

A Framework to Evaluate the Performance of Zakat Institutions

A Case Study on Zakat Institutions in Yogyakarta, Indonesia

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Keywords: Zakat institutions, performance indicators, zakat management, National Zakat Index, performance measurement.

Abstract: The objective of this paper is to implement a conceptual framework of National Zakat Index for evaluating the performance of zakat institution. National Zakat Index (NZI) acts as the standard measurement for assessing and evaluating the performance of national zakat including the role of government and public, zakat institutions, and the impact of zakat on the recipients (*mustahik*). National Zakat Index include two dimensions (i.e., the macro and micro dimensions). Micro dimension includes two indicators: the performance of zakat institutions and the impact of zakat on the *mustahik*. The indicator of the performance of zakat institutions includes four variables: collection, management, distribution, and reporting. This study will compare the performance of zakat institutions managed by the government and private zakat institutions. The data for this study obtained in the province of Daerah Istimewa Yogyakarta (DIY), Indonesia. Zakat institutions in Daerah Istimewa Yogyakarta that are being examined are BAZNAS DIY and Rumah Zakat DIY. The result of this research show that the performance of BAZNAS DIY is better than the performance of Rumah Zakat DIY especially in the aspect of the collection.

1 INTRODUCTION

Zakat is one of the five pillars of Islam (also known as Rukun Islam). Zakat is an obligation for Muslims to give a specific amount of their wealth (with certain conditions and requirements) to beneficiaries called *mustahik* (Mohd Noor, 2012). Zakat functions not only as a vertical worship for Allah (*hablumminallah*) but also as a form of horizontal worship associated with fellow human beings (*hablumminnas*). According to Kahf (1999), the main purpose of zakat is to achieve socio-economic justice. Zakat is a real form of social solidarity in Islam because zakat can develop the sense of togetherness and responsibility to help each other between the members of a society as well as can eliminate selfish and individualistic nature (Huda et al., 2015).

In zakat funds management, the most crucial thing is the role of zakat institutions. This is because the functions of zakat in various aspects can be realized if zakat institutions can strengthen their positions in collecting, managing, and distributing zakat in the society (Ayuniyyah, Hafidhuddin, and Hambari 2017). Various programs of zakat institutions can

improve social welfare, education, health, and spirituality of the poor if the performance of zakat institutions is carried out both effectively and efficiently.

In Indonesia, according to Act no. 23 in 2011, there are two zakat management organizations, which are BAZNAS (Badan Amil Zakat Nasional) or The National Zakat Board of the Republic of Indonesia and Amil Zakat Institution (LAZ). BAZNAS is a non-structural government institution which is independent and responsible to the President through the Minister. In contrast to BAZNAS, LAZ is an institution formed by a community which has a duty to help the fundraising, distribution, and utilization of zakat. BAZNAS, alongside with the Government, is responsible for guarding the management of zakat based on Islamic law, trust, benefit, justice, legal certainty, integrated, and accountability.

Because of the importance of zakat institutions positions in achieving the objectives of zakat, an indicator which can measure and evaluate the performance of zakat institutions in Indonesia is needed. Actually, such measurement tool is very important in assessing the ability of zakat institutions

to fulfil their objectives. In 2016, Center of Strategic Studies BAZNAS (Puskas BAZNAS) developed the NZI to evaluate the zakat performance at the national level, which was especially important since Indonesia did not previously have an effective tool performing such measurements.

National Zakat Index is formed by two dimensions, which are macro and micro dimensions. Each dimension is divided into several supporting indicators. Institutional indicators are parts of the micro dimension of zakat which evaluate the performance of zakat institutions based on 4 (four) variables. The four variables which measure the performance of zakat institutions consist of the collection, management, distribution, and reporting aspects.

Therefore, this research attempts to implement the National Zakat Index in measuring the performance of zakat institutions in Yogyakarta Province. In addition, this research will also compare the performance between zakat institutions which is formed by the government (BAZNAS) with zakat institutions formed by the private institution (House of Zakat as known as Rumah Zakat) in Yogyakarta Province. Daerah Istimewa Yogyakarta Province was selected as the geographic location for this study. In terms of religion, Daerah Istimewa Yogyakarta contains a clear Muslim-majority (92.5 percent in 2016). Despite Islam being the religion of a majority of its population, the realization of zakat collection in Daerah Istimewa Yogyakarta was only about 10% of its potential. Due to this fact, the problem on the level of public trust to pay zakat through zakat institutions was believed to be a major factor for wide gap between potential and actual collection of zakat in Daerah Istimewa Yogyakarta.

In addition, a comprehensive research to evaluate the performance of zakat institutions in Indonesia has not been available so far. Past empirical studies focused mainly on the management of zakat collection and distribution. Hence, due to the lack of studies on the governance of zakat institutions these concerns need to be empirically studied especially in the context of a modern Muslim state. A comprehensive framework to evaluate the performance of zakat institutions can increase the institution's ability in realizing its mission in order to achieve social and economic justice. Therefore, the measurement framework of the zakat institutions performance used in this study is expected to fill the gaps in the current literature, which will be useful for further empirical research in this area.

2 LITERATURE REVIEW

Some researches regarding zakat have been carried out both theoretically and empirically. Wahab and Rahman (2011) developed and proposed a conceptual model to study the efficiency and governance of zakat institutions that are responsible in collecting, managing, and distributing zakat in Malaysia Using DEA, the study examined the efficiency of zakat institutions in Malaysia.

Mohd Noor et al. (2012) also proposed a comprehensive framework in measuring performance for zakat institution, taking into account that non-financial measures are as important as input, process, output measures and outcome measures. In addition, Wahab et al., (2016) examined service quality (SERVQUAL) of zakat institutions in Malaysia using an enhanced model appropriate for zakat institution. They used a new and enhanced model (combination of SERVQUAL and CARTER) to examine the extent of SERVQUAL of zakat institutions from the perspective of zakat stakeholders.

Most of the research regarding zakat in Indonesia focuses on the impact and the role of zakat toward poverty reduction (Beik, 2009; Nurzaman, Annisa, & Hendharto, 2017) and zakat management (Adachi, 2017). However, there is little research on the performance of zakat institutions, some of which focus on the strategies to strengthen the role of zakat agency and institutions in Indonesia (Ayuniyyah, Hafidhuddin, and Hambari 2017) and examine the effect of types and regulations towards the efficiency level of zakat institutions in Indonesia (Sanrego and Rusyidiana 2017).

3 RESEARCH METHODOLOGY

3.1 Data Collection

The data used in this study consists of primary data and secondary data. The primary data is obtained from interview and questionnaire to the staff of BAZNAS DIY and Rumah Zakat DIY. The primary data collection was conducted from BAZNAS DIY and Rumah Zakat DIY financial report in 2014- 2015. Meanwhile, the secondary data is obtained from literature study of BAZNAS DIY and Rumah Zakat website.

3.2 Method of Data Analysis

This study uses National Zakat Index (NZI) to evaluate the performance of zakat institutions. The estimation technique of calculation in obtaining the value of NZI is using a method called Multi-Stage Weighted Index. The method combines several processes of weighting stages which are given to each index components so that the weighted score for each of these components must be performed gradually and procedural. Table 1 shows the measurement index of zakat institutions that reflected the performance of zakat institutions. The variable index of collection describes year over year growth of the collection by zakat institutions.

The variable index of management consists of the availability of SOP Zakat management, strategic planning, ISO/quality management, and the annual working program. The variable index of distribution is divided into four parts, which are ACR (Allocation to Collection Ratio), SP (Social Program), EP (Economic Program), and DP (*Dakwah* Program).

ACR is the ratio between the proportion of zakat funds that are distributed and the collected zakat fund. Social Program (Consumptive Program) is designed to meet the needs of *mustahik* which are urgent and short-term as well as a charitable act, including health care and education. Economic Program (Productive Program) focuses on empowering *mustahik* and aims to equip *mustahik* with the ability to meet their needs in the long term. *Dakwah* Program focuses on strengthening the spiritual of *mustahik*, including advocacy programs within the framework to defend the interests of *mustahik*, as well as the overall community awareness efforts that are shown by active support on the development of national zakat. Variable index of reporting describes the availability of audited financial report and periodic publication.

The indicator of the performance of zakat institutions includes four variables: collection, management, distribution, and reporting. The formula for calculating the indicator index of the performance of zakat institutions is as follows:

Table 1: Variables used to measure the institutional indicator index.

No	Variable	Criteria (1= very weak, 2= weak, 3= neutral, 4= strong, 5= very strong)				
		1	2	3	4	5
1	Collection	Growth (YoY) <5%	Growth (YoY) 5-9%	Growth (YoY) 10-14%	Growth (YoY) 15-19%	Growth (YoY) >20%
2	Management	SOP Zakat management, strategic planning, ISO/quality management, and the annual working program are unavailable	Has at least one document from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	Has at least two documents from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	Has at least three documents from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	SOP Zakat management, strategic planning, ISO/quality management, and the annual working program are available
3	Distribution	ACR <20%	ACR 20-49%	ACR 50-69%	ACR 70-89%	ACR 90%
		SP > 12 months	SP 9-12 months	SP 6 - <9 months	SP 3 - <9 months	SP <3 months
		EP > 15 months	EP 12 - 15 months	EP 9 - <12 months	EP 6 - < 9 months	EP < 6 months
		No budget allocation for <i>Dakwah</i> program (DP)	Budget allocation for DP at least 0.1 - < 2.5 % from total distribution Budget	Budget allocation for DP at least 2.5 - < 7.5 % from total distribution budget	Budget allocation for DP at least 7.5 - < 10 % from total distribution budget	Budget allocation for DP at least >= 10 % from total distribution budget

4	Reporting	Does not have any financial report	Has financial report which is not audited by independent auditor	Has audited financial report with qualified opinion, adverse opinion, and disclaimer	Has audited financial report with unqualified opinion and periodic publication	Has audited financial report with unqualified opinion, Sharia audit and periodic publication
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Source: Puskas BAZNAS (2016)

$$X_{21} = 0.30X_{211} + 0.20X_{212} + 0.30X_{213} + 0.20X_{214}$$

Where,

X_{21} : Indicator index of institution

X_{211} : Variable index of collection

X_{212} : Variable index of management

X_{213} : Variable index of distribution

X_{214} : Variable index of reporting

The results should be within the range of 0.00–1.00. In this regard, the lower the index value, the worse the zakat performance, whereas the larger the index value, the better the zakat performance. The following is the range of the index valuations:

0.00–0.20 = Unsatisfactory performance

0.21–0.40 = Less than satisfactory performance

0.41–0.60 = Fair performance

0.61–0.80 = Satisfactory performance

0.81–1.00 = More than satisfactory performance

4 RESULT AND FINDINGS

Zakat institutions not only has a responsibility to manage zakat funds effectively, but also has a primary task which all are related to the management of zakat funds, ranging from counting the number of properties and the amount of zakat, picking it up, carrying out to review the poverty minimum levels, and ensuring *mustahik* to receive zakat fund. The National Zakat Index evaluates the performance of zakat institutions based on four variables, which are the collection, management, distribution, and reporting.

Table 2: Indicator index of institution (BAZNAS DIY).

Variable	Actual Condition	Criteria	Score	Index
Collection	Growth (2014-2015) 34.5%	Very Strong	5	1
Management	Has at least three documents from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	Strong	4	0.75
Distribution	ACR 78.9% The intensity of Social Program is less than 3 months The intensity of Economic Program less than 6 months Budget allocation for <i>Dakwah</i> Program is 13.38 % from total distribution budget	Strong Very strong Very Strong Very Strong	4 5 5 5	0.93
Reporting	BAZNAS DIY has financial report which is not audited by independent auditor	Weak	2	0.25

The measurement result of BAZNAS DIY performance from the four measurement variables can be seen in table 2. Based on table 2, the growth of zakat collection (YoY) in BAZNAS DIY is more than

20 percent. In 2014, the total zakat collection was IDR 682,890,318, after which it reached IDR 919,009,901 in 2015 (an increase of 34.5%). As a result, the index score is 1, which means that the zakat

collection in BAZNAS DIY is more than satisfactory. For the management variable, BAZNAS DIY receives a index score of 0.75, which shows that the zakat institution has at least three of the four substances of SOP zakat management, strategic plan, and annual program.

Regarding the distribution variable, BAZNAS DIY receives a score of 0.93. BAZNAS DIY has an allocation to collection ratio of 78.9 percent. This index score indicates that the zakat distribution by BAZNAS DIY is satisfactory.

The reporting variable of BAZNAS DIY receives a score of 0.25, which means that the reporting of zakat funding by the BAZNAS DIY is unsatisfactory. BAZNAS DIY has the financial report but has not had external audit yet. After obtaining the index score of each indicator, the index score for the institution indicator can be calculated as follows:

$$X_{21} = 0.30X_{211} + 0.20X_{212} + 0.30X_{213} + 0.20X_{214}$$

$$X_{21} = 0.30(1) + 0.20(0.75) + 0.30(0.93) + 0.20(0.25)$$

$$X_{21} = 0.77$$

According to the results above, the index score for the institutional indicator is 0.77, which means that the performance of the BAZNAS DIY is satisfactory. After obtaining the index value of institutional indicators BAZNAS DIY, then next is to calculate the index score of institutional indicators of Rumah Zakat DIY. The index scores for the institution indicator of Rumah Zakat DIY are presented in Table 3. The growth of zakat fund (YoY) in Rumah Zakat DIY decreased by 4.52 percent. In 2014, the total zakat collection in Rumah Zakat DIY was IDR 1,543,003,000, after which it reached IDR 1,473,321,000 in 2015. Therefore, the index score is 0, which means that the zakat collection in Rumah Zakat DIY is unsatisfactory. Although the fund collected by Rumah Zakat DIY decreased in 2014-2015, the amount of fund collected is greater than the fund collected by BAZNAS DIY.

For the management variable, Rumah Zakat DIY receives index an index score of 0.75, which shows that the zakat performance is satisfactory.

Table 3: Indicator index of institution (Rumah Zakat DIY).

Variable	Actual Condition	Criteria	Score	Index
Collection	Growth (2014-2015) -4.52%	Very weak	1	0
Management	Has at least three documents from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	Strong	4	0.75
Distribution	ACR 203.19%	Very strong	5	1
	The intensity of Social Program is less than 3 months	Very strong	5	
	The intensity of Economic Program less than 6 months	Very strong	5	
	Budget allocation for <i>Dakwah</i> Program is blended with all Rumah Zakat Program	Very Strong	5	
Reporting	Has audited financial report with unqualified opinion, Sharia audit and periodic Publication (Rumah Zakat national)	Very strong	5	1

Regarding the distribution variable, Rumah Zakat DIY receives a score of 1, which means that the ACR is more than 90 percent, which is 203.19 percent. This shows that the zakat distribution by Rumah Zakat DIY is more than satisfactory. In 2015, Rumah Zakat DIY distributed IDR 2,993,684,000. The distributed fund is more than twice the amount raised in 2015, this is because Rumah Zakat is a national institution which implements a cross-subsidy schemes towards

the branch offices or provincial offices which require funding from other regions.

The reporting variable, Rumah Zakat DIY receives a score of 1. As a national institution, the central of Rumah Zakat performs the auditing of financial reports per branch office internally. After that, the financial reports are combined nationally, then those are audited externally with the supervision of the Sharia Supervisory Board of Rumah Zakat.

Rumah Zakat regularly publishes financial reports on the website of Rumah Zakat. After obtaining the index score of each indicator, the index score for the institution indicator of Rumah Zakat DIY can be calculated as follows:

$$\begin{aligned} X_{21} &= 0.30X_{211} + 0.20X_{212} + 0.30X_{213} + 0.20X_{214} \\ X_{21} &= 0.30(0) + 0.20(0.75) + 0.30(1) + 0.20(1) \\ X_{21} &= 0.65 \end{aligned}$$

According to the results above, the index score for the institutional indicators of Rumah Zakat DIY is 0.65, which means that the performance of the Rumah Zakat is satisfactory. The highest index value is achieved in the distribution and reporting variables while the lowest index value is in the collection variable.

Based on the calculation of institutional indicator index of BAZNAS DIY and Rumah Zakat DIY, it can be known that BAZNAS DIY received index score of 0.77 and Rumah Zakat received index score of 0.65. Therefore, it can be deduced that BAZNAS DIY has higher index value than Rumah Zakat DIY in 2014-2015. However, in Indonesia, private zakat sector proves to be more active and creative in mobilizing zakat funds (Saidurrahman, 2013).

5 CONSLUSION AND RECOMMENDATION

According to the result, indicator index of the performance of BAZNAS DIY and Rumah Zakat DIY was satisfactory. For collection variable, BAZNAS DIY received higher index score than Rumah Zakat DIY. This is because the number of zakat collection that BAZNAS DIY collected in 2014-2015 has increased. Meanwhile, Zakat fund that collected by Rumah Zakat DIY in 2014-2015 has decreased. Despite the decline in the collection aspect, the amount of fund collected by Rumah Zakat DIY is greater than the fund collected by BAZNAS DIY. For management variable, BAZNAS DIY and Rumah Zakat DIY received the same index score (a score index of 0.75), which means that both performances in management aspect was satisfactory.

Moreover, for the distribution variable, BAZNAS DIY and Rumah Zakat DIY received a quite high index score. So that, their performance in distribution aspect was more than satisfactory. Finally, for the reporting variable, Rumah Zakat DIY has better performance than BAZNAS DIY. The reporting variable of BAZNAS DIY received the lowest score index, which indicated that the reporting variable was unsatisfactory.

BAZNAS DIY and Rumah Zakat DIY are expected to have evaluations in improving their performances. It is necessary for BAZNAS DIY as an institution managed by the state to improve the reporting aspect in order to increase public trust. In the future, it is expected that BAZNAS DIY can have audited financial reports with unqualified opinion and sharia audit reports which are published periodically. Meanwhile, Rumah Zakat DIY is expected to improve its performance on the collection aspect, so that there will be an increase in the collection zakat funds. The findings in this study are expected to contribute to the existing knowledge on the performance of zakat institutions in Indonesia.

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