

Efficiency of Zakat Institutions in Empowering Ummah

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ABSTRACT

Issue on the efficiency of zakat institutions is important because zakat is an Islamic financial instrument that functions as wealth distribution. This distribution plays a role in empowering ummah, as the provisions related to the attributes of the zakat distribution process have been clearly stated in the Holy Quran and Sunnah. This study aims to analyze the efficiency of zakat institutions in Indonesia. Zakat institutions in Indonesia are categorized in several types based on historical aspects of the establishment of zakat institutions. The institutions are based on government, corporation, zakat management organization and mass organization. By using the Data Envelopment Analysis (DEA) method, this study found that the order of efficiency according to the type is government, corporation, zakat management organization and mass organization. Furthermore, results of this study can be used as a reference by the type of zakat institutions in Indonesia for better improvement. Thus, the potential management of zakat owned by Indonesia could be channeled properly.

Keywords: *DEA, Efficiency, Organizational Type, Zakat, Zakat Institution*



INTRODUCTION

Zakat institution is one of the Islamic-based philanthropic institutions (Abd Hamid, Othman, Arshad, Sanusi, & Rashid, 2020). Philanthropic institutions strive to improve the quality of human life by promoting the welfare, happiness and culture mankind (Bakko, 2019; Kumi, 2019; Lazar & Hatos, 2019; Onishi, 2019; Zhang, Wu, Chin, Yu, & Cai, 2020). The purpose of zakat management is to increase the effectiveness and efficiency of services in managing zakat and the benefits of zakat management may improve public welfare and reduce poverty (Minister of Law and Human Rights Republic of Indonesia, 2011). Zakat is a percentage of the wealth that must be paid by a Muslim who has met the requirements to be handed over to those who are entitled to receive it (Owoyemi, 2020; Razak, 2019). Therefore, zakat institutions own the important role in the empowerment of the ummah (society), and efficiency is a necessity in the operation of zakat institutions (Bukharia, Wekkeb, Thaheransyah, & Sabri, 2019; Raies, 2020; Setiyowati, 2019). Zakat institutions have a key role in managing zakat aiming at socio-economic mission. It is important for zakat institutions to be managed efficiently as a form of responsibility to the stakeholders and the Muslim community (Ghani, Aziz, Tajularifin, & Samargandi, 2018). The efficiency state occurs when additional outputs are produced by fewer inputs or without much change in input. An economic system can only be efficient when it can produce more goods and services for society with the same or lower amount of resources (Wahab & Abdul Rahman, 2012).

Measurement of the efficiency of zakat institutions as a financial institution can be calculated within two approaches, namely production approach and intermediation approach (Muharam, 2007). The production approach is an approach that considers zakat institutions as producers of zakat fund accounts, while the intermediation approach is an approach that assumes zakat institutions as an agent that convert and transfer zakat fund into zakat distribution (Muharam, 2007). This research used the production approach since it is more relevant to the fact that zakat institutions are obligated to collect zakat funds from the public. The more increase found in zakat funds of zakat institutions, the better zakat institutions in carrying out their functions. In addition, the efficiency of a zakat institution is very dependent on the ability to adopt the technology. Therefore, the more dominant and stronger the use of technology in all activities (programs) of zakat institutions, the faster it will accelerate efficiency.

There were some researches on efficiency, but not many researches discussing the efficiency of zakat institutions. Studies on the efficiency of financial institutions had also been done mostly in the banking sector. Some previous studies discussed the efficiency of zakat include research conducted by Norazlina Abd. Wahab & Abdul Rahim Abdul Rahman which aimed to present a conceptual model on the efficiency of government-based zakat institutions which are responsible for collecting, managing and distributing zakat in Malaysia (Wahab & Rahman, 2011). Another study conducted by Norazlina Abd. Wahab and Abdul Rahim Abdul Rahman aimed to analyze the efficiency of zakat institutions in Malaysia during 2003-2007 period (Wahab & Rahman, 2013). Then, the research conducted by Abd Halim Mohd Noor, Mohamed Saladin Abdul Rasool, Rozman Md. Yusof Siti Mariam Ali, and Rashidah Abdul Rahman measured the efficiency of zakat institution performed as one of the Islamic Institutions (Abd Halim Mohd Noor, Rasool, Yusof, Ali, & Rahman, 2015). Last but not least, the research conducted by Djaghballou, et., al. (2018) aimed to measure the efficiency and productivity enforcement of zakat institutions in Algeria within research period of 2003-2013 (Djaghballou, Djaghballou, Larbani, & Mohamad, 2018).

Zakat institution is one of the Islamic financial (Badan Amil Zakat Nasional Republik Indonesia/BAZNAS, 2020; Enduta, Tahab, Ismail, Ahmadd, & Alie, 2020). Based on historical aspects of the establishment of zakat institutions in Indonesia, it is classified in several types which are government, corporation, zakat management organization and mass organization. First is government-based zakat institutions. This institution is a non-structural government institution that is independent and responsible to the president's duty through the minister (Minister of Law and Human Rights Republic of Indonesia, 2011). Secondly, zakat institutions as corporation-based. Corporations are organized groups of people and/or assets (Kementerian Hukum dan Hak Asasi Manusia, 2016). Zakat institutions that are established as part of a corporation, based on historical aspects, are grouped into corporation-based zakat institutions. Third is zakat institution as mass organization-based. Mass organizations are a organizations that are voluntarily founded and formed by the community based on the same aspirations, desires, needs, interests, activities, and goals to participate in development to achieve the goals of the Republic of Indonesia based on Pancasila (the Ideology of the Republic of Indonesia) (Minister of Law

and Human Rights Republic of Indonesia, 2013). Zakat institutions that are established as part of a mass organization, based on historical aspects, are grouped into mass organization-based zakat institutions. Fourth is zakat institutions based on the zakat management organization (ZMO). The established zakat institutions with the initial objective to be a zakat management organization, based on historical aspects, are grouped into ZMO-based zakat institutions.

Based on previous related studies, this study seeks to analyze the efficiency of zakat institutions based on the type of organizations. It is because Indonesia has many zakat institutions, both government owned and non-government owned. Hence, the purpose of this study is to analyze the efficiency of zakat institutions in Indonesia according to their types using the method of Data Envelopment Analysis (DEA).

METHOD

This study uses a quantitative research approach with Data Envelopment Analysis (DEA) method. Data Envelopment Analysis is a procedure specifically designed to measure the efficiency of a Decision Making Unit (DMU) (Mozaffari et al., 2020; Wang & Sun, 2020). The Data Envelopment Analysis developed by Charnes et al. (1978) was originally used to measure the efficiency of non-profit institutions and the public sector. Data Envelopment Analysis has the ability to improve DMU performance by considering the use of various inputs to produce output (Sherman & Zhu, 2006). Mathematically, DEA determines which DMU group has the best performance and uses it to determine which DMUs are inefficient so that it will appear which DMUs have to improve their performance (Sherman & Zhu, 2006).

By using the production approach of efficiency, the chosen variables as an input include salary expense, operational expense, and socialization expense. On the other hand, zakat fund and zakat distribution variables are set as output variables. Selection of input variables refers to Al-Ayubi et al. (2018), and Wahab et al. (2012) which also uses the cost variable as a variable that finances the activities of collecting, managing, and distributing zakat. The output orientation is used in this study with the consideration that

the results of this study will be used to improve the efficiency performance of zakat institutions, one of which is the collection sector considering that the realization of zakat collection in Indonesia is still far from its potential. In addition, the assumption of Variable Return to Scale is used to explain the conditions for the use of inputs (costs) to produce output (zakat collected and zakat distributed), whether the use of inputs is optimal or not.

Data used for both input and output variables sourced from the annual Zakat institutions' financial statements in 2014-2018 in IDR (Indonesia Rupiah). The period selection is due to the latest financial statements presented on the official website of each institution and financial statements of 2018 is the latest one. The sampling technique used in this study was purposive sampling with criteria: zakat institutions that present annual reports on the official zakat institutions website. There are fifteen zakat institutions that meet the criteria, such as Badan Amil Zakat Nasional (BAZNAS), Baitul Maal Muamalat (BMM), Global Zakat (Global), LAZ Al-Azhar Indonesia (Al-Azhar), Dompot Dhuafa Republika (DDR), LAZ Dewah Da'wah (DDII), Inisiatif Zakat Indonesia (IZI), LAZ Mizan Amanah (Mizan), Posko Kemanusiaan Peduli Umat (PKPU), Rumah Zakat (RZ), LAZIS NU (NU), LAZNAS BSM (BSM), Majelis Taklim Telkomsel (MTT), Yayasan Kesejahteraan Madani (Yakesma), Yayasan Baitul Mal PLN (YBM PLN). Data Envelopment Analysis will be effective if the number of DMUs observed is greater (Sherman & Zhu, 2006). At least, the number of observed DMUs is three times the number of variables (Rustyani & Rosyidi, 2018). To achieve objective efficiency results, this study measures the efficiency of 61 DMUs.

The Data Envelopment Analysis result will not provide DMU with an efficiency greater than 1 or 100%. Zakat institution is considered efficient if it has an efficiency value close to 1 or 100 percent (Menzies et al., 2020; Saghafi et al., 2020). Conversely, Zakat institution is considered inefficient if it has a value close to zero (0) (Menzies et al., 2020; Saghafi et al., 2020). The efficiency analysis phase will begin with tabulation of data from the financial statements to each input and output variable using Microsoft Excel. Furthermore, the tabulated data will be imported into the software for efficiency, namely Banxia Frontier Analyst 4.0. The interpretation of the results is carried out by analyzing the efficiency value and referring to previous research and other supporting data for analysis and interpretation of the results.

RESULT AND DISCUSSION

The efficiency measurement in this study summarizes fifteen zakat institutions which are grouped into four groups based on their organizing management from 2014 to 2018. The results of this study assume that Zakat institution is in constant return to scale condition, which means that each input x times will produce output x times too. Table 1 presents various types of information. The first information is related to ranking, based on the highest to the lowest efficiency scores and benchmarks of Zakat institutions. The ranking comparison result in Table 1 shows Zakat institution which became the benchmark during the period of 2014 to 2018 was the Baitul Mal Foundation (YBM) of PLN with an average score of 1. However, the measurement of efficiency on the YBM PLN was carried out only during 2016-2018 period. Meanwhile, the other highest average scores in this study claimed by Rumah Zakat and PKPU in the 2014-2018 research period. As for each score, the average efficiency obtained were 0.916 and 0.866 respectively.

The second information is related to the level and efficiency rating based on the classification of Zakat institution types. According to the comparison of the average efficiency of the Zakat institution group, the zakat institution organized by the government (calculated to one institution) is higher than the other groups, which scored 0.820. This is due to fact that Zakat institution organized by the government is under the Ministry of Religion. BAZNAS is also the earliest institution who is well-established, obtaining a wide range of infrastructures and also provided a few other things by the government. Based on the applicable regulations, in carrying out its duties as a zakat institution, BAZNAS is also funded by the State Budget (Minister of Law and Human Rights Republic of Indonesia, 2011). Contrast with other groups whose funding does not have posts from the state budget, government group has the convenience of posting budget on input variables. Management and government are one of the most important factors in the increase amount of zakat (Amalia, 2019; Delvina, Arifudin, Zulkarnaen, Rustandi, & Prasetyo, 2020; La Ode Hasiara & Diah, 2019). (Amalia, 2019; Delvina, Arifudin, Zulkarnaen, Rustandi, & Prasetyo, 2020; La Ode Hasiara & Diah, 2019).

Table 1: The Level and Ranking of Zakat Institution Efficiency Based on The Type of Organizing Management

DMU Code	Type Org	Zakat Institution	2014		2015		2016		2017		2018		Avg	Rank
			Eff	Rank	Eff	Rank	Eff	Rank	Eff	Rank	Eff	Rank		
1	Gov	BAZNAS	0.695	2	0.803	4	0.601	5	1	1	1	1	0.820	4
Avg													0.820	1
2	Corp	BMM	-	-	-	-	0.180	7	0.589	5	0.756	5	0.508	5
3	Corp	BSM	-	-	-	-	0.124	9	0.149	7	-	-	0.137	11
4	Corp	MTT	1	1	0.064	9	0.078	11	0.097	10	0.093	8	0.266	8
5	Corp	YBM PLN	-	-	-	-	1	1	1	2	1	2	1.000	1
Avg													0.478	2
6	ZMO	RZ	0.617	4	0.964	1	1	4	1	3	1	3	0.916	2
7	ZMO	DDR	0.216	5	0.202	5	0.252	6	0.196	6	0.192	6	0.211	9
8	ZMO	Mizan	0.045	7	0.091	6	0.053	14	0.024	14	0.027	12	0.048	14
9	ZMO	Yakesma	-	-	0.912	3	0.071	12	0.143	8	-	-	0.375	7
Avg													0.388	3
10	MO	NU	-	-	-	-	1	2	0.087	11	0.083	9	0.390	6
11	MO	Global	0.005	8	0.005	10	0.003	15	0.005	15	0.001	13	0.004	15
12	MO	Al-Azhar	-	-	0.091	7	0.092	10	0.065	13	0.071	10	0.080	12
13	MO	DDII	0.050	6	0.078	8	0.054	13	0.074	12	0.037	11	0.059	13
14	MO	IZI	-	-	-	-	0.156	8	0.121	9	0.137	7	0.138	10
15	MO	PKPU	0.627	3	0.944	2	1	3	0.804	4	0.958	4	0.866	3
Avg													0.256	4

Note:

Gov= Government, Corp= Corporation, ZMO= Zakat Management Organization, MO= Mass Organization, Avg= Average

Then, the second position of the highest average efficiency obtained by zakat institutions organized by corporations (four institutions), which scored 0.478. This is due to the modernization factor in managing zakat. For example, one of them is using 4.0 technology in collecting and channeling zakat. Another factor affecting the score is the more superior human resources included compared to other institutions. The resource factor is important because it can determine the performance of the institution. The

four research samples in the company group are a unit specially formed to manage zakat funds. So that the resources provided in its management are fit and proper company resources for the management of zakat, including the selection of human resources. Technological factors such as websites, payment systems, and human resources are highly significant factors on improving the efficiency of zakat institutions (Wahab & Rahman, 2013).

Subsequently, the zakat institution organized by the OPZ (Zakat Management Organization) has an average efficiency of 0.388. This can be due to OPZ implementing the modernization of zakat governance. Then, in terms of human resourcing, it tends to highlight the small number of resources, compared with the corporate-own institution. Thus, the showing average value of efficiency can compete with others. Zakat institutions have effectuated innovations and new approaches such as establishing special units on research and development, public relations, promotion, and internal audit; use of computer and information technology in zakat affairs and encourage the involvement of young and professional who not only have a religious background but also those who have a modern and professional education background (Makhtar & Ahmad, 2010; Owoyemi, 2020).

Later, the table informed the zakat institution group organized by a mass organization (six institutions) has an efficiency level of 0.256. The reason for the low efficiency of the average institution in managing zakat institutions is because the mass organization is a forum for people who have the same vision. these groups tend to be driven by shared principles. therefore, the background of the members also varies considerably. in the management of zakat institution, this difference can be a challenge, because the style in implementing zakat management varies from one individual to another. however, mass organizations can be said to have high loyalty due to the same principles and the number of members that tend to be large. If each resource can be maximized its potential, the organization will have the potential to produce a higher output. The previous studies proved that a large number of people in the management inhibit the efficiency that can result in delays (Keen, 1991) and increase complexity (Ginn & Barlog, 1993).

From the above explanations, it can be concluded that the increase in the efficiency of zakat institutions can be obtained by promoting the modernization of zakat governance and increasing human resources.

With the modernization of zakat governance, the gathering system and the channeling process of zakat can be more efficient. It is in line with the Philanthropy Model 4.0 on empowering the ummah through technology. Empowerment is a construct of motivation. In the broader organizational context, empowerment is closer to the definition by enabling than by delegating (Weber & Ahmad, 2014). Empowering ummah means enabling the society to achieve certain goals, for example getting enough income to make a living (Weber & Ahmad, 2014; Yumarni, Suhartini, & Mulyadi, 2019). The modernization of zakat management is a form of ummah empowerment through more advanced technology.

One of the problems faced by the ummah that Indonesia has long faced is the high poverty rate. Based on the Central Statistics Agency, in March 2020, the number of poor people (residents with per capita expenditure per month below the Poverty Line) in Indonesia reached 26.42 million people (9.78 percent), an increase of 0.56 percentage points against September 2019 and an increase of 0.37 percentage points against March 2019.

There are various ways that the government has taken to reduce poverty. One that is believed to be quite effective is the implementation of empowerment such as providing access to capital for poor families and MSMEs which are run by the majority of the community. Non-business institutions such as the Amil Zakat Agency (BAZ) and the Amil Zakat Institution (LAZ) also have great potential in empowerment, because they have the legitimacy to collect zakat, *infaq*, *shadaqah* funds from Muslims in Indonesia, manage and distribute them to those who are entitled (*mustahiq*). The issuance of Law No. 23 of 2011 regarding zakat also adds to the important role of the government in socializing zakat. The law also allows the distribution of ZIS funds to grow, from those oriented only to meeting the basic needs of *mustahiq* (consumptive) to zakat as a source of productive funds that can improve the economy. Management of zakat by zakat institutions is necessary so that the empowerment process, which plays a role for the ummah, can be carried out optimally. Efficiency measurement can do mapping related to the performance of zakat institutions as zakat fund managers.

Great zakat management has an impact on the empowerment of the ummah, especially in increasing the independence of the ummah (Weber &

Ahmad, 2014; Yumarni et al., 2019). The level of efficiency can be a sign of good management at a zakat institution. Based on theory of efficiency testing using the Data Envelopment Analysis (DEA) method, testing is also carried out to determine the sources of inefficiency through the analysis of total potential improvement (TPI). The source of this inefficiency focuses on the combination of input and output variables used in research, where the greater the percentage, the greater the DMU must pay attention. The technical attempt to achieve efficiency for the DMU is to reduce a number of percentages on each input variable, and/or increase a number of percentages on each output variable from the existing budget in the current year. According to the average efficiency, it can be seen that inefficiencies that need to be corrected by the zakat institution are to reduce salary expenses by 22.66%, operational expenses by 22.96%, and socialization expenses by 24.15%, while the output factors that need to be considered is an increase in zakat fund by 7.74% and zakat distribution by 22.47%.

This means, to increase the efficiency of the zakat institution in Indonesia, management needs to be more concern in decreasing the socialization expenses. This can be pursued mainly by the use of technology, such as the digitalized version of the socialization process. Another thing to highlight is the increased expense in zakat distribution. However, the formulation of good program plans in the distribution of zakat also needs to be done so that the benefits of empowering the *ummah* can be maximized.

Data Envelopment Analysis (DEA) method can be used not only to measure the level of efficiency of the institution but also to measure the increase in the production capacity of the institution being tested. Table 2 illustrates the condition of return to scale (RTS) with the output approach. Every zakat institution studied will be in a condition of return to scale, namely decreasing return to scale (DRS), constant return to scale (CRS), and increasing return to scale (IRS).

Table 2: Return to Scale of Zakat Institution

DMU Code	Type Org	Zakat Institution	2014	2015	2016	2017	2018
			Return to Scale				
1	Gov	BAZNAS	DRS	DRS	DRS	DRS	DRS
2	Corp	BMM	-	-	DRS	IRS	IRS
3	Corp	BSM	-	-	DRS	DRS	-
4	Corp	MTT	CRS	DRS	DRS	DRS	DRS
5	Corp	YBM PLN	-	-	DRS	DRS	DRS
6	OPZ	RZ	DRS	DRS	DRS	DRS	DRS
7	OPZ	DDR	DRS	DRS	DRS	DRS	DRS
8	OPZ	Mizan	DRS	DRS	DRS	DRS	DRS
9	OPZ	Yakesma	-	DRS	DRS	DRS	-
10	MO	NU	-	-	DRS	DRS	DRS
11	MO	Global	IRS	IRS	IRS	IRS	IRS
12	MO	Al-Azhar	-	DRS	DRS	DRS	DRS
13	MO	DDII	DRS	DRS	DRS	DRS	DRS
14	MO	IZI	-	-	DRS	DRS	DRS
15	MO	PKPU	DRS	DRS	CRS	DRS	DRS

Note:

Gov = Government, Corp = Corporation, ZMO = Zakat Management Organization, MO = Mass Organization, Org = Organization

Zakat institutions that have constant conditions (CRS) are only PKPU in 2016 and MTT in 2014. Different conditions occur in Global Zakat, which during the research period has increasing conditions (IRS) continuously. However, based on the ranking in Table 1, Global Zakat is averagely at the lowest position compared to other fourteen zakat institutions. During the research period, the majority of zakat institutions that were the subject of research were in a decreasing condition (DRS). Therefore, almost all groups, zakat institutions organized by the government, corporation, zakat management organization and mass organization must be able to maximize efforts to increase efficiency. Furthermore, specifically for groups of corporation and mass organization sectors that experience increasing returns to scale, they can improve their managerial levels so that their efficiency levels can be elevated.

CONCLUSION

By carrying out its role as an agent for empowering the ummah, zakat institution is obligated to maintain and improve the efficiency of its activities. Zakat institutions in Indonesia can be grouped into four groups based on its types. By testing the level of efficiency using the Data Envelopment Analysis method, it is found the order of efficiency: government, corporation, zakat management organization and mass organization. Through the analysis of total potential improvement, this study provides practical advice for zakat institution to improve its efficiency.

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