
ZAKAT AS PUBLIC FINANCE IN INDONESIA?

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Abstract

This paper discusses the nature of zakat in the context of public finance. In Indonesia historical path, political, social and economic dimensions affected the development of zakat. Among three regimes, zakat has the most significant transformation in Reformation Era. The presence of law regarding zakat and BAZNAS as government's amil institution is the transformation zakat organising from informal to be more formal. Zakat has the significant role in public finance, especially provide a fund for social spending. Poverty and income inequality are critical problems in Indonesia which need attention. To boost zakat performance, transformation process from Partial Model into Comprehensive Model is crucial to increase the amount of zakat fund. The government of Indonesia should place zakat to play the strategic role and integrated in Indonesia's development since zakat has great potential. Moreover, political dimension should focus to urge zakat integrated with development. Changing from voluntary to the obligation in regulation with sanction and integrated zakat and tax system would accelerate the transformation process into Comprehensive Model.

Keywords: *poverty, zakat, public finance, BAZNAS.*

Abstrak

Tulisan ini membahas hakikat zakat dalam konteks keuangan publik. Dalam perjalanan sejarah Indonesia, dimensi politik, sosial dan ekonomi mempengaruhi perkembangan zakat. Di antara ketiga rezim tersebut, zakat mengalami transformasi paling signifikan di Era Reformasi. Kehadiran undang-undang tentang zakat dan BAZNAS sebagai lembaga amil pemerintah merupakan transformasi pengorganisasian zakat dari informal menjadi lebih formal. Zakat mempunyai peran penting dalam keuangan publik, khususnya menyediakan dana untuk belanja sosial. Kemiskinan dan ketimpangan pendapatan merupakan permasalahan kritis di Indonesia yang perlu mendapat perhatian. Untuk meningkatkan kinerja zakat, proses transformasi dari Model Parsial menjadi Model Komprehensif sangat penting untuk meningkatkan jumlah dana zakat. Pemerintah Indonesia sudah seharusnya menempatkan zakat pada peran yang strategis dan terintegrasi dalam pembangunan Indonesia karena zakat memiliki potensi yang besar. Selain itu, dimensi politik harus fokus untuk mendorong zakat terintegrasi dengan pembangunan. Perubahan dari sistem zakat dan pajak yang bersifat sukarela menjadi wajib dalam regulasi dan sanksi serta terintegrasi akan mempercepat proses transformasi menuju Model Komprehensif.

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INTRODUCTION

The current situation shows that government is facing a dilemmatic situation where Indonesia's government has an ambitious mission to increase their income through several channels under Joko Widodo's administration. This mission is based on the willingness of Joko Widodo to catch up development in various sectors, in particular, infrastructure and local and underdeveloped regions. Besides that, Indonesia also wants to protect and empower 10 percent population which are categorized as poor people. To support this initiative, government endeavor increasing income through several channels such as tax amnesty, boosted income tax and increasing government's debt (MFI 2018). OECD (2016c) highlights that Indonesia's revenue should be increased since it has strong relationships with public and welfare provisions (p. 24).

One solution which has been discussed to support Indonesia's development is zakat. Zakat is known as one of five pillars in Islam. Every Muslim who is eligible as a zakat payer they have to pay zakat as an obligation. With 85 percent Muslim from 250 million population, the potential amount of zakat is enormous, approximately Rp. 217 Trillion (AUD 21.7 Billion) or ten percent of Indonesia total spending in 2018 (Firdaus et al. Zakat has the competence to support government spending if we look at the potential number. 2012). This amount is equal to 3.4 percent of Indonesia's GDP in 2010 (ibid). However, the realization is only Rp 6.7 Trillion (2 percent of potential amount). Besides that, implementing zakat as public finance is common in Islamic countries where governments constitute Islam as fundamental law. Implementing zakat in Indonesia as the largest Muslim population in the world has its own characteristic since this country is a republic and does not explicitly use Islam as fundamental law.

Against this background, this paper attempts to discuss the possibility of zakat as a tool for Indonesia's development. Channelling zakat as one of source public finance in Indonesia, this paper wants to assess what roles can be done by zakat in particularly in reducing poverty and income inequality. However, strengthening zakat as public finance is not straightforward. Fiqih (Islamic jurisprudence, the understanding of sharia based on interpretation of Islamic Scholar to Quran and Sunnah), social, economic and political are main dimensions related to implementing zakat in Indonesia.

This paper argues that zakat has a strategic role in Indonesia development, in particular, strengthening social spending to address poverty and income inequality. However, to support this role, Indonesia should conduct several reforms which will boost zakat performance. This

paper then will be divided into several sections, which are: (i) the nature of zakat; (ii) the development of zakat in Indonesia; (iii) the role of institution and administration of zakat; (iv) zakat, social spending and poverty alleviation; (v) inequality and strengthening zakat to support development; and (vi) integration zakat to public finance and political dimension.

The Nature of Zakat

As the third pillar of Islam, zakat is ordered in Quran. As in Chapter 51 verse 19, ‘And in their wealth, there was a share for the beggar and the deprived’ (Quran, 51:19). This chapter obligates every Muslim to conduct zakat and purposed to a specific target. In implementing zakat, there are two main types of zakat (Doa 2001). First, zakat fitrah. This zakat is conducted on the first day of Eid-al Fitr (after a month of fasting in Ramadhan, Muslim celebrate Eid-al Fitr). This form of zakat has to be given in rice (or staple food) (ibid). Lastly, zakat mal. This form of zakat is paid based on Muslim’s wealth and property (ibid). In this paper, the meaning of zakat would be focussed in this form.

Zakat mal is purposed to distribute wealth in society. The principle of zakat is distribution of welfare from rich to poor people. This is similar with the distribution function and the role of tax. Doa (2001) argues that the main function of zakat is to distribute wealth and increasing social mobility of poor people. From etymology perspective, zakat means ‘purify, clean, develop, grow’ (Doa 2002b; BAZNAS 2017a). It strengthens the idea of zakat to purify a wealth of rich Muslim and develop beneficiaries. In Islam perspective, since zakat is compulsory, Quran also provide punishment for those ignore paying zakat as mentioned in Quran Chapter 9 verse 34, ‘O you who believe! Many of the rabbis and priests consume people’s wealth illicitly and hinder from God’s path. Those who hoard gold and silvers, and do not spend them in God’s cause, inform them of a painful punishment. In this verse, ‘spend them in God’s cause’ meaning zakat. However, since the punishment is come from God, Islamic scholars argue that the leader or government should conduct zakat and provide a proper punishment, so zakat payer obey to fulfil its obligation (Doa 2001; BAZNAS 2017a)

Zakat mal can be classified into several types. Doa (2001) argues that types of zakat mal have been developing as followed the complexity of society. Anshori (2006) highlights agriculture zakat; trade zakat, farm zakat, industrial zakat and profession zakat are several types of zakat which show that development of society and economic sectors influence the types of zakat (p. 86). Besides that, BAZNAS also classifies stock, bond and mutual funds as an object of zakat (Kompas 2017; BAZNAS 2017a). Zakat payers (muzaki) must meet the requirement

that they own the object zakat for minimum period (nisab) and amount (ibid). It will be different for every type. For example, profession is common in current time since it would be associated with salary or income for one year. Zakat payers then should pay 2.5 percent of one-year income (Anshori 2006).

Moreover, in distributing zakat fund, beneficiaries (mustahiq) of zakat are the person who eligible to obtain and use zakat. Quran describes who are beneficiaries of zakat in Chapter 9, verse 60, ‘charities are for the poor, destitute, and those administer them, and for reconciling hearts, and for freeing slaves, and for those in debt, and in path of Allah, and for the traveller in need, an obligation from Allah, Allah is All-Knowing, Most Wise’. From this verse, Islamic scholars agree there are eight groups as beneficiaries of zakat. The early Islamic scholars after Muhammad argued that these eight groups should be the priority in targeting zakat (Doa 2002a) They were very strict in deciding zakat to focus on this eight group (ibid). However, some scholars argue that on its way, zakat can be specified for some group as long as the group is one of those eight group (ibid). It will depend on the situation of society. Therefore, in the current situation, Islamic scholars argue that zakat should respond core problem in society. In the context of Indonesia, these eight groups remain a concern, but poverty is viewed as a common and critical problem to be addressed in distributing of zakat fund. Many of Islamic scholars argue that zakat has strong relationships in helping poor people to worship to Allah (BAZNAS 2017d).

Zakat can be classified as public finance and started since Prophet Muhammad’s era. The nature of zakat to collect and redistribute wealth in societies. In the context of collecting, Islam regulates minimum time and amount. However, in the context of spending, zakat is focused on helping vulnerable group. This nature is vital in conducting zakat, in particular, in the current situation where the situation is different compare an early Islamic era. Nevertheless, many Islamic scholars believe that modernisation can be used to strengthen zakat as public finance implementing its function (Doa 2002a; BAZNAS 2017d). Poverty problem as the global problem has been a concern for many countries around the world. Fighting poverty become the first Sustainable Goal Developments which means in current situation zakat can be used as public finance to address this situation.

Moreover, implementing zakat requires institution. In this context, Amil was known as the institution with the task in collecting and distributing zakat. It confirms that every Muslim does not allow to give zakat directly to beneficiaries (Sudewo 2004). In this regard, Sudewo (2004) argue that the role of amil is essential to organise zakat professionally, objective, able

to maintain beneficiaries' honour, able to accumulate zakat and empowering beneficiaries. From this description, it is clear that amil cannot be separated with zakat since amil become a bridge between payers and beneficiaries which is needed to maximise the utility of zakat itself.

The development of Zakat in Indonesia

Since Indonesia gained its independence in 1945, there are three regimes which influence the development of zakat in Indonesia, which are: Soekarno's Era (1945-1966); New Order (1966-1998) and Reformation Era (1998-present). These regimes have influenced the development of zakat in Indonesia. In Soekarno's Era, Indonesia was consolidating domestic issue, especially in developing country after war period. Besides that, several separatism actions also influenced in how government implemented policies. Sumarto (2017) argues that in this period Indonesia spent most of power and attention in strengthening political aspect and defending an independence from external colonialism and separatism movement from domestic. Therefore, organising zakat only concentrated in the local community, especially in Mosque where only organize zakat fitrah (Ali 1988). Therefore, the role of zakat mal was not significant in this era.

In New Order Era, the government began to view the importance of zakat should be organized. One milestone in this era was Soeharto as president supported this idea. Therefore, in 1968, DKI Jakarta Province (the capital of Indonesia) established Amil Agency of Zakat dan Shadaqah (BAZIS) (ibid). This institution worked under the Governor of Jakarta (BAZIS 2018). Several provinces also followed this initiative. However, economic development and political consolidation affected zakat in this era. After BAZIS, there were no significant transformations in this era. During 1970 to early 1990s, economic development in Indonesia was amazing which affected by decreasing poverty rate (Sumarto 2017). Besides that, Soeharto tried to push Islam group which in his view this group endangers his position as President. This situation was related with Soeharto's mission to extend his position through manipulate election and consolidate military to support his position. Many of Islamic scholars criticised his action which generated the relationship between Soeharto and Islamic group. Therefore, the idea to develop zakat to play a significant role in development is limited. In this period, zakat mostly was still conducted by informal sector (Mosque and religious group) and focused in zakat fitrah.

The significant transformation in implementing zakat occurred in Reformation Era. Asian Financial Crisis (AFC) hit Indonesia in 1997 has a contribution in resigning Soeharto's

regime and becoming an entry for most reform in economic, social and political dimensions in Indonesia. In this period, economic growth of Indonesia felt down into minus 13.13 percent (Kwon & Kim 2015). Besides that, the number of poverty rate also increased significantly from 11 percent in 1996 to almost 25 percent in 1998 (Sumarto 2017). In this period, Indonesia has been struggling to develop their economic performance. Looking situation that Indonesia's budget has a limited role in development, many of Islamic politician and Islamic leaders in Indonesia support government to employ zakat as tools in supporting Indonesia's budget, mainly, in addressing poverty as social problems. These situations encourage the government to apply zakat as part of development through Law No. 38 1999 Regarding Zakat Organising. This law was followed with Presidential Decree No. 8 Year 2001 Regarding Badan Amil Zakat Nasional/National Amil Zakat Agency (GOI 2001). In 2011, Government enacted Law No. 23 Regarding Zakat Organising to change the Law No. 38 1999. To support this new Law, the government also enacted Government Regulations No. 14 Regarding BAZNAS as national amil institution (GOI 2014a). Therefore, currently, zakat is run based on these two instruments. It can be seen as a significant reform in placing zakat as part of public finance in Indonesia's development.

The development of zakat in Indonesia is related to the demographic and social condition where the most population are Muslim. This situation was realized by Islamic scholars and leaders since the independence era but have extended time to be realised. In addition to demographic and social condition, from the historical path, economic and political dimensions are crucial factors in developing and implementing zakat in Indonesia. In this context, AFC has an entry to Reformation Era showed that Indonesia has a fragile economic condition during New Order. Indonesia also consolidates political situation to be more democratic in Reformation Era compared New Order.

The role of institution and zakat administration

In implementing zakat as public finance, the role of the institution is crucial. Zakat as public finance needs a sustainable institution. Stewarts et al. (2015) argue that institution is needed in building tax administration system and institutions have a significant role to build a resilient system. In this context, transformation in 1999 and 2001 where the government put BAZNAS as an institution to organise zakat was essential. This policy is also related with Quran instruction to organize zakat through amil. The presence of BAZNAS can be seen to articulate Fiqih and public finance reform, so it is expected can boost zakat performance in

Indonesia. Law of Zakat and President Decree reinforce amil functions either conducted by the government through BAZNAS or other local and community institutions.

One of the challenges in conducting zakat is related with zakat administration (Doa 2002b; Sudewo 2004). Law No. 23 in 2011 place BAZNAS as amil from the government. BAZNAS has tasks for collecting and distributing zakat. It is clear that zakat fund is separated from tax and other government revenue. In collecting side, BAZNAS is government agency separate from other government income such as tax and non-tax income (BAZNAS 2017a). Moreover, the role of BAZNAS in national level expanded into provincial and city level (GOI 2014). In this law, the government determines every province and regency/city has BAZNAS. It means, every amil in this level should transform their institution into BAZNAS (ibid). Looking at this structure, the government looks at the role of zakat should involve local government. The role of local government including give an operational budget to BAZNAS in the local level. To support this, central government define that budget for BAZNAS in local level is provided from the local budget (APBD).

This transformation process has a significant impact in boosting BAZNAS's performance in the local level. First, it will strengthen the idea of decentralisation. Different from Indonesia's tax which more centralised in collecting side, in Zakat, the imbalances can be reduced (Martinez-Vazquez 2015). In this part, how the local government treats BAZNAS will determine its performance to collect zakat from people. In this context, local government can use this as an opportunity as part of 'social security' in the local context. Since the nature of zakat is purposed to help vulnerable group, a social problem in local context can be addressed through BAZNAS's programs. Secondly, this model is similar to Malaysia. Malaysia is known as a country with an excellent reputation in organising zakat fund (Doa 2002a, p123; OECD 2016b). Malaysia is competent in boosting zakat since zakat is collected and redistributed in state level (local level) (Doa 2002a). From this form, Malaysia can use zakat to solve poverty problem through zakat. Therefore, this system is competent to be used in Indonesia since Indonesia has been developing decentralisation to empower local governments to have more authority.

Moreover, in zakat administration collecting zakat funds is crucial. It also becomes a challenge in conducting Indonesia. Several Islamic scholars argue that this situation is related to the absence of institutions (Doa 2002a). Since government enacted regulation, Indonesia has been improving this situation. However, Indonesia is still struggling to reach the potential amount. It can be seen from the realisation of zakat only 2 percent from its potential amount

(BAZNAS 2017a). This amount mainly counted based on zakat paid to BAZNAS and other legal institutions (Noor 2017). The government tried to increase the awareness of zakat payers. For example, in 2014, government stimulate government institutions and state-owned enterprise to pay zakat through BAZNAS (GOI 2014b). To support this regulation, several ministries and BAZNAS have implemented zakat payroll system which helps a civil servant to pay their zakat every month automatically (BAZNAS 2018a).

There are two significant drawbacks related to this situation. First, the regulation does not obligate every Muslim in Indonesia to pay zakat (BAZNAS 2017c). Thus, the regulation cannot give punishment for the person who obeys paying zakat. The sanction or penalty only for amil who manipulate zakat funds (GOI 2011). In this situation, the role of the constitution is essential (OECD 2016a, p. 32). The role of the constitution will affect the behaviour of policy maker and related with fiscal (zakat) outcome (ibid). In this context, BAZNAS as an authorized institution cannot force zakat payers to pay their obligation. As discussed in nature of zakat, the role of Islamic leaders and government are crucial to impose zakat payers though it applies a penalty. From history, in early Islam's era, this penalty was used to ensure zakat payers fulfil their obligation (Doa 2001; BAZNAS 2017a). Secondly, that, the role of Islamic leaders in encouraging zakat in Muslim (BAZNAS 2017a). Comparing zakat and the fifth pillar, Hajj (going to Makkah), zakat is not popular (ibid). In this context, how Islamic leaders persuade Muslims and give an understanding is crucial.

However, this problem can be solved if the government and Islamic leader want to reinforce zakat as an obligation for every Muslim in Indonesia. This situation can be seen from the character of Indonesia people. First, surveys from CAF (2017) places Indonesia in the second place (after Myanmar in the first position) in World Giving Index ranking among 133 countries. This index assesses three main aspects which are, helping a stranger; donating money and volunteering time. From this index, Indonesia has high potential in providing charities fund since people with traditional local and religion value want to help each other (ibid).

Secondly, research shows that if the informal sector has keen interest to pay zakat in implementing Islam as religion (Aryo and Dharma 2013). It can be understood that government has a problem in collecting income-tax, in particular, in the informal economy (Carnahan 2015). However, this group tends to pay zakat since the understanding of zakat payers that zakat is an obligation (ibid). This understanding is also related to the role of amil institutions to socialise zakat and provide service to collect zakat. Comparing with Malaysia, the role if

Islamic leaders in Indonesia related zakat is low (Doa 2002b). Therefore, the role of Islamic leaders to persuade Muslim pay zakat through the formal channel is crucial.

Lastly, the government of Indonesia provides the tax cut for zakat payers through formal institutions since 2007 (BAZNAS 2017a). In Malaysia, this instrument has been used and increasing the willingness of zakat payers to pay zakat effectively (Doa 2002b). This policy has increased the willingness of zakat payers (ibid). However, comparing this feature between Indonesia and Malaysia, Malaysia offers significant tax deduction (Efendi 2014). Indonesia counts the tax cut from the gross nominal, not the nominal tax itself whereas in Malaysia the amount of zakat would decrease the nominal tax which should be paid (ibid). Therefore, in developing zakat and integrate zakat to others government revenue such as tax, Indonesia should be thinking about this issue as a critical issue.

Zakat, social spending and poverty alleviation

Zakat as public finance in Indonesia play a dominant role in poverty alleviation. This situation also related with social and economic condition in Indonesia, where poverty has been the most significant problem in both before and after independence. Social and economic dimensions in poverty alleviation can be used to analyse how zakat has been working to solve this problem. In this context, zakat can be seen implementing social spending function in Indonesia. It is related in how BAZNAS and other institutions have used zakat in addressing poverty alleviation in Indonesia.

How to spend zakat fund is a crucial issue for amil. Before amil was formalised, most of the money were distributed to needy families without proper planning. However, several Islamic scholars argue that zakat should be used for long-term purposed and boost the productivity of the beneficiaries so that it will empower low-income families (BAZNAS 2017b; Sudewo 2004). This idea was emphasised since zakat was organized traditionally with unplanned, low level of management and low level of creativity are characteristic of Zakat organized in informal institutions (Sudewo 2004). Therefore, to accommodate this idea, BAZNAS, and other formal institutions have been implemented zakat with respect with social and economic condition of beneficiaries.

In distributing zakat fund, BAZNAS has two main tasks (GOI 2014a). First, BAZNAS as national institutions redistributes zakat funds for other institutions such as BAZNAS in local level and other formal institutions such as Dompot Dhuafa, LAZMU, and LAZISNU (BAZNAS 2017a). Besides that, BAZNAS also allowed developing their own program (ibid).

In conducting this function, BAZNAS and other amil institutions have several primary programs in economic, education, health, disaster response and community development (BAZNAS 2018b; Dompot Dhuafa 2018). These programs are related to poverty alleviation strategy in Indonesia. In this part, characteristic of social and economic Indonesia as developing countries drive the role of social protection is aimed to develop the capacity of poor people and empower them to participate in the market (Barrientos 2011; Midgley 2012). Looking at the data, BAZNAS program shows that zakat has an adequate capacity to contribute in poverty alleviation program (2017b). In micro and mezzo level, this program competent to increase several indicators in Human Development Index such as education and health (ibid).

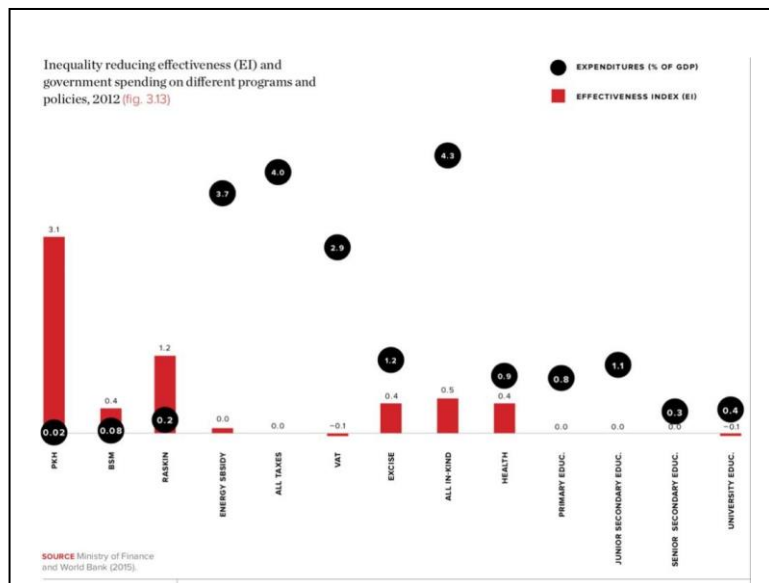
However, there are some critics regarding BAZNAS should develop their program. Since BAZNAS is located in the capital and most of problem and beneficiaries are located at the local level, it would be ineffective. Therefore, it would be more effective if BAZNAS focus on collecting aspect and strengthening the function of redistributing zakat fund to amil institutions at the local level. Besides that, the study regarding zakat which organised by BAZNAS (currently BAZNAS has an international journal) is a significant program that BAZNAS should concern in developing knowledge and indicator related zakat and development (BAZNAS 2017a).

Moreover, in supporting the role of zakat in poverty alleviation, zakat has a MoU with UNDP Indonesia to develop several programs together (Noor 2017). This initiative is purposed to increase the quality program of BAZNAS and achieve measurable goals with development indicator. However, since zakat should respect with fiqh, BAZNAS only focus on three dimensions as a priority, which are: no poverty; quality education and zero hunger (BAZNAS 2017e, p. 46). This initiative is essential to support zakat integrated with Indonesia development. Comparing with Malaysia, Indonesia is far behind in placing zakat as part of development. In this context, how zakat counted and contribute to overall social spending is essential to ensure the real contribution of zakat. In 2013, zakat contributed to around 25% of Malaysia's social spending excluding health (OECD 2016b). It shows that Malaysia can place zakat to play a significant role in Malaysia's development. Looking Malaysia, Indonesia should strengthen zakat's program into other anti-poverty programs by the government. BAZNAS (2017a) argues that local governments not maximise the role of BAZNAS in addressing poverty problem into other anti-poverty programs. Therefore, it would be a challenge for BAZNAS in local level and local governments to synchronise anti-poverty programs.

Inequality and strengthening zakat to support the development

The role of zakat in poverty alleviation has helped other anti-poverty programs from governance. However, decreasing the number of poverties since 1998 to present also followed with increasing income inequality level significantly. Data shows that income inequality has increased significantly from almost 0.30 to almost 0.40 (World Bank 2016).

However, Indonesia has little attention to addressing this situation. This situation affects in slowing down poverty reduction pace since income inequality has strong relationships in poverty alleviation in Indonesia. It also shows Indonesia’s tax and redistribution system cannot deal with this situation (OECD 2016a; Lustig 2015). World Bank (2016) argues that Indonesia tend to solve income inequality as the long-term issue such broader education instead solves a short run income inequality.



Source: World Bank 2016, p. 119

Figure 1. Governments program in reducing inequality and its effectiveness to reduce inequality

This situation also related to the budget capacity to accommodate several issues in development. Channelling zakat to play a significant role in development can be done in addressing this issue. Figure 1 shows several programs which related to reducing income inequality. From this figure, PKH or Conditional Cash Transfer Program has the most significant impact in reducing income inequalities. However, since the share of GDP is the lowest, it gives little impact in reducing inequalities. Besides that, World Bank (2016) also highlights that PKH program has little impact in helping poor families to maintain their income since the amount of money is relatively small. In this regard, zakat can be used to play a

significant role in poverty reduction program and reducing income inequality. Supporting PKH will help Indonesia to deal with poverty and income inequality at the same time (Bastagli et al. 2012; Lustig 2015). Channelling zakat and PKH can be seen as an implementation of the nature of zakat where redistribution is the basic idea for Muslim paying zakat. PKH can be used to assure that money redistribute also counted and affect in reducing income inequality in macro level. Since the PKH as CCT program also provides a long-term goal in increasing education and health qualities, PKH is essential to support the idea of zakat should be used for long-term purposes of poor families.

Integration zakat to public finance and political dimension

Indonesia is still struggling to implement the integrated zakat into public finance. Indeed after 1999 zakat was acknowledged as the source of poverty alleviation. Zakat was more institutionalised since the presence of BAZNAS and playing role to collect and distribute zakat fund. However, this paper has discussed the structure of zakat implementation in Indonesia and tried to compare in several features with Malaysia. From those comparisons, Malaysia has better structure than Indonesia. The fundamental reason for this situation is Malaysia has integrated Zakat in development (BAZNAS 2017a).

Table 1. Typology zakat system based on regulation and positive law

| | Zakat as Obligation | Zakat as Voluntary |
|---------------------------|-------------------------------|---------------------------|
| With Regulation | Type I Comprehensive Model | Type II Partial Model |
| Without Regulation | | Type III Secular Model |

Source: Beik 2015 in BAZNAS 2017a

Table 1 shows the typology of zakat system based on regulation and conducting zakat either as an obligation or as a voluntary in positive law. From this typology, it is clear that Indonesia was in Secular Model before 1999. Indonesia has transformed into Partial Model where has regulation and formal institution but in the positive law, zakat is voluntary based. Malaysia is implementing Comprehensive Model. In this model, Beik (2015) argues that country should have following indicators: (1) Have a regulation; (2) Zakat as an obligation in regulation; (3) institutions structure; (4) standardisation of zakat organising; (5) integration system between zakat and tax and (6) good amil governance (ibid).

To transform from Partial Model into Comprehensive Model Indonesia needs to consolidate political dimension to expedite implementation zakat to play the more significant role in development. In the context of Indonesia, point 1, 3 and 4 are already implemented and articulated since 1999 through the regulatory framework. Nevertheless, in implementing point 2, 5 and 6, the process would be more complicated than others. Implementing zakat as an obligation and integrated zakat and tax would increase the different perspectives on how should place Islam as a national ideology. It might be an ideological debate between nationalism group and Islam group. Since its independence, Islamic politician has been divided into two groups, the first group force that Islam should reinforce in the constitutions. This group tends to create Indonesia as Islamic State so that government can conduct all Islam obligations including zakat (Doa 2001). Therefore, conducting zakat, it means Indonesia should be an Islamic State (government based on Islamic rule).

However, another Islamic group tends to support nationalism group since Soekarno (first president and proclamatory) offered 'Pancasila' (five fundamental principles) as a nation philosophy where Islam and other religions are recognized as a social fact (Latif 2015). Therefore, value and law of Islam can be used and articulated through five values in Pancasila. This group also believe that Islam can be implemented through Indonesia Constitution 1945. In conducting zakat, this group argue that it can be run since Constitution 1945 declare that the state shall be based upon the belief in the One and Only God (article 29 verse 1) and the state guarantees all persons the freedom of worship, each according to his/her own religion or belief (article 29 verse 2). This group support to conduct zakat as the human right for every Muslim in Indonesia. Therefore, to accommodate Muslim Indonesia state and government should take action and allowed to conduct zakat professionally (Doa 2002b).

Furthermore, implementing zakat as Comprehensive Model also has a most significant challenge in managing public policy in Indonesia, corruption. Corruption can be seen as an obstacle in public policy, in particular, managing public money. Looking at the data, Indonesia is ranked 96th among 180 countries in corruption perception index (TI 2017). In 2011, Ministry of Religion Affairs was the most corrupt ministerial among other ministerial (kompas.com 2011). It is related with the corruption of Hajj fund and procurement of Quran. These two cases were surprising public where the ministry should implement the religious value but committed to corruption. Comparing zakat and Hajj organising, zakat is one step ahead since the organisation is independent and outside of Ministry of Religious Affairs. However, corruption still the biggest challenge in transformation process into Comprehensive Model, in particular,

practicing good *amil* governance. It can be seen from two cases in Pekanbaru City and Aceh City. In these cities, corruption was happened through misappropriation of zakat funds by *amil* (Tribun 2014; Tribun 2017). Therefore, conducting good *amil* governance is crucial, especially in transforming the process into Comprehensive Model. Building integrity of BAZNAS and other *amil* institutions will increase public trust to pay zakat as an obligation.

CONCLUSION

In conclusion, this paper has discussed the nature of zakat in the context of public finance. In Indonesia historical path, political, social and economic dimensions affected the development of zakat. Among three regimes, zakat has the most significant transformation in Reformation Era. The presence of law regarding zakat and BAZNAS as government's *amil* institution is the transformation zakat organising from informal to be more formal. Comparison between Indonesia and Malaysia in several features in institution and zakat administration shows that Indonesia is behind Malaysia.

Zakat has the significant role in public finance, especially provide a fund for social spending. Poverty and income inequality are critical problems in Indonesia which need attention. In this regard, zakat can play the significant role in addressing these issues. In the context, of poverty alleviation, zakat has performed very well in micro and mezzo level. However, since zakat is not integrated with development, it would be hard to view the real contribution of zakat in poverty alleviation in a macro context. Moreover, zakat also can be used to strengthen the current social protection program, PKH as CCT program. As the nature of zakat to redistribute wealth from rich to poor, this idea will help the government to protect the lowest 10-20 percent group and contribute in reducing poverty rate and income inequality at the same time.

To boost zakat performance, transformation process from Partial Model into Comprehensive Model is crucial to increase the amount of zakat fund. The government of Indonesia should place zakat to play the strategic role and integrated in Indonesia's development since zakat has great potential. Moreover, political dimension should focus to urge zakat integrated with development. Changing from voluntary to the obligation in regulation with sanction and integrated zakat and tax system would accelerate the transformation process into Comprehensive Model. It is clear that even Indonesia is not Islamic State, Indonesia should be implementing the value of Islam. In this context, it has strong relationships with the human right of Muslim Indonesia to worship. Moreover, tackling

corruption and building an integrity system and institutions also needed. It is essential to increase public trust and ensure sustainability of zakat as public finance.

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