

Use Of Zakat Funds For Productive Purposes In Indonesia

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Abstract

Zakat regulations in Indonesia regulate that zakat can utilized For objective productive in framework handling the poor And enhancement quality people . Study This aim For study utilization And bookkeeping of zakat for objective productive as well as practiced by zakat institution. Zakat for objective productive usually associated with loan or fund rolling . it raises controversy among scholar . Difference the concept of zakat raises controversy about right owned by And zakat treatment . Writing This offer alternative utilization of zakat or infaq / sadaqat from perspective consideration fiqh And accounting .

1. INTRODUCTION

Zakat, also known as the Islamic religious tax, is one of the five pillars of Islam which is mandatory for Muslims who meet certain criteria. In Islamic history, the word zakat has two meanings. Etymologically, zakat is derived from the Arabic word 'zaka' which means growth, cleanliness, goodness, grace, and pride. Terminologically, zakat refers to a specific amount of wealth that Allah SWT requires Muslims to give to those who are eligible. This means that zakat is a means of blessing, sanctification, goodness, and progress for one's wealth, as it is paid at a certain level and distributed to the rightful recipients. As mentioned in the Al-Quran (QS At-Taubah: 60), there are eight categories of people who are eligible to receive zakat, including the needy, the poor, zakat administrators, those whose hearts are inclined towards Islam (including new converts and Muslims who lack financial support), slaves, debtors (who have incurred debt due to basic needs), those in the way of Allah (Fi sabilillah), and travelers who are stranded (Ibn Sabil).

Zakat serves two purposes, namely spiritual and economic. Spiritually, paying

zakat is believed to purify and cleanse one's wealth from impurities, such as greed, selfishness, and arrogance. Therefore, individuals who pay zakat are considered to be free from these negative traits (Nur Barizah, 2007). Economically, paying zakat can have positive impacts on various economic dimensions, such as aggregate consumption, savings and investment, aggregate supply of labor and capital, poverty reduction, and economic growth (Nur Barizah & Abdul Rahim, 2011). In addition to tax funds, zakat funds are also a crucial financial source for Islamic countries (Diabi, 1993). Therefore, zakat can help create a prosperous society by redistributing income from the wealthy to the poor and increasing the purchasing power of individuals.

The management of zakat is considered the most crucial aspect in determining the success of zakat institutions, as efficient and systematic management can ensure optimal utilization of zakat funds (Mutiara, Zakaria, & Zahri, 2013). Generally, zakat management involves two main activities, namely the collection and distribution of zakat funds (Ahmad, 2009). One of the primary objectives



of zakat management is to achieve optimal results in collecting and distributing zakat in a timely manner, as stipulated by Islamic Sharia (Abdul Quddus, 2009, p.316). Effective zakat management is essential in helping Muslims fulfill the third pillar of Islam and reinforcing its primary function as a means of alleviating poverty (Abdul Quddus, 2009). Moreover, the effectiveness of zakat management is crucial in enabling zakat to act as a catalyst in improving the lives of the poor and needy (Mahyuddin & Abdullah, 2011). It is important to maintain a sufficient level of trust between Muslims and zakat institutions, as potential zakat payers may choose to directly give zakat to the poor or needy instead of through zakat institutions (Abdul Quddus, 2009). On the other hand, it has been argued that zakat management must demonstrate professionalism and trustworthiness to safeguard the interests of zakat recipients (Ataina & Achmad, 2010).

In 2011, Indonesia introduced Zakat Law No. 23 to regulate zakat management, and the Indonesian Institute of Accountants issued PSAK 109, which outlines accounting standards for zakat. However, these regulations only cover charity accounting for infaq/sadaqah as revolving funds or loans, and not for zakat used for productive purposes. The use of zakat for productive purposes is often associated with loans, such as through microfinance institutions like Baytul Qiradh established by the National Amil Zakat Agency (Baznas). However, this raises controversy over the accounting principles and ownership of zakat or infaq/sadaqat, as they are not business assets and the recipients are not customers or clients of amil. Therefore, this study aims to examine the accounting of infaq/sadaqah as a revolving fund and propose an accounting treatment for the utilization of zakat and infaq/sadaqat for productive purposes based on the concept of zakat ownership.

2. LITERATURE REVIEW

2.1 Definition of Zakat

Zakat is one of the pillars of Islam which instructs Muslims to give some of their

property to those who are entitled to receive it. Zakat is an obligation for Muslims who meet certain criteria, such as having assets that reach the nisab (a certain amount of assets) and have passed one year of the Hijri calendar.

The purpose of zakat is to help ease the burden on the underprivileged in society and strengthen social solidarity among members of the Muslim community. Zakat can also be used to promote general welfare and help improve the financial and economic conditions of Muslim communities.

In Islam, zakat has an important role in maintaining social justice and fulfilling social needs. Therefore, zakat is strictly regulated in Islamic law and its management must be carried out with full responsibility and transparency. There are various types of zakat, such as zakat fitrah, zakat mal, livestock zakat, and agricultural zakat, each of which has different criteria and calculations.

2.2 Definition Of Productive Zakat

Productive Zakat refers to the use of Zakat funds for productive and income-generating purposes to improve the socio-economic conditions of the poor and needy. It involves investing Zakat funds in projects that create sustainable income, employment opportunities, and assets for the beneficiaries. This can include funding small businesses, providing vocational training, financing education, and investing in agriculture or livestock. The goal of Productive Zakat is to not only provide immediate relief to those in need but also to help them become self-sufficient and break out of the cycle of poverty. It is considered a powerful tool for poverty alleviation and economic development in Muslim communities.

According to Dr. Monzer Kahf, a renowned Islamic finance expert, productive zakat is defined as "the use of zakat funds to create economic assets or to enhance existing ones with the aim of improving the economic status of zakat recipients." Similarly, Dr. Mohammad Omar Farooq, another Islamic finance expert, defines productive zakat as "the



use of zakat funds for socio-economic development purposes, including but not limited to, funding education, health, social welfare, and entrepreneurship development projects." In summary, productive zakat can be defined as the use of zakat funds for projects and initiatives that promote economic development and improve the overall well-being of zakat recipients, with the aim of enabling them to become financially self-sufficient and less reliant on zakat in the future.

3. RESEARCH METHODS

The research method used is library research method. Library research, also known as desk research, refers to the process of exploring and analyzing existing literature and sources of information on a particular topic or subject. It involves conducting a comprehensive review of books, journals, articles, and other materials in order to gather relevant information, data, and ideas.

The purpose of library research is to identify existing knowledge on a given topic, synthesize the information, and generate insights that can inform new research or contribute to a deeper understanding of the subject. It is a crucial step in academic and scholarly inquiry and is often used in conjunction with other research methods, such as field research or surveys.

4. RESULTS AND DISCUSSION

4.1 Zakat innovation and ownership of Zakat

It is worth noting that zakat management innovations are not without controversy and debate. For example, some Islamic juridical experts and economists debate the inclusion of legal entities as zakat subjects, questioning their religious status and eligibility for zakat. Additionally, the distribution of zakat in the form of grants and loans raises questions about the ownership of zakat funds and whether they should be treated as loans or gifts. These debates highlight the need for ongoing dialogue and collaboration among Islamic scholars, economists, and zakat managers to ensure that

zakat is managed in a way that is consistent with Islamic principles and effectively addresses the needs of the poor and needy.

Dakhoir et al. (2014) argued that legal entities cannot be considered as muzaki because zakat is a personal obligation for Muslims and legal entities are not individuals. However, they acknowledge that legal entities may have a social responsibility to contribute to the welfare of the community, including through zakat. They suggest that legal entities can fulfill their social responsibility by providing grants or loans to the poor and needy instead of paying zakat directly. This approach allows legal entities to maintain their ownership of zakat funds while still fulfilling their social responsibility. Overall, the issue of legal entities as subjects of zakat is still debated among Islamic juridical experts and economists, and there is no consensus on the matter. However, some scholars argue that legal entities have a social responsibility to contribute to the welfare of the community, including through zakat, while others believe that zakat is a personal obligation and cannot be fulfilled by legal entities.

The utilization of zakat for productive purposes through loans is considered more beneficial in the long run as it helps zakat recipients increase their income and become self-sufficient, whereas consumptive zakat only provides temporary relief. However, there are also debates on the ownership of zakat funds when they are distributed as loans, as some argue that zakat funds should not be treated as a loan that needs to be repaid and should instead be considered a form of charity.

To distribute zakat as loans. This approach helps to empower the poor and enable them to become self-sufficient, as they can use the funds to start or expand their businesses. The study also found that the productive-based program had a greater impact on poverty reduction compared to the consumptive-based program. This is because the productive-based program has a multiplier effect on the economy, as it generates income and employment opportunities, while the



consumptive-based program only provides temporary relief. In conclusion, zakat innovation is important in ensuring the effectiveness and sustainability of the zakat system in reducing poverty. The innovation includes expanding zakat obligations, utilizing zakat for productive purposes, and professional management of zakat. The role of amil is crucial in managing zakat innovation, and their accountability and transparency are essential to ensure the proper utilization of zakat funds.

Because it promotes self-reliance and independence, rather than dependency on aid. Productive utilization of zakat in the form of business capital, education and training programs, and microfinance institutions can also help improve the recipients' standard of living in the long term, rather than just providing temporary relief. Therefore, it is important for amil to have professional management skills and expertise in investment management, as well as ensuring transparency and accountability in zakat distribution to maximize the potential impact of zakat as a tool for poverty alleviation.

The issue of using zakat for loans or as interest-free loans (al qardh) is a fiqh problem that has been debated by modern scholars. Some scholars argue that zakat cannot be used for loans as it places an additional burden on those in need, while others believe that zakat can be given as a loan without interest, which should be repaid if the recipient is able to do so. The Qur'an at Tauba: 60 provides guidance on the distribution of zakat, stating that zakat should be given to eight specific categories of people, including those in debt. Overall, the fiqh problem with using zakat for loans or interest-free loans highlights the importance of balancing the Islamic principles of charity and social responsibility with the practical considerations of poverty alleviation and sustainable development. It is important for zakat management to be guided by knowledgeable and qualified experts who can navigate these complex issues and ensure that

zakat funds are distributed in the most effective and responsible manner possible.

“Sedakat (here means zakat) is only (innamaa) for (li) the poor and the poor and those who work to collect (funds) and to attract the hearts of those who are inclined (towards Islam) and to (fii) free the captives and for those who are in debt and for the Way of Allah (those who fight in the holy war), and for the traveler (a traveler cut off from everything), a duty imposed by Allah. And Allah is All-Knowing, All-Wise.”

Nadzri (2009) argues that the word "innamaa" means "hashr" (restriction) and the alphabet "lam" in lilfuqoro means "lam al milk" which shows the absolute right to zakat ownership. By having absolute rights over the ownership of a property, it means that the owner has absolute control over the property. If zakat has been paid, the ownership of the property belongs to the recipient of zakat and the amil has no rights over the property that has been paid. based on zakat hujjah assets only become eight Ashnaf rights.

It seems that there are different interpretations of how zakat should be distributed to beneficiaries, with some scholars advocating for absolute ownership transfer while others believe ownership is limited only for certain purposes. It's also interesting to note that the distribution of zakat to the first four priority groups is intended for consumption and not for revolving loans or fixed assets. This highlights the importance of proper management and accountability in the distribution of zakat funds to ensure that they are used in accordance with Islamic principles and for the benefit of those in need.

4.2 Accounting for Zakat or Infaq/sadaqat and the Concept of Ownership

Zakat should not be treated as debt or investment by amil. While zakat can be used for productive purposes, it should not be given as a loan with a repayment obligation. The purpose of zakat is to provide immediate assistance to those in need and help them achieve financial stability, not to create a cycle



of debt or investment. Amil should ensure that zakat is distributed to the appropriate recipients and utilized for its intended purpose, which is to alleviate poverty and improve the welfare of the community.

It is important to note that the recognition of zakat as an accounts receivable account in the PSAK 109 may not be in line with Islamic principles and could lead to confusion in the management of zakat funds. While the 2011 Zakat Law in Indonesia allows for the use of zakat for productive purposes, it is essential to ensure that the distribution of zakat is in accordance with Islamic principles and does not turn zakat into a debt or investment. It is crucial to have proper management and accountability in zakat distribution to ensure that it effectively alleviates poverty and empowers the less fortunate.

The recipients are required to return the funds in the form of infaq/sadaqat, which can then be used to assist other recipients. The second mechanism is that the amil institution can channel zakat funds to a third party or a financial institution that provides financing to the recipients. In this case, the amil institution acts as a guarantor or sponsor for the recipients. In terms of accounting recognition, the utilization of zakat or infaq/sadaqat for productive purposes should be recognized as an expense, not a loan or an asset, as it does not generate any return or benefit to the amil institution. The return or benefit is in the form of the social impact and benefits that the productive activities bring to the recipients and the community. Therefore, it is essential to have a transparent and accountable system for monitoring and evaluating the effectiveness and efficiency of the utilization of zakat or infaq/sadaqat for productive purposes to ensure that it aligns with the objectives of zakat as a means of poverty alleviation and social justice.

PSAK 109 recognizes that zakat or infaq/sadaqat received by amil as amil funds and zakat funds. Ownership of amil funds is absolute ownership of amil because amil is one

of the recipients of zakat. It doesn't matter because the ownership of the funds is amil. These funds can be utilized in productive or consumptive forms and in the form of grants or loans. Therefore, it is appropriate that the use of zakat funds in the form of loans is financed from amil funds. When amil distributes zakat or infaq/sadaqat as a loan, it will be recognized as the recipient's receivable account. Recipients are not limited to mustahiq. Second, the savings fund mechanism. Zakat or infaq/sadaqat is distributed to the beneficiaries in the form of productive purposes with a gradual repayment contract/provision, namely every week.

The mechanism will reduce zakat or infaq/sadaqat but the return funds from recipients are treated as savings accounts, not loan accounts. This mechanism does not shift the ownership of zakat or infaq/sadaqat from recipients to amil and even amil uses it productively. The funds in the savings account are owned by the beneficiary. Amil can manage and utilize savings funds to finance other beneficiaries or those that are not limited to al qardh schemes but also murabaha (trade mechanisms) or musyarakah (profit sharing mechanisms). The mechanism for storing zakat proceeds is gradually predicted to empower beneficiaries more than the loan mechanism in zakat for productive purposes. Amil can recognize the accounting treatment of deposit funds used for the sale and purchase mechanism (murabaha) as a murabaha receivables account and profit sharing mechanism as a musyarakah financing account and a sharia (financial) entity.

5 CLOSING

5.1 Conclusion

Zakat arrangements provide opportunities for the utilization of zakat for productive purposes. Zakat for productive purposes is more profitable than consumptive, especially for empowerment purposes. However, most amil zakat institutions utilize zakat for productive purposes in the form of qard al hasan (loans). Zakat accounting



standard (PSAK 109) in Indonesia recognizes the mechanism of loans or revolving funds for infaq/sadaqat. Islamic scholars tend to disagree with zakat (infaq/sadaqat) received by beneficiaries as loans. Therefore, it is not permissible to utilize zakat for productive purposes with a contract.

This study offers two mechanisms and accounting recognition as a middle way for both zakat and infaq/sadaqat ownership for productive purposes and fiqh considerations; The first mechanism is zakat or infaq/sadaqat for (belonging to) amil as a source of funds for recipients and the second is a savings fund mechanism for recipients. This study suggests that zakat accounting standards (PSAK 109) be reviewed from a fiqh point of view and developed with a mechanism for transferring zakat or infaq/sadaqat funds to savings funds and their accounting treatment.

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