

Applying Islamic Economics in order to Improve Prosperity in Indonesia

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Abstract— The evaluation of government programs in order to reduce poverty and reach equal distribution of income is considered to be running quite slowly. This is indicated by the percentage of poor people that only decreased less than 1% a year since 2010; even the percentage of poor people increased in September 2015. Therefore, funding or material assistance is needed from other sources that can be used as a driver of poverty alleviation such as zakat, infaq and waqf, which are adopted from the Islamic Economics system. This study examines the implementation of Islamic Economics in order to improve prosperity in Indonesia, especially the poor. The implementation of zakat is mandatory for certain groups and the distribution should be based on certain characteristics including those who need help. Infaq and waqf are more general and can be applied to wider population. By optimizing the acceptance of zakat, infaq, and waqf, revenues will be distributed from high income populations to low-income populations so it can improve the prosperity.

Keywords— *Islamic Economics, zakat, infaq, waqf, income distribution, prosperity*

I. INTRODUCTION

Indonesia as a developing country is still facing the problem of high poverty. Based on data from The Central Bureau of Statistics (BPS), the percentage of poor people in Indonesia in September 2015 amounted to 11.13% or 28.5 million people. It shows an increase from the previous year which amounted only at 10.96%.

TABLE 1. Percentage of Poor People in Indonesia in 2010-2016

Percentage of Poor People in Indonesia (%)			
2010	11.66	Sep-14	10.96
2011	11.96	Mar-15	11.22
Mar-12	12.49	Sep-15	11.13
Sep-12	13.33	Mar-16	10.86
Sep-13	11.47	Sep-16	10.7
Mar-14	11.25		

Source: Population Census 2010, BPS

The large composition of the poor also indicates a social disparity between the poor and the rich. In statistic, a measure for this disparity is represented by gini ratio. In 2015, the gini ratio of Indonesia was 0.41 and 0.40 in 2016. The number shows the distribution of income in Indonesia was quite unbalanced. The poverty gap makes most of the total national income is only enjoyed by the rich. If there is no effort in distributing equal income, the social disparity will be more severe; the rich get richer and the poor get poorer.

The Indonesian government is paying a close attention to overcome poverty. Responding the deceleration in poverty

reduction and disparities rise in the country, at the beginning of 2010 – through Presidential Decree (Perpres) No. 15 – the National Team to Accelerate Poverty (TNP2K) was established. The regulation was followed by the issuance of Minister Regulation (Permen) No. 42 of 2010 on the Institutional Structure and Work Mechanism of Poverty Reduction Coordination Team (TKPK) Region. Based on Presidential Decree No. 15, the source of fund allocated to run programs managed by TKPK is taken from National or Regional Budget (APBN or APBD). The ratio average of local expenditures at the provincial level for social assistance only amounted to 0.59% of APBD.

TABLE 2. Summary of APBN and Social Assistance Expenditure in 2015

Level	APBN/APBD (Billion Rp)	Social Assistance Ex- penditure (Billion Rp)	Percentage (%)
National	1,033.990	7.305	0.71
Province	282.079	3.607	1.28
District	614.186	3.245	0.53
City	137.724	0.452	0.33

Source: TNP2K

Therefore, other sources of funds are needed to help the poverty alleviation program. The sources of funds in the Islamic Economics system that allows the funds to be allocated are taken from the payments of zakat, infaq, shadaqah, and waqf (ZISWAF). Different from the financial resources of other development funds, ZISWAF has no reverse impact of using its funds instead of to please and expect reward of Allah.

The purpose of this study is to examine the implementation of the Islamic Economics system in the payment of ZISWAF for increasing the welfare in Indonesia.

II. LITERATURE REVIEW

By the term, zakat is part of the state with the specific requirements which are required by Allah to the owner to be submitted to deserve a person. In general, zakat can be formulated as part of the property that must be given by every Muslim who meets certain conditions. The terms are *nishab* (the minimum amount of wealth that must be excluded), *haul* (conditional period when someone issuing to obligate zakat), and levels (measurement of the amount of zakat that has to be removed).

Shadaqah comes from the word *sadaqa* which means true. People who are fond of shadaqah could be interpreted as recognition of the true faith. According to the term of the

syariat, shadaqah is removing some wealth or income to an interest that is commanded by religion.

There was an order addressed to the Muslims about spending their possessions on the path of Allah including in giving lawful wealth and good to those in need. *"O you who have believed, spend from the good things which you have earned and from that which We have produced for you from the earth. And do not aim toward the defective therefrom, spending (from that) while you would not take it (yourself) except with closed eyes. And know that Allah is Free of need and Praiseworthy."* (Surah Al-Baqarah: 267).

There has been many researches stated that the Islamic Economics system can be a reference in running a country's economy. In addition, a concrete example of Islamic Economics practice that has been recognized by many countries in the world is the zakat system. Zakat is recognized as a revenue redistribution system and empirically can improve welfare and reduce poverty. In Indonesia, which is predominantly Muslim, beside zakat, the term infaq, shadaqah, and waqf are also very familiar. These activities are compulsory worship and sunnah (recommended) as treasure purification for the givers.

Islamic Economics did not emerge from a drive to correct economic imbalances, injustices, on inequalities. Because Islamic Economics is developed to serve cultural and political ends, it does not have to meet scientific standards of coherence, precision, or realism. Islamic Economics vision has to be universal and contemporary, not chauvinistic and medieval. According to the promoters of Islamic Economics, the second identified characteristic of an Islamic economy is the redistribution system known as zakat [5].

Productive waqf is a gift in the form of something that can be cultivated or rolled out for the good and the benefit of the ummah. The form can be in money, giro, stock or obligations. According to the fatwa of the Majelis Ulama Indonesia (MUI) on 26th April 2002, the cash waqf is Waqf Money (Cash Waqf / Wakaf al-Nuqud), which is paid by a person, groups, institutions or legal entities in the form of cash. Included in the definition of money is an obligation [3].

Cash waqf can also be an economic instrument to solve the twisted economic problems. Cash waqf was introduced by Prof Dr MA Mannan through the establishment of the Social Investment Bank Limited (SIBL) in Bangladesh. By managing cash waqf, Indonesia is no longer in debt to the multilateral creditor institutions as a source of development financing, because the cash waqf fund completes the next state income beside tax, zakat and other revenues. Through a variety of thoughts and studies, the role of cash waqf is not only used in the release of the economic dependence of the institutions of multilateral creditors, but also capable of being a component of economic growth.

Money waqf is one of the forms of wakaf instruments that are allowed in Islam. The existence of money waqf becomes very strategic. Money waqf is not only as one aspect of Islamic teachings that have spiritual dimension; it is also a teaching which emphasizes the importance of economic welfare (social dimension) and the welfare of the people [2].

Islamic Economics and financial activities are formed by three kinds of measurements and institutions. First, positive measures such as zakah (compulsory alms-giving) are aimed to fulfill the needs of the poor. Methods have been developed to systematically manage the zakah funds to enhance the positive impacts in alleviating poverty. Second, voluntary measures such as sadaqah (charitable giving) are aimed to provide the immediate needs of an individual. Waqf, or pious foundation, as part of the voluntary third sector, is aimed to provide the goods and services which either could not be provided at all or sufficiently due to the failure of the market mechanism or the government. In regard to waqf aimed for health services, education, and food distribution etc., the use of funds accumulated in this way is considered as the efficient manner as it is developed through cash-waqf system and human development projects to enhance their contribution to the economic development of the societies [1].

There are some possible factors affecting individual giving behaviour. Intention to behave and the factors that influence it, will be considered as individual psychological processes. The individual differences refer to demographic, economic, religiousness and other individual characteristics factors, while environmental factors refer to social capital and organisational factors. Meanwhile, individual giving behaviour refers to an individual decision to pay their giving through amil [4].

Individual behaviour in accomplishing ZISWAF through amil can be explained by external factors (i.e., organisational factor and trust) and psychological processes (i.e., intention to behave which is influenced by attitudes toward behaviour). When entering the indicator of 'giving through amil' as the dependent variable, the main determinants of giving behaviour are external factors which are related to Muslim's beliefs in and trust on amil. The implications of these findings are the importance of amil to give positive stimulus (external factors) which can convince the Muslims (through their psychological process) to use amil services as intermediary institution for their giving. Amil can convince them by providing adequate payment systems and high quality services as well as disseminating of the amil benefit and institutions. Amil should also increase the individual trust on them.

III. METHODOLOGY

This study used data from BPS and Integrated Data Base quoted from TNP2K, also National Zakat Statistics data released by the National Zakat Agency (BAZNAS). An analysis method used is descriptive analysis on the data variables. A descriptive analysis is done to know the pattern of data distribution and the potential of ZISWAF in order to improve prosperity in Indonesia.

IV. RESULT

The management of shadaqah is similar as the management of zakat; but the distribution of shadaqah is not the same as zakat. The distribution of zakat is imposed on anyone who needs, but shadaqah is given to social occasions, such as helping victims of natural disasters, providing

donations to orphans, providing assistance to underprivileged children for school and other social activities.

Law of the Republic of Indonesia no. 41 of 2004 about Waqf is directed to empower waqf which is one of the instruments in building the socio-economic life of Muslims. The Act covers both movable and immovable property, including waqf of money which is widely used, not limited to the establishment of places of worship and social religion.

In addition, waqf in the form of immovable property can also be used as productive waqf. An example of productive waqf in the form of immovable property is the establishment of a business that can absorb labor and the result of the business becomes a source of income for workers given to those who are entitled to receive, or re-represented. Waqf in the form of schools or other educational facilities can improve the level of education, especially for the poor. Waqf in the form of hospitals or health facilities can improve access to health services, especially for the poor in remote areas.

Waqf can also be given in the form of other buildings such as flats to provide more decent housing facilities for people in need. Directing waqf to the industrial sectors development will create new jobs. The creation of new jobs will reduce poverty. By doing this, waqf may become an investment; and investment is an important pre-requisite for economic development.

Global Waqf: "If the 100 million of the 204 million Indonesian Muslim waqfs carried an average of Rp 100,000 per month. Total wakaf collected in one month would be Rp 10 trillion, and in a year would reach Rp 120 trillion. If it only reached 50 percent, the number of Waqf-Money collected within one year would be Rp 60 trillion."

A. *The Potential of ZISWAF in Improving Welfare and Reducing Poverty*

Based on the result of population census conducted by BPS in 2010, the Muslims population composition amounted to 87.18% of the total population. Islam is the religion professed by more than 60% of the population in each province except for the province of Bali, East Nusa Tenggara, West Kalimantan, North Sulawesi, Maluku, Papua and West Papua. Thus, it can be assumed that at least 50% of the total population of Indonesia is donor in the collection of ZISWAF. In addition, the distribution is not limited to the area concerned, but it can be spread throughout the region in Indonesia.

The funding potential accumulated from ZISWAF is highly reliable to overcome the public welfare issues. According to the national zakat statistic data in 2015, Zakat, Infaq, and Shadaqah (ZIS) collected amounted to 3.650 billion. This amount is fantastic and surpassing the total of provincial budget allocated for social assistance spending in 2015. This amount does not include the waqf collected in the same period. Other than that, the ZIS accumulated during 2015 may also not include all the collection institutions of infaq / shadaqah which are widely spread throughout Indonesia.

TABLE 3. Collection and Distribution of Funds Based on Zakat Management Organization of the Year 2015

Agency	Collection (Billion Rp)	%	Distribution (Billion Rp)	%
BAZNAS	94,068	2,58	66,766	2,97
BAZNAS Province	642,8	17,61	342,1	15,21
BAZNAS District	885,3	24,25	578,1	25,70
LAZ	2.028	55,56	1.262	56,12
Total	3.650	100,00	2.249	100,00

Source: National Zakat Statistics 2015, BAZNAS

Unfortunately, the distribution of ZIS in 2015 was still not optimal, because it just amounted to 61.61%. However, if it is managed more carefully, the distribution should be 100%. This is in accordance with the essence of ZISWAF itself that would be given to the needs.

The source of ZIS collected mostly comes from zakat maal of individual income amounted to 1,920 billion. Zakat maal of individual income is most likely derived from 40% of the population group that have the highest income, especially Moslems. Total zakat collected in 2015 amounted to 2.141 billion and total donation / charity collected in 2015 was 1.177 billion.

TABLE 4. Collection of Funds by Data Type in 2015

No	Fund Type	Realization in 2015 (Billion Rp)	%
1	Zakat Maal-Individual Income	1.920	52,61
2	Zakat Maal-Agency	157,8	4,32
3	Zakat Maal-Others	63,01	1,73
4	Infaq	613,9	16,82
5	Infaq/Shadaqah/CSR/PKBL Agency	563,3	15,43
6	Zakat Fitrah Ramadhan	168,1	4,61
7	Other Religious Social Funds	163,1	4,47
8	Other Funds	0,665	0,02
Total		3.650	100,00

Source: National Zakat Statistics 2015, BAZNAS

The growth of the ZIS collection proved that the participation of the Muslim community for fund-raising increased significantly year by year. Very rapid growth occurred in 2005 and 2007, which was more than 90% from the previous year. The average growth of ZIS collection from 2002-2015 amounted to 35%. The growth of ZIS collection was higher than the growth of the Indonesian economy which averaged only 5.42% per year during the period 2002-2015.

The amount of revenue from this ZIS can continue growing over time. Plus, infaq and shadaqah are not limited to one's economic ability. Everyone can set aside earnings and there is no minimum limit in donating it. This is different from the zakat which has a provision that regulates the amount to be

paid and where the distribution to be spread. In addition, infaq and shadaqah can also be lighter than waqf because waqf are given in the form of long-lasting or permanent property that can be used continuously. Thus, with the improving national economic capacity and increasingly civilized Muslim society as it is today, the optimization of the Islamic Economics system in Indonesia will ultimately continue encouraging the growth of ZISWAF collection in the future.

TABLE 5. Growth ZIS collection and GDP Growth Year 2002-2015

Year	ZIS (Billion Rp)	Growth (%)	GDP Growth (%)
2002	68,39	0,00	3,70
2003	85,28	24,70	4,10
2004	150,09	76,00	5,10
2005	295,52	96,90	5,70
2006	373,17	26,28	5,50
2007	740,00	98,30	6,30
2008	920,00	24,32	6,20
2009	1200,00	30,43	4,90
2010	1500,00	25,00	6,10
2011	1729,00	15,27	6,50
2012	2212,00	27,94	6,23
2013	2639,00	19,30	5,78
2014	3300,00	25,05	5,02
2015	3650,00	10,61	4,79
Average		35,72	5,42

(Source: National Zakat Statistics 2015, BAZNAS))

From the ZIS funds collected in 2015, 61.61% was granted to 5.08 million people belonging to the rightful group to receive it. Funds disbursed as much as 67.56% of which was given to the poor of 4.39 million inhabitants. It means that on average each person got IDR 345,870.00. This amount is almost equal to the Direct Cash Assistance (BLT) provided by the government. The disbursement of ZIS funds to the poor is a concrete proof that ZIS can help the economy of the poor and improve the welfare of the people.

TABLE 6. Distribution Based on Ashnaf 2015

No	Beneficiary Type (Ashnaf)	Amount of Fund (Billion Rp)	%	Number of Receivers	%
1	Poor and Needy	1.519	67,56	4.393.279	86,48
2	Administration (Amil)	200,8	8,93	10.326	0,20
3	New converts (Muallaf)	19,09	0,85	14.343	0,28
4	Bonded Persons (Riqob)	10,57	0,47	826	0,02

TABLE 6, cont.

5	Indebted Persons (Gharimin)	13,28	0,59	6.843	0,13
6	In The Path of Allah (Fii Sabilillah)	462,4	20,56	632.536	12,45
7	Wayfarer (Ibnu Sabil)	23,43	1,04	21.758	0,43
Total		2.249	100,00	5.079.911	100,00

(Source: Statistics of the National Zakat 2015, BAZNAS))

B. BDT Integration with The Collection of ZISWAF

Based on BPS data mentioned before, the percentage of poor population in 2015 was as much as 11.13% or 28.5 million people. Consistent with the data in Integrated Data Base (BDT), the number of poor population at lowest 10% welfare level was as much as 29.29 million people or 6.56 million households. If the ZIS division uses a household approach that includes the poor, approximately 67% of poor households can get the benefit from ZIS. This amount is based on the number of ZIS recipients of the poor in 2015 than the number of poor households from BDT data. Although the distribution of ZIS BAZNAS 2015 had not reached 100% yet, the number of beneficiaries of ZIS could still increase.

ZISWAF is a potential source of funds to support government programs in improving people's welfare. The potency of zakat is very large in economic development; thus, it requires professional zakat management by Badan Amil Zakat and Lembaga Amil Zakat in Indonesia. Professional and integrated ZISWAF management with government programs can be initiated with the preparation of a directory of mosques, institutions, agencies, organizations, or communities to undertake ZISWAF fundraising from small scale to large scale throughout Indonesia. The preparation of such directories will greatly help to monitor the collection and distribution of ZISWAF in Indonesia. In addition, statistical data collection and ZISWAF analysis will be easier to do. Then, it can be served as the basis policy in making ZISWAF more productive, comprehensive, and integrated.

Disbursements derived from zakat, infaq, shadaqah, and waqf can be used to support the implementation of sub social protection programs such as Conditional Cash Transfers (CCT), BLT, and Subsidized Rice (Raskin) which are the three main programs aimed to reduce poverty included as family-based integrated social assistance program.

In practice, the distribution of funds from the government is considered less effective because the programs use targeting approach and database of beneficiaries which are different so that inclusive and exclusive errors may still occur. Considering the case itself, it is necessary to re-set the targets to improve the performance of the program through the National Targeting System Unification. Therefore, formulating the Integrated Data Base used as a database of beneficiaries of funds is urgent to be allocated.

The Integrated Database for the Social Protection Program managed by the National Team for the Acceleration of Poverty Alleviation (TNP2K) is a system that can be used for program planning and identifying the names and addresses of potential beneficiaries, – households, families, and individuals

– based on socio-economic criteria set by the program implementer.

Households in the Integrated Data Base can be grouped into deciles. Deciles are a per-tens group so that the entire household can be divided into 10 deciles. Thus, the groupings of households in the Integrated Data Base are as follows:

- Deciles 1 is households in the lowest 10%
- Deciles 2 is households in the lowest group of between 10-20%
- Deciles 3 is households in the lowest group of between 20-30% and so on
- Deciles 10 is household in a group of 10% with the highest level of welfare

Integrated Data Base contains group of deciles 1, 2, 3, and 4 because it contains 40% of households with the lowest welfare warning. The use of BDT means that poor families receive the benefits of various social protection programs simultaneously.

Hope Family Program (PKH) is a social protection program that provides cash assistance to Very Poor Household (RTSM); and the family members of RTSM are obligated to carry out the terms and conditions determined. This program, in the short term is aimed to reduce the burden of RTSM and in the long term is expected to break the intergenerational transmission of poverty, so that the next can get out of the poverty trap.

Motivations to carry out the orders of zakat, infaq, shadaqah, and waqf are in the next form of rewards that can deliver the person into the gardens of bliss. In principle, the collection of funds from the zakat, infaq, shadaqah, and waqf in Islam is actually rooted to their faith and devotion to Allah The Almighty, not merely human rational treatment.

V. CONCLUSION

The implementation of Islamic economy in Indonesia is still focused on the practice of *nirriba* and sharia banking. The wider implementation of Islamic Economics is feasible in countries whose majority are Muslims, like Indonesia. Managing the reception of zakat, infaq, shadaqah, and waqf as sources of additional funds, can be optimized in helping the government program to accelerate the poverty reduction.

Zakat is compulsory for every Muslim (especially whose ownership has reached *nishab*). Zakat has determined the amount of *nishab*; zakat rate can be calculated and to whom zakat will be distributed is clear. On the other side, infaq, shadaqah, and waqf are social contributions given by someone who wants to set aside some of his property to be used in terms of virtue especially in order to improve prosperity and reduce Poverty.

The high awareness of Muslims about the compulsory to pay zakat which is supported by professional distribution system can make zakat as a long-term and sustainable investment. In addition, the invitation to continuously improve productive infaq, shadaqah, and waqf to society as a whole is also significant in increasing ZISWAF acceptance. The higher ZISWAF designation, the wider source of funding can be channeled. There will be more social programs that can be

implemented, where more people will receive both direct and indirect benefits, and the wider range of ZISWAF distribution in terms of use and territory.

The public promotion of the benefits of ZISWAF can be done regardless of the religious affiliation status. However, if people want to get better understanding on the benefits of the spiritual side, people can learn more about Islamic teachings. The implementation of Islamic economy actually puts the welfare of the people based on justice. This is in line with Indonesia's national goals stated in the preamble of the 1945 Constitution of the Republic of Indonesia.

Although these are still in the stage of development, Islamic Economics practice in Indonesia has shown a promising performance and has a positive impact on the economy. In other words, the role of Islamic economy has great potential in developing the economy and realizing prosperity.

In the implementation, there are at least five strategic steps that can be done. First, massive socio-engineering to the whole Muslim society in Indonesia to channel ZISWAF to BAZNAS or ZISWAF collecting agencies coordinated with BAZNAS. The second is strengthening the legitimacy of BAZNAS. Third is improving the internal performance of BAZNAS itself. Fourth in terms of distribution, BAZNAS is encouraged to manage the allocation of funds not only as a social aid but also productive assistance to the entire Indonesian community. Fifth is intensifying the concept of "ZISWAF Global" in the world and making international cooperation in managing ZISWAF.

However, further research needs to be done to evaluate Islamic Economics practices in Indonesia, with a more comprehensive approach and more complex research methods. Thus, the conclusions drawn can be more accurate, and the solution acquired can be more precise.

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