must immediately deal with

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this matter because if the recession is allowed to continue, it will have an impact on various other economic sectors such as bad loans to banks, uncontrolled inflation, or even deflation.

The latest data for 2021, Bank Indonesia stated that as many as 87.5% of MSMEs were affected by the pandemic. Of these, 90% are more affected on the sales side. The majority of MSMEs have been affected by the pandemic in terms of income, profit and cash flow. Only 12.5% of MSMEs are not affected by the pandemic. This means that only 370 of the 2,970 MSMEs surveyed by Bank Indonesia were not affected by the pandemic. Of the 370 MSMEs, 27.6% showed an increase in sales, 72.4% managed to maintain (Andi, 2021). The majority of them implement online sales strategies, increase product quantity, minimize costs, add new businesses or other strategies in order to survive during the pandemic.

Some MSMEs are starting to be able to adjust after the pandemic that has almost happened for two years. However, due to a surge in Covid-19 cases in mid-2021, the government again set a PPKM policy (Enforcement of Community Policy Restrictions) which took effect from July 2021 (Novi, 2020). As a result, many MSMEs again suffered losses due to the prohibition of eating at places and imposed a limit of hours until 8 o'clock. night only. Economic conditions that previously began to improve are now slumped again due to this policy.

Continuing deteriorating economic conditions as it is today, it is urgently needed an alternative way that can save the Indonesian economy from the brink of recession with the aim of restoring the community's economy and helping supply capital for MSMEs in order to continue and develop their business activities (Ning et al., 2022). In Islam Allah SWT provide an alternative that has been exemplified in its application at the time of the Prophet Muhammad and his companions, namely by collecting Islamic social funds or Islamic Social Finance in the form of zakat, infaq, alms, and waqf which are obligatory or voluntary for Muslims (who are able) to be a solution to problems economic inequality and poverty (Irfan, 2021).

Islamic Social Finance is expected to be a factor that supports the strength of Islamic finance so that it can provide benefits to all levels of society such as the middle and lower economic community who have difficulty accessing banking facilities. In fact, there is an imbalance in economic resources which is a factor in poverty and the economy in society. Islamic Social Finance is usually collected by Islamic philanthropic institutions. The Islamic Philanthropy Institute is an Islamic social institution that has a strategic role in providing religious guidance for donors and recipients of ziswaf (Bakhri and Futiah, 2020). One of the Islamic philanthropic institutions in Indonesia is BAZNAS D.I Yogyakarta. In this study, researchers focused on the Malioboro MSMEs empowerment program which was slumped by the Covid-19 pandemic. To facilitate the research, in this study a sample of MSMEs was taken under the supervision of BAZNAS D.I Yogyakarta.

As an Islamic Philanthropy Institute, BAZNAS D.I Yogyakarta has designed economic programs that aim to lift the community out of poverty as mentioned above, namely empowering MSMEs. The question is whether the efforts made by BAZNAS D.I Yogyakarta in the MSMEs empowerment program to improve welfare due to the Covid-19 pandemic by producing Islamic Social Finance have a good impact on the welfare of the MSMEs being fostered. Then what are the results of the BAZNAS D.I Yogyakarta MSMEs empowerment program on the resilience and development of MSMEs.



## Material and Methods

This type of research is qualitative research with a case study approach model. Based on the research location in this case, the research on the contribution of Islamic Social Finance Philanthropy BAZNAS D.I Yogyakarta in the empowerment of Malioboro MSMEs during the Covid-19 pandemic is included in the type of qualitative research with a case study approach because it focuses on one problem that is currently happening in society. To meet the data needs in this study, the data collection techniques used by the researchers were interviews, observation, documentation and literature study (Creswell, 1994). While the data analysis technique used by the researcher is descriptive in the form of data collection, data reduction, data presentation and drawing conclusions (Sugiyono, 2020).

## Results and Discussion

### **BAZNAS D.I Yogyakarta's Efforts in Improving the Welfare of Malioboro MSMEs that are Deteriorating Due to Covid-19 Pandemic with Islamic Social Finance**

BAZNAS D.I Yogyakarta collects Islamic Social Finance from muzakki or donors and distributes it to parties in need. The forms of Islamic Social Finance collected and distributed by BAZNAS D.I Yogyakarta include (Head of BAZNAS DIY, 2022):

#### 1. Zakat

The types of zakat that can be collected and distributed by BAZNAS DIY include zakat fitrah, zakat maal, corporate zakat, professional zakat and other matters relating to zakat expenditure for certain assets. For the distribution of zakat funds, BAZNAS DIY distributes according to the groups who are entitled to receive zakat in the Qur'an, including:

##### a. Poor

For the poor, the distribution of zakat funds is allocated for several things, including:

- 1) Business capital loans, as has been done by BAZNAS DIY in the MSMEs empowerment program.
- 2) Building education and training facilities, one of which is by providing job skills training to MSMEs assisted by BAZNAS DIY.

##### b. Amil

For amil, zakat funds are given for the needs of:

- 1) Giving a salary as an appreciation has given his life for the people.
- 2) Amil training to become a professional and better amil.

##### c. Mu'alaf

This assistance is given to converts who need economic assistance when changing religions.

##### d. Riqab

Zakat funds are used for Riqab by helping those in conflict areas, or for those who work under unjust leaders.

##### e. Gharim

This assistance for Gharim is related to capital assistance for MSMEs. At first, many MSMEs were in debt with moneylenders. So BAZNAS DIY helped pay their debts to moneylenders. After that, BAZNAS DIY provides soft loan assistance for business capital which will be given every 10 months if the previous loan has been paid off in installments.

## f. Fisabilillah

This assistance is given to honorary teachers in remote areas whose income is very low with the help of salary incentives from BAZNAS DIY.

## g. Ibn Sabil

The assistance for Ibnu Sabil is Mentari scholarship assistance for students who come from poor families.

## 2. Infaq, shadaqah and waqf

Several programs of BAZNAS D.I Yogyakarta in an effort to distribute infaq, alms, and waqf funds include:

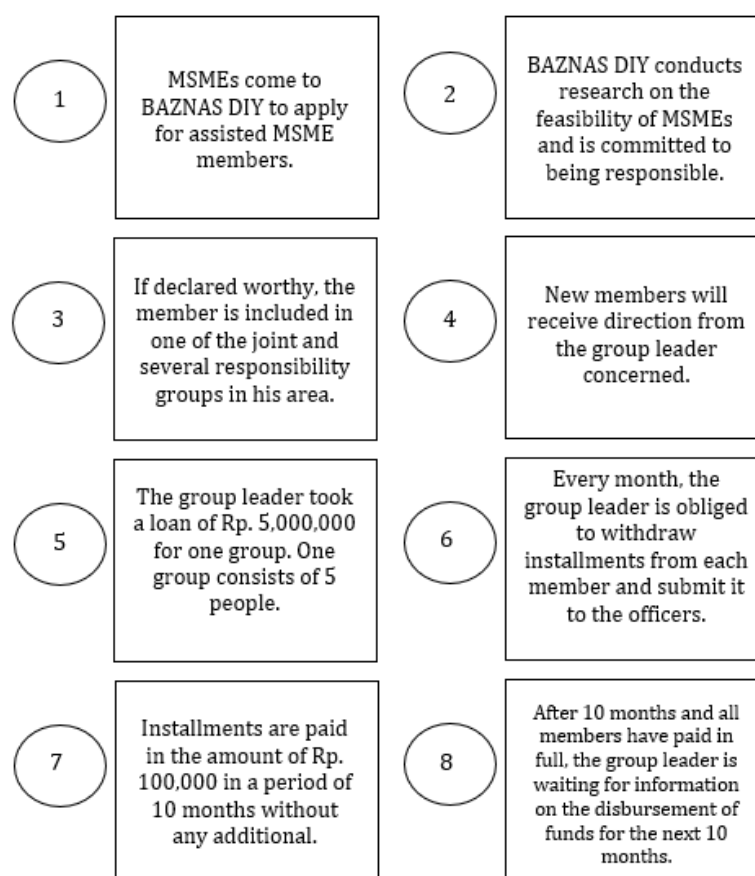
- a. Program to make orphans and poor people happy. This program aims to help orphans and poor people meet their basic needs.
- b. Humanitarian donation program for Palestine.
- c. Food assistance program for the poor affected by Covid-19.
- d. Assistance program for victims of natural disasters that occurred in Indonesia.

In managing ZISWAF funds, BAZNAS D.I Yogyakarta revealed that there are several main pillars of ZISWAF management and empowerment, including being trustworthy, professional and transparent. Where in the principles of ZISWAF management by BAZNAS D.I Yogyakarta there are three main pillars, namely (Staff of BAZNAS DIY, 2022):

1. Trust and Integrity. BAZNAS DIY must be able to become a trustworthy institution by always upholding a code of ethics and moral principles.
2. Professional. In providing services, BAZNAS DIY always prioritizes attitudes and actions based on a high level of competence, credibility and commitment.
3. Transparent. Information submission by BAZNAS DIY is delivered in a transparent, consistent and credible manner to provide better, faster and responsive services to stakeholders.

The MSMEs empowerment program by BAZNAS D.I Yogyakarta is carried out by respecting and maximizing every process. Starting to help MSMEs that were previously in debt with moneylenders so that their business was almost closed due to running out of capital, analyzing the commitment of every MSMEs that registered because this empowerment program was carried out in the long term, giving rights to every MSMEs fairly, to providing education to them about the importance of blessing in mu'amalah (Deputy Chair III for Planning, Finance and Reporting of BAZNAS DIY, 2022). For the problem of results, BAZNAS D.I Yogyakarta only wants the MSMEs to be able to stand independently and no longer be in debt with moneylenders. This is in accordance with the Management by Process theory expressed (MbP) by Sudewo and does not talk about results. MbP is long term oriented. In the MbP model the process is never neglected, because the process is the most important component. The MbP model trains all parties to become adults so that with this management model the quality of mustahiq and amil is also improved. The following is the distribution and repayment scheme for soft loans for MSMEs assisted by BAZNAS D.I Yogyakarta (Website of BAZNAS DIY, 2022):

**Figure 1. Soft Loan Distribution and Repayment Model of MSMEs assisted by BAZNAS DIY**



Source: Data processing

This MSMEs development model is by grouping adjacent MSMEs so that the distribution of funds is also given to the group coordinator who will later be tasked with distributing the funds fairly and evenly to all group members. The MSMEs empowerment program packaged by BAZNAS D.I Yogyakarta with a soft loan model and job skills training aims to empower MSMEs so that they are aware of their potential and are eager to continue to be better (Distribution and Utilization Sector of BAZNAS DIY, 2022). The provision of soft loans without interest in 10 months installments is indeed intended for those who have been in debt with moneylenders. The amount of interest on loans given by moneylenders makes them frantically pay it off. With the help of soft loans they received from BAZNAS D.I Yogyakarta, job skills training, as well as monthly recitations, it is hoped that they can knock on their hearts about the importance of blessing in business, one of the factors is with halal capital. In the distribution of loan funds, BAZNAS D.I Yogyakarta provides them fairly and on time (Secretary and Executive Coordinator of BAZNAS DIY, 2022). As Islamic Social Finance as a concept of justice in Islam, the meaning of justice understood is (ZIS-WAF Collection Field, 2022):

1. Fair means equal. There is no difference between one and the other. The distribution of the loan amount for each group is the same. The number of members of each group is 5 people. Given a loan of Rp. 5.000.000, - so that each member gets Rp. 1.000.000,- and payable every

month for ten months. All MSMEs assisted by BAZNAS DIY have the same obligations and rights.

2. Fair means balanced. Balance between rights and obligations. All members of MSMEs assisted by BAZNAS DIY have balanced rights and obligations. For example, each MSMEs has the right to a soft loan of Rp. 1.000.000,- and is obliged to return it in installments of Rp. 100.000,- every month for ten months.
3. Fair means paying attention to individual rights and giving these rights to everyone who is entitled to receive them. BAZNAS DIY selects every MSMEs that registers to join the MSME coaching program by BAZNAS DIY. The goal is that MSMEs who receive loan assistance are MSMEs who really need and can account for their loans by paying installments on time every month.
4. Justice is attributed to God. There is not a single creature that has justice like the justice that Allah SWT has. Allah swt does justice with mercy and all His goodness. Allah's grace is never restrained and all creatures can reach it. In addition to coaching with the help of soft loans as capital and skills training, BAZNAS DIY also provides other rights that are no less important for MSMEs, namely monthly recitations. Where there will be taught them the true meaning of mu'amalah and straighten their trading intentions that the best mu'amalah is mu'amalah with Allah SWT. and everything that is done in the world is all intended solely to worship Allah SWT.

From the various programs carried out above, BAZNAS D.I Yogyakarta hopes that these programs will benefit the entire community, especially the MSMEs empowerment program by BAZNAS D.I Yogyakarta so that they can bounce back from adversity after the Covid-19 pandemic.

### **Empowerment Program on Resilience and Development of Malioboro MSMEs by BAZNAS D.I Yogyakarta Post Covid-19 Pandemic**

The MSMEs empowerment program by BAZNAS D.I Yogyakarta is expected to help to rise from adversity. According to experts, ideally recipients of productive zakat (in the form of business capital assistance) must meet three conditions, namely (Deputy Chair II for Distribution and Utilization, 2022):

1. Have a responsible business.  
BAZNAS DIY applies this requirement to MSMEs who register themselves in the MSMEs empowerment program. There is no business specification or minimum turnover, but the business being carried out must be a legitimate and accountable business.
2. Willing to continue to be accompanied and guided so that they can continue to grow.  
In the MSME development program by BAZNAS DIY, there is no assistant assigned to guide Malioboro MSMEs. It's just that there is a special officer in charge of receiving mandatory monthly installments from each member.
3. Submit a report on the results of operations no later than every 6 months.  
The MSME development program by BAZNAS DIY has not applied this to the Malioboro MSMEs it fosters. BAZNAS DIY's assessment of MSMEs is only limited to the ability to pay mandatory monthly installments. As long as the installment is still smooth, it is considered that the business is still running well.

After conducting interviews with several Malioboro MSMEs assisted by BAZNAS D.I Yogyakarta, the majority of them felt very helpful with soft loans from BAZNAS D.I Yogyakarta. Especially after the current pandemic, these soft loans are very helpful for capital intake for MSMEs. In

an effort to empower MSMEs in Malioboro, BAZNAS D.I Yogyakarta has understood the characteristics of MSMEs as stated in the RI Law Number 20 of 2008 as follows:

1. Has a small scale, both labor use and market orientation models. The target of MSMEs assisted by BAZNAS DIY is small-scale MSMEs starting with small capital, carried out around Malioboro Street and with a small market share.
2. Many are located in small towns or suburbs of large cities. MSMEs assisted by BAZNAS DIY spread throughout the D.I. Yogyakarta.
3. The work pattern is often part time or as a side business from other activities. The businesses owned by MSMEs assisted by BAZNAS DIY are mostly owned by mothers who sell to help ease the burden on their husbands.
4. There is no clear division of tasks between administration and operations. Because the MSMEs assisted by BAZNAS DIY are very micro in scale, the majority of them do everything themselves, from production to distribution.
5. The low access of small industries to formal credit institutions so that they tend to depend on their business financing from their own capital or other sources such as family, relatives, intermediary traders, and even moneylenders.
6. Most MSMEs are characterized by not having legal entity status. Because the business they are engaged in is a small business, most of them do not think about getting into a legal entity.

RI Law Number 20 of 2008 Article 4 regulates the principle of empowering Micro, Small and Medium Enterprises (MSMEs) to be implemented by every institution that conducts MSME empowerment programs. BAZNAS D.I Yogyakarta is expected to use these principles in implementing MSME empowerment programs, including the following:

1. Growing independence, togetherness, and entrepreneurship of Micro, Small and Medium Enterprises (MSMEs) to work on their own initiative. The MSMEs empowerment program by BAZNAS DIY was created to develop a financially independent community with productive businesses that have long-term prospects. This empowerment also aims to train MSMEs mentally and be able to work together with fellow communities or fellow MSMEs.
2. The realization of transparent, accountable and fair public policies. In this empowerment principle, BAZNAS DIY applies it by teaching the assisted MSMEs to always behave honestly in trading. Starting from production activities, promotion to distribution. Every MSME is taught to be responsible for what it has produced.
3. Regional potential-based and market-oriented business development in accordance with the competence of Micro, Small and Medium Enterprises (MSMEs). BAZNAS DIY provides job skills training to assisted MSMEs so that they are able to develop their businesses or even with these skills MSME actors can open new businesses according to the skills they have acquired.
4. Increasing the competitiveness of Micro, Small and Medium Enterprises (MSMEs). BAZNAS DIY always teaches the assisted MSMEs to create the best possible products so that their quality can be compared to products on the market. In addition, every monthly recitation, MSME actors are always taught good mu'amalah ways in accordance with Islamic law.
5. Implementation of planning, implementation, and control in an integrated manner. At this point, BAZNAS DIY has not been maximal in implementing it. BAZNAS DIY has never made direct visits to MSMEs due to limited human resources. Supervision of MSMEs is limited to

monthly recitations as well as loan installment payments and monitoring of the consistency of MSMEs in returning capital.

From the results of the analysis above, it can be seen that BAZNAS D.I Yogyakarta implements the ZISWAF distribution as well as possible. Not only for consumptive purposes, but also to promote the ZISWAF fund allocation program through Economics, Education and Health. And one of the programs currently being promoted by BAZNAS D.I Yogyakarta is the empowerment of MSMEs. BAZNAS D.I Yogyakarta implements a MSME empowerment program with the help of soft loans and job skills training to help MSMEs that are heavily in debt with moneylenders, free MSMEs from usury and provide additional skills for them to develop their businesses. From the results of BAZNAS D.I Yogyakarta's efforts, there are several 49 MSMEs assisted by BAZNAS D.I Yogyakarta who feel very helped by the soft loan assistance provided. It is proven by 42 MSMEs that can continue to survive the crisis during a pandemic and even 2 others can develop a bigger business. Even though there were 5 MSMEs that had to close their businesses at the beginning, they were able to fight again by opening new businesses with the help of soft loans provided by BAZNAS D.I Yogyakarta.

## Conclusion

BAZNAS D.I Yogyakarta as one of the Islamic philanthropic institutions whose task is to collect and distribute Islamic Social Finance through zakat funds and distribute it to 8 asnaf according to the Qur'an including Poor, Amil, Mu'alaf, Riqab, Gharim, Fisabilillah and Ibnu Sabil with various distribution programs, both productive and consumptive, such as the MSMEs empowerment program, Amil training, helping the poor who are in debt, providing salary assistance for honorary teachers, providing educational assistance for students from poor families, and various other programs. In addition to zakat, BAZNAS D.I Yogyakarta also collects and distributes infaq, shadaqah and waqf funds channeled through orphans and poor people programs, humanitarian donations for Palestine, basic food assistance for the poor affected by Covid-19, as well as assistance for victims of natural disasters in Indonesia.

The specific objective of BAZNAS D.I Yogyakarta in the MSMEs empowerment program is that MSMEs that are entitled to receive soft loan assistance from productive zakat must have 3 conditions, namely having a decent productive business, being willing to pay installments on time, and being committed to complying with the rules of BAZNAS D.I Yogyakarta. The majority of MSMEs assisted by BAZNAS D.I Yogyakarta felt very helpful with the soft loans provided. Especially after the current pandemic, soft loan assistance really helps their capital intake. In the Malioboro MSMEs empowerment program, BAZNAS D.I Yogyakarta has understood the characteristics of MSMEs as written in the RI Law Number 20 of 2008 including small scale, mostly located in the suburbs, work patterns that are only part-time, no division of tasks, low access to formal credit institutions and not yet a legal entity. In empowering, BAZNAS D.I Yogyakarta follows the principles that have been written in the RI Law Number 20 of 2008 including the growth of independence, togetherness and entrepreneurship of MSMEs to work on their own initiative, the realization of transparent, accountable and fair public activities, business development based on potential, increasing the spirit of competition by increasing the competitiveness of MSMEs, as well as implementing integrated planning, implementation and control.

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Conference Paper

## Green Growth Construction in The G20 and Indonesia's Economic Recovery Strategy

M. Zidny Nafi' Hasbi<sup>1\*</sup>, Ipuk Widayanti<sup>2</sup>

<sup>1</sup> Alma Ata University

<sup>2</sup> Gadjah Mada University

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*\*Corresponding author:*

Email:  
zidny@almaata.ac.id

### ABSTRACT

The role of the G20 as the main international economic forum is supported by the agenda for economic recovery in developing countries during the pandemic. Indonesia's presidency at the G20 in 2022 will be an important opportunity for the government to strengthen partnerships between developing and developed countries in providing economic recovery and closing global inequality gaps. Indonesia's role in realizing a productive, resilient, and just economic recovery reflects the benefits of the G20 forum by encouraging cooperation and partnership. This study aims to analyze contemporary issues regarding the implementation of a green economy and Indonesia's economic recovery strategy. This study uses a qualitative method with narrative analysis, referring to case studies of several of Indonesia's successes in multilateral cooperation forums, by collecting secondary data from various sources, both national and international journals and from official government documents, literature books, and news sources that have good evidence. strong. The findings from this study suggest several policy options to encourage a green economy transition including attracting green investment to Indonesia, shifting from primary to secondary and tertiary commodities, suspending incentives for the extractive sector, and maintaining consistency of policies and regulations related to the green economy.

**Keywords:** Green Growth, G20, Economic Recovery

### INTRODUCTION

The pandemic in Indonesia has created a huge impact on every aspect of life, such as economic development. The Covid-19 pandemic has significantly affected the way people interact, the way they work, the way businesses promote and sell products, and how the policy-making process is carried out (Yasa, 2010). Therefore, the public and the government must take appropriate steps in seeking economic recovery in Indonesia. Economic development in an area is an activity that is carried out consciously and must be carried out together to create a better life. Therefore, economic development is carried out as a step for equitable development so that the output can create just and equitable community welfare (Darmawijaya, 2021).

Green growth is intended as a driver of economic growth and development by utilizing natural resources sustainably and efficiently in the use of clean natural resources, minimizing pollution and environmental impacts, and being disaster-resistant (Harisman, 2012). In addition, green growth emphasizes environmentally friendly economic progress to promote emission reductions and socially inclusive development. Green growth also plays an important role in dealing with the impacts of climate change and is closely related to the concept of a green economy which aims at equitable distribution and improvement of social welfare and significantly reduces the risk of environmental damage and ecological scarcity (Ibrahim, 2022).

According to Barbier. (2020), building a green economy that balances economic, environmental, and social dimensions means developing regions by providing long-term

benefits to people living in poverty, usually in marginal agricultural or plantation areas, generally by promoting economic growth, supporting diversification, and creating new jobs through environmental restoration in the surrounding area.

A green economy reflects the opportunity to improve people's quality of life, eradicate poverty, create decent jobs, promote sustainable investment, and simultaneously increase the competitiveness of enterprises. The government should ideally strengthen cooperation through policies promoting economic transformation towards a green economy (Barbier, 2016). At the macro level, a green economy after several years of transition can provide more economic growth, reduce poverty, and generate more new jobs (Hill, 2012).

From a gender perspective, green growth-oriented development opens up more job opportunities for women if the government initiates structural reforms that can reduce gender inequality in the labor market, including in the agricultural sector (Junifta, 2022). Therefore, the public and private sectors need to support the future green economy model in sustainable development and poverty eradication.

Indonesia's development strategy refers to the 4 pillars of development, namely pro-growth, pro-job, pro-poor, and pro-environment. This reflects Indonesia's economic development goals not only to promote growth but also to pay attention to environmental sustainability and poverty alleviation (Chaidir Iswanaji, Aziz muslim, 2022). To achieve green growth, Indonesia needs to consider the conditions and carrying capacity of land area resources, including agricultural, plantation, forestry, and marine land as well as the content of natural resources, both non-renewable and renewable (Jannah, 2022). In terms of land area support, Indonesia is one of the countries with the largest forests in the world and even has the largest tropical rain forest in the Asian region. Besides that, approximately half of the world's tropical peatlands are in Indonesia, which is approximately 21 million hectares. Indonesia's forests, which are also relied upon as the world's lungs, have recently experienced very sad deforestation, even in Kalimantan in 2010 there were only 44.4% and it is estimated that in 2020 it will decrease and only 32.6% (Iswanaji et al., 2021).

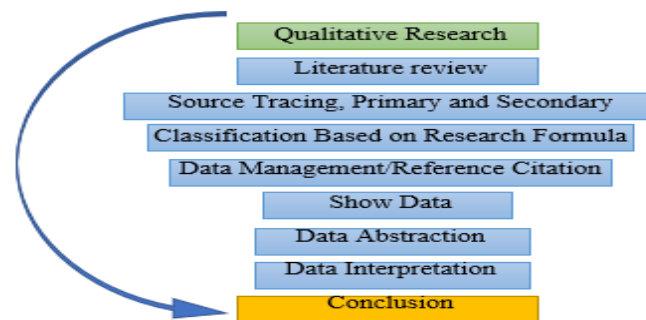
According to UNDP data, Indonesia is the third largest emitter of carbon, with more than 80 percent of national emissions coming from land use change, especially deforestation. For Indonesia, forests are not only linked to carbon stocks but more than that, they are rich in biodiversity. Indonesia's forests are home to nearly 30 thousand plant species. Indonesia's biodiversity is the second largest in the world after Brazil. If marine life is included, Indonesia is claimed to be the country with the most biodiversity. Unfortunately, when Indonesia's biodiversity becomes an important commodity in the eyes of the world, the protection of biodiversity is still weak. Many Indonesian biotas are taken without the knowledge of related parties (Hasbi & Widayanti, 2021).

## METHOD

Legal research is a scientific activity based on certain methods, systematics, and thoughts that aim to study one or several certain legal phenomena by analyzing them. The method used in this research is normative research, using the approach of legislation and the thoughts of figures. Normative legal research is a process to find the rule of law, legal principles, and legal doctrines to answer the issues or problems that occur (Sukanto, 2007). Sources of data used in this study are secondary data, namely data obtained from legislation, scientific journals, and

legal literature. The data analysis technique used in this research is qualitative analysis with a library research approach.

**Figure Qualitative Research Flow Literature Study (Literature Review)**



The figure above explains the editorial in the scenario of the type of qualitative research literature study. This research is a qualitative type through literature study. Stages of research are carried out by collecting library sources, both primary and secondary (Marzuki, 2011). This study classified the data based on the research formula. In the advanced stage, data processing and or reference citations are carried out to be displayed as research findings, abstracted to obtain complete information, and interpreted to produce knowledge for concluding. As for the interpretation stage, analysis or approaches are used, for example, philosophical, theological, Sufistic, exegesis, Sarah, and others.

## RESULT AND DISCUSSION

### 1. Green Growth Strategy

National development strategies should be based on the strengths, barriers, and challenges of each country. Developed countries, emerging markets, and developing countries have different opportunities and challenges to green economic growth, depending on their respective political and economic situations (Al-Fadhat, F. 2022). A good green growth strategy will be able to provide environmental and economic benefits that will ultimately increase welfare. However, this strategy is not the only solution that can overcome the difficulties experienced by a country. If economic growth is not good enough due to policy or institutional problems, then green growth will not be able to increase the growth in question if the structural problems are not addressed first (Miankhel, AK, 2021).

In the short term, generally green policies will require a lot of financing such as high operational costs and investment costs. Whereas in the long term, green policies are designed to generate economic benefits and contribute to long-term sustainable growth. In the short term, there will usually be a trade-off between environmental protection and conservation efforts and economic growth (Kallis, G., 2020). Therefore, green growth policies need to be designed with specific objectives to mitigate trade-offs intended to maximize synergies and short-term economic benefits such as job creation, poverty alleviation, and increased efficiency.

The transition to a green paradigm requires fundamental changes in formulating economic, social, and environmental policies. The integration of these three dimensions in

policy formulation is a must. However, it is necessary to formulate a mutually beneficial policy solution (Treguer, D., 2012). Efforts for poverty alleviation, job creation, and providing access to quality health services, education, and all facilities that can be enjoyed by a modern society must be carried out in line with respect for natural resources and the environment to achieve sustainable development goals.

The transformation of green growth certainly requires large financing, technology transfer, and the support of adequate human resources. There may be a gap between the level of development and readiness for transformation. To close this gap, a breakthrough is needed in the development and application of technology as well as capacity building which is expected to be able to open up alternative jobs and skills for people who have relied on natural resources for their economic activities. In addition, the green growth concept should not dictate and lead to new technical barriers to trade and should not impose new requirements for access to donor country financing or assistance.

To implement green growth, the OECD proposes a strategy consisting of the following 5 processes:

- a. Meet the need to achieve green growth. The need for a green economy growth model is highly dependent on economic activities in a country. Potential economic sectors in the implementation of green growth are sectors that are objects in the green growth model.
- b. Removes barriers to achieving green growth. Achievement of economic growth will be more effective if obstacles such as the tax system that do not lead to environmental sustainability are removed, and incentives are given for development oriented to a sustainable economy.
- c. Political strategy in the application of green growth. The role of politics greatly determines the success of green growth, it is very necessary to support the sustainability of a growth model.
- d. Measurement of green growth indicators. This green growth indicator is used in monitoring and measuring the success of a growth model in a country. Therefore, the development of green growth indicators is indispensable in the strategy for implementing green growth.
- e. The application of the concept of green growth in a sustainable manner. After the previous stages have been carried out, what needs to be done is the implementation of targeted green growth in a sustainable time.

## **2. Green Growth and the G20**

The discussion of the issue of green growth at the G20 is one of the priority agendas of the Mexico Chair at the 2012 G20. This is intended as an effort to promote sustainable development both for infrastructure, energy efficiency, environmentally oriented development, and the fight against climate change. Agenda

Green growth in the G20 was first introduced at the Seoul Summit, in 2010. The inclusion of a green growth agenda is expected to be able, simultaneously, to accelerate growth and job creation as well as to meet various environmental and social challenges. The discussion of green growth is expected to be able to explore new sources of growth through innovation-oriented policies by utilizing new advanced technologies, especially in clean energy and innovation that utilizes communication and information technology (Shao, Q., 2019).

The use of technology and innovation is expected to be the main driver in the creation of new jobs and competencies. This aspiration was echoed again at the Cannes Summit, 2011

where the G20 leaders were committed to implementing policies to spur innovation and implementation of clean and efficient energy technologies. Based on these things, Mexico made green growth one of the priority agendas at the Los Cabos Summit, in 2012.

The discussion of green growth needs to be supported by a renewed political commitment to sustainable development and green growth. In this context, discussions on promoting sustainable development, green growth, and addressing climate change are discussed by the Energy and Growth Working Group on the Energy and Commodities Working Group on the Finance Track, and the Development Working Group on the Sherpa Track. The G20 Finance Ministers and Central Bank Governors, at their meeting, on 25-26 February 2012, in Mexico City, asked the OECD, the World Bank, and relevant agencies at the United Nations, to prepare a report presenting various options for G20 countries on efforts to include green growth and sustainable development policies into the structural reform agenda. The policy options prepared must be adapted to the conditions and level of development of each country. Furthermore, the Ministers and Governors also pledged to contribute to the preparation of the report and voluntarily inform each country's actions to integrate green growth and sustainable development into the structural reform agenda.

The social and political challenges of promoting green growth and sustainable development cannot be taken lightly. The shift towards a green economy will require a radical transformation of the current economic development model (OECD, 2011a). As is the case with all transformative processes, these changes are likely to alter the short-term and long-term comparative advantages of countries, industries, and societal groups. Green growth and sustainable development also require behavior change (Zhu, S., & Ye, A., 2018).

In the short term, some aspects of transformation may impose costs and trade-offs between alternative policy objectives. In addition, there will also be social and political opposition from the affected constituents, although the benefits and sustainability will be enjoyed in the long term. Therefore, the potential costs and risks associated with green structural reform need to be carefully considered both in terms of timing and design (Wichterich, C., (2015).

The transition to green growth will not directly help reduce poverty or improve welfare, especially for those whose lives are closely related to environmental resources. Consistent capacity-building support is needed so that green economic growth can be continued and even accelerated (Wei, G., 2020). To this end, any unintended impacts of such actions should be considered in policy design, such as the possible impacts resulting from the use of energy sources derived from agriculture, for example, biofuels for commodity markets.

## CONCLUSION

The Government of Indonesia needs to increase the quantity and quality of information on job opportunities and skills related to green growth. In addition, it is also necessary to improve the quality of the provision of skills in the education system. Setting up a high-quality education and training system will not only facilitate the ability of workers to accelerate adaptation to changes in the labor market but can also increase the capacity of businesses to adopt and produce new green technologies. Indonesia ranks as the third country with the most potential to create jobs in the green economy, after the United States and Brazil. If Indonesia invests 2 percent of state revenue for a green economy, then in the next five years, Indonesia

can create 4.4-6, 3 million new jobs. It was further stated that the investment of 2 percent in question does not have to be financed by the government budget, but can be carried out by the private sector. The jobs that are categorized as green jobs include, among others: waste treatment, waste recycling, organic farming, solar panel manufacturing, and various other jobs that are environmentally oriented.

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Conference Paper

## Zakat Payment Behavior Based on Marital Status Mobility: Statistical and Economic Approach

Tegar Rismanuar Nuryitmawan <sup>1\*</sup>, Burhanudin Burhanudin <sup>2</sup>

Department Management, Universitas Hayam Wuruk Perbanas, Surabaya, 60118, Indonesia  
Waqf Center for Indonesian Development & Studies

\*Corresponding author:

E-mail:  
[rismanuar.economics@gmail.com](mailto:rismanuar.economics@gmail.com)

### ABSTRACT

This study aims to answer whether there is an impact on the willingness to pay zakat from changes in one's social status. Social status in this study is the mobility of marital status, either from single to married, or from married and then divorced. Several supporting variables are included as per capita consumption, level of religiosity, preference for halal products, loan or credit status, and controlled by the religious variable by the Muslim group. However, to prove this opinion as well as to answer the question, this study utilizes panel data from IFLS 4 and IFLS 5. By using the Double Difference method, this study will address the description of changes and to find a margin of difference between groups that were previously single and then married and from married to divorced. Meanwhile, the estimation results of this study have implications for the policies and strategies of amil zakat institutions to adjust the behavior of zakat consumers based on changes in their social status. Therefore, the evaluations on changes and mobility of a person's social status will make strategic management and marketing patterns more specific. In addition, understanding the pattern of social mobility is part of the process of making zakat products more dynamic.

**Keywords:** Social Mobility, Zakat Behavior, Double Difference

### Introduction

Maulana (2020) argues that there are still many muzakki who do not issue their zakat. This relates to one of the factors that influence an individual's decision to pay zakat, namely income conditions. Income is often associated with a person's ability and intention to pay zakat (Arsyianti & Kassim, 2016; I. Beik & Alhasanah, 2012; Mastromatteo & Russo, 2017). When income increases, the possibility of someone to pay zakat will increase and vice versa. Therefore, a person's financial condition is also the cut-off of a person who is said to be obligated to pay zakat or to receive zakat.

In development economics, income is often used as an indicator of standard of living A. Sharma, 2015). Changes in the standard of living can be interpreted as a change in income for certain individuals. Though changes in income are very possible, because many factors cause changes in individual income. Changes can occur due to economic factors and social factors.

In this study, changes in income will be tested due to social mobility originating from marriage and divorce which ultimately affects the intention to pay tithe. Putrisari (2019) revealed that economic welfare can be reflected in income, employment status, and changes in marital status. In relation to marital status, there is quite a phenomenon in Indonesia called marital dissolution or divorce. Based on data obtained from the Central Statistics Agency and the Director General of the Religious Courts of the Supreme Court in the 2016-2021 period, the average divorce rate rose 3 percent per year. This increase in divorce rates will theoretically reduce income for individuals. The following are some studies that show that there is a decrease



in the income of a divorced person bercerai (Gadalla, 2008; Leopold, 2018; A. Sharma, 2015) especially in women (Corcoran, 1979; Hoffman & Duncan, 1988; Holden & Smock, 1991).

Research on the impact of divorce on welfare levels conducted in various countries uses panel data and longitudinal panels which are estimated using fixed effect regression and panel regression panel (Leopold, 2018; S. S. Sharma, 2011; Zagorsky, 2005). Meanwhile, the impact of divorce on income levels in this study will be analyzed using another approach from previous studies, namely impact evaluation. There are two tools that are often used in research to see the impact of a program/policy, namely the Propensity Score Matching (PSM) and Difference-in-Difference (DID) methods. PSM is used to determine areas of common support and affected observations (treated) and control observations (control) by pairing individuals who are divorced and individuals who are not divorced based on the similarity of the propensity score which is the probability of the individual being divorced. The probability is based on the individual characteristics such as years of schooling, age, gender, and location of residence. Furthermore, the results from PSM, namely individuals who enter the common support area will be used as a sample in estimating the impact of divorce on income levels using DID.

Through various studies and theories that have been mentioned, it shows that divorce can have an impact on decreasing income. Therefore, research related to the impact of divorce on income levels and zakah intentions needs to be done to find out whether the theory and research are valid. To support the main hypothesis, namely that social mobility has an impact on the intention to pay zakat, this study adds a variable of religiosity. Obedience in carrying out religious orders is also often a factor that affects individuals in paying zakah (I. S. Beik & Arsyianti, 2016; Mohamad & Huda, 2010; Nola et al., 2019). Religiosity can also be an antithesis of the effect of income on tithe intentions.

The variables of education and personal debt are also used in this study as one of the control variables. Education can influence a person's decision to pay zakat (I. Beik & Alhasanah, 2012; Choi & Chou, 2010; Mastromatteo & Russo, 2017). Individuals with higher education have a slope coefficient twice as large as individuals with lower education (Mastromatteo & Russo, 2017). The higher a person's education, the sense of sensitivity to the difficulties of others grows (altruism), so he will pay zakat on the basis of wanting to lighten the burden of the mustahik he gives. Meanwhile, debt has a relationship with the intention to pay tithe. The greater the debt owned or borne by a person, the lower the possibility of tithing (Arsyianti et al., 2018; I. S. Beik & Arsyianti, 2016; Mohammed, 2011). This is because debt will reduce a person's earning capacity. Debt will reduce a person's intention to give zakat, because they tend to think first for dependents or obligations compared to giving others.

This study aims to combine the phenomenon of development with the existing potential of zakat. In the study of economic development, especially in the study of households, the level of welfare is the main goal of development. If the household as one of the smallest economic units can achieve prosperity, then in aggregate it can be used as a reflection of broad economic development. This study was compiled using the probit model used by Maulana (2020) and utilizing the economic model of the impact evaluation of divorce conducted by Putrisari (2019). The Probit model will produce a binary cut off of the probability of the intention to tithe. Meanwhile, the impact evaluation carried out was evaluating the impact of social mobility due to divorce on individual income.

The difference between this study and the two previously mentioned studies is that the control variables used are debt ownership, education, and religiosity. Maulana (2020) uses three categories of education, namely not attending school, graduating from primary education, and higher education. While in this study, ordinal data is used which divides education by level based on the length of travel time of education starting from the zero year of schooling. Meanwhile, debt ownership in this study uses the total debt from both formal and non-formal financial institutions. And finally religiosity is measured based on a study by Ranganathan & Henley (2008) using self-perceived religiosity, namely a person's assessment of his own faith. As a final note, this study uses secondary micro data from trusted survey institutions with individual and household data classification units.

## Material and Methods

### *Methods PSM & DID as integral of Impact Evaluation*

Differences in Differences estimation in this study was carried out by using panel data. It requires data availability in the baseline period which in this study is the IFLS 4 data. Estimation is done by measuring the outcomes and covariates for groups of individual pay for zakat and households who are not pay for zakat before. The fixed effects panel regression model is used to maintain the time-invariant heterogeneity that cannot be observed and the heterogeneity of observable characteristics over many periods. Khandker and Houghton (2009) explained DD estimation with the fixed efficiency panel regression model in an equation as follows:

$$Y_{it} = \phi Y_{it} + \delta X_{it} + \eta_{it} + \varepsilon_{it} \quad (1a)$$

$$(Y_{it} - Y_{it-1}) = \phi(Y_{it} - Y_{it-1}) + \delta(X_{it} - X_{it-1}) + (\eta_i - \eta_i) + (\varepsilon_{it} - \varepsilon_{it}) \quad (1b)$$

$$\Delta Y_{it} = \phi \Delta T_{it} + \delta \Delta X_{it} + \Delta \varepsilon_{it} \quad (1c)$$

The equation above explains that the  $Y_{it}$  outcome can be estimated in  $T_{it}$  treatment with  $X_{it}$  covariates and time-invariant heterogeneity that cannot be observed by  $\eta_i$  which is well-correlated with treatment or other characteristics that cannot be observed by  $\varepsilon_{it}$ . Decreasing equation 1a is done considering the change in time and generate equation 1b. Keep in mind that heterogeneity of  $\eta_i$  is time-invariant, so the variable is excluded from the equation. The treatment impact is  $\phi$  with ordinary least square (OLS).

## The Data

The data used in this study were obtained from the Indonesian Family Life Survey (IFLS) 4 and 5 waves. The IFLS data is a longitudinal survey data or micro survey data that includes individual, household, and community data in Indonesia. IFLS data is collected and compiled by the RAND Corporation based on a household survey conducted in 13 out of 27 provinces in Indonesia. The 13 provinces are DKI Jakarta, West Java, East Java, South Kalimantan, South Sulawesi, South Sumatra, West Nusa Tenggara, Central Java, D.I Yogyakarta, Bali, North Sumatra, West Sumatra, and Lampung. The survey results generated a sample representing approximately 83% of the Indonesian population and contained more than 30,000 people living in 13 of the 27 provinces.

This research uses two quantitative approaches, so a comprehensive operational explanation of variables is needed. The Double Differences methods require the use of two

types of variables. The variables have been selected based on relevant theories and previous research therefore it is sufficient to present the research needs to find out the effect of access to credit on poverty status change at the household level in Indonesia. The two types of variables are the dependent variable and the independent variable. In the model, the dependent variable is the intention to pay zakah dummy meanwhile the independent variable consists of 3 control variables, namely the consumption expenditure as proxy for income, religiosity, and individuals education level.

## Results and Discussion

### Statistical Review

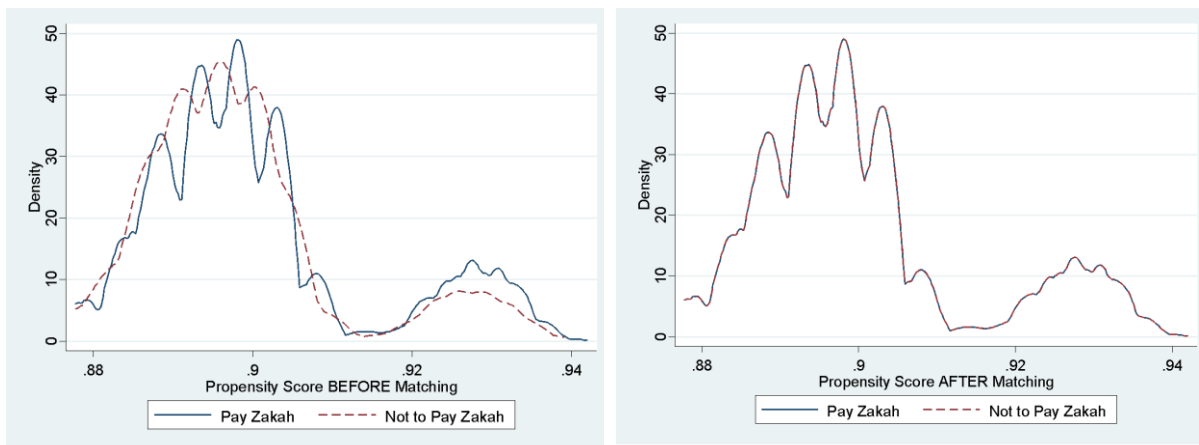
Figure (1) shows a good balancing test result because visually there are many overlapping areas between groups of individuals who pay zakat and those who do not pay zakat (Caliendo & Kopeinig, 2008; Khandker et al., 2010; Khandker & Haughton, 2009). Table (2) shows the control variables that explain the general factors of the individual's intention. Of all control variables showed significant values in statistics.

**Table 1. This table shows the inferior bound, the number of treated and the number of controls for each block**

| Inferior of Block of Propensity Score | Dummy for Intention to Pay Zakah |                      | Total Population |
|---------------------------------------|----------------------------------|----------------------|------------------|
|                                       | Didn't Willing to Pay Zakah      | Willing to Pay Zakah |                  |
| 0.8                                   | 704                              | 5.818                | 6.522            |
| 0.9                                   | 247                              | 2.349                | 2.569            |
| 0.925                                 | 82                               | 1.156                | 1.238            |

**Tabel 2. Propensity Score Regression for Intention to Pay Zakah**

| Variables              | Income              | Education  | Personal Debt        | Constanta        |
|------------------------|---------------------|--|----------------------|------------------|
| Intention to Pay Zakah | 0.0576*<br>(0.0453) | 0.0169**<br>(0.026)  | -0.397***<br>(0.000) | 1.914<br>(0.019) |
| Matching Observation   | 10.356              | Standard errors in parentheses<br>*** p<0.01, ** p<0.05, * p<0.1 |                      |                  |



**Figure 1. Matching Area of Both Zakah Intention Criteria**

Table 2 above presents the results of the propensity score based on the value of the match between the characteristics of individuals who pay zakat and those who do not pay zakat. Based on the characteristics and behavior that are equated, it is known that income has a significant effect on the intention to pay zakat. The statement is based on the significance value of  $P > |Z|$  which is worth 0.045, which is smaller than alpha ( $\alpha = 5\%/0.05$ ). In addition to income, two other variables, namely education and personal debt, significantly affect individual behavior in paying zakat. People who have debt tend to reduce their intention to pay zakat. This can be seen from the value of the coefficient of change which is negative, which means that when the debt owed is getting bigger or bigger, it will reduce a person's intention to pay zakat.

This study wants to examine whether social mobility due to marriage and divorce can affect the intention to pay zakat among Muslims in Indonesia. Based on statistical and econometric estimates using the double differences model, the results can be seen from Table 3. In the table below it is known that there is a gap in the t-score value of -0.064 which means that between married and unmarried individuals there is a difference in the intention to pay zakat by 6.4 percent. The t-score can be interpreted as an increase in the desire to pay zakat which is much greater in groups of individuals who were single and then married (social mobility) than groups of individuals who are not married or are single (Khandker et al., 2010). The shift in social status has an impact on an increase in intention to pay zakat by 6.4 percent.

**Table 3. Getting married can increase the intention to pay Zakah**

| Group                            | Observation | Mean                   | Std. error   | Std. Dev           |
|----------------------------------|-------------|------------------------|--------------|--------------------|
| Not to Pay                       | 6.200       | 0.916                  | 0.035        | 0.276              |
| Pay Zakah                        | 6.284       | 0.918                  | 0.001        | 0.134              |
| Differences Both the Group       |             | <b>-0.064</b>          | <b>0.003</b> |                    |
| Degree of Freedom:               | 12482       |                        |              |                    |
| Ho: mean(0) - mean(1) = diff = 0 |             |                        |              |                    |
| Ha: diff < 0                     |             | Ha: diff != 0          |              | Ha: diff > 0       |
| Pr(T < t) = 0.0000               |             | Pr( T  >  t ) = 0.0000 |              | Pr(T > t) = 1.0000 |

**Table 4. Divorce can Lower Intention to Pay Zakah**

| Group                              | Observation                             | Mean                               | Std. error  | Std. Dev |
|------------------------------------|---|------------------------------------|-------------|----------|
| Not to Pay                         | 6.284                                   | 0.981                              | 0.001       | 0.134    |
| Pay Zakah                          | 1.373                                   | 0.909                              | 0.000       | 0.286    |
| Differences Both the Group         |   | <b>0.071</b>                       | <b>0.05</b> |          |
| Degree of Freedom:                 | 7655                                    |                                    |             |          |
| Ho: mean(0) - mean(1) = diff = 0   |   |                                    |             |          |
| Ha: diff < 0<br>Pr(T < t) = 1.0000 | Ha: diff != 0<br>Pr( T  >  t ) = 0.0000 | Ha: diff > 0<br>Pr(T > t) = 1.0000 |             |          |

Meanwhile, Table 4 above shows the characteristics of the two groups who are not divorced (still married) and divorced. Groups of individuals who carry out social mobility, namely divorce, have a smaller intention to pay zakat or experience a decrease of 7.1 percent. The T-score obtained shows that if a person is divorced, the probability of tithing decreases. So that based on the t-score estimation in the double differences model, information is obtained, namely when there is a change in social status in social mobility, it will have an impact on increasing and decreasing individual intention to pay zakat among several groups of individuals who are single, then married, and vice versa.

**Table 4. Double Differences Regression Simple and Full Model of Intention to Pay Zakah for Both Social mobility**

| VARIABLES            | Simple DID          |                      | Full Model DID        |                       |
|----------------------|---------------------|----------------------|-----------------------|-----------------------|
|                      | Menikah             | Bercerai             | Menikah               | Bercerai              |
| Year                 | 0.420**<br>(0.182)  | 2.475***<br>(0.286)  | 0.268<br>(0.189)      | 1.589***<br>(0.236)   |
| Interaction          | 1.264***<br>(0.210) | -1.528***<br>(0.233) | 1.148***<br>(0.218)   | -1.019***<br>(0.207)  |
| Income               | -0.255*<br>(0.144)  |                      | -0.164<br>(0.148)     |                       |
| Education            |                     |                      | 0.0378***<br>(0.0113) | 0.0871***<br>(0.0195) |
| Personal Debt        |                     |                      | 0.414***<br>(0.138)   | 0.956***<br>(0.268)   |
| Constant             | 3.402***<br>(0.341) | 2.794***<br>(0.377)  | 2.577***<br>(0.362)   | 1.377***<br>(0.297)   |
| Observations         | 12,482              | 7,657                | 12,293                | 7,471                 |
| Number of Individual | 8,407               | 7,324                | 8,320                 | 7,153                 |

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Estimation of Difference in Difference (DD) is done as a step to get the counterfactual value on outcomes. Two groups of individuals who have similar characteristics, namely individuals who make changes in social status in the form of marriage or divorce will be compared their respective outcomes in the period before marriage and after marriage or before divorce and after divorce. Control variables were also included in the DD test to obtain the net effect of changes in social status on the intention to pay zakah (outcomes). The use of random effects is carried out to control for individual characteristics that cannot be observed and time variants that can affect the value of outcomes (Khandker et al., 2010).

Double Differences (DD) Test with Propensity Score Matching (PSM) will be applied to 10,356 individuals who have similar propensity scores. This amount was obtained from PSM estimates by setting aside 11,528 households. The results of the estimation of DD by going through the PSM estimation first in table (4) show that the majority of the dependent variables are affected by changes in social status either because of marriage or because of divorce. In the intention to pay zakat model, the main variable has a negative impact on the divorced group and a positive impact on the married group. The impact is indicated by a negative probability margin in the “interaction” row in table (4) or  $\text{Tit} \times t$  in the research model. This means that there is a change in the probability of people paying their zakat because it is close to one for every increase in the probability of a change in social status in each individual group (Figure 2 and Figure 3).

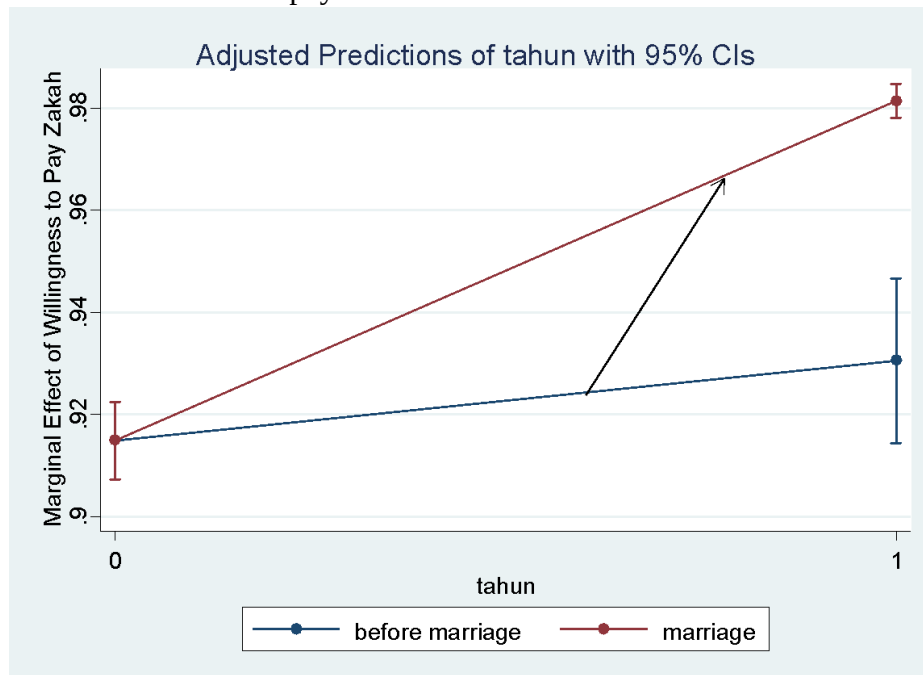
Based on the results of the PSM and DD analysis, it was also found that the variables of education and personal debt were proven to have a significant effect on the intention to pay zakat in all groups of individuals who experienced social mobility (married and divorced). Especially for income, it only has a significant effect on groups of individuals who are married. In the group of individuals who are divorced, there is no effect on the intention to pay zakat. This means that groups of individuals who were previously single and then married will decrease their intention to pay zakat when viewed from the amount of income obtained. This condition in general, has not been studied based on the separation of gender groups (male and female).

Meanwhile, other control variables, namely education and personal debt, have two effects on the intention to pay zakat. Education has been shown to have a positive effect on intention to pay in all groups of individuals. No matter certain individuals experience social mobility, the higher a person's education, the greater the intention to pay zakat. These results are similar to findings from Choi & Chou (2010), Beik & Alhasanah (2016), Mastromatteo & Russo (2017) which say that increasing a person's education will open horizons of knowledge and understanding of zakat so that they will be obedient and willing to pay their zakat. This is because most people who are getting better educated understand that zakat is not only religious guidance, but furthermore there are economic and social impacts arising from the nominal money they give zakat.

Debt has a negative relationship to the intention to pay zakat. Someone who has debt tends to decrease his intention to pay tithe. According to Arsyianti & Kassim (2015), Arsyianti et al (2016) and Mohammed (2011) someone who has debt will have much larger dependents than those who do not have debt. Because they have debt, someone will prioritize allocating their income to pay debts first rather than giving their zakat to others.

## Conclusion

Statistical and Economic Analysis conducted in the form of a simple and full double difference model proved to be able to support the purpose of this study, that changes in social status (social mobility) in the form of changes in marital status affect the intention to pay zakat on individuals who are Muslim. This means that individuals who make changes in social status will have the opportunity to change their wishes to pay zakat. In the group of individuals who were previously single, then married, the intention to pay zakat will increase as we can see in Figure 2 where it can be seen that the blue line has shifted to a red line, which means that there is an increase in the intention to pay zakat in married individuals.



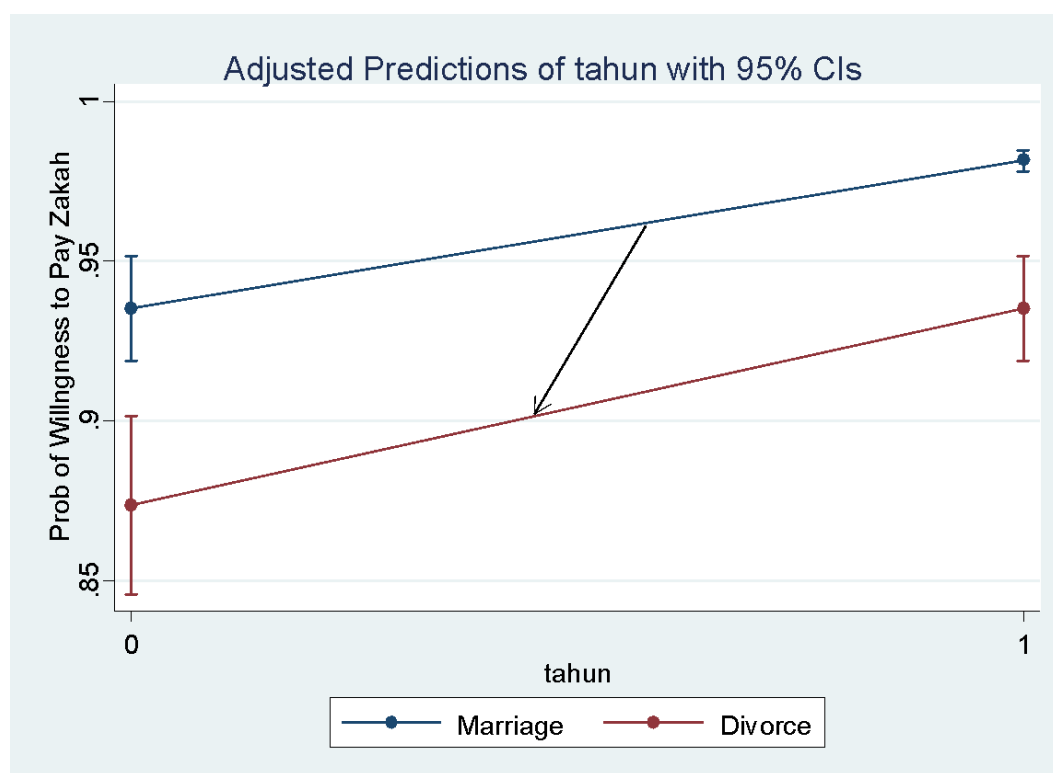
Slanly (2003) supports this finding, that someone who intends to have a family is actually building family social capital - family ties capital - which is better known as a special type of social capital. Families can develop the capacity to cooperate in altruistic actions, strengthen trust and contribute to increasing the intensity of social networks which in turn increase social capital. the following is a quote from Slanly (2003):

*“The family is the most powerful social capital; its formation is and should be the most important type of investment in social capital.”*

Meanwhile, Kocik (2006) argues also if the family or the decision to have a family closely with the meaning of the family motivates economic, social and cultural activities. Furthermore, in the family, there is strengthening between one member and another. One of these strengthening is on the economic side. If before getting married the source of income only came from one individual, then after marriage it is possible to have joint income between husband and wife. So that resistance to household economic shocks is more manageable.

Then the second finding that can be concluded is that divorce, where there is a change in social status, which was initially married and then separated or divorced, has negative implications for the intention to pay zakat. Figure 4 shows that there is a shift in the curve from

the marriage curve (blue curve) to lower towards the bottom (red curve). This means that divorce has an impact on the decrease in intention to pay zakat in the sample of this study.



There are various studies and studies that state that divorce can have various impacts, both psychologically and economically. Psychologically the impact of divorce in the form of emotional pressure for divorced individuals raises anxiety, especially if the divorced individual has children, it can lead to a tendency for children to divorce in the future (Zedadra et al., 2019).

Meanwhile, the economic consequences caused by divorce are indicated by changes in the standard of living or changes in the welfare of the individual. Economic consequences are shown in the form of changes in standard of living, changes in assets, and income for both men (Gadalla, 2008; Leopold & Kalmijn, 2016; A. Sharma, 2015) and divorced women (Leopold & Kalmijn, 2016; A. Sharma, 2015). Leopold (2016) states that the change in living standards in question is the risk of a tendency to become poor in the year at the time of divorce. Divorce is even discussed in a broader and macro scope. According to Baranowski & Sztudynger (2019) even in Europe, divorce has an impact on changes in GDP broadly, so ways and programs are sought so that individuals and families do not experience divorce. This is what later supports the answer that statistically divorce affects the intention to pay zakat and reduces individual welfare.

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## ***Dropship System on Marketplaces According to The Fatwa of The National Sharia Council (DSN)*** **(Case Study on Slave Second's Instagram Online Store)**

Abdur Rozak<sup>1</sup>, Mochamad Novi Rifa'i<sup>2\*</sup>, Muslikhati<sup>3</sup>

Islamic Economic, Faculty of Islamic Studies, University of Muhammadiyah Malang

\*Corresponding author:

E-mail:  
novirifai@umm.ac.id

### **ABSTRACT**

The existence of technological advances that continues to develop is used as an opportunity by many people to innovate, one of which is as a means of buying and selling online. In Indonesia, the online buying and selling business is growing every year, especially during the current pandemic. There are so many types or systems of buying and selling online that can be done to increase income, one of which is buying and selling online with the *dropship* system implemented by the Second Slave online shop. In practice, the Second Slave online store is only a liaison between buyers and suppliers. So that to run their business the Second Slave does not require capital. The focus in this study is how to implement *dropship* according to the fatwa of the National Sharia Council (DSN) in the online store Instagram Budak Second. In this study used a qualitative research approach. The data in this study consisted of two types, namely primary data and secondary data. Based on the results of the study, it is known that the buying and selling transactions that take place at the online shop of Budak Second do not deviate from the provisions of the terms of sale and purchase according to the DSN fatwa ranging from provisions regarding goods to provisions regarding goods. The form of the transaction in question is such as the goods being sold, the specifications can be explained, the payment is made after the contract has been agreed and is not in the form of debt relief, the time and place of delivery of the goods is determined according to the agreement of both parties, the payment is by cash or electronically, and the transactions carried out do not contain *gharar* element

**Keywords:** Buying And Seeling, Dropshipping, DSN Fatwa

## **Introduction**

Man as a sausage creature could not have lived without the intervention of his fellow human beings. Allah Almighty has determined that human nature lives with the dependence of other humans, the basic thing to meet human needs can be done by exchanging goods and transkasi buying and selling. Buying and selling according to Islam is an exchange transaction that has an impact on the unauthorized transfer of ownership of *taqabbudh* if it is not done with the right contract, it can be done orally, speech or deed. (Ani Nuraeni 2020) Social conditions changed completely when the pandemic came, all human activities were based online. (Fauziyyah 2019), covid-19 has made online businesses, one of which is dropshipping, the right choice, because people can choose goods and prices from afar. (Rahmadi Indah Tektona 2021), (Idris 2021). Although *dropshipping* is a contemporary thing in buying and selling, this model in principle still should not violate the rules in Islam, (Khulwah 2019), (Fadhillah and Alamin 2021), one of which must avoid *gharar*, usury and practices that can harm both parties. (Nor Azah Jahari 2016), (Khairani and Arfan 2017).

Habib stated that buying and selling the dropship model allows using *samsarah*, *salam*, *akad wakalah bil ujah* and *murabahah*. (Masyhudi 2020). Irwan revealed that the dropshipping system is allowed, as long as there are no prohibited items (Cahyadi 2018). Different from erwandi who revealed that, *dropshipping* based on the arguments that *ma'ruf* is haram. For dropshipping usury goods, it is forbidden because of the *usury rice'ah*. Meanwhile, non-usury goods are forbidden because they violate the hadith of the prophet as narrated by Hakim

bin Hizam radhiyallahu 'anhu about the prohibition of selling goods that are not yet owned, and the haram is selling goods that have not been received. (Tarmizi, Muhammad, and Hamzah 2021).

In selling with a *dropshipping* system, there is a uniqueness where sellers can receive profits without having to own the goods first. (Fauzia 2015), (Parmujianto 2019), (Ani Nuraeni 2020) This is because the seller does not have to have goods to sell, the seller simply brings the buyer to his stall until the buyer transfers money with the amount that has been set by the seller. (Qurbani et al. 2020). On the other hand, this online buying and selling model has also eliminated the distance between sellers and buyers, buyers freely choose the price and condition of the goods according to their wishes. (Haryanto and Dewi 2020), (Masyhudi 2020). That's where the seller's advantage with the *dropship* system is that later the seller will buy his merchandise to the supplier or distributor, starting from the delivery of *packing* and the safety of the goods is already in the responsibility of the supplier or distributor who directly sends our merchandise objects to *customers* on behalf of the seller's shop, the *dropship* system actor (Idris M, 2021). The packing carried out must be guaranteed so that the goods are not damaged. To be able to complain if related to the condition of the goods received is damaged, then usually in *unboxing* a video recording is carried out as evidence. (Ria Arifianti, Sam un Jaja Raharja 2019). Guarantee of obtaining the appropriate goods is evidence of protection of consumer rights that have been regulated in the law. (Suyudi 2021), (Uzlah Wahidah Maulidiyah 2020), (Bima Prabowo, Ery Agus Priyono 2016). (Laxmiwati and Charisma 2021), (Irwan Maulana, Fachrul Marasabessy 2021).

The *drop-cleaning* system is very easy to do, only with hp spreading promotions or advertisements through mountains. After that, it remains only to wait for online confirmation. This kind of model does not need tiring care and makes the worker depressed. (Mukhlis 2022). (Hidayat 2021). The speed of this dropshipping model makes it the right model to capture even more consumers. Although potential buyers do not buy at least the products offered have been known by people who may recommend or buy them at a later time.

Buying and selling ping *dropship* system is the most prosperous target for online merchants, this business model is a model that novice online merchants are interested in with minimal capital or even no need for capital, because online direct sales never do inventory and provide a special location for product inventory, but only through online stores by posting photos or pictures of product specifications, standards, quality and prices for promotion and supply. The goods are obtained through cooperation with other companies that own the actual goods, this company is called a *press dropship* (Sulianta, Feri, 2014). (Ani Nuraeni 2020). (Cahyo 2018)

Budak Second is one of the online store businesses that uses the Instagram marketplace which was established in 2019. The implementation of *the dropshipping* system in this store can be said to be a success with a comparison in 1 month of being able to sell dozens of used clothes with uniqueness, The goods sold are branded clothes which according to the store owner the price of the clothes can increase in price, of course, with the existing system and marketing management in the Budak Second Instagram online store. The growing *dropship* system in this store requires legal rules that will determine whether or not the *dropshipping* system process on the Budak Second Instagram online store is allowed and what system makes this store grow every transaction.

The fundamental difference of the *dropshipping* mechanism carried out in many online stores in the marketplace is that the goods sold are goods that have high *value* so that with the condition of *the second hand* can be sold at a higher price than the initial purchase of the item. It is also supported by a free initial contract without charge from the supplier. So that this store can make its own prices without depending on the *supplier*. The concept of utilizing social media stores is able to cluster tens of millions per month by selling used clothes. This store has entered the global market where transactions already use dollar currency and are

quite well known in the global market, using the Digreal application in the global market can bring in buyers not only from Indonesia but also in various parts of the world.

Based on the above, it is tempting for the author to analyze the system implemented by this store and also the law of the existence of a *dropshipping* system according to the perspective of the National Sharia Council. Therefore, the author chose to analyze and raise the title "*Dropship System on Marketplace According to fatwa of the National Sharia Council (DSN), Case Study on Budak Second Instagram Online Store*"

## Materials and Methods

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Abdullah Arif Mukhlas 2022, conducted a study entitled *Criticism Of The Dropship Technique (Islamic Economic Perspective)*. This research is a qualitative research with a philosophical approach. The findings of this study reveal that in addition to the positive side, online model buying and selling also has negative sides that need to be anticipated so that buying and selling actors are not trapped in activities that are *gharar* and usury.

Freddy Hidayat 2021, in his research entitled *Dropship Reviewed From The Sale and Purchase Agreement And Law Number 8 Of 1999 Concerning Consumer Protection* revealed that the *dropshipping* model is not in accordance with Shari'a because the goods are not owned so that consumer rights cannot be fulfilled.

Meanwhile, Eko Nur Cahyo and Rofiq Hanif Nashuha 2018 in their research entitled *Dropship Selling Mechanism on The View of Islamic Economics Law*, in contrast to Freddy Hidayat 2021, actually revealed the ability of *dropshipping* transactions because of clarity in front of all parties. This research is a qualitative research with a literature approach.

Qualitative research with a legal approach, legislation and case study by Rachmadi and Rizqullah 2021 entitled *Legal Implications of the Covid-19 Pandemic on Akad Bai'as-Salam (Pre Order) Transactions in Dropship Transactions*, reveals that online buying and selling activities are allowed with a note that clarity must be conveyed in terms of payment, condition of goods and procedures for returning damaged goods so as not to harm the seller or buyer.

Juhrotul Khulwah 2019, in his literature research entitled *Buying and Selling Dropship in the Perspective of Islamic Law*, revealed that buying and selling dropshipping is legally *mubah* because it has obtained permission from the owner to sell the goods owned, and has included the clarity of transactions and goods.

Qualitative research is an analysis model based on the philosophy of post-positivism which is used to analyze the condition of objects, where the researcher is the main tool, data collection is carried out with a directed object model, the collected data is checked triangulation of existing data collection techniques and data sources), data analysis is inductive / qualitative, and the results of qualitative research emphasize more on the meaning of specific depth (Sugiyono, 2019). While the case study approach according to Susilo Rahardjo & Gunanto (2010) is an approach to understanding an individual or something, by means of interconnectedness and a thorough discussion in order to get insight into the individual or something and the problems it faces.

The source of data in a study is the subject by which the study is obtained. This research is with two sources, namely primary and secondary (Kasiram, 2008). Primary data is interpreted as the main data or original data from the first source in this study the first data from the store owner which we can call the source. This data was obtained from the source of the slave second shop owner and several buyers and winners *give away* from this store (Sarwono.J, 2012) Secondary data is data obtained from sources that complement the primary data or second data that concerns information about this information data. This data functions to strengthen the theory of primary data or the first data in which is the previous research and documents, as well as journals and other data that are still related to the title of the

research. (Arikunto.s, 1998).

In data collection carried out: First Observation, This method is carried out data collection by observing and recording in detail about events that are used as research case studies. This method is used to obtain data regarding online buying and selling using the *dropship* system that applies in the Slave Second store by going directly to the location and seeing directly.

Second, we also call ordinary interviews which collect data with the aim of getting information directly from the owner of this online store, by talking with the store owner, we will get various information that is needed in a study, especially the Slave Second store that researchers will do research.

Third Documentation, Documentation is a collection of various data that contains information related to a research object with their respective fields and various activities from the store that support the progress of the store. examples of forms of documentation include: books, magazines, newspapers, catalogs, photographs and other sources. Researchers use data analysis techniques, namely, according to Bodgan & Biklen (2017), data analysis is a systematic process of searching and sorting from interview information and other written information that can support the discussion. According to the theory of Miles, Huberman and Saldana, each of the stages of data analysis is described in detail, namely: Data Reduction, Data Collection, Data Presentation, Conclusion Drawing and Verification.

## Results and Discussion

Budak Second is one of the online store businesses that uses the Instagram marketplace which was established in 2019 by Era Forma. The owner of this shop explained that before the existence of Slave Second, the owner first sold in Kaskus in 2013 and then sold it in Facebook groups in early 2015, which then only entered Instagram. through the products presented for sale in this online store, namely various types of *second-branded* clothing that are priced at low prices in the market and quality whose selling price can be more expensive than the purchase price, because the demand is more than the production so that it is sought after by the market from these goods.

Budak Second is an online store that uses a *dropshipping* system so they don't stock goods and don't need capital to sell. The implementation of the *dropshipping* system in this store can be said to be a success with a comparison in 1 month of being able to sell dozens of used clothes, of course, this marketing has its own market where people who shop for used goods or commonly called *Thrifting*. in this store what is sold is *branded* clothes which according to the store owner the price of the clothes can increase in price. *Branded* here is not in general but more of *vintage* clothes owned by well-known designers of course and more towards *underground design*. With the existing marketing system and management within the Slave Second Instagram online store. Such as the existence of various facilities in the purchase system in this store, namely:

- A. Description of the goods that are in the storefront, starting from the size and feasibility of their use.
- B. Free to ask the seller about the items in the storefront
- C. Once a week, a clothing auction is held by the shop owner whose day and time are determined by the Slave Second
- D. The *existence of a give away* from Slave Second, this is done if in one month it can sell out clothes that have the potential to sell high.

The growing *dropship* system in this store, legal rules are needed that will determine whether or not the *dropshipping* system process on the Budak Second Instagram online store is allowed and what systems make this store grow every transaction. Islam is often known as *the way of life*, where Islam, which is believed to be a perfect religion, has a comprehensive

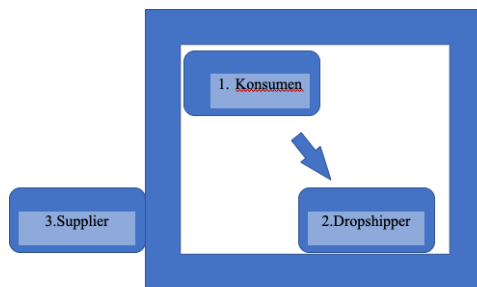
life guide on the procedures of life in the world, from humans waking up to going to bed. one example is in terms of buying and selling (Arijulmanan, 2018).

As Fachri Fachrudin has said, the word buy and sell comes from *the word al-buyu'* which means to megambil and give something. So that the etymological definition of buying and selling is the activity or activity of exchanging an object whose value is balanced with the property owned. The activity or process of exchanging exchange is controlled by *ijab qabul* according to conditions and means that are not prohibited (Fachruddin.F, 2015). One of the marketing media that can be done, one of which is through Instagram. In *dropshipping* transactions at the Budak Second online store, there are several buying and selling contracts that are studied according to the buying and selling contract from the point of view of Islamic law, including:

a. *Greeting*

Greetings are existing goods ordering transactions where the payment process is carried out according to the agreement in advance or behind after the handover of goods. When viewed from the transaction process and practice, buying and selling *dropshipping* is similar to buying and selling by ordering (*indenting*) where the contract uses a greeting contract.

Table 1. hubungan konsumen dan dropshipper



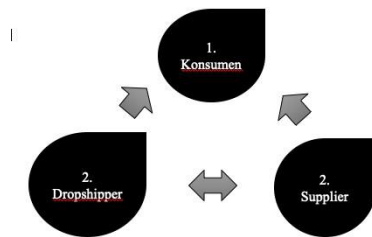
In its implementation, the greeting contract is still related to the *Dropship* method, but it is held back when entering the supplier, because it uses a third party, this contract applies between the consumer and *the dropshipper*, because the *supplier* does not have a contract directly to the consumer, the one who is here is the consumer and *dropshipper*.

It can be seen that there is a box itself that does not reach the *supplier*, so we cannot freely determine the price of the goods we sell. Because the contract used only applies to consumers and *dropshippingper*. This contract also requires stock of goods and is different from the *dropshipping* mechanism that does not stock goods.

b. *Wakalah*

*Wakalah* means the handover or delegation of work that can be represented by others to be maintained and managed. (Fauzia 2015) As for the definition of *wakalah* itself, it is a business activity in which a person appoints another person to represent his work that can be represented with a certain contract or commonly known as the delegation of power (The *supplier* is the owner of the main job and *dropshipper* as a representative of the *supplier* as a *muwakkil* as well as the owner of the goods who also participate in selling their products. So when viewed from the details, the *wakalah* contract and the dropshipping buying and selling system are almost similar.

Scheme 2 alur barang



In this scheme, we can see that everything goes according to the mechanism that applies to the *dropship* system, but the *wakalah* contract is to represent buyers to sell merchandise from the *supplier* or manufacturer. Represented here cannot take advantage of the goods sold because of the *wakalah* contract. So we can't increase the price for our own benefit unless there is permission.

- c. *Samsarah* is a liaison for buying and selling transactions between people who sell goods (*dropshipper*) and find buyers to facilitate buying and selling with the existence of a mutual agreement (Hasan A.M, 2004). Slave Second as a *dropshipper* only becomes an intermediary between the supplier and the buyer and the *dropshipping* party per gets wages or profits when there are goods sold according to the agreement. In this case, the Slave Second party as a *dropshipper* only becomes an intermediary in buying and selling transactions so that it is similar to the *samsarah* contract system.

In the explanation of some of the contracts above, the mechanism of the *dropshipping* system is more focused on contracts with *the samsarah system*, or entrusting sales or as a liaison to sellers of goods or producer stores. As stipulated in the *wasath* or *samsarah* fatwa of the National Sharia Council Number: 93 / DSN-MUI / IV / 2014 According to the word of God it says that:

a. Q.S. al-Maidah (5):1:

"O People of faith, Cash out those contracts..."

b.Q.S. al-Isra'(17): 34:

" And Cash in the Promise, verily the promise shall be accounted for.

c.Q.S. al-Baqarah (2): 283:

"if some of you believe in some of the others, then let the one who is trusted fulfill his mandate (his debt) and let him be devoted to Allah "

And According to the Rules of Fiqh:

"Basically, everything (the form of *mu'amalat*) can be done unless there is a proposition that forbids it."

It has been decided that:

- a. The *Samsarah* Contract is an intermediary contract that makes an intermediary have *haq* get benefits and wages from what he has done as an intermediary for buying and selling.



- b. A *samsarah contract* is a service as an intermediary in the transaction of buying and selling an item. If the transaction is successfully carried out, the service provider is entitled to a reward for the services provided according to the agreement of all parties.

The following is the flow of the purchase process with the *dropshipping* system on the Instagram @Budak Second online store

Scame 3. Booking flow



The purchase scheme above is a form of the *Dropship* system in the Budak Second online store which can be explained as follows: 1) Consumers buy goods in the storefront from Budak Second and have been verified for their purchase by the admin of Slave Second. 2) The Slave Second party forwards orders from consumers to suppliers, namely the name, address and telephone of the consumer. 3) the supplier receives money as payment from the *dropshipper*, after that the order will be packaged and sent to the consumer on the name of the *Dropship* store per or on behalf of Slave Second and the receipt from the shipment will be given to *Dropshipper* to change the status of the packaged to be sent on delivery, so that the consumer can track where the goods he bought until they arrive at the consumer's location. National Sharia Council (DSN) Number: 05/DSN-MUI/IV/2000, namely:

a. Terms on payment

- a) The amount and form of payment instruments are known or clear both in the form of costs and benefits
- b) Payment must be made immediately as agreed
- c) Payment is not a debt waiver

b. Provisions on goods

- a) Must be explained the characteristics of the goods and can be recognized as debt
- b) The specifications must be listed
- c) Regarding the delivery of goods can be done later according to the agreement
- d) Regarding the time and location of the submission must be clear
- e) Goods that have not been received must not be traded by the buyer
- f) Goods must not be exchanged, must be clear and the same for the exchanged goods.

A. Terms on Payment

Table 4. Payment terms

## B. Provisions On Goods

Table 5

| No. | Fatwas according to the DSN Number : 05/DSN-MUI/IV/2000   | Slave Management Second  | Appropriate or not |
|-----|---|--|--------------------|
| 1   | The amount and form of means of payment are known or clear both in the form of money, goods and benefits. | Using legal tender i.e. currency and crypto currency   | appropriate        |
| 2   | Payment must be made when the contract has been concluded   | The payment applied in this store must first be paid in advance and send proof of payment which will be verified by the Slave Second admin   | appropriate        |
| 3   | Payment should not be in the form of a debt waiver  | Payment in advance and immediately full payment so there is no debt relief   | appropriate        |
| No. | Fatwa According to DSN  | Slave Management Second  | Appropriate or not |
| 1   | It must be clear its characteristics and can be recognized as debt  | The characteristics and whether they are feasible or not have been explained on the <i>supplier's</i> side so that the Slave Second party includes it in the description of the goods and the bida is made into a debt, if it has not been paid off and still pays the DP <i>Booking</i> of the goods. | appropriate        |
| 2   | Must be able to explain the specifications  | The specifications of the goods are clear and there are already all in the description of the goods ranging from size to length and grade worth using.   | appropriate        |
| 3   | Delivery of goods is carried out later  | because with the <i>Online</i> system alone, Budak Second coordinates with various domestic and foreign expeditions such as: JNE, Ninja Express, Pos Indonesia, DHL, etc.  | appropriate        |
| 4   | The time and place of delivery of goods must be established by mutual agreement                           | Because using Expeditions, the address and time can be predicted and can be accessed through their website so that security and comfort on the   | appropriate        |

|   |  |   |             |
|---|--|---|-------------|
|   |  | trip can be used as a benchmark.  |             |
| 5 | The buyer must not sell the goods before receiving them                          | Budak Second is a <i>Dropship</i> store that sells goods in the supplier's store without buying it first.   | appropriate |
| 6 | Must not exchange goods, except for similar goods and according to the agreement | In the management of this Slave Second store, it can return the goods if they are not what the buyer wants. And return in full with delivery at the responsibility of the buyer. Then the Slave Second side will give the <i>buyer a supplier address</i> . | appropriate |

### Acknowledgment

This research provides information that finding sustenance through online buying and selling is still promising and there are many opportunities

### Conclusion

- A. The process and transactions that take place in the Slave Second online store are transksi with a *dropshipping* system where the Slave Second store itself is a *dropshipper*. Budak Second is an online store that sells several types of products belonging to suppliers. This online store chooses the lowest priced products then resold at an increased price for profit. The ping *dropship* system on the Budak Second online store, namely the two parties between the supplier and the *dropshipper* did not cooperate specifically, but the Slave Second party only asked the supplier for permission that they would sell their products with the dropshipping system. Suppliers do not continue to sell their products at a predetermined price, meaning that Slave Second does not get special prices or discounts from suppliers because they only *dropshipper* not resellers.
- B. Islamic law analysis of online buying and selling using the *dropshipping* system according to the point of view of the DSN-MUI Fatwa Number: 05 / DSN-MUI / IV / 2000 explained that online buying and selling transactions with the legal ping dropship system are valid if all the conditions and pillars have been met. In addition, the goods traded do not contain the element of gharar (obscurity). Based on some of the arguments above, it is explained that selling goods that are still not fully owned to us, the law is prohibited. However, in buying and selling with the ping dropship system, the parties involved or the parties who made the transaction already knew about the risks that must be faced so that both agreed to make the transaction on the basis of voluntary willingness without coercion. According to the general rules of muamalah, buying and selling transactions

such as the ping *dropship* system are legally valid when there is a concern for both parties who are in cahoots. The sale of vintage clothing has its own market in many buying and selling forums so that they already know each other's risks from the transacting party. In addition, as long as there is no *naqli* or *aqli* argument that prohibits the *dropshipping* model, this transaction is a *good* or okay transaction. The buying and selling transactions that took place in the Budak Second online store did not deviate from the provisions of the terms of sale and purchase according to the DSN fatwa ranging from provisions on goods to provisions on the display and return of goods, as well as the agreed time and location, payment with cash or electronic, and the transactions carried out did not contain elements of *gharar*.

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## Zakat Management: Analysis of the National Amil Zakat Agency and Village-Based Zakat Management Unit Role as a Means of Ummah Economic Empowering in the Age of Society 5.0

Jumardi<sup>1</sup>, Salam<sup>2</sup>, Nurhayani<sup>3\*</sup>

Sharia Economics, Faculty of Economic and Islamic Law, Muhammadiyah Islamic Institute of Sinjai, Sinjai, 92614, Indonesia.

*\*Corresponding author:*

Email:  
[mardhi.kontemplasi@gmail.com](mailto:mardhi.kontemplasi@gmail.com)

### ABSTRACT

Zakat is an important instrument in the Islamic economic sector and encourages progress, prosperity, and economic empowerment of the people. Zakat institutions need to be regulated and managed effectively and efficiently. Through a good collection, distribution, and utilization system, zakat can be an alternative to the stability of the economic crisis and can be an alternative solution to alleviating poverty. This study aims to analyze zakat management through the role of village-based BAZNAS and UPZ as a means of empowering the people's economy. This study also tries to describe the principles and models of UPZ-based zakat management applied by BAZNAZ in the Sinjai Regency. This study uses a descriptive qualitative approach. The data collection method used in this research is the method of observation, interviews, and documentation. Analysis of the data used is a descriptive-analytic method using the Miles and Huberman version by using three flow of activities, namely data reduction, data presentation, and drawing conclusions or verification. The results show that substantially BAZNAZ Sinjai Regency has implemented zakat management based on the principles of trust, professionalism, and transparency. The management of zakat management through the Village-based UPZ formed by BAZNAS of Sinjai Regency has been carried out by goals and targets ranging from socialization, collecting, registering, submitting the Zakat Mandatory Identification Number (NPWZ), preparing the Annual Work Plan and Budget (RKAT), to prepare activity reports. With the management of zakat management through village-based UPZ, BAZNAZ can realize its role in terms of economic empowerment of the people such as creating a climate that allows community potential to develop (enabling), strengthening the potential of the community (empowering), protecting the community, determining the priority scale of the most pressing problems. , solve problems with economic, social, and cultural approaches.

**Keywords:** Zakat management, Nasional Amil Zakat Agensi, village-based UPZ, community economic empowerment.

### Introduction

The economic empowerment of the people is now faced with community development towards the Era of Society 5.0 which raises new awareness in struggling with advances in science and technology. The idea of Society 5.0, which was introduced by Japan, offers the concept of a human-centered society. This idea combines the central position of humans and various technology-based life activities. Society 5.0 seeks to strike a balance between economic, socio-cultural, and technological progress with solving social problems through a system that connects the virtual world and the real world. If Industrial Revolution 4.0 relies on artificial intelligence to solve various things, then Society 5.0 focuses on the human component. Society 5.0 is an era where all technology is part of humans themselves. The internet is not only information and network technology but must be used to live and make sense of life. Thus, Society 5.0 is expected to be a milestone in the humanization of civilization. The world

community is indeed longing for a new civilization that is more humanistic and meaningful, not mechanistic.

The economic development of the people in the Society 5.0 era is important to realize the welfare of the community because technology and humans will coexist to improve the quality of human life sustainably. The era of society 5.0 integrates virtual space and physical space. The integration is done to make things easier. The balance of economic progress and solving social problems by utilizing a system that deeply integrates the two makes things easy. This can be applied in zakat management, where to expand and accelerate the performance of zakat managers from collection to distribution, they can use information technology as a support to achieve economic empowerment of the ummah.

Zakat instruments have various strategic functions in the foundations of Islam. Zakat is not only worshiped to Allah SWT or a moral obligation for Muslims but also serves as an alternative instrument for fiscal policy to realize income distribution among Muslims. Zakat is an important instrument in the Islamic economic sector and promotes the progress and prosperity of Muslims around the world. Therefore, special institutions are needed to regulate or manage zakat effectively and efficiently. Through institutions or institutions that function to collect, distribute, and make good use of it, zakat can be an alternative for the stability of the world economic crisis (Jumardi *et al.*, 2021).

Managing zakat through special institutions is not an easy matter, considering that zakat is a Muslim mandate whose management requires knowledge of zakat fiqh and management skills. Management of zakat requires trust as well as being able to maintain the trust mandated by the state and society. Trust can be realized by a manager who is trustworthy, professional, transparent, and understands the fiqh of zakat. In addition, zakat management institutions are required to have reliable, proactive human resources, and strong sincerity. Zakat management institutions must also inculcate the principles of openness and accountability so that the reporting of zakat funds from collection to distribution can be trusted and accessed more easily by the whole community (Muzakki and Mustahik).

Effective and efficient management of zakat requires the application of management functions which include planning, organizing, actuating, and controlling. Zakat which is managed by adopting these management principles will be effective and efficient in collecting, distributing, and utilizing zakat. Therefore, to realize good zakat governance, the state must form a special institution that takes care of zakat issues or zakat management. According to Purwakananta & Aflah (2008), zakat management under the authority established by the state will be much more effective in carrying out its functions and impacts on the development of the welfare of the people, compared to zakat which is collected and distributed by institutions that run independently and without coordination.

In Indonesia, the revival of zakat has been demonstrated ten years ago which was defined as a momentum to make zakat a pillar that can moderate social inequality, the revival of the populist economy, alleviation of poverty, and development of sources of funding for the people outside the State Budget (APBN). The problem of poverty cannot be solved only with State/Regional Revenue and Expenditure Budget (APBN/D) funds that come from tax revenues managed by the government. We need a solution that can be used as an alternative to minimize poverty and inequality in society.

Effective and efficient zakat management is a potential source of funds that can be utilized to promote the general welfare of the entire community. So zakat management is expected to be a potential alternative in overcoming the problem of poverty and economic inequality. Zakat which is managed with a management system that is trustworthy, professional, and transparent

with effective supervision can be a driving force for economic movement in society and nourish the social order so that social inequality will decrease.

Zakat which is managed through special institutions by applying the principles of trustworthy, professional, accountable, and transparent governance has a strategic role to realize the ideals of the nation, namely the welfare of the people equally. BAZNAZ is one of the zakat institutions mandated by law to manage zakat comprehensively and massively. As an institution that is a leading pioneer in the zakat revival movement, the Strategic Plan of BAZNAS has a vision, "Being the Best and Most Trusted Zakat Manager in the World".

The Law on Zakat Management has encouraged efforts to establish a zakat management organization that is trustworthy, strong, and trusted by the community. The establishment of this institution will certainly increase the role of zakat as a source of funds that can assist the state in solving problems of social inequality, poverty alleviation, and developing sources of funding for the people outside the State Budget (APBN).

UU No. 38 of 1999 concerning Zakat Management, states that zakat management institutions in Indonesia consist of 2 types, namely the Amil Zakat Agency (BAZ) and the Amil Zakat Institution (LAZ). The establishment of the zakat institution aims to assist the government in alleviating poverty in Indonesia. Furthermore, Law no. 38 of 1999 concerning Zakat Management was revised into Law no. 23 of 2011 concerning Zakat Management. After the enactment of the law on zakat management, Indonesia has entered the stage of institutionalizing zakat management in the formal state area, although it is still limited. Zakat management institutions began to develop, including the establishment of zakat institutions managed by the government, namely BAZNAS (National Amil Zakat Agency), BAZDA (Regional Zakat Amil Agency), and LAZ (Amil Zakat Institutions) which are managed by the community with better and modern management.

Indonesia has a very large zakat potential, this is supported by demographic conditions which are dominated by the Muslim population. Based on the Zakat Potential Mapping (IPPZ) data and the 2021 Indonesian Zakat Outlook issued by BAZNAS, there is a zakat potential of Rp. 327.6 trillion equivalent to 1.72% of GDP in 2018 with the distribution of five zakat objects, namely zakat income and services of Rp. 139.07 trillion, corporate zakat Rp.144.05 trillion, cash zakat Rp.58.76 trillion, livestock zakat Rp.9.51 trillion, and agricultural zakat Rp.19.79 trillion. These data indicate that Indonesia has a very large zakat potential. However, so far zakat receipts are still not optimal, because various factors affect the potential for zakat receipts so they have not been absorbed according to the revenue target.

The realization of zakat receipts as released by the National Amil Zakat Agency (BAZNAS) amounted to 71.4 trillion or around 21.7% which came from the official Zakat Management Organization (OPZ) in 2020 amounting to Rp. 10.2 trillion or around 3.1% and The acquisition of ZIS funds that are traditionally managed in the community (non-OPZ) in 2019-2020 amounted to Rp. 61.2 trillion or around 18.71%. The realization of zakat receipts is still far from the potential targeted by BAZNAZ, which is Rp. 327.6 trillion. It is undeniable that the realization figure will be much greater if it also accumulates the realization of informal or traditionally managed ZIS collections in Indonesian society. Even though the formal and informal ZIS realization figures are added together, the ZIS collection space is still very wide when compared to its potential. Therefore, strategic innovation is needed so that the ZIS collection can grow significantly.

When viewed from the facts that occur in the field, the gap in the realization of zakat receipts is still far from its potential. The disparity between the realization and the potential of zakat is caused by the lack of public awareness, the lack of information about zakat, the understanding



and participation of the community in paying zakat has not been maximally absorbed, and there are still many who pay zakat by distributing it directly to zakat recipients. This condition is one of the main factors causing the imbalance between realization and potential. Therefore, a strategic effort is needed to educate the public about the importance of zakat management from receipt to distribution which is managed by a special agency or institution. One of the special institutions entrusted with the mandate based on Law Number 23 of 2011 is the National Amil Zakat Agency (BAZNAS).

BAZNAS has a special task to carry out zakat management by the provisions of the applicable laws and regulations. Each district/city has a BAZDA institution as an extension of BAZNAS which is assigned the task of helping to achieve the potential for zakat receipts and distribution. BAZDA is authorized to innovate to achieve these goals. One form of innovation carried out by BAZNAS in regencies/cities is the establishment of a Zakat Collecting Unit (UPZ).

UPZ was formed with the task of helping BAZNAS, Provincial BAZNAS, and BAZDA to collect zakat properly and maximally. UPZ can also carry out assistance tasks to distribute zakat based on the authority of BAZNAS, Provincial BAZNAS, and BAZDA. The formation of UPZ can be used as an effective solution to educate and disseminate information to the public about the importance of managing and distributing zakat in a structured and appropriate manner.

Several studies are the basis and motivation of researchers to research zakat management. Research by Hidajat (2017) regarding the application of productive zakat management in improving the economy of the people in PKPU (Pos Keadilan Peduli Umat) Makassar City found that productive zakat managed by the Amil Zakat Institute PKPU Makassar Branch was able to improve the Mustahiq economy, train independence, and increase Mustahiq knowledge about science. The implementation of the productive zakat program is carried out by assessing to see the needs of the Mustahiq. The implementation of the productive zakat program uses a revolving fund system, namely distributing capital loans to Mustahiq in a Qardhul Hasan manner. And, supervision of Mustahiq is done by meeting once a month with the target group.

The research of Hafriza, Firdaus & Chuzairi (2018) on zakat management as a counterweight to the people's economy states that zakat management which is managed with an Islamic management pattern is very different from conventional management. Islamic management must become the standard in zakat management practices carried out by zakat management organizations, namely by applying the principles of faith, leadership, management, and good administration. So that through this management, zakat can balance the economy of the people. This is in line with research conducted by Afrina (2018), zakat management in Indonesia can be used as a strategy for the economic empowerment of the people as an effort to build the independence of the people in the economic field. The presence of organized zakat management to achieve certain goals. Organized zakat management starting from planning, organizing, implementing, and controlling or supervising is carried out to determine and achieve targets through the use of human resources and other resources.

According to Afrina (2018), the potential for zakat is the most significant thing because it has a large effect on the welfare of the community. If you look at the potential for greater zakat of the Indonesian people and cooperation among stakeholders, as well as support from government regulations, the zakat collected will be able to reduce the level of poverty in Indonesia. Zakat's management of poverty alleviation programs has made a positive contribution to reducing poverty levels. For zakat as economic empowerment of the people to be achieved, zakat managers must implement effective and efficient zakat management. As stated in the research of Hadi (2020) at BAZNAZ Banyumas Regency, structured and organized

ZIS management must implement management functions starting from the collection planning function, implementation of the collection, distribution, utilization of zakat, zakat control, and reporting of zakat management implementation. In addition, for all functions to run effectively, the level of education and experience of BAZNAS's human resources is a supporting factor in the process of program planning, organizing, directing, and facilitating supervision and coordination by the leadership of BAZNAS.

The research of Yusran *et al.* (2021), regarding the optimization of zakat management by BAZNAS in Mamuju Regency also confirms Hadi's (2020) research. Where zakat managed by BAZNAS is optimal in collection and distribution. Zakat which is well managed by the institution's management will increase public awareness of the obligation of zakat on assets, and the socialization carried out to the community reminds the public how important the management of zakat assets is in Islam. Meanwhile, Fauzi & Munandar's (2020) research on the effectiveness of the zakat collection unit (UPZ) in increasing the amount of ZIS towards increasing economic welfare suggests that the Mustahik group feels helped by the distribution of zakat from the Zakat Collecting Unit (UPZ). More specifically, the research of Murtani (2016), outlines the role of the UPZ Ibadurrahman Foundation in improving the economic welfare of the people of Mandau District which includes five indicators, namely: education, through the UPZ scholarship program has reduced the cost of children's education at the elementary level; easy access to health services; employment and income through the LKMS program have made its members prosperous; distribute consumptive zakat to 18,284 Mustahik; house renovation program into a simple house.

The collection and distribution of zakat through UPZ is a supporting tool for BAZNAS to optimize zakat receipts. Research by Murtani (2019) on zakat management strategies by UPZ at Lancang Kuning University said that zakat management managed by UPZ with proper and professional human resources can increase public trust and awareness as Muzakki to channel zakat funds through UPZ. The high public awareness and trust in UPZ will increase zakat receipts which affect increase community empowerment. This is in line with the research of Syahputri *et al.* (2020), that the optimization of campus-based UPZ as a means for community empowerment plays an important role in encouraging the increase in the collection and distribution of zakat so that the distribution and utilization of zakat will encourage an increase in the standard of living of the Mustahik community, both individually and in the aggregate. Thus, zakat contributes positively to increasing economic growth and contributes to providing alternative solutions to economic recession.

Research by Syahputri *et al.* (2020) was confirmed by the research of Syafii (2020) regarding the role of UPZ IAIN Madura on social poverty. There are at least four ways to collect zakat funds from UPZ, starting from the afterlife investment piggy bank, monthly ZIS pick-up service, sacrificial savings, and barakah balances. These UPZ programs are more effective because since their implementation the funds collected have been fairly large and have been able to help many people in need. Likewise, the research of Yulianto & Rahmawati (2021) which examines the strategy and implementation of UPZ UIN Sunan Ampel Surabaya, that the development strategy carried out by UPZ UIN Sunan Ampel Surabaya is collected in three ways, namely, collect zakat directly to Muzakki, bank transfer, and via barcodes. The inhibiting factors so that the strategy carried out has not been maximized, namely the inadequate number of resources, the lack of socialization carried out, the weak application of organizational management systems or principles, not cooperation with zakat institutions outside the campus, low support from the academic community, and technology. used is still low.

In addition to UPZ being implemented in the campus environment, UPZ also exists among the State Civil Apparatus, as stated in the research of Rahayu & Supriyadi (2022) regarding the management of professional zakat fundraising among the State Civil Apparatus to increase the acquisition of professional zakat at UPZ in the Regional Coordinator Unit of Panggul District. Rahayu & Supriyadi (2022) suggest that the implementation of zakat fundraising has been going well through socialization, giving brochures and forms, improving services in professional zakat payments, so that civil servants in the Regional Korwil Unit in the field of education have entrusted the payment of professional zakat at UPZ. Apart from that, fundraising planning has not been optimal, because the socialization carried out has not been able to invite all employees to distribute their professional zakat through UPZ in the Regional Coordinator Unit for Education, Panggul District.

In contrast to the research of Shuhufi & Fatmawati (2022), Buchari's (2022) research discusses the problems of distributing zakat through UPZ Mosques in Madura. Problems with the formation of UPZ Mosques in Madura can be categorized as cultural problems, administrative complexity, lack of public trust in the government or the agency that manages ZIS funds, lack of socialization budget for educating the public, and low public understanding. Therefore, the problem of culture must be solved by focusing on the UPZ of the mosque to manage Zakat Maal only, the problem of administrative complexity is solved by working with religious instructors to assist the Takmir of the mosque to become independent, and the problem of perception is by increasing transparency and accountability, the problem of the lack of socialization budget and the low level of public understanding requires the government's initiative to make a breakthrough in optimizing the budget for socialization and education.

The research of Astuti, Rusby & Zulbaidi (2017) explains the implementation of professional zakat in the UPZ of the Riau Provincial Government, that the implementation of professional zakat in the UPZ of the Riau Provincial Government can be said to be very bad. The management of zakat carried out by BAZNAS through the UPZ of each agency has not been implemented with good governance, it has not been optimal in providing socialization to SKPD employees of each agency; not yet transparent in informing the collection of professional zakat; limited human resources in UPZ; do not fully know the procedures for the level and Nishab of professional zakat; do not have experience in managing professional zakat; has not been maximal in providing training to UPZ managers on provisions for professional zakat collection; the information provided through social media and print media regarding professional zakat collection at each agency in UPZ has not been massive; instructions to UPZ managers regarding the collection of professional zakat in accordance with the regulations and laws have not been maximized; UPZ managers are not good at serving Muzakki; UPZ managers are not yet fully professional in zakat collection; and there are still many UPZ management agencies that have not fully reported the collection of managed zakat.

Based on the phenomena and facts described above, the researcher feels the need to conduct an in-depth study related to the implementation and actualization of zakat management. The urgency of this study also refers to previous studies that describe the importance of zakat management as opportunities and challenges for the economic development of the people. In addition, there are differences in the results of research regarding the role of UPZ in realizing the optimization of zakat receipts as an effort to empower the people's economy, so researchers feel the need to do further research, especially regarding the role of UPZ as a means of empowering the people's economy.

The unit of analysis in this study is different from previous studies. Previous studies analyzed zakat management through the general role of BAZNAS, campus-based UPZ, and

mosque-based UPZ as the unit of analysis in their respective regions. Meanwhile, this study specifically examines the role of BAZNAS together with the Village-Based Zakat Management Unit (UPZ) which was formed and run by BAZNAZ, Sinjai Regency. BAZNAS has an important role in supporting the economy in Sinjai Regency. BAZNAS of Sinjai Regency is a regional apparatus organization that requires extra work, especially in terms of the management and utilization of zakat.

This village-based UPZ is a synergy between all village communities and the Regency BAZNAS. If this synergy goes well, it will support the realization of zakat receipts nationally. In addition, the role of advances in information technology makes village-based UPZs unique in the process of public education through digital platforms. This village-based UPZ can be an alternative to optimize zakat receipts as a means of empowering the people's economy.

BAZNAS Sinjai Regency has formed a small unit UPZ or Zakat Management Unit in the village. According to the Head of BAZNAZ, Sinjai Regency, for the technical collection of Zakat, Infaq, and Sadaqah, his party has formed a Zakat Management Unit (UPZ) in 80 villages. Each UPZ consists of a chairman, secretary, treasurer, and 1 member each in each hamlet. This UPZ has been present as a small BAZNAS unit in every village in Sinjai Regency which aims to assist the task of BAZNAS in Sinjai Regency.

Based on the above background, the formulation of the problem in this research is how is the role of BAZNAZ through village-based UPZ as a means of empowering the people's economy in Era Society 5.0? Based on the formulation of the problem, the purpose of this study is to analyze and find out about the role of BAZNAZ and Village-Based UPZ as a means of empowering the people's economy in Era Society 5.0.

This research is expected to provide empirical evidence, especially regarding the role of village-based BAZNAZ and UPZ as a means of empowering the people's economy. The results of this study are expected to provide recommendations that contain contributions of thoughts and practices as guidelines and descriptions of the role of BAZNAZ through Village-Based UPZ. In addition, the results of this study are expected to serve as a reference and be used as a basis for developing similar research. This research can also provide empirical evidence to policymakers so that it can be used as consideration in formulating policies related to the role of BAZNAZ and Village-Based UPZ as a means of empowering the people's economy.

## Methods

This research is qualitative research with a descriptive type, research that emphasizes the understanding of problems in social life based on the conditions of reality or natural settings that are holistic, complex, and detailed. This qualitative approach is explained by the descriptive method. This method according to Nawawi (2012) is a problem-solving procedure that is investigated by describing the state of the subject or object of research (a person, institution, community, and others) at present based on visible facts. The data collected in qualitative research are in the form of words, pictures, and not numbers (Meleong, 2015). The type of qualitative descriptive research used in this study was intended to obtain information about the role of BAZNAZ through village-based UPZ as a means of empowering the people's economy in Era Society 5.0.

The research was conducted at the National Amil Zakat Agency (BAZNAS) of Sinjai Regency, which is located on Jalan Persatuan Raya, No. 111, district. North Sinjai, Sinjai Regency. Data collection is in the form of primary and secondary source data. Primary data in the form of words were obtained from interviews with predetermined informants covering various matters relating to the role of BAZNAZ through village-based UPZ as a means of

empowering the people's economy in Era Society 5.0. Secondary data or data collection indirectly comes from books, literature books, documentation on theories, concepts, rules, and reading sources (Sugiyono, 2013).

The data collection techniques used in this study are: 1) The method of observation, observation, and systematic recording of the symptoms that appear on the object of research. This direct observation was carried out by researchers to optimize data regarding the role of village-based BAZNAZ and UPZ as a means of empowering the economy of the people in BAZNAS, Sinjai Regency; 2) Interview method, researchers used unstructured interviews. The informants are the administrators of BAZNAS Kab. Sinjai; 3) Documentation method, in implementing the documentation method, researchers rely on documents as a source of data to support research.

Analysis of the data used is a descriptive-analytical method, which describes the data collected in the form of words, pictures, and numbers. Data derived from manuscripts, interviews, field notes, documents, and so on, are then described so that they can provide clarity on reality or reality. The data analysis version of Miles & Huberman (1992), that there is three flow of activities, namely: 1) Data reduction, a reduction is carried out since data collection, starting with summarizing, coding, tracing themes, writing memos, and so on, to set aside data. or irrelevant information, then the data is verified; 2) Data presentation, qualitative data presentation is presented in the form of narrative text, to be designed to combine information arranged in a coherent and easy-to-understand form; 3) Drawing conclusions or verification is the final activity of qualitative research. Researchers must arrive at conclusions and verify, both in terms of meaning and the truth of the conclusions agreed upon by the place where the research was carried out. The meaning formulated by the researcher from the data must be tested for correctness, suitability, and robustness.

## **Results and Discussion**

### **1. Research Overview**

The BAZNAS is the official and only body established by the government based on the Decree of the President of the Republic of Indonesia No. 8 of 2001 which has the task and function of collecting and distributing Zakat, Infaq, and Sadaqah (ZIS) at the national level. UU no. 38 of 1999 concerning Zakat Management which was revised into Law Number 23 of 2011 concerning Zakat Management further confirmed the role of BAZNAS as an institution authorized to manage zakat nationally. In the law, BAZNAS is declared as a non-structural government institution that is independent and responsible to the President through the Minister of Religion.

BAZNAS Sinjai Regency was established on June 14, 2019. The First Meeting was held on June 15, 2019, to arrange management and work programs. BAZNAS Sinjai Regency is located on Jl. Union Raya, No. 111, North Sinjai District, Sinjai Regency. BAZNAS together with the government are responsible for overseeing the management of zakat in accordance with Law Number 23 of 2011 which is based on: (1) Islamic Shari'a, in carrying out its duties and functions, Zakat Management Organizations must be guided in accordance with Islamic Shari'a, starting from the procedures for recruiting employees to the procedures for distributing zakat; (2) Amanah, the Zakat Management organization must be a trustworthy organization; (3) Benefit, Zakat Management organization must be able to provide maximum benefits for Mustahik; (4) Justice, in distributing zakat, zakat management organizations must be able to act fairly; (5) Legal certainty, Muzakki and Mustahik must have legal guarantees and certainty in the zakat management process; (6) Integrated, zakat management must be carried out in a

hierarchical manner so as to improve the performance of zakat collection, distribution, and utilization; and (7) Accountability, zakat management must be accountable to the community and easily accessible by the community and other interested parties

The vision of BAZNAS in Sinjai Regency is to become a trustworthy, Fathonah, and competitive BAZNAS in Eastern Indonesia, especially in South Sulawesi. Meanwhile, the missions of BAZNAS in Sinjai Regency are: (1) Coordinate UPZ, and LAZ in achieving the target of BAZNAS Sinjai; (2) measurably optimize zakat collection; (3) Optimizing the distribution and utilization of zakat, alleviating poverty, increasing welfare, and moderating social inequality; (4) Implement a transparent and accountable management system based on the latest information and communication technology; (5) Implementing an excellent service system for all social stakeholders; (6) Mobilizing Islamic da'wah with Da'i for the revival of zakat, through the synergy of the ummah; (7) Prioritizing zakat as an instrument of development towards a just and prosperous society *baldatun tayyibatun warabbun ghaffur*; (8) Develop superior competence of Amil zakat and become a reference in Indonesia, especially in South Sulawesi.

To realize the vision and mission of BAZNAS, Sinjai Regency instills visionary, optimistic, honest, patient, entrepreneurial, trustworthy, exemplary, professional, transformational, and continuous improvement values.

The form of the program that was implemented after being effective for 3 months BAZNAS in Sinjai Regency has distributed several aids to all sub-districts in Sinjai Regency based on 5 flagship programs. These five (5) excellent programs are contained in the form of BAZNAS Religion, BAZNAS Cares, BAZNAS Smart, BAZNAS Healthy, and BAZNAS Prosperous.

## **2. BAZNAS Zakat Management in Sinjai Regency**

BAZNAS zakat management in Sinjai Regency has implemented 3 (three) main pillars in managing funds, starting from the collection, and distribution to the utilization of ZIS:

### **a. Trust**

The nature of trust is the key to quality assurance of public trust. According to Katsir (2013), trust is all religious duties or encumbrances including worldly and hereafter matters that are shown to humans. Trust is one of the noble qualities possessed by the Prophet Muhammad Sallallahu 'alaihi wa Sallam. This teaching to be trustworthy is in line with the command of Allah SWT in Surah An Nisa verse 58: *"Indeed, Allah commands you to convey a mandate to those who are entitled to receive it, and when you determine the law between humans, you should determine it fairly. Indeed, Allah is the best who teaches you. Indeed, Allah is All-Hearing, All-Seeing."*

Amanah means to be trusted or trusted. Meanwhile, when viewed from the side of Aqidah and religious law, trust is everything that must be accounted for related to other people or other parties. Trust can be in the form of objects, work, words, or beliefs. So, trust can take the form of anything that will be held accountable.

Based on the results of the research, BAZNAS of Sinjai Regency in carrying out its work and responsibilities as the ZIS fund manager has fulfilled the principle of Amanah. This can be seen from the management process carried out starting from the collection of zakat from Muzakki, distribution to Mustahik, to the issue of utilization. Communities in Sinjai Regency who are in the working area of BAZNAS have confidence in BAZNAS to manage Muzakki funds. This can be seen from the enthusiasm of the people who cooperate and consult with Amil Zakat. In addition, what supports the principle of Amanah is that the program implemented by BAZNAS in Sinjai Regency has touched all levels of society, especially the people who receive ZIS funds.

The vision of BAZNAS in Sinjai Regency, namely to become a trustworthy, fathonah, and competitive BAZNAS in Eastern Indonesia, especially in South Sulawesi. Public and government trust in BAZNAS is getting higher because BAZNAS's role is very strategic in helping the government develop a people's economy and alleviate poverty. The 5 (five) flagship programs of BAZNAS, make BAZNAS an institution that has an important role in realizing community welfare. As stated in the BAZNAS Mission of Sinjai Regency, namely prioritizing zakat as an instrument of development towards a just and prosperous society *baladun tayyibatun warabbun ghaffur*.

#### b. Professional

The efficiency and effectiveness of management require a professional attitude from all administrators or Amil zakat. Professionalism is expertise in carrying out tasks so that they are carried out properly, on time, and carefully. Professional means doing something as a main job called a profession, which means that the job is not just a fill of spare time or as a mere hobby. Professionalism can be interpreted as a view to always think, stand up, behave, work hard, work full time, be disciplined, honest, have high loyalty, and be full of dedication for the success of his work.

In managing an institution or organization, professionalism is needed for success of an institution or organization. For the goals of the institution or organization to be successful, its work programs must involve people who can work professionally. Without professional attitudes and behavior, the institution or organization will not get maximum results, and it can even go bankrupt. BAZNAS as an official institution mandated by law to manage ZIS funds is required to have a professional zakat administrator or Amil. Professionals in this case have the expertise, knowledge, and competence in carrying out their duties so that the BAZNAS program can be carried out properly, accurately, and on time. The mission of BAZNAS in Sinjai Regency is to develop superior competence of amil zakat and become a reference in Indonesia, especially in South Sulawesi.

From the results of the study, it was found that BAZNAS in Sinjai Regency in carrying out zakat management can be said to be professional. This can be seen from the innovation he made, namely UPZ in every village in Sinjai Regency which is managed by prioritizing the principle of professionalism. Village-Based UPZ is an institution that works under the coordination of BAZNAS which has a strategic role in helping realize the mission of BAZNAS. In addition, the management of the institution also involves the community directly by conducting training and developing skilled and professional human resources. This can be used as the basis that BAZNAS in Sinjai Regency is professional in carrying out their duties because they always think and work hard to continue to develop BAZNAS, especially in the zakat management system.

The most important thing in managing ZIS funds is the professionalism that must be possessed by the manager or administrator. The chairman of BAZNAS Sinjai said that the BAZNAS of Sinjai Regency has professional management, this is supported by the level of knowledge and the education base of the management is very adequate, as stated in the management structure of BAZNAS. In addition to mastery in social sciences, the board also has extensive religious knowledge. So that in carrying out their duties, the management understands exactly what they are planning and what will be done.

The attitude of professionalism that is owned can be realized from the superior programs of BAZNAS that have been realized. To realize its vision and mission, BAZNAS actively conducts technical guidance for zakat Amil officers in all of their administrators in their respective UPZ Villages. To improve their knowledge, expertise, and competence, the BAZNAS management

conducted comparative studies on the central BAZNAS and other districts, such as the comparative study conducted at BAZNAS Makassar City. In addition, the Sinjai Regency BAZNAS also collaborates with academics, such as collaboration with the Sinjai Muhammadiyah Islamic Institute (IAIM).

Professionalism is not only about knowledge and science, but more broadly about the problem of the form of service to the community. As stated in the mission of BAZNAS in Sinjai Regency, namely implementing an excellent service system for all social stakeholders. Because ZIS is a fund sourced from the community (Muzakki), the fund must be managed as well as possible, including providing excellent service to the community. BAZNAS management can be said to meet the criteria for good service. BAZNAS in Sinjai Regency has a ZIS fund collection program, where people who want to collect their funds through BAZNAS no longer have to bother coming to the BAZNAS office. BAZNAS officers are ready to help people who want to distribute zakat but cannot leave their homes. Another service is that the BAZNAS management is always open to serving the public who want to consult about ZIS. In addition, many BAZNAS officers accept proposals submitted by the community asking for business capital assistance and other allotted funds according to the BAZNAS program.

#### c. Transparency

The Directorate of Zakat Empowerment (2009) defines transparency as the ability of the zakat agency to be accountable for its management to the public by involving related parties such as Muzakki and Mustahik, so that good control is obtained in the implementation of zakat management. To build public trust, especially in Muzakki, in the zakat management agency, it is necessary to implement transparency in the management of zakat.

Transparency is built on the freedom to obtain information that applies to the public interest and can be directly obtained for those who need it. Transparency is providing open and honest financial and non-financial information to the public based on the consideration that the public has the right to know openly and thoroughly about their accountability for resource management (Direktorat Pemberdayaan Zakat, 2013).

The transparency of zakat management must also be coordinated and consultative. Providing information, news, explanations of mechanisms, procedures, data, and facts to people who need clear and accurate information. The purpose of transparency is to provide convenience for parties who have the opportunity to obtain information as a reference to participate and carry out supervision, and to create the availability of information so that opportunities are opened that can encourage the public to participate in various programs.

The management of people's funds can be carried out properly if it has a good control system. One form of good control is transparency, namely openness seriously and thoroughly from all levels of society in the process of managing public resources. BAZNAS is one of the official institutions trusted by the public and the government to manage public funds. Therefore, the management of funds sourced from the community must be reported transparently so that the community knows the flow of funds they collect.

Reports on the realization of revenues and distributions made by BAZNAS can be accounted for by the public. The information contained in the accountability report is easily accessible to the public, especially Muzakki. Because the ease of access for Muzakki to know how their funds are processed will increase trust in the institution. BAZNAS which is managed transparently will increase public trust, and in the end will increase the receipt of Zakat, Infaq, and Sadaqah funds.

Based on the results of the research analysis, BAZNAS of Sinjai Regency in its zakat management, quantitatively BAZNAS of Sinjai Regency can be said to be not optimal in



applying the principle of transparency to its Muzakki. Muzakki has not been able to access financial reports regarding the receipt and distribution of Zakat, Infaq, and Sadaqah funds. Muzakki has not been able to know more clearly how the management of Zakat, Infaq, and Sadaqah funds is carried out by BAZNAS. However, qualitatively, the transparency of BAZNAS in Sinjai Regency can be categorized as quite good. This can be seen on the official website of the Sinjai Regency BAZNAS which actively reports on every activity carried out with its 5 (five) flagship programs.

Thus, to realize complete transparency, BAZNAS of Sinjai Regency can make improvements, especially in financial reporting regarding the realization of receipts and expenditures of Zakat, Infaq, and Sadaqah funds. BAZNAS can innovate by utilizing digitalization to widely open its financial reports to the public. As stated in the BAZNAS Mission of Sinjai Regency, namely implementing a transparent and accountable management system based on the latest information and communication technology.

### **3. Zakat Management through Village-Based UPZ**

The Zakat Management Unit (UPZ) was specifically formed by BAZNAS in Sinjai Regency in the village to assist BAZNAS's work. According to the Head of BAZNAS, Sinjai Regency, for the technical collection of ZIS, his party has formed a Zakat Management Unit (UPZ) in 80 villages. Each UPZ consists of a chairman, secretary, treasurer, and 1 (one) member in each hamlet. This UPZ has been present as a small BAZNAS unit in every village in Sinjai Regency which aims to assist BAZNAS in Sinjai Regency in carrying out zakat socialization and education, planning zakat collection, carrying out zakat collection, managing Muzakki data, and distributing zakat to those who are entitled to receive zakat. . The village-based UPZ also aims to reach all levels of society in Sinjai Regency, because there are still some people who do not pay or do not receive zakat due to data constraints or areas that are difficult for BAZNAS management to reach.

In general, BAZNAS of Sinjai Regency has implemented a village-based UPZ mechanism to collect, record, and distribute Zakat, Infaq, and Sadaqah funds by BAZNAS Regulation No. 2 of 2016, which includes:

#### **a. Socialization, education, and Muzakki services.**

UPZ conducts socialization and education of zakat according to the needs of each institution. The socialization and education of zakat as referred to in paragraph (1) is carried out with the zakat socialization and education guidelines issued by BAZNAS. UPZ provides zakat consultation services to Muzakki and prospective Muzakki according to the needs of their respective institutions.

#### **b. UPZ collects data and updates Muzakki data periodically at their respective institutions.**

Data collection and updating of Muzakki data as referred to in paragraph (1) use the information system prepared by BAZNAS. UPZ submits the compulsory zakat identification number (NPWZ) issued by BAZNAS according to its level to Muzakki in their respective institutions. UPZ submits proof of zakat deposit (BSZ) issued by BAZNAS, Provincial BAZNAS, and Regency/City BAZNAS to Muzakki in their respective institutions.

#### **c. Collection and distribution of zakat by UPZ.**

UPZ carries out the zakat collection mandate from BAZNAS according to its level. All UPZ fundraising results must be deposited to BAZNAS according to its level. If necessary, UPZ can perform the task of assisting the distribution and utilization of zakat. The task of assisting the distribution and utilization of BAZNAS zakat is at most 70% of the funds collected by UPZ.

#### **d. State UPZ, Grand Mosque, Mosque, Musallah, Langgar, Surau, or other names as referred to in Article 3 paragraph (1) letter g, Article 4 paragraph (1) letter f, and Article**

5 paragraph (1) letter f can perform tasks assistance in the distribution and utilization of zakat funds by 100%.

e. UPZ Amil rights.

UPZ gets the Amil rights share of a maximum of 12.5% of the realization of the assistance task in the distribution and utilization of zakat. If the task of assisting the distribution and utilization of zakat is not fully implemented as referred to in paragraph (4), then the share of Amil rights that have been paid by BAZNAS according to its level to UPZ is compensated for the payment of the share of Amil rights for the next period. UPZ which only performs zakat collection tasks can use zakat collection funds of a maximum of 5% of the collection proceeds for UPZ operations.

f. Planning

RKAT UPZ is compiled systematically consisting of an introduction, determination sheet, fund receipt plan, operational fund acceptance and use plan, Muzakki fundraising plan, distribution, and utilization assistance task plan based on ASNAF, distribution and utilization assistance task plan based on the program, and recipient plan. benefit.

g. Reporting.

UPZ is obliged to submit reports on the collection and assistance of distribution and utilization of funds to BAZNAS according to its level every 1 (one) month, 6 (six) months, and at the end of the year.

The village-based UPZ formed by BAZNAS in Sinjai Regency is still relatively new. To date, there are 80 units of UPZ in villages. This amount is sufficient to support the tasks and functions of BAZNAS. In its implementation, Village-Based UPZ cannot be separated from the responsibilities given by BAZNAS including:

a. Conducting socialization and education on zakat

Socialization is one of the media or means that influence the personality of a person so the personality of a person is very dependent on the way the individual socializes with other people. Socialization is a social process that is carried out by a person or through which a person becomes a member of a group and society through cultural learning from groups and communities. The results showed that BAZNAS in Sinjai Regency through the village UPZ often carried out zakat socialization and education. This is evidenced by the intensive technical guidance of Zakat, Infaq, and Sadaqah in their respective villages/districts. Socialization is also carried out in several ways, such as through being active on social media, visiting the homes of residents who have the potential for zakat, preaching in mosques, and others. The purpose of socialization is to provide an understanding to the public about the obligation to pay zakat and how it has a positive impact on the welfare of society in the aggregate.

b. Register and serve Muzakki

The recording is a recording process to obtain precise and accurate data. Data collection is the process of collecting information obtained from an observation that can be in the form of numbers, symbols, or characteristics, either directly or indirectly. As for how to record and serve Muzakki, namely with transparent services, services that are open, easy, and can be understood by all Muzakki parties.

UPZ has the task of collecting and updating Muzakki data periodically in their respective institutions. UPZ submits the compulsory zakat identification number (NPWZ) issued by BAZNAS according to its level to Muzakki in their respective institutions. In addition, UPZ is required to submit proof of zakat deposit (BSZ) issued by BAZNAS, Provincial BAZNAS, and Regency/City BAZNAS to Muzakki in their respective institutions.

Based on the results of the researchers, the Head of BAZNAS Sinjai stated that the BAZNAS of Sinjai Regency through each Village-Based UPZ had carried out its duties, namely recording, and collecting data on Muzakki in the village, making it easier to record BAZNAS in Sinjai Regency. With records and data managed by UPZ, BAZNAS can expand the area for receiving Zakat, Infaq, and Sadaqah. The data collection also serves to determine with certainty the recipients of Zakat, Infaq, and Sadaqah so that the funds distributed are right on target.

c. Submit a Zakat Compulsory Identification Number (NPWZ)

The Zakat Compulsory Identification Number (NPWZ) is a card with a code to identify the zakat depositor database (Muzakki). NPWZ is made by BAZ. Meanwhile, LAZ has not implemented NPWZ, but LAZ only recognizes Muzakki serial numbers for database identification. Like the taxpayer identification number (NPWP), this Baznas Card is a coded card to identify the zakat depositor database (Muzakki). NPWZ card holders can access zakat payment services anytime and anywhere, without having to go to the Baznas counter. The trick is if you want to pay zakat, you can transfer it via a bank or ATM by including your NPWZ number.

Based on observations, it was found that BAZNAS of Sinjai Regency with Village-Based UPZ after collecting data and making NPWZ, BAZNAS through UPZ handed over NPWZ to Muzakki in their respective village UPZ units. The recording of the zakat payer database carried out through the Village-Based UPZ greatly assists BAZNAS's task in organizing accurate and integrated data collection. So, BAZNAS of Sinjai Regency can do planning and preparation of work programs easily. In addition, the NPWZ becomes the basis for BAZNAS to measure the potential for zakat receipts accurately.

d. Collect zakat

One of the obligations of Muslims is to pay zakat. For every Muslim who is financially stable or capable, it is obligatory to pay zakat to people in need. Zakat is worship that is listed in the pillars of Islam. Initially, zakat was carried out independently and distributed directly to the community, now zakat is collected and distributed through institutions that are managed in a structured and orderly manner. One of the goals of BAZNAS is the realization of optimal national zakat collection. Based on the results of the study, it showed that BAZNAS of Sinjai Regency through Village-Based UPZ had collected zakat appropriately, according to the conditions of the people in their respective villages. The results of the Village-Based UPZ fund collection are deposited to the Sinjai Regency BAZNAS according to the level. According to the Head of BAZNAS, the existence of Village-Based UPZs that were formed in 80 villages helped BAZNAS in collecting zakat more broadly.

e. Prepare annual budget

An annual budget is a plan within a company or organization that is compiled in an integrated manner and explained in monetary units in a predetermined period or period. BAZNAS prepares its budget by making an operational cost budget at the beginning of the period, then allocates each type of operational cost more precisely, and examines evidence and matters directly related to expenses regarding operational costs.

RKAT UPZ is compiled systematically consisting of an introduction, determination sheet, plan for receiving funds, plan for receiving and using operational funds, plan for raising Muzakki, plan for co-administration of distribution and utilization based on ASNAF, plan for co-administration of distribution and utilization based on the program, and plan for a beneficiary. . RKAT UPZ as a working guideline for UPZ that can assist UPZ in carrying out activities starting from the stages of collection, distribution, and utilization of Zakat, Infaq, and Sadaqah.

Based on the research results, the Village-Based UPZ has compiled an Annual Work Plan and Budget (RKTA) for the collection, and assistance task of distributing and utilizing Zakat, Infaq, and Sadaqah. In preparing the RKTA, the Village-Based UPZ was directly supervised by BAZNAS, Sinjai Regency. In addition, the process of preparing the RKTA also involves village officials and the community in their respective villages, especially the Muzakki.

f. Prepare activity reports

Activity reports are the results of activities carried out as evidence of the management's responsibility for these activities. After the report is prepared, the meal will be given to the BAZNAS Treasurer. UPZ is obliged to submit reports on the collection and assistance of distribution and utilization of funds to BAZNAS according to its level every 1 (one) month, 6 (six) months, and at the end of the year.

Based on the results of the research, the Head of BAZNAS of Sinjai Regency said that the Village-Based UPZ had made reports on activities in their respective villages. Activity reports originating from the Village-Based UPZ can be used as a reference for the Sinjai Regency BAZNAS to compile a comprehensive activity report from 80 villages and sub-districts. This activity report can be used as a reference by BAZNAS and UPZ to prepare for the next stage of RKTA.

Based on the description of Zakat Management in BAZNAS Sinjai Regency and Zakat Management through Village-Based UPZ, it can be said that zakat which is managed in a structured and organized manner by BAZNAS Sinjai Regency together with 80 UPZ units in villages has a significant and strategic role in economic empowerment. ummah. This can be seen in more detail regarding the achievements that have been implemented through the 5 (five) flagship programs of BAZNAS in Sinjai Regency. Although the establishment of BAZNAS and UPZ is still relatively new, the programs that have been realized have touched many layers of society in remote villages. Although it is not yet optimal in fulfilling the potential for zakat receipts, the planned and implemented programs, it is a positive sign that community empowerment through the visions and missions of BAZNAS Sinjai Regency and Village-Based UPZ can be realized as a whole.

Based on the 2020 report released by BAZNAS in Sinjai Regency, the total collection of Zakat, Infaq, and Sadaqah funds was IDR 400 million. Meanwhile, the total distribution was Rp. 200 million, which consisted of various variables of assistance, especially emergency disasters to the community such as assistance to fire victims. Assistance for the program per quarter is the distribution of necessities with a certain value, plus pocket money to 350 Mustahiq distributed in all sub-districts/villages in Sinjai Regency.

Most of the zakat collection is done door to door in each village, where each village usually collects Rp. 40 million to Rp. 80 million. For distribution, zakat is distributed in each hamlet with the target of poor households. Assistance in the form of cash is given to the poor in the amount of Rp.200 thousand to Rp.230 thousand per house. In addition, there were 300 food packages given to cleaning staff and to people affected by Covid-19.

Various programs that have been launched by BAZNAS in Sinjai Regency in helping the government deal with poverty have had a significant impact on improving people's welfare. In more detail, the following are the flagship programs that have been carried out by BAZNAS of Sinjai Regency with Village-Based UPZ that have been fostered.

a. ZIS collection.

The collection of zakat funds carried out by the Village-Based UPZ uses direct methods, through banks, and salary allocations. Infaq/alms are collected by receiving directly from the community and also by distributing Infaq boxes in shops, mosques, and other public places. For

the collection of zakat, Infaq, and alms, BAZNAS also opens special accounts such as Bank Mandiri and Bank BRI accounts. BAZNAS Sinjai Regency also receives zakat, Infaq, and alms through e-payments such as Ovo and PakeLinkAja.

b. Distribution.

ZIS funds that have been collected are distributed to groups/Asnaf who are entitled to receive zakat. The zakat recipients consist of the Poor, Amil, Ibn Sabil, Converts, and *fi sabilillah*. The distribution carried out by BAZNAS of Sinjai Regency together with the Village-Based UPZ is carried out directly. Before being distributed, the BAZNAS and UPZ management first conduct a direct review of the target recipients. If it meets the requirements as a recipient that have been determined by BAZNAS, then BAZNAS will distribute according to the needs of the recipient. In distributing zakat funds to Mustahiq, BAZNAS and UPZ prioritize domestic distribution, equitable distribution, and building trust between the giver and the recipient of zakat.

c. Utilization of ZIS.

ZIS of funds is channeled not only for consumptive needs but also for production needs. So that these funds are useful for the needs of the poor, as well as for people who need business capital. Zakat, Infaq, and Sadaqah funds collected by BAZNAS through UPZ are distributed into five flagship programs to improve the economic welfare of the community, as stated by the Chair of BAZNAS in Sinjai Regency, namely: BAZNAS Religion, BAZNAS Peduli, BAZNAS Smart, BAZNAS Healthy, and Prosperous BAZNAS.

#### **4. Economic Empowerment of the Ummah through Zakat Management**

Zakat management which is managed in a structured and organized manner has a significant role in empowering the people's economy. The economic empowerment of the ummah is aimed at increasing the dignity of the Islamic community from underprivileged conditions, alleviating the problems of poverty and economic backwardness, and building the economic independence of the ummah. Zakat is not just ritual worship to perform worship to Allah SWT, but zakat has a broader purpose. Zakat can be a fence to maintain the benefit of the ummah. In the economy, zakat can be used as an alternative to tackling poverty and economic inequality. Zakat management is a means of control in dealing with problems of socio-economic inequality, for example, the transfer of some wealth from the rich to the poor.

The economic empowerment of the ummah through zakat, at least can be done in three ways as suggested by Kartasasmita (1995), namely: (1) the distribution and utilization of zakat can create an atmosphere or climate that allows the potential of society to develop (enabling), where every human being or every society has potential that can be developed; (2) the distribution and utilization of zakat can strengthen the potential or power possessed by the community (empowering) through increasing the level of education, health status, and opening up opportunities to take advantage of economic opportunities; (3) the distribution and utilization of zakat can protect the people, prevent unbalanced competition, and prevent the exploitation of the strong economic group over the weak.

In addition to the three events above, the economic empowerment of the ummah can be carried out more practically, such by; (1) assisting the community in finding problems and solutions; (2) conducting an analysis or study of the problem in a participatory manner which can be done by brainstorming, forming discussion groups, and holding periodic community meetings; (3) determining the priority scale of problems by sorting and selecting each of the most urgent problems to be solved; (4) looking for solutions to problems that are being faced by socio-cultural approaches that exist in society; (5) carry out concrete actions to solve the

problems at hand; and (6) evaluate the success and failure of the entire set and process of empowerment.

Strategic efforts can be made to encourage the acceleration of structural changes which can further strengthen the position and role of the people's economy in the national economy. One form of economic realization of the people is through the management of zakat in a structured and organized manner carried out by zakat institutions. The Sinjai Regency BAZNAS together with the Village-Based UPZ has carried out various programs aimed at realizing the benefit and welfare of the community. The following are the flagship programs that have been implemented by BAZNAS together with UPZ:

#### 1) BAZNAS Religion

The help of the Dai' and the Koran teacher. The program initiated by BAZNAS has now developed not only as a partner of the district government in poverty alleviation but also contributes to the improvement of religious and competitive human resources by the Vision of the Sinjai Regency Government. Programs like this are maintained and developed, considering that these programs are very useful so that more and more people will enjoy them.

BAZNAS supports training on human resource capacity building for Koran teachers and mosque imams, as has been done in Batu Belerang Village, Sinjai Borong District. BAZNAS is committed to all forms of activities related to the Islamic religion so that the Zakat, Infaq, and Alms collected funds are truly effective in terms of their utilization. Thus, the existence of BAZNAS can be a loyal forum for serving the needs of the ummah, especially in terms of ZIS.

To develop a religious program, BAZNAS collaborates with campuses in Sinjai Regency. BAZNAS collaborates with one of the most influential campuses in the Sinjai Regency, namely the Sinjai Institute of Islamic Religion (IAIM). BAZNAS and IAIM Sinjai have signed a Memorandum of Understanding (MoU). This memorandum of understanding is a form of the BAZNAS Religion program which is engaged in religion and BAZNAS Peduli which touches the community as a social program.

This collaboration is also a form of socialization between students and lecturers on programs at BAZNAS so that this collaboration is not only on apprenticeships but also on how to involve academics from IAIM Sinjai to participate in the BAZNAS program. This collaboration can also help campuses to realize the tri dharma of higher education, namely Education, Research, and Community Service. In addition, the cooperation that is built can help the development of human resources and the management of Amil Zakat.

#### 2) BAZNAS Cares

This program is specifically implemented for compensation for the poor, compensation for victims of natural disasters, and house renovation for the poor. According to the Head of BAZNAS in Sinjai Regency, BAZNAS is committed to always instructing the distribution department to do the best in distribution because that is the most accurate socialization tool. Therefore, BAZNAS of Sinjai Regency has been involved in helping people who are in need and will always provide support in alleviating poverty.

In 2020, BAZNAS of Sinjai Regency together with Village-Based UPZ carried out house renovations for 20 housing units for underprivileged residents in Sinjai Regency. Although in a pandemic atmosphere, this number has increased slightly compared to 2019 which has carried out house renovations for 14 housing units. This Rumah Beda is a form of realization as well as an event to socialize BAZNAS to the public on the existence of BAZNAS in carrying out its duties as an official institution to manage zakat in a structured manner.

In addition to Home Renovation, BAZNAS in Sinjai Regency and UPZ Desa distributed basic food assistance to underprivileged residents in Sinjai Regency. Food assistance was given

to 35 residents from four villages in Pulau Sembilan sub-district, 10 fire victims, and 9 tornado victims. Not only limited to Sinjai Regency, but BAZNAS Sinjai also distributed assistance in the form of rice, snacks, sugar, baby equipment, and ready-to-eat food to victims affected by the earthquake in Mamaju Regency. The head of BAZNAS reported that the source of the assistance distributed came from Zakat, Infaq, and alms funds collected from the people of Sinjai Regency. The number of packages distributed to earthquake victims amounted to 600 packages.

### 3) Smart BAZNAS

This program focuses on providing scholarships for outstanding students and poor families. The head of BAZNAS of Sinjai Regency revealed that this program aims to provide support to students who excel in obtaining funding or stimulus assistance as a form of motivation. This scholarship comes from Zakat, Infaq and Alms collected. This program is a very noble act and is justified by Islamic sharia law, so BAZNAS Sinjai is always committed to collaborating with all educational institutions in Sinjai, especially in the religious field.

This program is also an effective way to disseminate information to the public about the existence of BAZNAS as a zakat management institution. At the same time conveying to the public that the funds collected at BAZNAS are channeled properly, namely through the provision of outstanding scholarships, to strengthen public trust in Baznas as the manager of the zakat, Infaq, and alms funds.

In the context of developing the education of the children of Sinjai at all school levels, BAZNAS took the initiative to participate by distributing zakat funds to 12 Islamic Boarding Schools and 9 TK/TPA, providing outstanding scholarships for outstanding students/students graduates at Darul Istiqamah Puce'e Islamic Boarding School, Kecamatan South Sinjai, and providing educational assistance to 92 poor students in Sinjai Regency.

In addition to providing scholarship assistance, the Smart BAZNAS program together with UPZ in each village also often provides technical guidance related to zakat, Infaq, and alms. This technical guidance aims to provide understanding to participants regarding the management of zakat, Infaq, and alms so that they can be managed properly and distribution can be given to those who are entitled. BAZNAS has carried out technical guidance in collaboration with government and private agencies in Sinjai Regency. One of the activities that have been carried out is technical guidance in the Hall of the North Sinjai District Office, attended by dozens of participants who come from village priests, neighborhood imams, mosque administrators, village employees, religious counselors, and the Zakat Management Unit (UPZ) throughout the country.

BAZNAS also conducts socialization in Regional Apparatus Organizations and Offices within the scope of work of the Sinjai Regency government, because not all State Civil Apparatuses fully understand the BAZNAS program. This socialization aims to increase the knowledge of the Muslim community, especially the State Civil Apparatus in the Regency Government about the importance of zakat obligations, and how important ZIS is managed in a structured manner by BAZNAS.

### 4) Healthy BAZNAS

This program focuses on providing assistance in the form of treatment for poor families. BAZNAS Sinjai Regency together with Village-Based UPZ has distributed assistance in the Sinjai Sehat activity for residents who are sick and are constrained by medical expenses. The head of BAZNAS in Sinjai Regency said that BAZNAS Sinjai will establish a health clinic in Sinjai Regency, which is located at the BAZNAS Office, on Jalan Persatuan Raya, North Sinjai District. This plan has entered the finalization stage which is carried out in collaboration with

the government of Sinjai Regency and Bank BPD Sulselbar. Bank BPD CSR is willing to help realize this program by providing facilities in the form of ambulance vehicles that can be used as operational assistants for health clinics.

#### 5) BAZNAS Prosperous

Two important points must be considered, namely productive zakat and consumptive zakat. Productive zakat is the distribution of zakat which is expected to be developed. The distribution of Zakat, Infaq, and Sadaqah is not only distributed to consumptive needs but the funds must also be channeled to productive needs such as capital assistance. Zakat, Infaq, and Alms funds can be allocated for business development or capital assistance to poor families to create businesses so that they do not always depend on gifts alone. Zakat funds distributed for productive needs will have a positive impact on Mustahik and BAZNAS. The wider and more successful the venture capital recipients will be, will affect the amount of Zakat, Infaq, and Alms deposited to BAZNAS. In addition, business assistance to the poor will change the lives of the poor, Mustahik into Muzakki.

According to the Head of BAZNAS of Sinjai Regency, in addition to having the duties and functions of collecting and distributing Zakat, Infaq, and Alms, BAZNAS of Sinjai Regency also takes part in answering social problems in the community. BAZNAS of Sinjai Regency has realized an economic empowerment program through the distribution of sales boxes for small business actors in Sinjai. BAZNAS distributed 5 units of boxes, and cash for business capital. Those who get the sales box assistance will also get a business capital assistance of IDR 2.5 million per person so that the business they have started can grow.

The distribution of zakat utilization is carried out as an effort to support the development of the people's economy in Bumi Panrita Kitta. Since the launch of the BAZNAS Sejahtera program, BAZNAS has received many proposals from the community. Because zakat funds are still limited, Baznas can only realize five box units. However, BAZNAS will accommodate several proposals that have been submitted to be realized when the allocation of zakat funds is adequate.

The chairman of BAZNAS said that the BAZNAS Sejahtera program was well received by the people in Sinjai with many proposals received from small entrepreneurs. This program must be supported by the government of Sinjai Regency because it is in line with the flagship program of the Regent of Sinjai, which is to create 1000 new entrepreneurs and 10 thousand jobs.

### 5. Online Zakat Payment Transactions

Entering the Industrial Revolution 4.0 and the Era of Society 5.0 became a stepping stone for BAZNAS to develop its potential through the intense use of information technology. Through the information system, receiving and distributing transactions can be carried out easily and practically. The current era requires institutions and organizations to innovate to survive amid increasingly fierce competition. Thus, individuals and groups are required to use digital-based technology as a supporting tool in everyday life. Humans and technology cannot be separated, humans need tools to do various things in life, and technology requires human knowledge to always develop the technology.

BAZNAS can use digital-based technology so that information conveyed to the public is faster and easier to access. Now, zakat management has evolved towards digital-based zakat management. Online zakat is a process of paying zakat which is carried out through the help of a digital or online system, where the Muzakki does not meet directly with the zakat Amil in making zakat payments. Zakat sites with online systems also provide zakat calculations or zakat calculators, so that Muzakki who does not know the zakat assets that must be paid can choose this method to simplify zakat calculations.



BAZNAS Sinjai Regency has made innovations in the form of a payment system that uses an online zakat system. Payment through the online system, of course, greatly facilitates Muzakki to pay zakat through the website, social media, or other electronic media and payments can be made by transfer. Based on the results of the study, BAZNAS in Sinjai Regency has optimized the online-based zakat receipts provided for Muzakki in Sinjai Regency. The online zakat management initiated by BAZNAS for Muzakki has a significant role in paying zakat. This online-based system is expected to make it easier and increase public interest in paying zakat.

According to the Chairman of BAZNAS, through the online Muzakki system, they only need to access the BAZNAS website or website then select transactions and make payments via transfer. Installments of Zakat, Infaq, and Alms at BAZNAS Sinjai Regency can be done online by checking the image or QR code claimed by the BAZNAS Kapupaten Sinjai Regulation so that exchanges can be made through the application. To collect ZIS, BAZNAS opens special accounts such as Bank Mandiri and Bank BRI accounts. BAZNAS Sinjai Regency also receives ZIS through e-payments such as Ovo and PakeLinkAja.

## Conclusion

Based on the results and discussions that have been presented from the qualitative aspect, it is concluded that the analysis of the role of BAZNAS through Village-Based UPZ as a means of empowering the economy of the ummah in the Society 5.0 era, namely BAZNAS and Village-Based UPZ have a significant role in the economic empowerment of the ummah. This can be seen from the process of collecting, distributing, and utilizing ZIS managed by BAZNAS. In terms of utilization and distribution, BAZNAS together with UPZ has realized superior work programs. These excellent programs include the BAZNAS Religion, BAZNAS Peduli, Smart BAZNAS, Healthy BAZNAS, and Prosperous BAZNAS. In addition, the collection of zakat carried out by BAZNAS in Sinjai Regency has implemented an online zakat system. Muzakki who want to pay Zakat, Infaq, and Sadaqah is not only done directly at the BAZNAS or UPZ Desa office but can also be done through bank transfers (Bank Mandiri, Bank BRI) and e-payment (Ovo, LinkAja). The programs carried out by BAZNAS together with UPZ in each village have a significant impact on community welfare, open employment opportunities, and can assist local governments in reducing poverty.

### 1. Management of BAZNAS in Sinjai Regency.

Zakat management in BAZNAS Sinjai Regency has implemented 3 (three) main pillars in managing funds, ranging from collection, and distribution to the utilization of ZIS: (1) BAZNAS Sinjai Regency in carrying out its work and responsibilities as the ZIS fund manager has fulfilled the principle of Amanah. (2) BAZNAS of Sinjai Regency can be said to be professional. The knowledge and educational base of the management is very adequate. (3) Quantitatively, BAZNAS of Sinjai Regency can be said to be not optimal in applying the principle of transparency to its Muzakki. Muzakki has not been able to access financial reports regarding the receipt and distribution of ZIS funds. However, qualitatively, the transparency of BAZNAS in Sinjai Regency can be categorized as quite good. This can be seen on the official website of the Sinjai Regency BAZNAS which actively reports on every activity carried out.

### 2. Village Based UPZ.

Village-based UPZ cannot be separated from the responsibilities given by BAZNAS including (1) BAZNAS of Sinjai Regency through village UPZ often carries out zakat socialization and education; (2) Sinjai Regency BAZNAS through each Village-Based UPZ has carried out its duties, namely recording, collecting data on Muzakki in the village, making it

easier to record BAZNAS in Sinjai Regency; (3) BAZNAS through UPZ has submitted NPWZ to Muzakki in the UPZ unit of their respective village; (4) BAZNAS of Sinjai Regency through Village-Based UPZ has collected zakat properly. The results of the Village-Based UPZ fund collection are deposited to the Sinjai Regency BAZNAS according to the level; (5) The Village-Based UPZ has prepared an RKTA for the program for collecting, assisting in the distribution, and utilization of ZIS; and (6) UPZ has submitted reports on the collection, distribution, and utilization of funds to BAZNAS according to its level every 1 (one) month, 6 (six) months, and the end of the year.

### 3. Community Economic Empowerment.

The Sinjai Regency BAZNAS together with the Village-Based UPZ has carried out superior programs that have an important role in empowering the economy of the ummah: (1) Religious BAZNAS, providing assistance for preachers and Koran teachers, training for Koran teachers and mosque imams, in collaboration with the Institute of Islamic Religion Muhammadiyah (IAIM). ) Sinjai; (2) BAZNAS Cares, conducts house renovation and distributes basic food assistance to the affected victims to residents affected by the disaster; (3) Smart BAZNAS, provides scholarships and tuition assistance for outstanding students and poor families, 12 Islamic boarding schools and 9 TK/TPA, technical guidance related to ZIS to dozens of participants; (4) BAZNAS Sehat, providing assistance in the form of treatment for poor families who are constrained by medical expenses and establishing a health clinic in Sinjai Regency, including the provision of facilities in the form of ambulance vehicles as operational health clinics; (5) BAZNAS Sejahtera, the distribution of ZIS is not only channeled to consumptive needs but the funds must also be channeled to production needs.

This research was conducted despite the limitations that could reduce the quality of the research data. The limitations of this study are as follows: The indicators used to assess the pattern of zakat management is limited to three indicators, Respondents or informants in this study were limited to BAZNAS administrators in Sinjai Regency. The unit of analysis in this study is limited to zakat managed by BAZNAS and UPZ.

For Suggestions/recommendations: (1) For Researchers/Academics. (a) Future researchers will not only focus on the three principles of zakat management, but can add other relevant principles, such as accountability and sustainability; (b) It is hoped that further research can consider respondents not only to BAZNAS administrators, but also to expand informants such as Muzakki, Mustahik, and UPZ in each village; (c) Further researchers can expand the object of research by expanding the unit of analysis of zakat management, not only limited to BAZNAS and UPZ but also other institutions such as Lembaga Amil Zakat (LAZ) so that the results are maximized, can be compared and can be generalized. (2) For Actors (stakeholders), to support BAZNAS programs, the local government must encourage all State Civil Apparatuses in the Regional Apparatus Organizations and Offices of the Sinjai Regency government scope of work. Through the proactive role of local governments, BAZNAS can explore the potential for greater zakat receipts, so that the distribution and utilization of zakat will have a major impact on the welfare of the community; (b) BAZNAS and UPZ as zakat managers as mandated by law are required to apply management principles that are trustworthy, professional and transparent. Specifically, regarding transparency, BAZNAS has not been open in reporting the realization of the receipt and use of Zakat, Infaq, and Sadaqah funds. Therefore, to maintain and increase public trust, BAZNAS must apply the principle of transparency as a whole; (c) Village-Based UPZ Management must be even more active in exploring the potential Zakat, Infaq, and Sadaqah in their respective villages; (d) For BAZNAS in other regions, they can adopt superior programs that have been realized by BAZNAS in Sinjai Regency.

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Conference Paper

## Does Financial Inclusive Affect Islamic Banking Probability? Case study in ASEAN 3 – GCC Alliance and the Challenge Faced.

Zainuri\*, Sebastian Viphindartin, Regina Niken Wilantari, Tyas Arthasari

Faculty of Economic and Business, University of Jember

\*Corresponding author:

E-mail :  
[zainuri.feb@unej.ac.id](mailto:zainuri.feb@unej.ac.id)

### ABSTRACT

The success of a country will be determined by financial system standards, as a driver of economic development, banks need to maximize the role of intermediation. The development of Islamic banks in the world is experiencing an increase in operations in the past few years, in Indonesia Islamic finance is growing fast in global finance beyond conventional banking. The positive image of Islamic banking among the public has placed Islamic finance in Indonesia growing positively during the Covid-19 recession period, one of the keys to the successful development of Islamic finance is various innovations in banking service products to financial instruments and supported by a strong commitment to the implementation of sharia values. . The issue of understanding financial inclusion is currently a topic of discussion among economists and has been established as a national strategy in several countries. A stable financial system is the key to the success of inclusion through development through development. This study will focus on the effect of financial inclusion on the profitability of Islamic banking in ASEAN 3 and the GCC alliance. This research uses mixed research methods using the panel vector error correction model as a research analysis tool to see the time period of the dependent variable and the independent independent variable.

**Keywords :** ATMs, Gulf Cooperation Council, Mobile Banking, Outstanding Loan and Deposit, Return On Asset

### Introduction

The implementation of inclusive finance emerged after the 2008/2009 financial crisis, which negatively affected the non-banking community. Inclusive finance describes the condition of the community in which the provision of access to formal financial services to the public with fast and accurate quality in improving people's welfare, the existence of financial institutions will facilitate economic activity in the community (Dienillah & Anggraeni, 2016; Odugbesan, Ike, Olowu, & Adeleye, 2020). the community in terms of loans, deposits, and money movement between communities. The determination of financial inclusion has been used as a development strategy in several countries. Using the financial sector in inclusive growth will play an important role in reducing poverty and income distribution and stabilizing the financial system.

The financial inclusion program focuses on reducing barriers for unbanked people in utilizing formal financial services in savings and credit. Barriers to access to formal financial services are motivated by public knowledge of service products carried out by banks. The requirements are considered high enough to hinder low-income people from meeting the qualifications of banking customers. As the economy's engine, banks are required to expand their sector performance to equalize the economy. Trust development also plays an essential role in increasing financial inclusion (Dar & Ahmed, 2020).

The 2016 Global Partnership for Financial Inclusion (GPFI) report on the G20 financial inclusion indicators shows that financial inclusion has three dimensions: use of financial services, access to financial

services, and product quality and service delivery. Indicators of the use of financial services include the percentage of adults who have a bank account and the rate of adults who have unpaid loans (Le, Chuc, & Taghizadeh-Hesary, 2019; Shen, Hueng, & Hu, 2020). Indicators of access to financial services include the number of branches and the number of ATMs per 100,000 adults. First, Availability of Financial Services (AFS): The comprehensive financial system services need to have ready availability, and this may be reflected through the number of bank outlets and the number of ATMs, or the number of employees per customer in the bank, or the number of bank branches, for availability measurement. Second, Access to Financial Services (SFS): this procedure ensures access to financial services and the provision of timely and sufficient credit when required by the marginalized groups, such as the poorer sections and low-income sections, at a cost that is affordable for them (Dienillah, Anggraeni, & Sahara, 2018). Third, Use of Financial Services (UFS): in this dimension, the impetus is driven by the unbanked or marginally-banked concept, where in some nations with a higher level of banking, several people do not make use of the services offered although they have a bank account. The paper used two primary services of the banking system, namely credit and deposit, to measure this variable.

The introduction of the concept of financial inclusion received a positive response from policymakers because it is considered efficient and effective in carrying out banking financial intermediation tasks safely, comfortably, and at low costs (Anarfo, Abor, & Osei, 2019). Increasing financial inclusion will help strengthen economic growth and has been recognized as a sustainability concept in improving the quality, quantity, and efficiency of intermediary financial services. Inclusive finance takes place efficiently in a country characterized by an economic cycle that is more dependent on the role of banks in transactions and a more effective monetary policy. The choice of Islamic banking as a focus was motivated by increasing interest in the world economy towards the concept of Islamic banking, known as non-usury banking, or in other words, Islamic banking is a type of formal financial institution that functions as an intermediary institution by paying attention to the teachings of Islam in the economy.

Discussions on the development of sharia economic trends in the world are showing positive results, where sharia-based economic development is carried out by Muslim-majority countries and found in countries with Muslim religious minorities. In addition to the entry of Islamic developments into the country's economic sector, the COVID-19 pandemic event, which caused the problem of a global economic recession, has changed the view of sustainable-based country development. Economic sustainability is defined as the concept of sustainable economic development without causing problems to the environment and socioeconomic problems between communities. The concept of Sustainable development goals was first ratified in September 2015 by the United Nations as a global development agreement. Economic sustainability will ensure the formation of a continuous pattern of production and consumption, which is expected to reduce the gap between countries.

Most empirical studies on financial inclusion focus mainly on developing countries, but financial inclusion is also important for developed countries. Aside from being a tool to strengthen economic growth, implementing financial inclusion also increases the opportunities for banks to gain greater profitability through performance expansion. Besides that, there are still few studies that examine how the effect of financial inclusion on bank profitability. Several bank-specific variables, such as bank capital, non-performing loans, bank size, liquidity, cost management, and bank efficiency, are known to affect profitability; however, the impact of financial inclusion on bank profitability remains unclear. Researchers consider this urgency a plus in this study, making it interesting for further investigation.

## **Literature Review**

We first compare the subsequent definitions to discover the numerous dimensions of inclusive finance. Economic inclusion is a method that guarantees the convenience of getting the right of entry to,

availability, and utilization of the formal economic machine for all members; of an economy. However, Demirgüç-Kunt and Klapper (2012) give a complete definition as inclusive economic machine is a mechanism that warrants wide-ranging access to economic services and products without fee obstacles to the weaker phase and different disfavored groups. Based on those definitions, it could be deduced that the size to evaluate the volume of economic inclusion comprises four factors: get right of entry, availability, utilization, and a fee of economic offerings. Over the decades, a great deal of the inclusive finance literature has clustered around the way to degree and sell it (Prabhakar, 2019). Advanced a multi-dimensional economic inclusion index using a method much like the only followed in UNDP's human improvement index (HDI) calculation. The creator hired three dimensions which are banking penetration (accessibility) measured through the wide variety of financial institution money owed in line with the 1,000 population, utilization measured through the number of credit scores and deposits as a share of the country's GDP, and availability of banking offerings measured through the wide variety of financial institution stores in line with 1,000 population.

Literature studies related to financial inclusion that previous researchers have carried out have primarily focused on developing countries. Besides that, the relationship between financial inclusion and banking probability is still focused on one country, and several countries have no further studies. Widyaningsih and Hersugondo (Widyaningsih & Hersugondo, 2021) examined the relationship between financial inclusion and bank profitability in Indonesia. Researchers used the number of loans per 1000 adults, the number of ATMs per 1000 adults, and the number of bank branches per 100,000 adults as proxies for financial inclusion based on the dimensions of access to financial inclusion. This study found that the number of bank branches has a significant positive effect on the profitability of banks in Indonesia, while the number of loans and ATMs has a significant negative effect on the profitability of banks in Indonesia.

Furthermore, Kumar et al., (2021) examined the relationship between financial inclusion and banking profitability in the developed market, and this study used the number of loans per 1000 adults, the number of ATMs per 1000 adults, and the number of bank branches per 100,000 adults as financial inclusion proxies. It was found that the number of bank branches influences the profitability of banks in Japan. The addition of operations to bank branches will increase the number of customers, which will increase profit. Besides that, implementing financial inclusion also allows banks to diversify and reduce risk in credit activities.

Jajah et al. (2020) (Jajah et al., 2020) studied the relationship between financial inclusion and profitability in banking in Sub-Saharan Africa. Researchers used the financial inclusion index as an independent variable which was calculated based on six indicators of financial inclusion measurement, namely Bank branches per hundred thousand adults, bank branches per hundred thousand adults, bank accounts per thousand adults, ATMs per hundred thousand adults, depositors with commercial banks per thousand adults, borrowers from commercial banks per hundred adults. In research in Sub-Saharan Africa, financial inclusion positively impacts banking profitability, and implementing financial inclusion plays an essential role in improving the economy through banking profits. The aggressiveness of banking in Sub-Saharan Africa towards financial inclusion strategies and policies has encouraged increased use of ATMs and banking branches and implemented various policies to facilitate access to formal financial services, especially in community credit activities.

Al-Eitan et al., (2022) examined the relationship between financial inclusion and profitability in commercial banking in Jordan, finding that financial inclusion plays a significant role in banking performance, especially in profitability. The number of loan accounts and the size of deposits significantly negatively affect the profitability of commercial banking in Jordan. In contrast, the financial inclusion

indicators of the number of bank branches and ATMs do not affect the profitability of commercial banking in Jordan. Leverage and bank size are the main determinants in increasing banking profitability in Jordan.

Khalifatul (2017) conducted a study related to the effect of financial inclusion on profitability in Islamic banking in Indonesia, using three dimensions of financial inclusion, namely the number of offices per 100,000 adults, the number of savings accounts per 1,000 adults, the number of financing accounts per 1,000 adults and the percentage of financing distribution. MSMEs per total financing as a proxy for financial inclusion. This study compares the role of financial inclusion in Islamic Commercial Banks, Islamic People's Financing Banks, and Sharia Business Units. It was found that the indicator of the number of offices per 100,000 adult population had a significant adverse effect on profitability in Islamic banking, and the number of savings accounts per 1,000 adult population had a significant positive effect on profitability in Islamic banking. With three banking objects, this study concludes that Islamic Commercial Banks tend to be more inclusive than Islamic People's Financing Banks and Sharia Business Units.

## Method

This research is a quantitative research using secondary data from panel data. Secondary data is research data obtained through third parties in the form of published reports. This study will focus on the influence of the relationship between financial inclusion and profitability in Islamic banking. The selection of the topic of financial inclusion is quite interesting to study further because, in the current digital era, of course, the role of inclusive finance is quite effective as a driver of the economy in addition to financial inclusion programs that support global goals in the "Sustainable Development Goals" and set as an economic development strategy.

This study uses the Generalized Method of Moment (GMM) model, a dynamic panel model characterized by the lag of the dependent variable between the independent variables. Return on Assets is the dependent variable in this study as a proxy for the profitability of Islamic banking. This study takes ASEAN 3, namely Indonesia, Malaysia, and Brunei Darussalam and the GCC Alliance includes the United Arab Emirates, Saudi Arabia, Qatar, Oman, and Kuwait. The choice of country is also based on the joining of the country in the Organization of Islamic Cooperation with Islamic Banking. The timeframe of the research was 2012-2019. Financial inclusion measurement was based on three dimensions: availability with a proxy Number of branches per 100,000 adults, usability with a proxy for Outstanding loans (% of GDP), and ATM per 1000 adults as a proxy for the penetration dimension. The research model can be written as follows:

$$ROA_{it} = \alpha_{it} + LnOut\_Loan_{it} + ATM_{it} + Branches_{it} + ROA_{it-1} + \varepsilon_{it}$$

## Result and Discussion

Unit root analysis is the initial stage of data testing aimed at seeing the stationarity condition of the test data on time series data and random walk trend condition panels. The data is said to be ready for testing if it meets the stationarity requirements, determining the stationarity condition of the data using the alpha score as the decision limit. The data is stationary if the probability score is below the significant alpha value of 0.05. Suppose the research variable data does not occur stationary at the level. In that case, the unit root test will be continued at the first difference and second difference levels until all research variables are stationary. In this study, Levin, Lin & Chu-t were used to assess the alpha score for the common unit root process and PP-Fisher for the individual unit root process.



Table 1. Unit root test result

| Variable    | Level              |           | First              |           | Desc         | Second             |           | Desc       |
|-------------|--------------------|-----------|--------------------|-----------|--------------|--------------------|-----------|------------|
|             | Levin, Lin & Chu-t | PP-Fisher | Levin, Lin & Chu-t | PP-Fisher |              | Levin, Lin & Chu-t | PP-Fisher |            |
| LNATM       | 0,0000             | 0,0722    | 0,0000             | 0,0043    | Unstationary | 0,0000             | 0,0000    | Stationary |
| LNBRANCHE S | 1,0000             | 0,0056    | 1,0000             | 0,0000    | Unstationary | 0,0000             | 0,0000    | Stationary |
| LNOUT_LOA N | 0,0000             | 0,0358    | 0,0002             | 0,1219    | Unstationary | 0,0000             | 0,0055    | Stationary |
| ROA         | 0,8272             | 0,9201    | 0,0000             | 0,0000    | Unstationary | 0,0153             | 0,0000    | Stationary |

Source: Eviews 9

Table 1 above shows that in the level and first difference tests, all research variables are not stationary, or there is a unit root with a probability score above the alpha significance of 0.05. Hence, it is necessary to continue with the second difference test, and it is found that all variables are free from the unit root problem, with a probability score below 0.05.

In the Generalized Method of Moment (GMM) test, it is necessary to test the instrument's validity in the presence or absence of bias problems in the estimation parameters that cause the instrument variables in the equation to be inaccurate. Testing the validity of the instrument will use the Sargan Specification Test approach with testing hypotheses:

H0: a valid condition of the moment is found in the model.

The condition of the moment is said to be valid if the probability result (J-Statistic) is above the alpha significance of 0.05.

Table 2. Validity instrument test

| Metode   | Probabilitas  |
|--|---------------|
|  | (J-Statistic) |
| Hipotesis Null (Ho) : <i>Condition of Moment Valid</i> |               |
| <i>SarganSpesification test</i>                        | 0,456723      |

Source: Eviews 9

The cointegration test through the Sargan Specification Test approach shows that the condition of the moment is found. The instrument's condition is valid with a probability value above 0.05, which is 0.456723.

This Generalized Method of Moment (GMM) model is a dynamic panel model characterized by the lag of the dependent variable between the independent variables. It is a refinement of the instrumental variable method by Arellano & Bond. The Generalized Method of Moment is a regression analysis on dynamic data, namely data that has a lag (time-lapse) in the study.

Table 3. Generalized Method of Moment Result

| Variable   | Score   |          |
|------------|---------|----------|
| ROA(-1)    | coef.   | 0,101779 |
|            | t-stat. | 1,156313 |
|            | Prob.   | 0,2522   |
| LNATM      | coef.   | -0,3163  |
|            | t-stat. | -0,89039 |
|            | Prob.   | 0,3769   |
| LNBRANCHES | coef.   | 1,069761 |
|            | t-stat. | 1,698732 |
|            | Prob.   | 0,0946** |
| LNOUT_LOAN | coef.   | -2,85103 |
|            | t-stat. | -3,11004 |
|            | Prob.   | 0,0029*  |

Source :Eviews 9

\*\* Signifikan 10% (0,10)

\*Signifikan 5% (0,05)

In the results of table 3 above, it can be seen that two financial inclusion indicators significantly affect Return on Assets (ROA) in Islamic banking in ASEAN 3 and the GCC alliance. The number of branches per 100,000 adults as a dimension of financial inclusion availability has a significant positive effect on ROA in Islamic banking in ASEAN 3 and the GCC alliance, a positive influence indicates a unidirectional relationship between the number of bank branch offices and banking profitability where the more branch offices owned by Islamic banks will increase bank earnings. The ratio of the number of branch offices per 100,000 adult population significantly positively affects profitability in Islamic banking. A positive effect indicates a unidirectional relationship between the number of branch offices and profitability. Adding the number of branch offices will expand the performance of banks, especially as intermediary institutions. Expanding the working area will also increase the country's financial inclusion percentage. The existence of an office will help smooth banking operations. The addition of branch offices can be an opportunity and an obstacle for banks where a work area will increase market expansion opportunities and, at the same time, expenses for operational costs.

Bank branch offices are an infrastructure that can be used to overcome the problem of income inequality and development. People across the country have a large percentage of the unbanked community due to several things, including a lack of knowledge of banking products and unfulfilled customer qualifications. The opportunity for Islamic banks will certainly be greater in obtaining profits, especially in countries with a Muslim majority, because they are considered to create a sense of security and comfort for a Muslim to use banking services. The findings of this study are in line with Chen et al. (2018) and Shihadeh and Liu (2019), which state that an increase in the number of branch offices will increase the number of customers in banking related to this condition, banks will be more dominant in diversifying risk and adding offices will play an essential role in increasing banking income.

Outstanding loans (% of GDP) as a usability dimension of financial inclusion have a significant negative effect on ROA in Islamic banking in ASEAN 3 and the GCC alliance, indicating a two-way relationship between outstanding loans and bank profitability where an increase in outstanding loans will cause ROA in Islamic banking to decline. A high outstanding loan will allow the credit risk banks face to be even greater. Credit risk will hamper the stability of banking capital because larger costs are required to cover losses due to credit activities. Han and Melecky (2013) show that banks with higher loans are more

susceptible to credit risk. Credit risk is a major risk for banks because it affects loan quality, and banks with higher credit risk tend to have more non-performing loans. The number of non-performing loans will erode banks' profitability (Kingu, Macha, & Gwahula, 2018; Tan, Floros, & Anchor, 2017).

Financial inclusion in a country can be used as an indicator of increased economic growth in the financial and banking sectors by maximizing the bank's function as an intermediary, increasing its ability to access finance in a country, and increasing the amount of money circulating in society. Creating financial inclusion conditions will contribute to more equitable economic development, and increasing access to finance will reduce inequality and the severity of the low-income trap, thereby improving the well-being of people. Communities, thereby leading to a reduction in poverty rates. Furthermore, since the publication of the Millennium

Development Goals by the United Nations, the political link between financial inclusion and socioeconomic indicators, particularly economic growth, has played an important role. Prominent role in formulating and implementing sustainable development strategies. The socioeconomic structure of the country. Financial inclusion is recognized as a powerful social inclusion tool to directly address the economic aspirations of the poor and economically excluded. Still, it also addresses extreme poverty, reducing poverty, and income inequality, indirectly promoting a country's creation of public capital and economic growth. In this regard, each jurisdiction can take steps to enable effective and widespread financial inclusion access to inclusive and excluded sections of society to achieve financial inclusion and higher long-run economic growth. Territories will need a tailored approach translated into a formal policy framework.

## Conclusion

This study concludes that financial inclusion significantly impacts banking profitability. In contrast, branches have a significant positive effect on ROA in Islamic banking in ASEAN 3 and the GCC alliance, a positive influence indicates a unidirectional relationship between the number of bank branch offices and banking profitability where the more branch offices owned by Islamic banks will increase bank earnings. Outstanding loans as a usability proxy on financial inclusion have a significant negative effect on ROA in Islamic banking in ASEAN 3 and the GCC alliance, indicating a two-way relationship between outstanding loans and bank profitability where an increase in exceptional loans will cause ROA in Islamic banking to decline. Overall, the concept of inclusive finance can be implemented efficiently to increase banking performance and also can be a supported indicator on economic development to achieve optimal community welfare.

Overall, implementing financial inclusion can improve the financial stability of the banking sector and thus promote financial stability in the banking sector. Financial inclusion offers significant scope to reduce reliance on volatile and often costly money market funds to receive sufficient risk-free, mostly inexpensive deposits from retail customers. Increased financial inclusion can also act as a tool to lower the marginal cost of production, increasing banks' pricing power and increasing their resilience. As greater financial inclusion fosters a stable socio-political environment, banks operating in countries with inclusive financial sectors and high institutional quality are more likely to operate efficiently in these environments, thus promoting stability can be improved.

Banking stability is heavily influenced by the extent to which households and SMEs have access to financial services, demonstrating that ensuring an inclusive financial sector is critical to achieving inclusive economic growth. I'm here. By providing banking services to the unbanked and unbanked, bankers can only tap the untapped potential of their customers earlier and create a "lock-in" effect. Instead, they can support a comprehensive development agenda while allocating resources to more productive areas. 89% of people in developed countries have a bank account, compared to only 41% in developing countries (Demirgüç-Kunt & Klapper, 2012), so, especially in developing countries: Additional measures

should be focused on making bank accounts available to those excluded from formal financial services. Ultimately, however, only more empirical studies using supply-side and demand-side data on access provide a complete picture of the impact of financial inclusion on banking stability.

Increasing the implementation of financial inclusion in ASEAN can also use the utilization of Financial Technology (FinTech). The development of FinTech in ASEAN shows positive results, such as in Indonesia FinTech transactions in 2020 reached 33% by recording more than Rp 80 billion transactions. Governments with low scores, such as governance and risk indicators, can take steps to improve relevant factors and develop investment incentives to attract foreign investment. Another contribution is a potential collaboration with economists and other experts who analyze such data and propose policies to governments, which governments need to implement. This research operationalizes risk, demand, and supply components to attract investment and expand financial inclusion that stimulates economic growth and stability. The methodology of this study is the first to identify the best growth markets for financial inclusion to help fintech entrepreneurs with a profit or altruistic motives reduce income inequality within and between countries. Stepwise market selection methodologies based on empirical analysis are more accessible for investors than econometric models and may limit debate among economists. Combining the expertise of economists and marketers can produce research that builds growth models for countries.

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## Impact of Sharia Bank Merger on Economic Development in Indonesia

Syarifuddin<sup>1\*</sup>, Abdul Hamid Habbe<sup>2</sup>, Nasrullah Bin Sapa<sup>3</sup>

<sup>1,3</sup> UIN Alauddin Makassar, <sup>2</sup> Universitas Hasanuddin

*\*Corresponding author:*

Email:

[syarifuddin7890@gmail.com](mailto:syarifuddin7890@gmail.com)

### ABSTRACT

Islamic banks in Indonesia have made a new story. Three major Islamic banks in Indonesia have successfully merged under the name Bank Syariah Indonesia. The purpose of the study is to determine the impact of the merger on economic development in Indonesia. The methodology used is a non-interactive qualitative method, which is research on concepts through a document analysis. In conducting non-interactive qualitative research, researchers identify, study the available data to provide understanding of the concepts studied and data analysis used for data triangulation. The results showed that the impact of the merger of three state-owned banks (BRI Syariah, BNI Syariah, Bank Syariah Mandiri), has shown positive value in economic development in Indonesia as evidenced by the increase in the value of financing distribution, Indonesian Islamic banks are able to compete globally by prioritizing more complete services, wider reach, and better capitalization.

**Keywords:** Mergers, Banking, Islamic Banks, and Indonesia

### Introduction

A healthy and good economic system is an important requirement for a country in supporting sustainable national development efforts. According to the Research Director of the Center of Reform on Economics (CORE) Indonesia, Piter Abdullah said that the role of a banking institution in driving the national economy is very large. Banking is engaged in all economic activities, including the main driving sector for Indonesia's Gross Domestic Product (GDP). The main movements of the national economy that play a major role in banking are investment, consumption and export and import activities. Banking is everything that concerns a bank, a business activity, an institution, and how and processes in carrying out its business activities as a whole. (Hermansyah, 2022)

In Indonesia, initially there were conventional banks that implemented an interest system, as a reward for customers. This interest system is of course not in line with the system or teachings of Islam, where Islam forbids usury. This system can have an unhealthy impact on an economy, especially in the banking world. This is the reason why Muslims must rise to no longer be bound by the usury system, and look for a system that can avoid usury.

The banking system is not textually contained in the Qur'an, only the principles governing transactions, one of which is Q.S. Ali-Imron [3] Paragraph 130 concerning the prohibition of usury clearly. (Nainggolan, 2021)

Meaning: "O you who believe, do not eat usury doubled, and fear Allah so that you will be lucky." (Q.S. Ali Imron [3]:130)

Indonesia is a Muslim-majority country. Therefore, the development of the banking world to Islamic banking is an embodiment of the needs of the community who want a banking system that can provide healthy, good financial services and is also based on sharia principles (Nainggolan, 2021)

It was recorded at the Financial Services Authority that in March 2021 there were 15 Sharia Commercial Banks. Looking at the development of Islamic banking in Indonesia, it is one of the government's efforts and commitments in advancing the Islamic economy as a new pillar for the strength of the national economy which in the long term can encourage Indonesia to become one of the centers of Islamic finance in the world. (Keuangan, 2021)

Although there has been an increase in Islamic banks in Indonesia, if seen from the data from The Asian Banker's page in 2020, Indonesian-owned banks only rank below 30. Even though Indonesia is a predominantly Muslim country that should be able to compete in the global market. the world of Islamic banking at the ASEAN level. In order to compete with other state banks, Indonesian local banks must be able to increase the scale of their assets.

To enlarge the scale of assets, the government has carried out what is called a merger or merger of Islamic banks owned by BUMN (State-Owned Enterprises). With the merger, it is expected that the total assets owned by this bank can increase, and can form banking services that are wider, better and of higher quality. In short, a merger can be described as “ $A+B = A$  or  $B$ ”. In a merger there is usually a negotiation process involving two companies before the merger takes place, both of which can consider that the merger will result in a larger market share and the product will be available in a wider geographic area.<sup>5</sup> The bank that is being sought for a merger is PT BRI Syariah, PT Bank Syariah Mandiri, and PT Bank BNI Syariah became Bank Syariah Indonesia BSI. With the merger of Islamic banking in Indonesia, it can become more innovative, so that it can become a driving part of Indonesia's development. (Josua Tarigan, Alfonsis Claresta, 2018)

However, not all mergers are always fully successful, coupled with system updates, both in terms of employees (HR), services, or in terms of facilities, of course there are changes and must be readjusted. There are historical records that say that mergers have failed. In Kemal's book (2011) Mergers and acquisitions do not guarantee increased performance in the areas of profitability, liquidity, and cash flow. Twenty ratios have been used to analyze the performance in four years, the average of these ratios shows that the merger of royal bank of Scotland to bank Faysal failed to increase its profitability. (F Ahmed, A Manwani, 2018)

In addition, bank mergers, especially for banks that have overlapping branches, will also cause problems, as well as problems that are often faced by small borrowers who are often overlooked in the merger process. From several previous studies or research on bank mergers in Japan, it has been proven that weak consolidation can only cause bank weakness and for some banks that are weak as a result of the merger, the possibility of bankruptcy is very clear.

Theresia Gunawan provides an explanation of the post-merger bank failure prediction model. Since the first bank merger in Indonesia was carried out in 1971 until June 2004, there were 20 merged banks that were liquidated, while the merged banks still survived to date 19 banks. Based on the comparison between the number of surviving bank mergers, it is known that the number of bank merger failures in Indonesia is quite high, in the range of 51% which says that this reality is not in line with the government's expectations for the purpose of the merger.

An international study also concluded that even if a banking authority is transferred or a bank that accepts a bank merger is feasible and larger, the possibility of merger failure can also occur. One of these failures occurred because of a failure to estimate the fair value of assets and failure to settle the obligations of the bank after the merger. From this failure led to a significant destruction of shareholder value. The results of this finding also say that for banks

that have merged and if the market reaction results are negative, then in this period there must be better shareholder value creation through new strategic decisions. In addition, the merged bank must also be prepared to face economic uncertainty.

With the legalization of the merger at Bank Syariah Indonesia since Monday, February 1, 2021. So researchers feel that various analyzes must be carried out to measure and find out how the possible strengths, opportunities, threats, and challenges that will occur in the future to BSI using a SWOT analysis approach to what occurred in Bank Syariah Indonesia after the merger or merger of Bank PT BRI Syariah, Bank Syariah Mandiri, and Bank BNI Syariah. (Ioannis A Tampakoudis, Michael Nerantzidis, 2019)

## **Method**

The methodology used is a non-interactive qualitative method, namely research on concepts through a document analysis. In conducting non-interactive qualitative research, researchers identify and study available data to provide understanding (understanding) about the concepts studied and data analysis used by data triangulation.

## **Result And Disucussion**

The Indonesian economy has experienced good adaptation to the sharia economic system, as evidenced by the rapid development of the sharia-based financial industry. Many people are starting to be interested in the wisdom and benefits that are prioritized in the sharia economic system. For this reason, it is a great opportunity for the sharia industry to expand its network and destination sector in this Muslim-majority country.

From year to year the Islamic economy shows positive values in its development, this year, for example, the Islamic banking industry launched its creative strategy. Three banks that used to be sharia business units of leading conventional banks, namely BRI Syariah, BNI Syariah, Bank Syariah Mandiri, have now merged with a new name, namely Bank Syariah Indonesia. This shows that Islamic financial institutions also have a contribution to the Indonesian economy.

The merger of three Islamic commercial banks, state-owned companies, answered the long wait to form the largest national Islamic commercial bank with strong capital. The merger explained that this merger has a vision of the Merger itself having a meaning as a business union, so that joint ownership is achieved. The merger strategy between Islamic banks is categorized as a horizontal merger. National Islamic banking will be one of the 10 largest Islamic banks based on global market capitalization in the next 5 years.

Supervision of sharia bank mergers is the duty and authority of the Financial Services Authority so that the implementation of the merger of 3 (three) BUMN sharia banks can have an impact on society and the country's economy. The opportunity for a merger of state-owned Islamic banks, of course, has an impact on the country's economic stability in the midst of a pandemic. The economy slowed down as long as Covid-19 had become a disease that never went away from Indonesia, so the government issued a policy of Government Regulation in Lieu of Law (Perppu) No.1/2020 concerning State Financial Policy and Financial System Stability for Handling the Covid-19 Pandemic, in order to face the threat of endangering the National economy and or Financial Stability.



### **a. Merger of the three banks into BSI**

Merger itself comes from the Latin term "Mergere" which means: to unite, join, or combine, and also has the meaning of being absorbed. So in general, a merger can be interpreted as a merger of two or more companies, where there will only be one company that survives with or without a new name. (Vivi Porwati, dkk., 2021)

With this, the decision to merge the three banks is not without reason, the following are the various objectives of the merger of the three banks to become BSI:

1. The problem of capital in the three Islamic banks is solved and Islamic banks are expected to be able to expand more widely to meet the needs of the community and provide greater financing to the community.
2. Can accumulate large assets, thus making BSI equal to or even above conventional banks which on average already have a scale IV BUKU level. (Anis Fatinah, 2021)
3. Increase and strengthen the literacy (understanding of the existence of Islamic bank products) related to Islamic financial institutions, as well as expand the existence of Islamic banks to various sectors. The capital market, for example, with the existence of BSI, removes public doubts about buying sharia shares (Sutantri, 2021)

From various things that used to be a challenge for the three Islamic banks before the merger, now after the merger they are compared to goals that have been implemented and will develop other Islamic bank goals.

### **b. Its influence on the Indonesian economy**

Positive growth was shown in Bank Syariah Indonesia (BSI), in the period after the merger, this had its own influence and impact on other Islamic financial institutions and the Indonesian economy for sure. This positive growth is indicated by:

1. As of December 2020, BSI's assets reached Rp239.56 trillion. Such assets make BSI the 7th largest bank in Indonesia in terms of assets.
2. In the period of February 2021, the share capitalization of BRIS (or now BSI) occupies the highest position in the Islamic bank group. BRIS (BSI) shares have recorded an increase of 24.4% since the opening of Islamic stock trading this year (Kurniasari, 2021)

From the various positive responses above, it opens up great opportunities for the sharia industry to develop its existence in the Indonesian economy. The existence of BSI is not a challenge for other Islamic financial institutions, but instead contributes positive values and developments for Islamic financial institutions in the future, including:

1. The existence of Bank Syariah Indonesia is able to improve the quality of national Islamic banking and opens opportunities not only for BSI but also for other banks to increase the competitiveness of Islamic banks at the global level.
2. Sharia banking in the sharia economy will also play a role in expanding its market share, besides creating various product innovations in sharia banking that will convert sharia product contracts more easily to the public.
3. Reducing and familiarizing the Muslim majority community to things that are anti-usury, gharar, maysir and others. So that you will get used to halal transactions with benefit schemes and mutual benefits between each other. (Mahargiyantie, 2021)

When viewed from the side of the Indonesian national economy, the Islamic economy which includes banking from time to time has begun to contribute results, BSI for example:

1) At the end of 2020, the distribution of Islamic commercial bank financing in Indonesia grew 9.5% on an annual basis. In contrast to the financing of the national banking industry, which was minus 2.41%.

2) In addition, the Director of BSI, said that BSI will commit to MSME actors in various cities and districts, to establish MSME centers and distribute financing to MSMEs assisted by the Ministry of Cooperatives and MSMEs. From here, BSI is oriented to provide the widest possible social benefits for the Indonesian economy.

3) Improving access to financial services at BSI and digital technology-based competencies in its products, with the hope of increasing public literacy on the existence of Islamic banking products whose principles are wiser and more beneficial for people in all circles (Achmad Sani Alhusain, 2021)

#### ***a. Effect of the merger of 3 BUMN Islamic Banks***

Efforts to merge (merger) Islamic banks can increase the capacity of Islamic banking which is often constrained by limited capital. The merger of three state-owned Islamic banks is also expected to be able to accumulate large assets, so that this merger will be able to make Islamic banks equal or even above conventional banks. So that it will increase the returns expected by the customer who owns the funds. Generally, the higher the BOOK of a bank, it will be assumed to be safer, so that the owner of the funds is willing to place their funds at a lower rate. Meanwhile, banks with small BUKUs, in general, provide more incentives for the owner of the funds to place their funds in the bank.

After the merger of Islamic banks, the problem of capital in Islamic banks has been resolved and Islamic banks will be able to expand more widely to meet and facilitate the needs of the community. The existence of large capital will also encourage Islamic banks to provide greater financing to the community. The merger of Islamic banks will also realize the efficiency of the strategic policy direction of Islamic banking in the future. In addition, the merger of Islamic banks will also make the inclusion of Islamic banking more focused according to their respective characteristics. If Islamic banking is more inclusive, Islamic financial literacy will also increase.

The impact of the merger (merger) of Islamic banks in addition to increasing assets is the movement of mutual support and cooperation between state-owned Islamic banks. The unification of state-owned Islamic banks will produce synergies, so that they are able to match and even exceed conventional banks. Increased assets will encourage Islamic banking to provide more financing to the public, so that economic growth will also increase. The existence of a merger will be able to improve the Indonesian economy after COVID-19. Expansion of Market Penetration if the network in Islamic banking expands, it will be able to create new innovations that can increase and can attract the attention of potential partners to become partners. The merger will make it easier to add value to build customer partnerships. For example, with a variety of business products such as wholesale, retail, to MSMEs. If the market penetration rate is high, then Islamic banking products will have their own advantages. From there, it will improve the quality of the results of the sharia banking merger, which of course can also increase the pace of the economy in Indonesia, especially in the midst of the COVID-19 pandemic disaster like this, because like MSMEs that have put full trust in conducting transactions in Islamic banking. The third is Financing Cost Efficiency, efficiency in sharia

banking mergers will certainly occur because it can create new entities that are more agile and competitive in carrying out their operations. With the merger, Islamic Banking is able to overcome high expenses such as operational costs, capital expenditure, and costs such as fundraising which can later be reduced. The existence of a national economic stimulus policy stated in POJK Number 11/POJK.03/2020 (Financial Services Authority, 2020) proves that the government is trying to stabilize the financial sector due to the COVID-19 pandemic. This policy will provide direction to banking institutions to carry out mergers, consolidations, takeovers, and/or integrations aimed at maintaining financial system stability in a pandemic. (Fikri, J., 2017) This can be a reference for mergers in Islamic banking. If the merger has been carried out, it will strengthen the Islamic financial system which will automatically be more efficient in financing partners.

Another impact of the merger is an increase in economic activity in the Islamic capital market. The existence of this merger policy will make BRI Syariah a survivor entity because BRI Syariah is the only Islamic bank that has been listed in the Islamic capital market, which after the information regarding this merger, public interest in buying its shares is even higher. However, investors also need to first analyze whether the act of buying shares in the capital market is a spontaneous act of following the trend or whether it is a calculated action. Because after the merger and BRI Syariah becomes a survivor entity, the value of the shares will be delusional because the ownership is no longer owned by one bank, but three banks at once adjusted to the percentage of assets owned. So that the Merger will produce strong Islamic bank capital, be included in the top 10 national banking ratings, and compete with other national banks. Strong capital will attract long-term resources that banks need for business expansion. The merged bank will be more operationally efficient, have a wider network, have a variety of products to serve the corporate, commercial, consumer and MSME segments. The global market potential in the Islamic economic sector: halal food, Islamic finance, travel, Muslim clothing, pharmaceuticals and cosmetics, media and recreation, promises an opportunity to drive the national economy during the Covid-19 pandemic. (Anis Fatinah, 2021)

With the merger of these three state-owned Islamic banks, it turns out that it will also cause many negative effects considering that the merger was carried out in the midst of the ongoing COVID-19 pandemic, including the risk of financing by the banks themselves considering that COVID-19 made the economy in Indonesia, especially for MSME owners and large companies were shaken. Therefore, Islamic banking must be careful in deciding to provide financing to partners by being more selective in choosing prospective partners whose businesses are able to survive in the midst of the COVID-19 pandemic so that financing problems do not occur in the future. In addition to financing risk, operational risk is also a challenge for sharia banking participants in the merger given the government's policies to deal with the COVID-19 pandemic, such as the Large-Scale Social Restrictions (PSBB) which has resulted in the public (including partners from sharia banking) requiring them to spend more time activities at home such as Work From Home (WFH) self-quarantine, etc., so this can also affect Islamic banking, which must continue to serve its partners, even if not face-to-face or offline.

#### ***b. The Influence of the Merger of Islamic Banks on the State's Economic Stability***

Since the pandemic hit the country of Indonesia, the pace of national economic growth has been hampered, state revenues have declined, but state spending and financing have increased, so that one of the government's efforts to save the country's economy begins by

providing a number of policies that are able to have an impact on increasing the economy for state revenues issued. in Perpu No.1/2020. Thus, the merger of 3 Islamic banks which are now known as Bank Syariah Indonesia (BSI) is one of the positive breakthroughs to increase the country's economic income. OJK as an institution that has a supervisory system as regulated in the Financial Services Authority Law, has the authority to issue special rules related to sharia-based bank mergers, so that economic activities can run as they should.

Overall, it is difficult to assess the impact of mergers and acquisitions on consumers, not only because this aspect is not usually considered in popular or scientific analyses, but also because it is often difficult to disentangle the direct impact of mergers from the influence of other factors such as increased global competition or technological change. . Looking at the impact of the merger on product supply, choice, and product costs, it is said that in general, the number of products on the market has increased significantly in recent years, offering more choices at lower prices, as most of the new entrants in the market are trying to compete. on the basis of price. (Ika Atikah, Maimunah, 2021)

They can do this because new information and communication technologies allow them to save costs by operating with fewer branches or without traditional branch networks. The new products and providers are also perceived to offer clients more time flexibility, as they no longer have to rely on branch opening hours to run their business. Traditional providers have responded to this trend to meet consumer needs, but also to cut operational costs by closing branches.

Strengthening the merger of state-owned Islamic banks into PT. Bank Syariah Indonesia, Tbk is the right step to take in the midst of a pandemic, so that state finances remain stable and the 3 Islamic banks joined in the merger get profits and dividends, although they are still in a transitional period since their inauguration on February 1, 2021/19 Jumadil Akhir 1442 H is history BSM, BNI Syariah, BRI Syariah become one entity, namely Bank Syariah Indonesia (BSI). The merger of the three Islamic banks provides a more complete service, wider reach, and has a better capital capacity. Supported by synergies with parent companies (Mandiri, BNI, BRI) and the government's commitment through the Ministry of SOEs, Bank Syariah Indonesia is encouraged to be able to compete at the global level.

## Conclusion

From the explanation above, it can be concluded that BSI, which is the result of the merger of three state-owned banks (BRI Syariah, BNI Syariah, Bank Syariah Mandiri), has shown positive values in developments in early 2021. This is evidenced by the increase in the value of disbursement of financing when compared to national banks, which experienced a slight decrease in the level of disbursement of financing.

Strengthening the merger of state-owned Islamic banks (BNI Syariah, BSM, BRI Syariah) to become Bank Syariah Indonesia begins with an agreement that is set forth in a written agreement for the merger of Islamic commercial banks as regulated in several applicable legal regulations. The merger of Islamic commercial banks in the midst of a pandemic, is the right step to maintain the country's economic stability as stated in Perpu No.1/2020 and POJK No.18/POJK.03/2020. The impact of the merger of Islamic commercial banks, of course, has a positive impact, Indonesian Islamic banks are able to compete globally by promoting more complete services, wider reach, and better capital. For the state, it is certainly a good thing that

the Ministry of SOEs can do, by initiating the merger of 3 sharia-based state-owned subsidiaries (BNI Syariah, BSM, BRI Syariah) to merge into PT. Bank Syariah Indonesia, Tbk.

Another positive thing that has become a commitment is to increase the literacy of sharia products and industries in the wider community, which is expected to be able to penetrate the wider market sector and even globally. In addition, BSI is also committed to providing the widest possible social benefits to the national small economy sector, not only to fellow sharia industries. And it is hoped that in the future BSI can compete both from various product innovations and technological advances offered to customers.

The great influence of the merger of Islamic commercial banks, of course, has a positive impact, Indonesian Islamic banks are able to compete globally by prioritizing more complete services, wider reach, and better capital. For the state, it is certainly a good thing that the Ministry of SOEs can do, by initiating the merger of 3 sharia-based state-owned subsidiaries (BNI Syariah, BSM, BRI Syariah) to merge into PT. Bank Syariah Indonesia, Tbk.

The unification of state-owned Islamic banks will produce synergies, so that they are able to match and even exceed conventional banks. Increased assets will encourage Islamic banking to provide more financing to the public, so that economic growth will also increase. The existence of a merger (merger) will be able to improve the Indonesian economy after COVID-19 not only has a positive influence but now that post-COVID-19 can also have a negative impact on Islamic Banking where there is a risk of financing by the banks themselves considering COVID-19 has made the economy in Indonesia, especially for the owners of MSMEs and large companies were shaken. Therefore, Islamic banking must be careful in deciding to provide financing to partners by being more selective in choosing prospective partners whose businesses are able to survive in the midst of the COVID-19 pandemic so that financing problems do not occur in the future. In addition to financing risk, operational risk is also a challenge for merged sharia banks considering the government's policies to deal with the COVID-19 pandemic.

With the merger of the three state-owned Islamic banks, it will have some good effects, including increasing assets in Islamic banking, especially for merger participants because it is automatic when a company is merged, its assets will also be accumulated. In addition, with this policy, it will expand market penetration because if there is a merger in Islamic banking, new innovations can increase and can attract the attention of potential partners to become partners. Furthermore, Islamic banking is increasingly cost efficient in financing because with a merger, Islamic banking is able to overcome high burdens such as operational costs, capital expenditure, and costs such as fundraising which can later be reduced.

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## Problems and Challenges on the Islamic Marketing Mix of Selected Halal Food Manufacturers in Mindanao, Philippines

Aldrich June B. Caraele  
Faculty, Mindanao State University, Philippines

*\*Corresponding author:*

E-mail:  
aldrich.caraele@msumain.edu.ph

### ABSTRACT

The study assessed the problems and challenges encountered by selected Halal food manufacturers on their marketing mix. It conducted a survey to 70 certified halal food manufacturers in Mindanao, Philippines. The findings revealed that the manufacturers have faced a lot of problems and challenges. Based on the result, three of the marketing mix elements have encountered problems and challenges very seriously. Among these Ps, price got the highest weighted mean of 3.61, followed by place with a weighted mean of 3.46, and then physical evidence with a weighted mean of 2.30. Meanwhile, the challenges and problems in all other Ps, namely product (3.20), people (3.19), promotion (3.17) and process (3.06) were also seriously encountered. Given the findings of the study, manufacturers should critically study the possible causes of the problems and challenges they have encountered, and then necessary actions should be taken to mitigate the problems and challenges met, thereby ensure compliance of their operation with Islamic standards.

**Keywords:** Islamic, Marketing mix, Halal food, problems, challenges, Philippines

### Introduction

As food industry demands higher customer-orientation, functions of marketing should be given more importance. Food manufacturers should devote time on designing and implementing marketing mix that would create value proposition to their customers. Food industry should employ marketing efforts that ensure customer satisfaction which would be the key to have more loyal customers, and thereby improve their financial performance.

Recently, the market for halal food has caught the attention of manufacturers due to the fast-growing worldwide Muslim population and growing awareness. Nevertheless, food consumption is the most critical for Muslim consumers' primary needs since they have to take halal products (Varinli, Erdem & Avcilar, 2016). As emphasized by Esfahani and Shahnazari (2013), consuming halal products is an essential duty of Muslims wherever they stay.

The term halal (حلال) comes originally from the Arabic language which means permissible, allowable, and acceptable. As such, the concept of halal is founded around the necessity for any Muslim to buy products that are permissible, allowable, and acceptable from a religious point of view. For a product to be halal, it must comply the requirements of Sharia as provided in its sources. The two most significant sources of Islamic teachings are the Holy Quran and the Sunnah (Khan & Haleem, 2016). Thus, in order to meet the requirements of Muslim consumers, food industry must design a marketing mix in accordance to Islamic standards.

The marketing mix in an Islamic perspective is focused on value-maximization to encourage societal welfare approach (Alserhan et al., 2016). Thus, it is crucial for the players in this field to understand different aspects of Islamic marketing and its impact on the implementation of marketing strategy. In fact, halal exporters that have designed their marketing strategy in accordance to Islamic values, beliefs, norms and practices have greater potential to enhance their export performance in Islamic markets (Tahir and Abdul, 2013). The Islamic marketing mix studied in this research includes

the 7Ps; product, price, place, promotion, people, process and physical evidence (Arham, 2020; Baharuddin et al., 2015; Najmaeia et al., 2017).

Several studies have found out that there are challenges and problems encountered by halal producers. The Muslim Mindanao Halal Certification Board (2010) reveals on its report that there are various challenges facing the halal certification in the country. First, in the eyes of the Muslim world, the Philippines is very much a non-Muslim country, and that forbidden (haram) food and drinks are widely produced, catered, and distributed all throughout the country even in Muslim communities. Thus, halal certification in the country is still struggling to be at par with international practices. Secondly, halal certifiers for its part, given the fast-paced development in the food industry, are confronted with issues and concerns in food products involving pigskin as extenders in manufactured meat products, phosphate in canned tuna, lecithin in drinks, vanilla flavors in cakes and ice cream, pork enzyme in popular food seasoning, GMO-tainted food products, the use of stunning and mechanical knife in livestock and poultry, and cross contamination in food production and processing. Moreover, the report highlights several challenges and problems evolving in the marketing mix.

Interestingly, in the study of Omar (2013) on the challenges and marketing strategies of halal products, it reveals that the marketing aspects in the entrepreneurship is a major challenge faced by small entrepreneurs due to lack of capital and lack of knowledge in marketing strategy. As such, study notes that the problems of marketing and the market have always been a barrier to small industry to grow. With this, Omar recommends that the small operators need to place more emphasis on the aspect of their marketing. Although there are some weaknesses in the management of their business, a lot of assistance from the government should be able to help small halal food industry to face whatever business challenges toward greater excellence. Not to mention the commitment of operators to promote themselves by willingness to seek and adopt appropriate technology continuously to produce high quality food products, safe for consumption, cost-effective and competitive in the global market.

Another study conducted by Mahidin, Saifudin and Othman (2017) presents the challenges faced among food and beverages small and medium size manufacturers. The study is focused on challenges that the halal product's manufacturers have encountered, mainly from small and medium enterprises (SMEs). Some of the challenges identified were the complex management of warehousing and terminals, the lack of trust and knowledge, perceived risk, and others that related to the halal matters.

Thus, the study evaluated the problems and challenges encountered by halal food manufacturers on their marketing mix. With the findings of the study, the manufacturers will be able to determine the degree of seriousness of their problems and challenges, and then come up solutions in order to sustain Islamic compliance of their operation.

### **Methodology**

The study is a descriptive research. A survey questionnaire was designed by the researcher using the studies of Islam Guide (2013); Mahidin, Saifudin and Othman (2017); Muslim Mindanao Halal Certification Board (2018); and Omar (2013) as guides in developing the instrument. To ensure the functionality of the instrument, validity and reliability tests were done. Content validation was done by experts on the field and professional researchers. Moreover, Cronbach's alpha was determined to guarantee the consistency of the questions. A survey was conducted to 70 Halal certified food manufacturers operating in Mindanao, Philippines. The data were treated and analyzed using descriptive statistics.

### **Results and Discussions**

Successful implementation of the marketing mix of the manufacturers can be hindered by some problems and challenges. As such, manufacturers were asked to assess the degree of seriousness of the challenges and problems they have encountered on their marketing mix. Based on the result, three of



the marketing mix elements have encountered the challenges and problems very seriously. Among these three Ps assessed, price got the highest weighted mean of 3.61, followed by place with a weighted mean of 3.46, and then physical evidence with a weighted mean of 2.30. Meanwhile, the challenges and problems in all other Ps, namely product (3.20), people (3.19), promotion (3.17) and process (3.06) were also seriously encountered. The detailed result of the assessment is presented Table 1.

| 7Ps  | Question Statements (Indicators for the 7Ps)                   | Weighted Mean | Interpretation      |
|--|--|---------------|---------------------|
| <b>P<br/>r<br/>o<br/>d<br/>u<br/>c<br/>t</b>   | 1. Difficulty in sourcing halal certified ingredients.         | 3.20          | Serious             |
|  | 2. Difficulty in segregation of halal & non-halal ingredients. | 3.30          | Very Serious        |
|  | 3. Products lack innovation due to insufficient trainings.     | 3.11          | Serious             |
|  | 4. Lack of confidence/integrity on the halal certification.    | 3.17          | Serious             |
|  | 5. Misuse of halal logo and label which create confusion.      | 3.23          | Serious             |
|  | <b>Over-all Weighted Mean of Product</b>                       | <b>3.20</b>   | <b>Serious</b>      |
| <b>P<br/>r<br/>i<br/>c<br/>e</b>   | 1. Prices of halal ingredients are relatively higher.          | 3.81          | Very Serious        |
|  | 2. Transportation costs are increasing.                        | 3.36          | Very Serious        |
|  | 3. SRP printed on a product is often substantially higher.     | 3.71          | Very Serious        |
|  | 4. Prices of products are becoming less competitive.           | 3.44          | Very Serious        |
|  | 5. Prices may be viewed to be unreasonable.                    | 3.70          | Very Serious        |
|  | <b>Over-all Weighted Mean of Price</b>                         | <b>3.61</b>   | <b>Very Serious</b> |
| <b>P<br/>l<br/>a<br/>c<br/>e</b>   | 1. Lack of control in the segregation of halal & non-halal.    | 3.86          | Very Serious        |
|  | 2. Halal products are contaminated with non-halal.             | 3.16          | Serious             |
|  | 3. Distributors are selling haram with halal products.         | 3.82          | Very Serious        |
|  | 4. Unavailability of halal food products.                      | 3.27          | Very Serious        |
|  | 5. Limited number of distributors of halal food products.      | 3.17          | Serious             |
|  | <b>Over-all Weighted Mean of Place</b>                         | <b>3.46</b>   | <b>Very Serious</b> |
| <b>P<br/>r<br/>o<br/>m<br/>o<br/>t<br/>i<br/>o<br/>n</b>   | 1. Difficulty in establishing integrity of company's product.  | 3.35          | Very Serious        |
|  | 2. Difficulty in gaining consumer trust.                       | 3.30          | Very Serious        |
|  | 3. Difficulty in designing a suitable promotional program.     | 3.12          | Serious             |
|  | 4. Insufficient knowledge of the distributors' employees.      | 3.01          | Serious             |
|  | 5. Challenge in delivering the promises in the promotion.      | 3.06          | Serious             |
|  | <b>Over-all Weighted Mean of Promotion</b>                     | <b>3.17</b>   | <b>Serious</b>      |
| <b>P<br/>e<br/>o<br/>p<br/>l<br/>e</b>   | 1. Employees lack knowledge on Islamic laws/practices.         | 3.34          | Very Serious        |
|  | 2. Not giving much importance to Islamic laws/practices.       | 3.13          | Serious             |
|  | 3. Resistance in strictly abiding Islamic laws/practices.      | 3.10          | Serious             |
|  | 4. Lack of control on the misconduct/unethical manner.         | 3.17          | Serious             |
|  | <b>Over-all Weighted Mean of People</b>                        | <b>3.19</b>   | <b>Serious</b>      |
| <b>P<br/>r<br/>o<br/>c<br/>e<br/>s<br/>s</b>   | 1. Halal procedures are not strictly and completely followed.  | 2.81          | Serious             |
|  | 2. Not well-oriented and familiar with halal procedures.       | 3.14          | Serious             |
|  | 3. Lack training on halal standards and procedures.            | 3.41          | Very Serious        |
|  | 4. Ignore the importance of halal processes.                   | 2.87          | Serious             |
|  | <b>Over-all Weighted Mean of Process</b>                       | <b>3.06</b>   | <b>Serious</b>      |
| <b>P<br/>h<br/>y<br/>s<br/>i<br/>c<br/>a<br/>l<br/>E<br/>v<br/>i<br/>d<br/>e<br/>n<br/>c<br/>e</b> | 1. Unavailability of halal certified equipment and facilities. | 3.29          | Very Serious        |
|  | 2. The cost of halal certified equipment/facilities are high.  | 3.49          | Very Serious        |
|  | 3. Lack of control on the display/view obscene images.         | 3.06          | Serious             |
|  | 4. Lack of knowledge on the proper use of Islamic objects.     | 3.34          | Very Serious        |

|                  |   |      |              |
|------------------|---|------|--------------|
| a<br>c<br>1<br>a | Over-all Weighted Mean of Physical Evidence | 3.30 | Very Serious |
|------------------|---|------|--------------|

**Table 1. Problems and Challenges on the Marketing Mix of Halal Food Manufacturers**

In terms of the specific challenges and problems in the 7Ps, indicator on place relating to the lack of control in the segregation of halal and non-halal food products is considered to be the most serious problem with a weighted mean of 3.86. It is also followed by another related problem on place pertaining to the selling of halal with non-halal products of the distributors with a weighted mean of 3.82. The problem on the segregation and distribution of halal products has also been encountered by the manufacturers in other Muslim countries as cited in the study Mahidin, Saifudin and Othman (2017).

Some of the very serious challenges and problems are also encountered in the other elements of the marketing mix. A problem on price pertaining to higher prices of halal with a weighted mean of 3.81 is likewise assessed to be very serious. Another two problems on price evaluated to be very serious are the non-compliance of distributors to the suggested retail price with a weighted mean of 3.71 and the view of consumers towards price to be unreasonable with a weighted mean of 3.70. These challenges/problems may not only be true to halal manufacturers but even to other type of producers especially in times of inflation (Villanueva, 2018).

Remarkably, a problem on establishing integrity of company's product (3.35) and gaining consumer trust on promotion (3.3) are also very seriously encountered. These mentioned problems were caused by existence of fake halal products and issues on non-compliance on some halal. Other problems and challenges are also found to be serious. These problems have also been noted in the study of Omar et al. (2013).

Moreover, an indicator on product element relating to the difficulty in segregating halal and non-halal ingredient is also found to be a very serious problem with a weighted mean of 3.30. As discovered in the other variables of the study, some of the halal certified food manufacturers are also manufacturing non-halal products. Thus, difficulty in separating halal with non-halal materials is a challenge. All other challenges and problems under product element are also assessed to be serious. These include the misuse of halal logo and label, difficulty of sourcing halal ingredients, lack of integrity in the halal certification, and products lack innovation due to insufficient training.

Finally, very serious problems are also encountered on process and physical evidence which pertain to the lack of training on halal standards and procedures; high cost and unavailability of halal certified equipment/facilities; lack of knowledge on the proper use of Islamic objects; and lack of knowledge on Islamic laws/practices. It should be noted that most of these problems were also highlighted in the report of the Muslim Mindanao Halal Certification Board in 2010.

## Conclusion

The assessment revealed that Halal food manufacturers have truly encountered a lot of problems and challenges on the implementation of their marketing mix. It is evident that most of the problems and challenges are seriously encountered. Thus, manufacturers should carefully review the findings of the study and critically evaluate the causes of the problems and challenges, and then take necessary actions to address the concerns so compliance to Islamic standards are ensured on their operation.

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