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National Zakat Index: Framework and Methodology

Mohamad Soleh Nurzaman, Ridho Gusti Hendharto, Ninik Annisa, Khairunnajah, Noviyanti, Muhammad Choirin

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BAZNAS
Badan Amil Zakat Nasional

Mohamad Soleh Nurzaman
Center of Strategic Studies
The National Board of Zakat (BAZNAS)
Jln. Kebon Sirih Raya, 10340 Central Jakarta, Indonesia
Fax: +6221 – 3913777
Email: mohamad.nurzaman@puskasbaznas.com

Ridho Gusti Hendharto
Center of Strategic Studies
The National Board of Zakat (BAZNAS)
Jln. Kebon Sirih Raya, 10340 Central Jakarta, Indonesia
Fax: +6221 – 3913777
Email: ridho.hendharto@puskasbaznas.com

Ninik Annisa
Center of Strategic Studies
The National Board of Zakat (BAZNAS)
Jln. Kebon Sirih Raya, 10340 Central Jakarta, Indonesia
Fax: +6221 – 3913777
Email: ninik.annisa@puskasbaznas.com

Khairunnajah
Center of Strategic Studies
The National Board of Zakat (BAZNAS)
Jln. Kebon Sirih Raya, 10340 Central Jakarta, Indonesia
Fax: +6221 – 3913777
Email: khairunnajah@puskasbaznas.com

Noviyanti
Center of Strategic Studies
The National Board of Zakat (BAZNAS)
Jln. Kebon Sirih Raya, 10340 Central Jakarta, Indonesia
Fax: +6221 – 3913777
Email: noviyanti@puskasbaznas.com

Muhammad Choirin
Center of Strategic Studies
The National Board of Zakat (BAZNAS)
Jln. Kebon Sirih Raya, 10340 Central Jakarta, Indonesia
Fax: +6221 – 3913777
Email: muhammad.choirin@puskasbaznas.com
and
Center of Postgraduate
As-Syafi’iyah Islamic University
Jl. Raya Jatiwaringin No. 12 Pondok Gede, Jakarta, Indonesia
Email: choirin.um@gmail.com

Abstract

Discussing the development of zakat, to date, there are no standard measuring tools that can be used to evaluate the performance of zakat. In fact, the existence of this measurement standard is very important in determining the successful achievement of zakat development. Furthermore, by knowing this, it can be used in measuring to what extent zakat contributes to the national economic development. Based on these issues, National Zakat Index (NZI) was designed and developed for the purpose to become a standard measurement that can be used by regulator, zakat institutions, and public in evaluating zakat development nationally. NZI was developed by using Mixed Method, which is a methodology that integrates quantitative and qualitative method. We used a qualitative approach in structuring and compiling NZI components, whereas a quantitative approach was used in forming the estimation model of calculations. The finding was structuring NZI into two dimensions; Micro Dimension and Macro Dimension. Each of the dimensions has its own indicators. While the indicators of micro dimension consist of institution and zakat impact, macro dimension consists of regulation, government budget, and database of official zakat institutions, number of muzakki and mustahik.

Keywords: zakat, zakat index, zakat development

JEL Classification: O150, R290, Z120, Z190

1. Introduction

In the development of zakat institution, both in Indonesia and international level, there are no standard measuring tools to evaluate the performance of zakat in the aggregate. It means we need to assess the progress of zakat by using comprehensive indicators. The indicator should capture the macro dimension such as the government support in term of regulation and budget, the database of zakat, as well as micro dimension that assessing the performance of zakat management and the impact of zakat to *mustahik*.

In fact, the existence of this measurement is very important in determining the successful achievement of zakat development. Many studies have shown that the issues of transparency, accountability, and unclear evaluation of zakat distribution as the main reasons of dissatisfaction towards zakat institutions[1]. Furthermore, by knowing accurately the achievement of zakat development, then we can also measure to what extent zakat contributes to the public welfare and economic development.

Literally, there have been studies which seek to establish indicators in evaluating the performance of zakat. Abdullah et al (2012), for example, established indicators of zakat

[1] For example see Nik Mustapha (1991), Lessy, Z. (2009), Siswantoro (2010).

effectiveness index. This indicator measures the role of government, which can be observed from the budget allocation for the welfare of zakat recipients. In different dimension, Noor et al (2015) also gave an idea on how to build an indicator to evaluate the performance of zakat from the institutional aspects. This indicator, which is called zakat index, includes the evaluation of the overall performance of a zakat institution which started from inputs, processes, outputs, and outcomes.

In Indonesia, some studies have also been conducted. Such as Beik and Arsiyanti (2011) evaluating the impact of zakat which is viewed from the standard measurement of poverty by BPS-Statistics Indonesia (Badan Pusat Statistik, abbreviated as BPS) such as the poverty gap index, the severity of poverty index, and so forth. This study later was enhanced by adding a spiritual aspect to the method, which is called CIBEST (Beik and Arsiyanti, 2015). Similar research was done by Nurzaman (2011, 2015); he employed the Human Development Index (HDI) as a measuring tool for the household of zakat recipients. The reason was, zakat should not be exercised to enhance *mustahik* condition from the material aspect only, but it should also empower *mustahik* from health, and education, and a decent standard of living. Thus by knowing the HDI of *mustahik*, it will enable stakeholder to evaluate the impact of zakat from the perspective of humanity.

In general, based on the previous studies, it can be seen that there have been attempts to establish indicators to evaluate the performance of zakat. However, it can be observed that there are two major drawbacks from the previous studies. First, the studies were made based on the partial dimension, such as either the institutional aspect only or zakat recipients only. Hence, the indicators cannot be used to evaluate the overall zakat performance. Second, most of the previous studies were only focus at the micro level or case studies which cannot be assumed as an indicator to evaluate zakat at the national level or macro scale.

Hence, Centre of Strategic Studies BAZNAS has initiated to conduct a study in formulating National Zakat Index (NZI). It is being prepared as a measuring tool that is designed for the purpose to evaluate the development of the zakat at the aggregate level (national and province). NZI is projected to be an indicator that can provide an information on the role of zakat to the zakat recipients' welfare, and also indicate at what extent zakat institutions have been developed, from internal of the institution, public participation, until the support provided by the government. Finally, NZI is expected to become a measurement standard which can be applied by the regulator, zakat institutions, as well as the public in evaluating zakat development nationally.

1.1 Objectives

This study aims to establish an indicator that will be used as a reference of zakat performance in Indonesia. These indicators should be reflected in an index that is called National Zakat Index (NZI). NZI is expected to become a standard evaluation of zakat development that will be measured on a periodic basis. Based those objectives, the expected results of this study includes:

1. To establish the constituent components of NZI;
2. To explain the procedure of NZI formulation;
3. To generate calculation methods of NZI.

1.2 Methodology

This section will explain the methods used in conducting studies to design NZI. In general, the methods used can be described into two parts; the methods of formulation and the steps of formulation. Methods of formulation provide an overview of the methods and techniques made in calculating the index, while the steps of formulation are explaining the process and the steps being taken to construct the whole index and its components. Further explanation is as follow.

1.2.1 The Preparation Methods

Formulation of NZI was conducted by using research-based Mixed Methods. Mixed method research is a research methodology that combines qualitative and quantitative methods in the process of collecting, analyzing and integrating quantitative methods and qualitative methods. This method is a relatively new approach, and it has been frequently used as a standard in social research since 1980s (Tashakkori and Tedlie, 2003). In this study, qualitative methods were used in compiling NZI components, whereas quantitative methods were used in forming the estimation of calculation model.

There are three qualitative methods used in formulating NZI, which are Desk Study, Focus Group Discussion (FGD), and Expert Judgment. Desk Study is a literature review conducted by taking the reference and literature from a variety of sources related to the measurement of the index and the issues that relate directly and indirectly about zakat. A literature review was not only aim for research related, but also seeking sharia point of view for each component in NZI.

Acquiring information and formulating NZI was also done through the mechanism of Focus Group Discussion which was conducted 2 times. FGD process was involving zakat experts from BAZNAS, Zakat Forum (FOZ), the Indonesian Ulama Council (MUI), an economist of the Central Bank of Indonesia (BI), as well as academicians in the field of Islamic economics. After the FGD process, expert judgment was conducted to ask for feedback directly and inscribed, especially in determining the weighted score of the dimensions, indicators and variables chosen that was conducted to obtain the results of the study which are more valid.

Whereas on the quantitative side, the estimation method of calculation was conducted in obtaining the value of NZI by using a method called multi-stage weighted index. The method combines several process weighting stages to each given component of the index. This method became the most appropriate approach as the components of NZI consist of three components; dimensions, indicators, and variables. Thus, the weighting given to each of these components should be conducted gradually and procedural. In addition, to determine the components that construct the NZI, the research team of PUSKAS was also set a guideline that became the basic concept in the whole planning processes. The guideline referred to SMART, which consists of:

a. Specific; components presented must be specific

b. Measurable; components presented must be measurable

c. Applicable; components presented can be applied

d. Reliable; components presented are trustworthy

e. Timely; calculation is conducted in periodically manner

This basic concept is a very important reference for the formulation process of NZI. If one of these guidelines cannot be performed, it will be very difficult to form an index which can function properly. These guidelines, which were also intended in order NZI to become a standard that can be implemented not only at the national level, but also at the province level so that the scope can be broader.

1.2.2 Stages of Index Preparation

Preparatory studies of NZI was created with the objective to obtain index formulations, including dimensions, indicators and variables that can reflect the development of zakat in Indonesia. In this study, the discussion begins with the selection of the dimensions that will reflect the index which will be compiled. These dimensions are the components which are most comprehensive, capturing the whole section constituting NZI. The dimensions then elaborated in the indicators that construct those particular dimensions. After obtaining the dimensions and indicators that form NZI, then it is described in more detail in the form of the selected variables. The next step is to provide the weighted score to each dimensions, indicators and variables. Weighting step is required to determine the proportion of the contribution of each of the index components. Moreover, this step should be conducted through a method which involves input from the economists and zakat experts. After obtaining all components of NZI, along with the weight of its contribution, the final step is to determine the quantitative method to calculate the index. In calculating the index, besides to determine the formula of calculation, it is also required the phases of calculation. This is because, as mentioned earlier in the section of formulation methods, components of NZI consist of several sections, which further divided into sub-sections hence the calculation process is in multiple steps.

2. Literature Review

2.1 Previous Studies

Literally, research on the index of zakat has been done by several previous studies. However, to date, none of those studies is used as a standard performance measurement and zakat development in the world, or in Indonesia. Whereas, the presence of an index, which can be used as a standard measurement of zakat performance, will make zakat management becomes more measurable in measuring capability, accountability and transparency. As a result, stakeholders or the public can assess the quality standards of management of zakat institutions, which of course will motivate zakat institutions to manage its institutional and zakat funds better. Nevertheless, to develop zakat, it is not only the responsible of zakat institutions as a zakat funds manager, but also government and public should also be equally involved in promoting zakat.

In a study conducted by Abdullah, et al (2012), they attempted to find solutions to alleviate poverty in which one of these solutions is the distribution of zakat funds. However, to what extent zakat can alleviate poverty, then they make Zakat Effectiveness Index (ZEIN). The variable consists of the number of population below the poverty line, *mustahik* spending, and government spending on poverty alleviation. Thus by observing these three variables, this data can be used to observe the effectiveness of spending on poverty reduction, which can be seen from the total amount of zakat distributed to *mustahik* compared to the *mustahik* spending. In calculating ZEIN, the denominator is the number of recipients; it is not either GDP or GNP. Hence this research is expected to be a useful tool to measure the performance of all Muslim countries' provision of minimum basic needs through zakat (Abdullah, et al, 2012). The results on the index calculation will be divided among three groups, namely relatively Less Needy if ZEIN < 0.50, Just needy 0.75> ZEIN> 0.50, and Very Needy ZEIN> 0.75.

Another index measuring the level of poverty is *Maqasid* Sharia-based development index. Research conducted by Ali and Hasan (2014) saw the poverty from the basic need fulfillment based on *maqasid* sharia which encompasses protection of wealth, protection of life, protection of intellect, protection of faith, and protection of posterity. Each of those dimensions has its own indicators to determine the index and level of poverty. Moreover, this index also combines FGT method to measure poverty in multi-dimensions, such as to compute MS shortfall headcount index (H), MS shortfall intensity index (A), and MS shortfall headcount adjusted index (M0). Thus, if there any person deprives in more than two dimensions, he/she is considered poor in *Maqasid* Sharia (MS). Likewise, the result of calculations can determine the level of each dimension which contributes to poverty, so the higher the contribution value of the dimension indicates the fulfillment of the need for related dimension is still lacking, and vice versa.

From both of studies that discussed earlier, it can be observed that they focus on the ability of the poor in the fulfillment of the minimum standard of living. Whether it is viewed from the aspect of material or quantitative side, or from the maqasid sharia that combines qualitative and quantitative aspects. In 2014, Beik and Arsiyanti published research on poverty indices and prosperity in the perspective of Islam called CIBEST. This index is different from ZEIN and maqasid sharia-based development index, because the index is not only observing the level of poverty or mustahik's welfare, but including their spiritual level. According to Beik and Arsiyanti (2014), both aspects are very important as a measurement of a person's life balance as it was revealed in the Qur'an and Sunnah that man should not pursue success in the world only, because living in the world is temporary but hereafter is everlasting so it is important to prepare for the hereafter. Furthermore, this model classifies a household into four categories according to the conditions and their capacity to meet the material and spiritual needs. These four categories are:

1. Prosperous household (Quadrant-I); as the highest category, where a household is able to fulfill both needs, material and spiritual.
2. Material poverty household (Quadrant-II); a household has capacity to fulfill spiritual needs only, while they are unable to fulfill material needs up to the minimum level.
3. Spiritual poverty household (Quadrant-III); a household is able to fulfill only material needs, while for spiritual needs, this household has no capability to fulfill it
4. Absolute poverty household (Quadrant-IV); as the lowest level, where a household cannot fulfill both of material and spiritual needs.

CIBEST defined the material poverty based on three approaches. First, periodic survey on the needs of basic material. Second, set the standard of poverty line which is according to BPS-Statistics Indonesia with some adjustment (calculating per household, not per capita). Third, set the standard of *nishab*, which is a standard separator between *muzakki* and *mustahik*. Whereas, the spiritual aspect is based on the three groups of variables comprising of worship, family environment, and government policies.

Those three research have similarity in their subject of the research which is to measure the level of poverty. If ZEIN observes the effectiveness of the distribution of zakat to meet the minimum standard of decent living needs for the poor, then *Maqasid* sharia-based development index is observing the types of needs of the poor from the perspective *maqasid* sharia along with the percentage of fulfillment on *maqasid* elements. Then CIBEST is used to evaluate the impact of zakat distribution to *mustahik* both of material and spiritual aspect. However, all of these indices have not touched the aspects of management of zakat institution that should also be measured because zakat institutions have responsibility to collect and distribute zakat, hence its management should be evaluated.

Then, the research in the management of zakat institution has been done by Noor, et al (2015) regarding the level of efficiency of zakat institution. According to Noor, et al (2015), measuring performance is an important element in assessing the organization's ability to reach the target. By doing this, organization can arrange the right strategy based on the result of evaluation in order to reach target. One of the techniques to improve the quality of management of the organization is using benchmarking. It is a structured process or managerial technique in identifying performance gaps and to improve operational performance (Yasin, 2002). In zakat index compiled by Noor et al (2015), measurement of zakat index is categorized into four dimensions, namely Input, Process, Output, and Outcome. Each dimension has a variable that has its own weighted score, thus the index score will be generated from the calculation of all those variables. On the dimension of input consists of asnaf, staff and organization. Then the process dimension; staff and management, output dimensions; types of programs, types of distribution, and the distribution ratio, the dimensions of outcome; Asnaf upgraded, public perception, and governance. Each variable has its own weight, and then the result of calculation of all the variables will produce zakat index in which the range of score is 0-100%.

Zakat index and other indices as in previous research inspired the creation of the National Zakat Index which is designed with more comprehensive and can be applied in Indonesia at the national and regional levels. The reason is, previous studies discussed zakat index partially, or in other words, discussing zakat in some part only, for example; zakat recipients only, or management of zakat institution only. Meanwhile, to discuss national zakat index, it cannot use the same approach (partial approach), but it should be overall of zakat performance that is determined from the government support, total of *muzakki* who pays zakat, management of zakat institution, and impact of zakat to *mustahik*. Therefore, National Zakat Index is designed to provide a comprehensive index that includes measurement from macro to micro levels, from the government's support to the impact of zakat to *mustahik* in which further details will be explained in this paper.

2.2 Sharia Point of View

In developing National Zakat Index (NZI), the research team also referred to the sharia point of view so that the concept of NZI will not only touch from the social aspect, but it includes sharia principles. Literally, the management of zakat funds is the responsibility of the head of the state (government). In doing so, the State may appoint an agency to specifically manage and develop zakat. Sharia law authorizes the government to designate other parties to carry out this task (amil). This appointment is aimed at optimizing the management and development of zakat funds in an effort to minimize poverty. In the context of the modern world, zakat institution is not only making efforts for zakat collection and distribution of funds, but it has strategic functions such as empowerment, advocacy and creating jobs.

Kamal al-Din ibn al-Hamam; one of the scholars of the Hanafi said the ruler has absolute obligation in the implementation of the law of zakat. Similarly, the Prophet and two caliphs; Abu Bakr and Umar. Due to the change of society’s condition, in the reign of Uthman, the general affairs were submitted to the governor as a representative deputy of the caliph and its policy supported by the companions. As a result, if the citizen refused to pay zakat, the zakat will be taken by force by these representatives.

As an institution that responsible for implementing the laws of Allah SWT in the aspect of worship in terms of property ('Worship Maliyah), hence the zakat institution bears a moral burden. If transparency, accountability and professionalism are the demands of religion, as well as ethics and culture in the work, then all of these will be more demanded in the management of zakat. Zakat institutions are not only required to firm to the zakat payers, also they should be meticulous, smart and wise in its distribution. One aspect of transparency and accountability that is exemplified by the Prophet Muhammad is controlling function. Periodically, the Prophet (pbuh) always conducted a check and balance towards the zakat officer to evaluate their work, both aspects of the collection and distribution. It was performed to ensure its implementation in accordance with Shari'a law. As in the following hadith:

Periodically, the Prophet always do a check and balance against the zakat officer to evaluate their work, both aspects of the collection or distribution. It was all done to ensure its implementation in accordance with Shari'a law. As in the following hadith:

Narrated Abu Humaid Al-Sa'idi:

The Prophet appointed a man from the tribe of Al-Azd, called Ibn 'Utbiyya for collecting the Zakat. When he returned he said, "This (i.e. the Zakat) is for you and this has been given to my as a present." The Prophet said, "Why hadn't he stayed in his father's or mother's house to see whether he would be given presents or not? By Him in Whose Hands my life is, whoever takes something from the resources of the Zakat (unlawfully) will be carrying it on his neck on the Day of Resurrection; if it be a camel, it will be grunting; if a cow, it will be mooing; and if a sheep, it will be bleating." The Prophet then raised his hands till we saw the whiteness of his armpits, and he said thrice, "O Allah! Haven't I conveyed Your Message (to them)?" (Hadith narrated by Bukhari).[2]

The hadith above states the urgency of transparency, professionalism and accountability in the implementation and management of zakat funds. The ability of institutions to implement the principles of good amil governance will positively impact the image of zakat management. In addition, zakat is a worship that has impact on society. Zakat is strongly believed to be able to contribute in forming a spirit of togetherness between the have and the poor. A civilized society that are the rich will not arrogant because of their wealth, while the poor will not feel humiliated because of their poverty. Ideal society model who was once described by the Prophet Muhammad:

The parable of the believers in their affection, mercy, and compassion for each other is that of a body. When any limb aches, the whole body reacts with sleeplessness and fever. (Hadith narrated by Bukhari and Muslim)[3]

Hence based on the several hadith above, zakat has a significant economic impact if it is managed properly, and professional. The problem of poverty such as economic justice, economic gap and the lack availability of jobs are possible to be solved by zakat.

3. Result and Analysis

After conducting several processes of stages and the methods used throughout this study, it has obtained the results of the NZI components, the weighted score on each components,

[2] Al-Bukhari, Sahih al-Bukhari. Book of al-Ahkam, Bab Hadaya al-Amal, hadith no. 6753

[3] Ṣaḥīḥ al-Bukhārī 5665, Ṣaḥīḥ Muslim 2586

computation and estimation methods. The components and their respective weights were obtained from desk study method, FGD, and expert judgment. As for the model of calculation, it was obtained from studies conducted by the research team after the components are finalized.

3.1 Components of Index

The obtained components of NZI were generally formed by two dimensions, which are macro and micro dimension. Macro dimension reflects on how the role of government and society in contributing the development of zakat institution. This dimension has three indicators, namely regulation, government budget (APBN), and database of zakat institutions. Except for regulation and government budget support, the indicator of database of zakat institution was subdivided into three variables: the number of official zakat institutions, individual *muzakki* and enterprise *muzakki*.

Whereas the dimension of the micro was arranged in the part of perspective of zakat institutions and zakat recepients or *mustahik*. Technically, micro dimension has two indicators; performance of zakat institution and the impact of zakat to *mustahik*. Performance indicators of zakat institution were then described more detail into four variables that measure the performance of the institution from the aspect of the collection, management, distribution, and reporting. While indicators of the impact of zakat are a combination of five variables that view the impact from economic, spiritual, education, health, and independency.

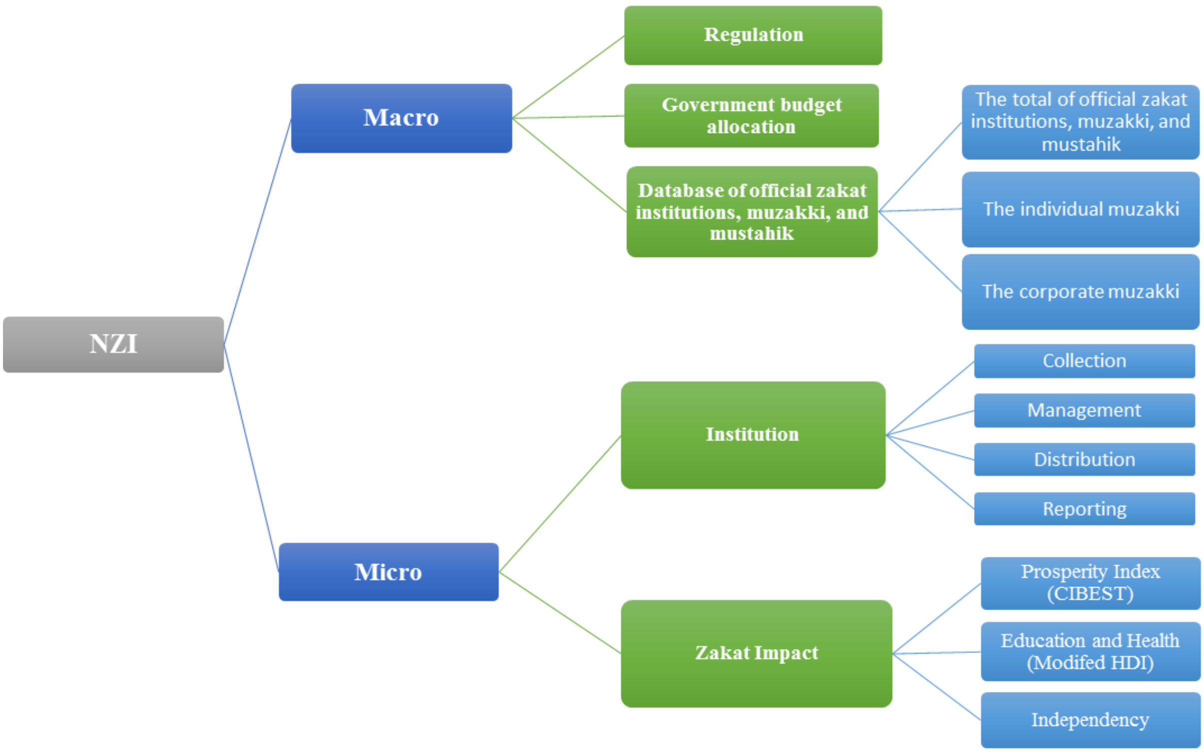

Figure 1. Components of NZI

An overview of the whole components of NZI, along with the weighted score for each component can be seen in the Table 1 below.

Table 1. Components of NZI

Dimension	Weighted score	Indicator	Weighted score	Variable	Weighted score
Macro (X_1)	0.40	Regulation (X_{11})	0.30	Regulation	1.00
		Government budget (X_{12})	0.40	Government budget	1.00
		Zakat Institution database (X_{13})	0.30	Number of official zakat institution (X_{131})	0.33
				Individual *Muzakki* ratio (X_{132})	0.33
				Enterprise *Muzakki* ratio (X_{133})	0.33
Micro (X_2)	0.60	Institutional (X_{21})	0.40	Collection (X_{211})	0.30
				Management (X_{212})	0.20
				Distribution (X_{213})	0.30
				Reporting (X_{214})	0.20
		Impact of Zakat (X_{22})	0.60	Material and Spiritual (CIBEST) (X_{221})	0.40
				Education and Health (HDI Modified) (X_{222})	0.40
				Independency (X_{223})	0.20

3.2 Formulation Model

Formulation model of the index in this study was divided systematically into several sections, therefore it should be done sequentially. Overall index estimation procedure is as follow:

The first section, creating the likert scale score within the range from one to five, where the score of 1 (one) describes the worst condition, and 5 (five) describes the excellent condition. Scoring is made to overall constituent variable index that can be seen as below:

Table 2. Scoring of Macro Dimension

1. Macro Dimension						
No	Variable	Criteria (1= Very weak, 2= weak, 3= neutral, 4= strong, 5= very strong)				
		1	2	3	4	5
1	Government regulation	The availability of zakat act and its supporting	The availability of zakat act and its supporting	The availability of zakat act and its supporting	The availability of zakat act and its supporting	The availability of zakat act and its supporting

		regulations at the national level as well as the availability of state regulation about zakat in <25% of the provinces	regulations at the national level as well as the availability of state regulation about zakat in 25% of the provinces	regulations at the national level as well as the availability of state regulation about zakat in 50% of the provinces	regulations at the national level as well as the availability of state regulation about zakat in 75% of the provinces	regulations at the national level as well as the availability of state regulation about zakat in all provinces
2	State regulation (to measure at province level)	The availability of state regulation about zakat at province level and <25% at district level in those province	The availability of state regulation about zakat at province level and at least 25% at district level in those province	The availability of state regulation about zakat at province level and at least 50% at district level in those province	The availability of state regulation about zakat at province level and at least 75% at district level in those province	The availability of state regulation about zakat at province level and at all district/cities in those province
3	Government budget allocation for BAZNAS	Government budget ratio to operational cost of BAZNAS is <20%	Government budget ratio to operational cost of BAZNAS is at least <20%	Government budget ratio to operational cost of BAZNAS is at least <30%	Government budget ratio to operational cost of BAZNAS is at least <50%	Government budget ratio to operational cost of BAZNAS is at least <75%
4	State government budget allocation for BAZNAS (to measure at province level)	State government budget ratio to operational cost of BAZNAS is <20%	State government budget ratio to operational cost of BAZNAS is at least <20%	State government budget ratio to operational cost of BAZNAS is at least <30%	State government budget ratio to operational cost of BAZNAS is at least <50%	State government budget ratio to operational cost of BAZNAS is at least <75%
5	Total numbers of official zakat institutions *muzakki*, and *mustahik*	Database of total numbers of official zakat institutions, *muzakki*, and *mustahik* per institution is unavailable	Have one of database regarding numbers of zakat institutions, *muzakki*, and *mustahik* per institution	Have two of database regarding numbers of zakat institutions, *muzakki*, and *mustahik* per institution	Have all of database regarding numbers of zakat institutions, *muzakki*, and *mustahik* per institution	Have all of database regarding numbers of zakat institutions, *muzakki*, and *mustahik* per institution as well as its portray

6	The ratio of register *muzakki* (have NPWZ against nastional household)	The ratio of registered *muzakki* (have NPWZ) against national household <1%	The ratio of registered *muzakki* (have NPWZ) against national household 1-3.9%	The ratio of registered *muzakki* (have NPWZ) against national household 4-6.9%	The ratio of registered *muzakki* (have NPWZ) against national household 7-10%	The ratio of registered *muzakki* (have NPWZ) against national household >10%
7	The ratio of entity *muzakki* (have NPWZ against the number of business entities)	The ratio of registered entity *muzakki* (have NPWZ) to the number of business entities <1%	The ratio of registered entity *muzakki* (have NPWZ) to the number of business entities 1-1.9%	The ratio of registered entity *muzakki* (have NPWZ) to the number of business entities 2-2.9%	The ratio of registered entity *muzakki* (have NPWZ) to the number of business entities 3-3.9%	The ratio of registered entity *muzakki* (have NPWZ) to the number of business entities ≥4%

Table 3. Scoring of Micro Dimension

1. Micro Dimension						
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 certification / quality management, and the annual working program are unavailable	Have at least one of documents from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	Have at least two of documents from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	Have at least three of documents from these required documents; SOP zakat management, strategic planning, ISO/quality management, and the annual working program	SOP zakat management, strategic planning, ISO certification / 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 - < 6 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 Da'wah 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	Do not have any financial report	Have financial report which is not audited by independent auditor	Have audited financial report with qualified opinion, adversed opinion, and disclaimer	Have audited financial report with unqualified opinion and periodic publication	Have audited financial report with unqualified opinion, Sharia audit report, and periodic publication
5	Prosperity index CIBEST (W)	Index value 0 – 0.20	Index value 0.21 – 0.40	Index value 0.41 – 0.60	Index value 0.61 – 0.80	Index value > 0.80
6	Modified HDI	Index value 0 – 0.20	Index value 0.21 – 0.40	Index value 0.41 – 0.60	Index value 0.61 – 0.80	Index value > 0.80
7	Independency	Do not have any job/business	Have an irregular job	Have either a permanent job or business entity	Have either a permanent job or business entity, and saving	Have a permanent job, business entity, and saving

Explanation:
ACR = Allocation to Collection Ratio, SP = Social Program (Consumptive Program), EP = Economic Program (Productive Program), DP = Da'wah Program

Definition:
<u>Social program</u>
Zakat distribution program is designed to meet the needs of *mustahik* which are urgent and short-term (al-Hajjah al-Massah) as well as a charitable act, including health care and education.
<u>Economic program</u>
Zakat distribution program that focuses in empowering *mustahik* and aims to equip *mustahik* with the ability to meet their needs in the long term.
<u>Da'wah Program</u>
Zakat distribution program that focuses in strengthening the spiritual of *mustahik*, including advocacy programs within the framework to defense the interests of *mustahik*, as well as the overall community awareness efforts that are shown by active support on the development of national zakat.

<u>The second section</u>, calculating the index of each variable. The formula for calculating the index on each variable can be seen as below:

$$I_i = \frac{(S_i - S_{min})}{(S_{max} - S_{min})}$$

Where,

I_i = index variable *i*

S_i = value of the actual score variable i

S_{max} = maximum score

S_{min} = minimum score

The value of index is within range of 0.00 – 1.00. This means the lower value of the index indicates the bad performance of the national zakat, and the greater value of the index indicates a better zakat condition. The value of 0.00 means National Zakat Index is at the lowest, which is "zero." While the value of 1.00 means the highest of the index value, which is "perfect."

The third stage, multiplying the index obtained on each variable with the respective weights to derive the index of the indicators. Two (2) indicators which are regulation and government budgets are not specified into more detailed variables, so it does not require certain calculation at this stage. While another three indicators, which break down into several variables are calculated with below fomula :

$$X_{13} = 0.33X_{131} + 0.33X_{132} + 0.33X_{133}$$

where,

X_{13} : Indicator index of database of zakat institution

X_{131} : Variable index of total number of official zakat institutions

X_{132} : Variable index of individual *muzakki* ratio against the number of households

X_{133} : Variable index of enterprise *muzakki* ratio against the total number of enterprises

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

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

$$X_{22} = 0.40X_{221} + 0.40X_{222} + 0.20X_{223}$$

where,

X_{22} : Indicator index of zakat impact

X_{221} : Variable index of material and spiritual (CIBEST)

X_{222} : Variable index of education and health (Modified HDI)

X_{223} : Variable index of Independence

The fourth stage, multiplying the index obtained on each indicator with respective weights in order to obtain the index of the dimensions of macro and micro,

$$X_1 = 0.30X_{11} + 0.40X_{12} + 0.30X_{13}$$

where,

X_1 : Index of macro dimension

X_{11} : Indicator index of regulation

X_{12} : Indicator index of government budget support

X_{13} : Indicator index of database of zakat institutions

$$X_2 = 0.4X_{21} + 0.60X_{22}$$

where,

X_2 : Index of micro dimension

X_{21} : Indicator index of institution

X_{22} : Indicator index of zakat impact

The last stage is multiplying the index obtained on each dimension with respective weights to obtain a National Zakat index, which is:

$$NZI = 0.4X_1 + 0.60X_2$$

where,

NZI : National Zakat Index

X_1 : Index of Macro Dimension

X_2 : Index of Micro Dimension

4. Conclusion and Recommendation

National Zakat Index (NZI) is a form of willingness to transform zakat management to keep moving towards a better management. We believe to make a better zakat management can be realized by providing credible indicators that can describe the overall performance of zakat. Based on this reason, by developing a National Zakat Index (NZI) is expected that zakat institutions have the standardization of performance.

However, in evaluating zakat performance is not only judging from the zakat institution alone, but also from the government and public aspect. Then *mustahik* as recipients of zakat funds cannot be abandoned from the national indicators of zakat performance, because they are beneficiaries of zakat so there should be a measuring tool on how far zakat funds in improving their welfare. Hence, this indicator can be used as an evaluation for zakat institutions. In short, the purposes of the National Zakat Index are as follows:

1. Good zakat management requires the support of appropriate indicators so it is necessary for the availability of a comprehensive measuring tool in the form of the index.
2. NZI acts as a standard measurement for assessing and evaluating the performance of national zakat includes the role of government and public, the performance of zakat institutions, and also the impact of zakat in improving *mustahik*'s welfare.
3. It can be applied at the national and regional level.

In determining these measurements, NZI established guidelines that became a reference in designing the index, which is abbreviated as SMART:

a. **S**pecific; components presented must be specific
b. **M**easurable; components presented must be measurable
c. **A**pplicabble; components presented can be applied
d. **R**eliable; components presented are trustworthy
e. **T**imely; calculation is conducted in periodically manner.

The guidelines above should be all applied without exemption to ensure that NZI can be used as a measurement standard. After going through several process to construct NZI, the performance indicators of zakat in NZI were divided into two dimensions which are macro and micro dimension. Macro dimension consists of regulation, state or local government budget support, and database of official zakat institutions, including *muzakki* and *mustahik* database. While the micro dimension consists of institution, zakat impact, and independency. The benefits of NZI should be aligned with the goals of the index, that NZI can be referred as a benchmark of national zakat performance. Hence, NZI is expected to become an evaluation and a supervision tool by stakeholders.

Research on the NZI formulation is a living document (a document, particularly as a guide that can be changed according to the context and the needs of the times) that has purposes to measure, assess and evaluate national zakat. This study also produces some recommendations for the National Zakat index so it may be fully useful. Some of these recommendations are:

1. NZI can be implemented by zakat institutions, from national to the local level. It is intended that all parties in zakat can measure and improve their zakat performance, as well as increasing public understanding in regard to zakat contribution for economic development of the country.
2. NZI which has been structured can be evaluated every three to five years. Thus, NZI will always be able to meet the needs as accordance to the time, because it can adjust in the context of social, economic, and political situation, as well as to have a more precise accuracy.
3. NZI can be ratified as a standard measurement to measure the standard of national zakat performance, which can be measured periodically.

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