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Integrating Zakat into Indonesian Fiscal System: A Proposed Solution to Budget Deficit Program

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ABSTRACT

The COVID-19 pandemic has caused the failure of several economic sectors and exacerbated global economic conditions. The paper provides a comprehensive overview of fiscal policies during the time of the Prophet and in contemporary Indonesia. The study utilizes a literature review method and collects secondary data from various sources. Data analysis is performed through a process of compilation and analysis to conclude a proposed solution to the budget deficit by integrating zakat into the Indonesian existing fiscal system. The result of this study shows that it is possible to integrate zakat as an Indonesian fiscal instrument, and it can be a solution to the budget deficit caused by the COVID-19 pandemic. The results of this paper suggest that the government can make zakat an alternative source of government revenue given its great potential and its compatibility with the government's poverty alleviation program.

Keywords: *Fiscal, Zakat, Indonesia.*

INTRODUCTION

Background of Study

The existence of the COVID-19 pandemic has caused the failure of several sectors and exacerbated global economic conditions. This pandemic not only disrupts public health but also destroys various industries such as tourism, property, airlines, MSMEs, and many other sectors. Efforts to contain the spread of COVID-19 by the government caused limited mobility and economic activity, as well as increasing financial market uncertainty. Indonesian economic growth slowed in the first quarter of 2020, reaching only 2.97%. Data for the second quarter were also unexpected, showing a sharp decline of -5.32%, the worst since 1999. Household consumption growth in 2022 still contracted by 4.93% (year on year) which is 2.91% points higher than in the previous year which amounted to 2.02%, several economic indicators began to show an improvement, while some are still on the way to recovery. This number still decreased compared to before the pandemic which grew by 5.13%. This shows that Indonesia has not fully recovered from the Covid-19 pandemic. (BPS, 2023).

During the last five years, from 2018-2022, the poverty rate in Indonesia has continued to decline. Indonesia's poverty has been successfully suppressed to 9.22 percent in September 2019. However, the COVID-19 pandemic that hit all countries, including Indonesia, made poverty increase again in March 2020. Although the poverty rate in Indonesia slightly decreased from 10.19% in September 2020 to 10.14% in March 2021, when compared to March 2020, the poverty rate increased by 0.36%, Year on Year (YoY), and increased by 0.92% compared to the previous condition. pandemic (9.22% in September 2019). The level of inequality (Gini Ratio) has also increased. Nationally, the Gini ratio increased by 0.003 points Year on Year (YoY) compared to March 2020, from 0.381 to 0.384, and increased by 0.004 points compared to conditions before the pandemic in September 2019. (BPS, 2023).

In responding to the impact of the pandemic, the government has made efforts through the National Economic Recovery program. Based on the state budget (APBN) information from 2019-2021, there was a very significant increase in social assistance spending in 2020, an increase of 82.2% compared to 2019. The total social assistance expenditure based on the 2020 Budget Implementation List was Rp. 207.4 trillion. A need for large fiscal stimulus during a sharp fall in taxes poses a challenge to fiscal financing. Efforts to meet these needs are carried out by utilizing various sources of financing, both domestic and global, as well as loans from international/multilateral institutions, such as the World Bank and the International Monetary Fund (IMF).

Overview of Indonesian Fiscal Policy

The Indonesian fiscal policy system was stated in the 1945 Constitution, which mandates the government to always make fiscal policy once a year that is informed in the State Budget or *Anggaran Pendapatan dan Belanja Negara* (APBN). APBN contains government stipulations regarding the allocation and distribution of state finances. The 1998 reformation has resulted in a new management policy in the Indonesian government, which was initially centralized to decentralized. The implementation is that the central government gives broadness to local governments to organize, regulate, and manage their government budget and system according to the principles of autonomy and assistance tasks in each region. This concept is strengthened by the issuance of Law No. 22 of 1999 concerning Regional Government and Law No. 25 of 1999 concerning Financial Balance. To date, these two regulations have undergone several revisions until the last is Law Number 33 of 2004 about regional and central financial balance and Law Number 23 of 2014 about regional government.

Decentralization is an instrument for realizing efficient and participatory local governance (Tanzi, 2000). Dillinger (1994) in his research about the implementation of decentralization in various countries found that the trigger for this policy was to provide better public services. The purpose of decentralization is to make the government closer to its people so that government services can be carried out more effectively and the budget posture that is formed is more efficient. This is based on the assumption that the local government has a better understanding of the needs and aspirations of the community than the central government. So, they can maximize the use of existing economic resources in order to create prosperity in the community.

In response to the impact of the pandemic and the declining performance of the economy, the Indonesian government initially implemented a fiscal stimulus policy that focused on tax incentives, non-fiscal incentives, spending incentives, social assistance, and guaranteeing the availability of food. However, considering the wider impact of COVID-19, the Government then took a more expansive fiscal policy by adjusting the posture of the 2020 State Budget. The direction of expansionary fiscal policy during the pandemic period was strengthened by Law No. 2 of 2020 which provides the basis for the Government to widen the fiscal deficit above 3% until 2022. After the issuance of the Law, the Government issued Presidential Regulation no. 54 of 2020 dated 3 April 2020 as the legal basis for widening the

APBN deficit from 1.76% to 5.07% of GDP with a focus on spending on health and social safety nets. Along with the increasingly severe impact of COVID-19, the Government has again revised Presidential Regulation No. 54 of 2020 to become Presidential Regulation No. 72 of 2020 on 25 June 2020 with a 2020 APBN deficit of 6.34% of GDP (BI, 2023). The target is the deficit rate of up to 5% is only for a period of three years. In 2023, the government will again use the maximum fiscal limit set by law.

Table.1 Indonesian Budget Deficit 2018-2022

Year	Budget Deficit (In Trilioun)	Budget Deficit to GDP
2018	142.5	1,82%
2019	348.7	2,20%
2020	1,039.20	6,34%
2021	775.1	4,57%
2022	464.3	2,38%

Source: Central Bureau of Statistics (BPS)

The graph above displays Indonesia's budget deficit data for the last 56 years from 2018 to 2022. There was a significant increase in the deficit in 2020 compared to previous years as the government's response to the COVID-19 pandemic. Engen et al (2004) and Kinoshita (2006) on their research conclude that an increase in the budget deficit of 1% of GDP has the risk of causing an increase in interest rates by 2 to 7 basis points.

The Problem of Budget Deficit

Expansive fiscal policy was influenced by increased spending to mitigate the risk of COVID-19 on public health and economic stability. This policy is difficult to avoid because state revenues have decreased significantly because of the economic contraction and the tax relaxation policy. This is not only happening in Indonesia but also in several other countries around the world. However, this budget deficit policy has several consequences for the economy such as,

a) Messed up some macro variables

A budget deficit can disrupt macroeconomic variables, including interest rates, inflation, consumption and savings, unemployment rates, and economic growth. The simple explanation is that a budget deficit means a lack of state financing. To meet the needs of the community, the government requires additional capital. It means that the demand for money increases and the impact on interest rates rises. The domestic exchange rate will fall and have direct implications for the business world. On the other hand, prices will tend to rise because expansionary countries spend money. A budget deficit can also reduce people's real income. As a result, the level of consumption and savings also weakened. This causes a domino effect and makes it difficult for the economy to develop, and tends to stagnate

b) Future dependency

Reflecting on the global financial crisis that occurred in Indonesia in 2008, the process of economic recovery tends to take 2-4 years. The budget deficit policy for 3 years is considered quite appropriate and rational. However, the government still needs to prepare a scenario for a faster economic recovery. Various incentives and easing spending can be stopped when it is no longer needed without having to spend three years. The widening of the deficit caused by large incentives also carries risks if left unchecked. First, it is feared that the standard of spending will increase following the widening of the deficit space so that the government will find it difficult to for financing. Second, Indonesia's economic foundation has become fragile because the government will depend on foreign capital flows that enter through state securities instruments.

Based on Law No. 1/2020, 2022 is the last opportunity to enforce a fiscal deficit above 3%. This policy relaxation resulted in reduced stimulus injections which had implications for cutting productive spending. (Chan-Lau & Zhao, 2020) in their findings concluded that financial markets would react negatively when the government withdraws stimulus too quickly, especially when daily cases of COVID-19 are still high. A significant reduction in the stimulus risks harming small businesses and lower-class groups of society, thereby triggering social unrest.

c) Reducing foreign investment

So far, the regulation of the maximum of 3% budget deficit has become one of the attractions for foreign investors in Government Securities (Surat Berharga Negara). An increase in the budget deficit limit is feared to result in reduced foreign capital flows and weaken the rupiah. This is because foreign investors due to swelling in the budget deficit are assumed to increase the risk of default.

d) Increasing the national debt

The state budget deficit is usually financed by debt, both domestic and foreign, this occurs due to the inability and lack of income from taxes as a cost supplier factor. The widening of the APBN deficit needs to be supported by financing, during the declining realization of state revenues. In this regard, debt still dominates the government's source of financing. Debt instruments used by the government are in the form of government securities (SBN) and loans. SBN consists of Government Securities (SUN) and State Sharia Securities (SBBN). In addition to SBN, the government also makes loans that can come from abroad in the form of foreign currency or domestically in rupiah denominations.

The Covid-19 pandemic crisis has caused the accumulation of government debt to become inevitable. The increase in state debt was also followed by a larger portion of the debt interest burden in the APBN. In the 2020 APBN, the interest expense on the debt has reached Rp. 338.78 trillion or has increased by Rp. 156 trillion in the last five years. In fact, the debt interest burden that needs to be borne by the government in 2021 is recorded to increase by 10.2% from the outlook for the debt interest expense in 2020. This condition will certainly reduce the government's fiscal space for productive spending. The portion of debt interest expense and principal installment payments has reached 16% of total state spending and it is number will continue to increase along with the addition of debt.

LITERATURE REVIEW

Zakat Implementation in Indonesia

As a country with the largest Muslim population in the world, Indonesia has great potential in Islamic social fund instruments, especially zakat, *infaq,* and *sadaqah.* The Center of Strategic Studies, National Board of Zakat Republic Indonesia (PUSKAS BAZNAS) released the potential zakat figure in 2020 reaching IDR 327.6 Trillion per year (Baznas, 2021). Indonesia is also considered the most generous country in the world according to the Charities Aid Foundation (CAF) 2021 (CAF, 2021). However, the realization of the ZIS collection is still very far from its potential due to the not-yet-optimal management of BAZNAS, the limited reach of the Amil Zakat Institution, and the high tendency of people to distribute zakat. direct. In 2022, BAZNAS released the ZIS realization figure of Rp. 22.2 T or only 5% of its potential. The highest APBN deficit so far since Indonesia's independence was IDR 342 trillion in 2017 and IDR 348 trillion in 2018. With the large zakat potential as stated above, if it can be integrated with the APBN, it will be able to overcome the deficit that occurs every year. According to Qardhawi (1999), the potential zakat that can be collected in several Muslim-populated countries is at least 6.3% of its total GDP. If this amount is distributed properly, it is estimated that it will be sufficient to overcome the problem of poverty as well as to assist the government in an even distribution of income.

Based on the facts above, the government should look for alternative revenue from other sources instead of only depending on the current state budget mechanism. In this era of new financial management in which the government necessarily seeks society's participation and cost-sharing in the provision of public goods, some sources such as *infaq,* zakat, and *sadaqah* can still be tapped as activities to promote social awareness (Yasni & Erlanda, 2020). The fiscal policy describes changes in government revenue and spending patterns to influence the economy. By adjusting the level of its spending and tax revenues, the government can influence economic outcomes by either increasing or decreasing economic activity (CRS, 2021). In addition, In the Islamic economy, zakat has been recognized as the principal instrument of fiscal policy (Yusoff, 2006).

Zakat is an instrument for wealth redistribution, and the most fundamental pillar of Islam related to the financial and economic system. Undeniably, zakat is one of the five pillars of Islam, which means that every Muslim is obligated to pay it. Nevertheless, zakat is not only a spiritual matter but also more. It plays an active role in solving economic problems such as unemployment, poverty, debt and disasters, extreme economic inequality, and money hoarding (Qardawi, 1999)

In its basic principle, zakat describes compulsory, obligatory, and absolute instruction for every Muslim *(muzakki*) to pay 2.5% of his wealth to support the needy (*mustahik*). Although zakat was a religious tool for the Muslim community in terms of human welfare, it has enormous potential not only for its followers but also for more broadly humanity. In economics, zakat has great benefits at both the macro and micro levels. In the macroeconomics scope, zakat can be a tax policy tool in a country or a public sector of Islam. In microeconomics, zakat can play a significant role in the allocation or distribution of zakat to recipients (Suprayitno, 2020)

The administration of zakat in Indonesia developed rapidly. This is captured in the establishment of Badan Amil Zakat Nasional (BAZNAS) as the National Almsgiving Authority and LAZ as the Amil Zakat Institution as zakat institutions. BAZNAS is the official and only governmental zakat institution established in accordance with Indonesian Presidential Decree No. 8 of 2001. With the enactment of Law No. 23 of 2011 on Zakat Administration, the role of BAZNAS as an authorized institution to coordinate with all Zakat organizations in Indonesia to collect and distribute Zakat, *Infaq,* and *Sadaqah* at the national level was strengthened.

Zakat management in Indonesia has developed rapidly in recent years. This is reflected in the establishment of Badan Amil Zakat Nasional (BAZNAS) as the National Almsgiving Authority and Lembaga Amil Zakat (LAZ) as *amil* Zakat Institution. BAZNAS is the official and only governmental zakat institution established in accordance with Indonesian Presidential Decree No. 8 of 2001. With the enactment of Law No. 23 of 2011 on Zakat Administration, the role of BAZNAS as an authorized institution to coordinate with all Zakat organizations in Indonesia to collect and distribute Zakat, Sadaqah, and Infaq at the national level was strengthened.

In Indonesia, zakat can be collected directly or indirectly. In the direct collection, the *muzakki* (those who are obligated to pay zakat) come to an operational unit of the BAZ or LAZ while in the indirect collection, *muzakki* pay their zakat by salary deduction or bank transfer.

In the direct collection, the *muzakki* (those who are obligated to pay zakat) come to an operational unit of the BAZ or LAZ, while the *muzakki* deposit their zakat at a post office, by bank transfer or payroll deduction. To strengthen zakat institutions and further streamline zakat administration in Indonesia, the Zakat Directorate was established in 2001 under the Ministry of Religion. In addition, local governments have also begun to consider the implementation of Zakat Law No. 38/1999 by issuing regulations (Perda) at the regional level regarding zakat in their respective areas.

Zakat as Fiscal Policy: Islamic Perspective

There have been several studies that have addressed the implementation of zakat in fiscal policies in Islamic countries, indicating that the Islamic religion has long engaged with fiscal policy systems and has had a profoundly positive impact.

Karbala et al (2020) in their paper aim to analyze and compare the fiscal policies implemented during the time of the Prophet Muhammad and in Indonesia nowadays. The study utilizes a literature review method and collects secondary data from various sources. The paper provides a comprehensive overview of fiscal policies during the time of the Prophet. It highlights the implementation of fiscal policies to provide employment for the Muhajirin and foster fraternal relationships between the Muhajirin and Ansar. Additionally, it emphasizes the compulsory nature of *sadaqah*, *fitrah*, and zakat during that period. The paper also discusses the fiscal policy instruments derived from zakat, *infaq*, *sadaqah*, and waqf. Overall, the paper provides a valuable comparison between fiscal policies during the time of the Prophet and in contemporary Indonesia. It offers insights into the principles and objectives of fiscal policy in Islam, emphasizing the importance of balanced wealth distribution and adherence to Sharia principles in managing state finances. However, it would have been beneficial to include more specific examples and analyses of Indonesia's fiscal policy to enhance the comparison. The paper serves as a useful resource for researchers and policymakers interested in exploring the intersection of fiscal policy and Islamic principles.

Previous Research

There have been several studies that show the effect of zakat on the economy (Beik, 2013; Fadila, 2019; Metwally, 1983; Shirazi, 1996). Overall, the result shows the similarities that zakat has a positive impact on some economic indicators.

Metwally (1983) in his paper investigated the differences in fiscal policy in conventional and Islamic economies and determined the effect of zakat on the demanding investment and consumption function in the Islamic economic perspective. This proved that zakat increases the aggregate consumption of *mustahik* because the Marginal Propensity to Consume (MPC) of the zakat recipients is bigger than zakat payers. In relation to the national income determination, this study also proved that the higher zakat spending the higher increase in the output of the national equilibrium.

In his paper, Metwally (1983) stated that zakat would bring two effects on total consumer spending in an Islamic economy. First, the MPC would be higher in an Islamic economy than in a non-Islamic economy where there is no similar tax measure. Second, the investment gap at each income level would be smaller in an Islamic economy. However, some scholars critically note that the marginal propensity to consume is higher in an Islamic economy because of zakat revenues. They argue that consumption would be lower in an Islamic economy compared to other economies with the same income level and point to Islam's emphasis on living simply and avoiding ostentatious consumption, which should result in an overall lower marginal propensity to consume in an Islamic economy.

Beik (2013) examines the comparison of household income with and without the distribution of zakat in DKI Jakarta Province. Beik (2013) found that 40% of the poorest groups of people only enjoyed 18.1% of their income without the distribution of zakat, while 20% of the richest groups enjoyed 42.6% of their income. Then with the distribution of zakat, 40% of the poorest groups of people enjoy 20% of the income, while 20% of the richest groups enjoy 40.5% of the income. From these results, it is known that zakat is able to increase the proportion of income received by the poorest groups of people and reduce the proportion of income received by the richest groups of people. Even though the change is not too large, zakat is able to provide an even distribution of income and reduce economic inequality. Going along with it, Fadila (2019) found a correlation between zakat distribution and Gini Index. Using the Pearson analysis, he found that the correlation coefficient value of -0.786 indicates that there is a strong correlation between the distribution of zakat and the Gini index. It also has an inversely proportional direction, when the distribution of zakat has increased, then the Gini index has decreased and vice versa.

Shirazi (1996) examined the relationship between zakat distribution and poverty alleviation in Pakistan using the Foster, Greer, and Thorbecke (FGT) index. The result showed that from 1990-1991, 38% of all households in Pakistan were below the official poverty line of their country. However, with compulsory and voluntary zakat remittance, the poverty rate would have been slightly higher, 38.7%. Shirazi (1996) also points out that with the voluntary zakat transfers, the poverty gap decreased from 11.2% to 8%.

The simulation has also been made by Widiyanti & Retno (2015) to compare how zakat and tax affected the supply and demand equilibrium. This study found that the mechanism of zakat will not lead to economic inefficiency because the shift in the demand and supply curves will lead to a greater quantity of products at the same price level. However, the subsidy and tax mechanism will lead to economic inefficiency, as the shift in the supply and demand curve will lead to a smaller quantity of products at a higher price level. So, this study concludes that zakat has a more powerful impact on economic efficiency than taxation.

METHODOLOGY

The methodology employs a qualitative approach using library research. The type of data used in this study is secondary data. Data collection is conducted through a literature review. Data analysis is performed through a process of compilation and analysis to conclude a proposed solution to the budget deficit by integrating Zakat into the Indonesian fiscal system.

PROPOSED SOLUTION: ZAKAT

Possibility of zakat to be integrated into Indonesian fiscal policy

Given the previous part shows the positive impact generated by zakat, this part will try to discuss the possibility of zakat being a state revenue, which integrates it into the fiscal system. The narration to integrate zakat into a fiscal system has emerged in some Muslim countries including Indonesia (Akbar & Kayadibi, 2015). The integration of zakat means that zakat is a source of state revenue that is managed according to the state finances principles (Yasni & Erlanda, 2020). History shows that zakat has played an important role in creating wealth in society. It has been proven at Umar bin Abdul Aziz, that zakat alleviated poverty at that time in addition to tax. Considering this achievement, some scholars argued that zakat should be reintegrated into the current fiscal system, especially as state revenue.

Kahf (1997) in his research showed there are potential direct and indirect effects of the introduction of zakat on the state budget. The direct impact is that zakat could increase budget revenues that can be used for other budgetary purposes. Furthermore, the indirect impact is that zakat increases the taxation potential by increasing community employment, productivity, and output produced, and is also a policy tool to influence economic activity in society Kahf (1997) also provides the advantage of making zakat a government revenue. It preserves the zakat implementation within the legal limits and enables collection even from those who might feel relaxed about paying it. It also allows the state to monitor the distribution of zakat so that it fulfills the desired goal of poverty alleviation. These findings were strengthened by the research of (Akbar & Kayadibi, 2015), which showed that the idea of zakat integration should be realized because zakat is Muslims obligatory. It's also expected that zakat should play a great role in helping the government achieve its goals of creating wealth in society, especially in solving the problem of poverty

Next, (Yasni & Erlanda, 2020) analyzed the integration using the qualitative method. The use of the qualitative method in their study due to the fact that the integration of zakat as state revenue in Indonesia is still developing needs more to be explored. The conclusion of this study suggests that the government can make zakat an alternative source of government revenue given its great potential and its compatibility with the government's poverty alleviation program. Even Subekan (2016) has simulated the possibility of zakat integration to be stated in public finance regulation. The result of this study indicates that this is something possible from an administrative point of view. Even more, the public finance regulation gave the guidance and mechanism so that zakah can be adopted by the government as one of the fiscal policy

Ali (2006) argued that integrating zakat into the Indonesian fiscal system would place an additional burden on the government. He suggested that zakat should be administered by groups of communities or private institutions and that it can benefit civil society development without government interference. Challenges may arise in this integration. From the external factors, the rejection of several stakeholders such as tax authorities, zakat non-governmental organizations, as well as non-Muslim society (Akbar & Kayadibi, 2015). Other challenges are on the Indonesian government itself. Zakat programs are not currently included in the National Poverty Reduction Acceleration Team (TNP2K), and the Indonesian government has not yet looked to see to whom budget expenditures go, whether to Muslims or non-Muslims. If Zakat is only allowed to go to Muslims, the distribution of spending becomes more complicated

But this contra and challenges of zakat integration are not essential. The additional burden on the government means that the government will not be able to govern other tasks. Moreover, the goal of government is to create wealth. This goal should be achieved as the government should take on many tasks. The challenges of rejection also can be resolved if there is the will and commitment of the government. Overall, all challenges can be resolved with good governance which also will eliminate the lack of trust among the people.

Strategic in the Implementation of zakat as an instrument of fiscal policy in Indonesia

1. Improving zakat regulations in Indonesia

   The first law that regulates zakat in Indonesia is Law Number 38 of 1999 concerning Zakat Management. This law explicitly states that zakat management is an activity of planning, organizing, implementing, and supervising the collection, distribution, and utilization of zakat. Although the latest law on zakat management has been enacted, namely Law No. 23 of 2011, the existence of this law is still not enough to make zakat a policy that can have a massive development effect, as well as a solution to the problem of budget deficits. This is because zakat is still seen as a voluntary obligation not a forced obligation for every Muslim. Several things are considered to need to be reorganized in the laws and regulations regarding zakat, among them:

   - Zakat Collection, in article 21 paragraph (1) it is stated "in the context of collecting zakat, muzakki perform their calculations on their zakat obligations". This article explicitly states that zakat is only voluntary, not yet an obligation imposed by the state.

   - Zakat Management, in article 5 paragraph (3) it is stated that "BAZNAS is a non-structural government institution that is independent and responsible to the President through the Minister". Institutions dealing with zakat should be more strategic and stronger in a structural framework. Furthermore, zakat should be made like a tax structurally, at the ministry level so that it is strong structurally and in implementation

   - Zakat Distribution, Articles 25, 25, and 27 of the zakat distribution strategy still do not have an explanation regarding the distribution of zakat nationally and strategically. This means that the distribution of zakat still relies on BAZNAS or LAZ policies and has not become a strategic instrument in national fiscal policy.

2. Integrating zakat into the APBN posture

   In Indonesia's current fiscal economic system, there are three sources of government revenue. First, and is the primary source of revenue, comes from tax collections. Second, it comes from non-tax state revenues. Third, are grants or foreign aid and loans. While the post of state expenditure is divided into state expenditure, central government expenditure, and regional expenditure. More systematically the source of government revenue and government expenditures posts can be seen in the following table:

Table 2. Sources of Revenue and Expenditure of the Indonesian State Budget

State Revenue	
1	Tax Revenue a. Domestic Taxed (such as income tax, company tax, etc) b. International Trade Tax
2	Non-tax Revenue a. Receipt of natural resources b. SOE profit's share c. Other non-tax revenue
3	Foreign grants and aid
Government Expenditure	
1	a. State expenditure b. Central government expenditure c. Local government expenditure

Almost every year state revenues are still piled up in the tax sector and from year-to-year revenue from taxes continues to increase. This means that almost 85% more of the state budget revenue comes from taxes. Even though there was an increase in state revenues from taxes and non-taxes, this increase was still not able to cover the APBN budget deficit. Thus, to increase the state revenue, zakat can be the alternative to be used as an instrument of the state budget. Moreover, it is estimated that the potential for zakat in Indonesia is up to Rp. 300 trillion, this amount is sufficient to cover the government's needs, so that the government no longer needs to owe because of the budget deficit. If zakat is included as an instrument in fiscal policy, then zakat in the APBN posture will be included in the post of non-tax revenue. This is because zakat posts must be special and regulated based on *sharia*, zakat funds cannot be combined and merged with other funds because the group entitled to receive zakat is based on sharia, namely the eight *asnaf* zakat.

For zakat expenditure posts, the provisions are based on sharia rules. This has also been stated in Law No. 23 of 2011 concerning zakat, that the distribution of zakat based on article 25 zakat must be distributed to *mustahik* in accordance with Islamic law. In Article 26, the distribution of zakat as referred to in Article 25, is carried out based on a priority scale by taking into account the principles of equity, justice, and territoriality. If poverty alleviation funds are able to be covered through zakat funds, the existing poverty alleviation funds can be allocated to other sectors, such as the education, infrastructure, or health sectors. Besides that, the presence of income from zakat in the APBN will certainly reduce the opportunity for a budget deficit to occur.

Table 2. The Scenario of Zakat Receipts and Expenditures in the Posture of the Indonesian State Budget

State Revenue	
1	Tax Revenue a. Domestic Taxed (such as income tax, company tax, etc) b. International Trade Tax
State Revenue	
2	Non-tax Revenue a. Receipt of natural resources b. SOE profit's share c. Other non-tax revenue **d. Revenue from zakat**
3	Foreign grants and aid
Government Expenditure	
1	a. State expenditure **b. Central government expenditure (zakat disbursement post)** c. Local government expenditure

Based on the background, conditions, and literature presented the proposed model to integrate zakat as a fiscal instrument is illustrated in Figure 2 below.

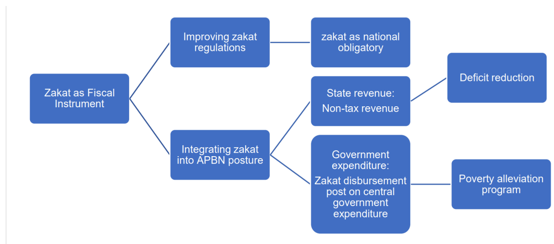

Figure 2. Proposed Model of Integration zakat as Indonesian fiscal instrument

In the picture above, it is expected that zakat becomes a national obligatory so that it has binding power to all the Muslims in Indonesia. By implementing this model, its hoped that zakat integration can solve today's problem in Indonesian fiscal policy namely budget deficit. It is also hoped that zakat can reduce the poverty in Indonesia. If poverty alleviation expenditure is able to be covered by zakat, the existing poverty alleviation spending can be allocated to other sectors as well as reduce debt caused by the budget deficit.

CONCLUSION

The COVID-19 pandemic caused failures in several economic sectors, including the fiscal sector. In responding to the impact of the pandemic, the Indonesian government increased social assistance spending in 2020 by 82.2% compared to the previous year. Various policies were also implemented by the government in response to the covid-19 pandemic such as tax incentives, non-fiscal incentives, spending incentives, social assistance, and guaranteeing the availability of food. Considering the wider impact of Covid-19, the Government then took a more expansive fiscal policy by adjusting the posture of the 2020 State Budget, by increasing the fiscal deficit above 3% until 2023.

One instrument of Islamic social finance, the zakat was offered to be a solution to the fiscal deficit in this study. Integration of zakat into the Indonesian fiscal system should be an alternative revenue to the government instead of only depending on the current state budget mechanism. Several previous studies have proven that zakat would bring a positive impact on the economy (Beik, 2013; Fadila, 2019; Metwally, 1983; Shirazi, 1996). This study focuses on developing a model to integrate zakat into the Indonesian existing fiscal system. The result of this study shows that it is possible to integrate zakat into the Indonesian fiscal system, and it can be a solution to the fiscal deficit caused by the COVID-19 pandemic.

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