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# The Role of Baitulmal as Department of Finance Through Fiscal Policy: Zakat as an Instrument

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*ABSTRACT*

*The article delves into the utilization of Zakat, a fundamental aspect of Islamic fiscal policy, as an alternative fiscal instrument to address economic stability, growth, development, and equitable wealth distribution. Zakat, an inherent component of Islamic fiscal policy, is vital in fostering socio-economic well-being and balance. Consistent contributions, tax evasion, and compliance, the difficulties of equitable redistribution, the influence of economic fluctuations, integration and awareness, and institutional effectiveness are the primary issues with Zakat as a tool for Baitulmal's duty as the finance department through fiscal policy. The article examines the involvement of Baitulmal, a state institution, in macroeconomic matters through fiscal policies, emphasizing the dynamic function of Zakat within the national economy. Additionally, it explores the terminology and functioning of Zakat as a fiscal tool, emphasizing its influence on the economy and its potential alignment with fundamental economic objectives. The qualitative approach is used in nature with data collection through theoretical analysis, empirical research, and case studies published in the scientific literature. The result of the research found that Baitul Mal Wat Tamwil (BMT) has a significant role in fiscal policy through zakat allocation, which implies economic stability, poverty alleviation, and societal well-being.*

Keywords: *Baitulmal, Fiscal Policy, Zakat, Social Wellbeing*

## INTRODUCTION

Islamic fiscal policy is deeply rooted in the principles of equity, socio-economic well-being, and balance. At its core lies Zakat, a fundamental and compulsory component of Islamic finance and economic system. Zakat is one of the five pillars of Islam. It is also stated that it is one of the main components in Islamic finance. Its aim is to balance wealth distribution in the country fairly (Ganiyev, A. , & Umaraliev, S. , (2020).

Yusoff (2006) examines the potential of Zakat as primary fiscal tool in an Islamic State. Zakat serves a role in macroeconomic stabilization policies through both non-discretionary and discretionary measures. The automatic stabilizier mechanism comes into play when Zakat collection is naturally decreased during economic downturns, providing more funds for people to spend, thereby stimulating the economy. Conversely, during prosperous periods, more Zakat is collected, reducing individuals spending capacity and thus moderating economic activities. This helps in mitigating macroeconomics fluctuations. In terms of discretionary fiscal policy, the government adjusts the distribution of Zakat to recipients as needed during different phases of the business cycle (Yusoff, 2006, p.141).In essence, Zakat is a cornerstone of Islamic ethics and financial principles. Its obligation transcends charity, encompassing a commitment to economic justice and social responsibility. As we delve further into the topic, we will explore the multifaceted role of Zakat in greater detail, examining how its is administered and its broader impact on both individual lives and society as a whole.

The administration of Zakat funds, often overseen by entities like Baitulmal (the state treasury), is instrumental in foresting socio-economic development and well-being withing the community. The main problems of Zakat as an instrument for Baitulmal's role as the finance department through fiscal policy are inconsistent contributions, tax evasion and compliance, equitable redistribution difficulty, economic fluctuation's impact, integration and awareness, and institutional efficiency. The research focuses on the main question: how does Baitulmal, as a Department of Finance, utilize Zakat as an instrument in fiscal policy.

## LITERATURE REVIEW

### *Zakat as an Instrument*

Zakat system integrated financial would reduce poverty through the redistribution of wealth as well as Zakat investment and distribution have a role in moving the economic activities and alleviate problems of poverty (Razak, S. H. A. , 2020). It stands as tangible manifestation of the Islamic principles of caring for the less fortunate and fostering social solidarity withing the Muslim community. This financial obligation extends beyond mere charity; it is a duty that every eligible Muslim must fulfil annualy.

Zakat aims not only to achieve religious merit, but also aims to become part of the modern state fiscal policies and shares a greater role in removing inequalities in society (Barizah, N., Rahim, A, & Rahman, A, 2007). By systematically collecting and redistributing these contributions, Zakat aims to ensure that economic resources are shared more equitably among the members of society. In doing so, it offers a safety net for the vulnerable and marginalized segments of the community, those facing financial hardship.

Zakat is one of the mechanisms used since the days of Prophet Muhammad (PBUH) to alleviate poverty and reduce income inequality by redistributing wealth from the rich to those less fortunate or needy (Ahmed & Md Salleh, 2016; Aziz & Mohammad, 2016; Samad & Gleen, 2010). This practice of Zakat reflecting the faith's commitment to social justice and economic equilibrium. It is not merely an act of charity but a mandatory obligation for those who can afford it, serving as a means to support the disadvantaged members of society. This structured form of almsgiving ensures a more equitable distribution of resources, fostering a sense of community and shared responsibility.

### *Baitulmal as The Finance Department*

Baitul mal is derived from Arabic, where 'bait' translates to 'house,' and 'al-mal' translates to 'treasure. So etymologically, Baitul Mal means a house to collect or store property (A. Djazuli & Yadi Janwari, 2002). While terminologically, Baitul Mal is an institution or party that has a special task of handling all the assets of the people, both in the form of state revenues and expenditures (Sumami, M. , 2021).

Within the context of Islamic finance, Baitulmal functions as the central authority entrusted with the responsibility of gathering Zakat contribution from eligible individuals and entities within the Muslim community. It ensures a systematic and organized collection process, verifying the financial capabilitites of donors and the accurac of Zakat calculation in accordance with Islamic teaching. Moreover, Baitulmal to various deserving recipients, in alignment with the principles outlined in Islamic jurisprudence. This distribution is carefully designed to target specifics sectors of society, such as the needy, orphans, widows, debtors, and those facing financial hardship, with the overarching objective of alleviating poverty and fostering social equality.

Furthermore, Baitulmal takes on responsibilities of managing the Zakat funds to optimize their impact on the community. This involves investment in projects and initiatives that facilities sustainable development, educational advancement, healthcare accessibility, and infrastructural improvements. By ensuring that Zakat funds are effectively utilized, Baitulmal contributes to the enchancement of overall socio-economic conditions, allowing for a more prosperous and equitable society. In summary, Baitulmal, functioning as the finance department in the Islamic financial structure, acts as the custodian and manager of Zakat funds. It upholds a critical role in the systematic collection, prudent management, and equitable distribution of Zakat contributions, embodying the essence of economic justice and community well-being as envisioned in Islamic principles.

*Economic Impact*

Zakat plays a crucial role in contributing to fiscal policy by generating revenue for Baitulmal. Including:

1. Redistribute wealth from the affluent to the less fortunate; Enriching poor is, thus, the most important principle in determining the criteria of distribution to eliminate poverty among the targeted heads (Abdelbaki, H. H. , 2013)
2. Poverty Alleviation; Zakat institutions have a a great deal of potential for contributing to poverty alleviation (Shaikh, 2016).
3. Economic Growth; Zakat has many benefit for economic both of macro and micro aspect, such as foster inclusive economic growth. (Khasandy, E. A. , & Badrudin, R. , 2019)
4. Sulaeman, S., Majid, R. , & Widiastuti (2021) examines that Zakat has a strong impact on increasing the consumption expenditure per capita, especially for mustahiq in Indonesia.
5. Enhancing MSME performance; utilizing productive Zakat Funds for MSME Business Capital to Enhance Human Resource Performance within the Amil Agency. This suggests that leveraging productive zakat funds can aid MSMEs in enhancing their business performance and overall productivity (Atabik, A. 2016).
6. Zakat fund has the potential to build a healthcare center by providing fund assistance. (Majed, A. , & Redzuan, N., H. , 2023)
7. Zakat funds can be allocated to healthcare programs, ensuring access to medical services for those who cannot afford them, ultimately enhancing public health.
8. Zakat provides debt relief and enchance price stability (Quraishi, M. A. , 1999). Zakat can be used to help individuals burdenend by debt providing them with a means to manage their financial obligations and work toward financial stability.
9. Education and Skill Development; Zakat could be employed as an important tool to stimulate human development. The distribution of zakat for education and human resources empowerment (Suprayitno, E. , Aslam, M. , & Harun, A. , 201&). Zakat funds can be used to sponsor education and skill development programs, empowering individuals to enhance their abilitites and seek better economic opportunites.
10. Putriana, V. T. (2021) analyze that Zakat have positive impact on Community Development. Zakat funds can be channeled into community development projects.
11. Job creation; Zakat-funded initiatives can generate employment opportunities, reducing unemployment

rates and enhancing overall economic productivity. Through facilitating business partnerships by prohibiting usury and implementing zakat, it encourages job creation within Islamic teachings (Siregar, H. I. , Putri, R. C., Majid, M. S. A. , & Harahap, I. , 2023).

*Comparison with Taxation*

Zakat's multifaceted role in fiscal policy and its influence on Muslim consumer perception were thoroughly explored, with comparisons made to conventional taxation. A research conducted by the Lembaga Penelitian dan Pengabdian Kepada Masyarakat Universitas Yogyakarta, titled "Zakat as Tax Reduction: Study of Muslim Community Perception in Indonesia and Malaysia" demonstrates that Zakat plays a unique role rooted in social justice and wealth redistribution based on religious obligation. In contrast, conventional taxation primarily serves as a legal tool for government financing, catering to diverse objectives with varying implications for wealth distribution.

The findings advocate considering Zakat as a viable fiscal policy tool. Encouraging taxpayer registration, ensuring legal clarity, and collaborating with religious leaders for program awareness were highlighted as essential steps. Effective coordination between relevant ministries could optimize Zakat-based tax deduction programs, ultimately contributing to economic growth, poverty allevation, and socially responsible financing in Islamic societies.

*Accounting Principles*

In managing Zakat funds within Baitulmal, a vital aspect is the application of sound accounting principles with a strong emphasis on transparency and accountability. These principles form a structured framework for handling, tracking, and reporting the inflow, allocation, and distribution of Zakat funds, aligning with Islamic financial and ethical.The principle of accountability and transparency are really important in order to build confidence of the general public to make donation through Zakat for poverty eradication (Salleh, M. C. M. , & Chowdhury, M. A. M. , 2020).

The accuracy and precision of accounting records are fundamental, ensuring that all Zakat-related transactions are meticulously recorded, reflecting precise amounts collected, disbursed, and remaining in the fund. Tranparency is key, where all financial transactions concerning Zakat are visible, open, and accessible, for auditing and scrutiny, fostering trust and confidence within the community

Baitulmal, functioning as the finance department in Islamic governance and managing Zakat funds, is deeply entrenched in the principles of Islamic accounting, which markedly differ from conventional accounting practices. The role of Baitulmal in administering Zakat provides a notable illustration of these distinctions.

Islamic accounting differs significantly from conventional accounting, rooted in Islamic ethics, Shariah Law, and economic philosophies. A key distinction is the treatment of Zakat within the financial domain. While conventional accounting emphasizes financial reporting, profit maximization, and shareholder wealth, Islamic accounting integrates ethics and socio-economic factors. Baitulmal plays a central role in aligning Zakat collection and distribution with Islamic financial principles. In summary, a comparison of conventional accounting and Islamic accounting can be depicted through the representation provided in Table 1.

Table 1. Similarities and Differences Between Conventional Accounting and Islamic Accounting

| Element | Anglo-American Accounting Model | Islamic Accounting Model |
|---|---|---|
| Economic approach | Micro | Macro |
| Society-based main user | Investors and accounting policy lenders | Country, Management, Objectives-oriented value |
| Asset Assessment | Previous Cost Price | Current Price |
| Income Determination | Revenue-Expenses approach | Asset-Liability Approach |
| Time value of money | Yes | No |
| Time Frame | Yes | Yes |
| Main Focus | Income Statement | Balance Sheet |
| Theoretical Concepts | Entity Theory | Theory of Ownership |
| Accounting postulates (assumption) | Based on Income | Based on Shariah Law |
| Fixed Interest | Yes | No |
| Legal Orientation | *Common Law* | Shariah Law |
| Acounting Ethics | Professional Ethics | Religious Ethics |
| Stock Exchange Market | Yes | Yes |
| Bon | Yes | Yes, on condition |
| Accounting approach | Value Approach | Events Approach |
| Business dichotomy and moral personal | Yes | No |

*Source: Taheri (2003)*

*Technological Transformation*

The proliferation of technology through innovation and digitalization has permeated almost every sector, including financial institutions. This advancement aids in enhancing the design, as well as the collection, distribution, and information sharing processes within financial entities, encompassing both traditional banking and financial institutions as well as Islamic finance and banking. Digitalization has had an impact on zakat collection and distribution management changes by enhancing efficiency, transparency, security, and confidence. Zakat institutions require an unified regulatory framework and operating standards as a guide in order to ensure a complete approach and to minimise gaps in the process of fully adopting the technology (Salleh, W. N. A. W. M., Rasid, S. Z. A., & Basiruddin, R. , 2022)

Factually, not vast but several zakat intuitions have adopted technology to collect zakat fund through online, for instance; BAZNAS in Indonesia, National Zakat Foundation in Australia, Islamic Religious Council of Wilayah Persekutuan of Malaysia and other countries (Hudaefi et al., 2020). BAZNAS, Indonesian zakat institution expanded online platform to collect zakat funds which can be accessed through website as well as mobile application (Hudaefi et al., 2020).

Moreover, integrating technology presents opportunities to oversee and monitor the process of zakat collection and distribution (Migdad, 2019; Nuswantara et al., 2018). Internet banking has been adopted to facilitate the collection and disbursement of zakat funds conveniently (Yahaya & Ahmad, 2019). The incorporation of technology within zakat institutions has substantially increased the collection rate (Yahaya & Ahmad, 2019).

Esrati et al. (2018) conducted a study on the acceptance of technology by zakah institutions, Asnaf (zakat recipients), and Zakat contributors. The findings indicated that these stakeholders believe technology can enhance Zakat management and services, even though they were not familiar with blockchain technology, possibly due to a lack of exposure. Similarly, in the Indonesian context, the adoption of technology in zakat payments has positively impacted public welfare (Utami et al., 2019).

Furthermore, technology adoption can be utilized to establish a central database that gathers data from all states, listing all zakat institutions and other charitable organizations (Migdad, 2019). Embracing technology improves transparency of information, ultimately enhancing the performance of zakat institutions (Nuswantara et al., 2018; Utami et al., 2019). Consequently, effective integration of technology with a sound structural model will benefit zakat institutions, aligning with the fourth industrial revolution across all aspects in Malaysia. A study by Muhamad and Khaliq (2019) explored the acceptance of mobile banking in zakat distribution among Asnaf and identified four factors that could enhance mobile banking utilization: behavior, available facilities, influence from family or peers, and system performance.

The summarized findings from observing ten (10) Zakat institutions in Malaysia concerning the adoption of technology for zakat collection, distribution, and management are presented in Table 2. The observation reveals that the majority of these institutions have initiated the use of technology systems within their organizations, primarily focusing on Zakat payments. Specifically, regarding Zakat fund collections and distribution, only three institutions—Negeri Sembilan Baitulmal Body, Lembaga Zakat Selangor, and Lembaga Zakat Negeri Kedah—have publicly disclosed the amounts collected and distributed for a specific year on their websites. The remaining institutions have provided general information about Zakat, such as its type, calculation methods, nisab value, and other related details on their website.

Table 2. Adoption of Technology among Malaysian Zakat Institutions

| No | Zakat Institutions | Enactment on Zakat | Disclosure on Related Information at Website | Zakat Online Application |
|---|---|---|---|---|
| 1. | Pusat Zakat Melaka Zakat Melaka (PZM) since 2001<br>-the role mainly for zakat collection whereas zakat distribution is done by Baitulmal Majlis Agama Islam Melaka. | Enakmen Pentadbiran Agama Islam (Melaka) 2002 section 75 (1) | *No disclosure on amount of zakat collection and distribution for particular year<br>*Very limited information on zakat at website<br>*Website not attractive and friendly | *No zakat apps yet or any online system built to ease zakat payment and distributions<br>*No comprehensive online zakat management system |
| 2. | Majlis Agama Islam Negeri Johor (Zakat Department) | Zakat & Fitrah Rules Year 1962 | *No disclosure on amount of zakat collection and distribution for particular year<br>*Enough information of zakat(types, calculation) | *There is option to pay zakat via online transfer<br>*No online application specific for zakat<br>*No comprehensive online zakat management system |
| 3. | Negeri Sembilan Baitulmal Body | Enakmen Pentadbiran Agama Islam | *Disclosure of amount zakat collection and distribution yearly | *Online system for zakat calculation, payment system |

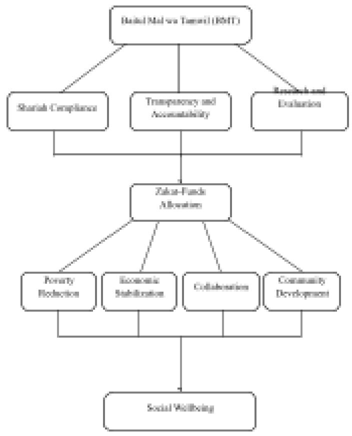
| No | Zakat Institutions | Enactment on Zakat | Disclosure on Related Information at Website | Zakat Online Application |
|---|---|---|---|---|
| | | (Negeri Sembilan) 2003 (Enakmen No. 10 2003) | *Information on zakat is stated in the website | *Mobile Apps for zakat (Zakat N9)<br>*No comprehensive online zakat management system |
| 4. | Majlis Agama Islam Wilayah Persekutuan (Zakat Collection Centre-PPZ) | Article 3 (5) of the Federal Constitution<br>Section 4 (1), Act 505<br>Section 31, Act 505 | * No disclosure on amount of zakat collection and distribution for particular year<br>* Information on Zakat types and calculation is stated in the website | *Online system for zakat (calculation, payment, statement)<br>*Online payment system (salary deduction, direct transfer FPX, credit card, internet banking)<br>* No mobile apps<br>* No comprehensive online zakat management system |
| 5. | Lembaga Zakat Selangor | Trusty Act 1952 | *Disclosure of amount zakat collection and distribution yearly<br>*Report of zakat collection and management | *Comprehensive online system for zakat payment, collection, and distribution<br>e-zakat pay<br>e-zakat online<br>e-majikan<br>e-ejen<br>e-spg (salary deduction)<br>*No comprehensive online zakat management system |
| 6. | Pusat Kutipan Zakat Pahang | Enakmen Pentadbiran Undang-Undang Islam 1991 | * No disclosure on amount of zakat collection and distribution for particular year<br>* Information on Zakat types and calculation is stated in the website | *Zakat online payment (FPX)<br>*Mobile apps (Zakat Klik)<br>*Artificial intelligent<br>*BizZakat<br>* No comprehensive online zakat management system |
| 7. | Majlis Agama Islam Kelantan | Enactment 4 1994 Section 51 | *Very attractive and informative website<br>*No disclosure on amount zakat collection and distribution for particular year | *Online zakat payment system and assistance (monthly salary deduction, jompay, fpx, migs)<br>*mobile apps (MyMAIK e-zakat payment)<br>* No comprehensive online zakat management system |
| 8. | Majlis Agama dan Adat Resam Terengganu | Enakmen Pentadbiran Hal Ehwal Agama Islam (Terengganu) 2001 (En. 2/01) Section 70 | *No disclosure on amount zakat collection and distribution for particular year<br>* Information on Zakat types and calculation is stated in the website | *Online system to apply zakat and for zakat payment<br>*No mobile apps<br>*No comprehensive online zakat management system |
| 9. | Lembaga Zakat Negeri Kedah | Enackment Lembaga Zakat Negeri Kedah | *Disclosure on amount zakat collection and distribution at front page website | *Online zakat calculation and payment<br>*Mobile Apps (Zakat on touch)-quiet |

| No | Zakat Institutions | Enactment on Zakat | Disclosure on Related Information at Website | Zakat Online Application |
|---|---|---|---|---|
| | | Darul Aman (LZNK) 2015 | *Information on Zakat types and calculation is stated in the website *Disclosure of Annual Report and Statistic on zakat distribution to various types of Asnaf | comprehensive which not only on zakat payment |
| 10. | Majlis Agama Islam dan Adat Istiadat Melayu Perlis | Enakment Pentadbiran Agama Islam Negeri Perlis 2006 | *No disclosure on amount of zakat collection and distribution *Limited Disclosure of Zakat information on website | *Limited online system for Zakat payment *No mobile apps *No online system for zakat assistance *No comprehensive online zakat management system |

*Source: "Technological Transformation in Malaysian Zakat Institutions: A Qualitive Analysis" by Marhanum Che Mohd Salleh and Mohammad Abdul Matin Chowdhury.*

## METHODOLOGY

This study uses a qualitative approach, analyzing data from academic journals to explore the application of Baitulmal's role in the Department of Finance through fiscal policy. The qualitative method allows a detailed understanding of different perspectives and experiences related to this topic. Data was gathered by analyzing theories, empirical studies, and case reports in scholarly literature. Each article was carefully assessed to extract significant concepts and patterns. The outcomes of this analysis will form the basis for synthesizing key findings and presenting a conclusive summary, aiming to enhance understanding of Baitulmal's role in finance through zakat.




Framework 1. The Role of BMT for Fiscal Policy Through Zakat Instrument
*Source: Prepared by Author*

## RESULT AND DISCUSSIONS

The Baitul Mal wa Tamwil (BMT) model has begun to widely applied by Islamic ethics and financial principles. The BMT model, designed and constructed for Islamic ethics and financial principles, includes the following elements as found in the following framework:

*Shariah Compliance*

Baitul Mal ensures that its fiscal policy remains in line with Islamic ethics through a combination of discretionary and non-discretionary fiscal measures, primarily revolving around Zakat (Yusoff, M. , 2006). Discretionary fiscal policy allows for dynamic adjustments to government spending, taxes, and Zakat expenditure to address economic challenges. During inflationary phases, Baitul Mal can reduce inflationary pressures by decreasing government spending and Zakat disbursement, as well as increasing taxes. Conversely, during economic downturns, the government can stimulate economic activity by increasing these parameters. Additionally, the government can incentivize private investment by providing tax credits during economic downturns.

Non-discretionary fiscal stabilizing processes occur automatically with economic cycles. Zakat and tax collections rise during economic expansion, and fall during downturns, thus ensuring a natural fiscal balance. This automatic adjustment helps prevent the economy from overheating during booms and increases the Zakat surplus in Baitul-Mal.

In essence, Baitul Mal's fiscal policy is structured to align with Islamic ethics by employing both discretionary and non-discretionary measures, with a central focus on Zakat, to maintain economic stability while upholding ethical principles.

The overarching objective of aligning fiscal policies with Islamic ethics is to promote economic and financial practices that are fair, just, and beneficial for society as a whole, while adhering to the teachings of Islam.

The operational activities of Islamic banks apply the concept of profit sharing and interest-free. Profit sharing and interests always become a concern to the customers, especially in terms of the differences and implementation in Islamic bank products. In carrying out sharia-compliant transactions, Islamic banks intend to avoid charging interests and all the parties should share risks (Nugroho, E. , 2021). Islamic economics is based on the principles of Sharia law, and it promotes economic activities that are in line with Islamic ethics and values.

According to Nugroho (2021), the outcome will encompass the following products:

1. Islamic Banking : Islamic banks offer various financial products and services that adhere to Sharia principles. Instead of charging interest (riba), they use profit-sharing, profit-and-loss sharing, and other ethical financial arrangements.
2. Mudarabah: This is a profit-sharing arrangement where one party provides the capital, and the other party manages the business. Profits are shared according to a pre-agreed ratio, while losses are borne by the capital provider.
3. Murabaha: It's a cost-plus financing method where the bank purchases an item at the request of a customer and then sells it to the customer at a marked-up price, allowing for deferred payments.
4. Ijara: This is similar to leasing, where an Islamic bank purchases an asset and leases it to a customer for a fixed rental fee.
5. Sukuk (Islamic Bonds): These are financial certificates that represent ownership in an asset or project. Sukuk holders receive a share of the profits generated by the underlying asset.
6. Takaful (Islamic Insurance): Takaful is an Islamic alternative to conventional insurance. It involves a cooperative system where participants contribute money to a pool to cover potential losses.
7. Zakat: While not a financial product, Zakat is a mandatory charitable giving system in Islam, where a portion of

one's wealth is distributed to those in need.

8. Islamic Microfinance: These are financial services tailored for low-income individuals and small businesses that adhere to Islamic principles.

These products and concepts aim to provide financial services and promote economic activities that are compliant with Islamic ethics, which means avoiding usury (riba), unethical investments, and ensuring a fair distribution of wealth in society. Islamic economics places a strong emphasis on ethical and socially responsible financial practices.

This may involve avoiding interest-based transactions (usury), ensuring investments are in industries that comply with Islamic principles, and promoting wealth distribution and social welfare in accordance with Sharia teachings.

*Transparency and Accountability*

According to a study conducted by Rahmawati (2014), there are 6 Transparency principles according to the Humanitarioan Forum Indonesia (HFI), including:

1. Disseminate Easily Accessible Information; Ensure that comprehensive information regarding financial resources, operational procedures, and program specifics is readily available and easily comprehensible.
2. Publicize Activities and Financial Records; Employ various communication channels to disseminate detailed information on Baitul Mal's activities, encompassing both the processes and the financial intricacies.
3. Regularly Publish Resource Utilization Reports; Regularly release reports that meticulously document the utilization of resources in project development, with unrestricted access granted to the general public.
4. Compile Annual Reports; Prepare and disseminate comprehensive annual reports that encapsulate Baitul Mal's undertakings, financial statements, and notable accomplishments.
5. Maintain an Organizational Web Presence or Publication Medium; Establish a dedicated website or a formal publication platform that caters to the informational needs of stakeholders and the wider public, featuring details about the organization's activities and financial matters.
6. Gauge Transparency via Indicators; Gauge the organization's transparency by evaluating key indicators, including the willingness to share critical documents, the lucidity and comprehensiveness of information, the openness of processes, and adherence to regulatory frameworks that safeguard transparency.

By diligently adhering to these formalized steps and aligning with the stipulated principles and indicators of transparency, Baitul Mal can significantly elevate its transparency standards, thereby fostering trust and accountability among its constituents and stakeholders.

By implementing this system, the Baitul Mal will become more transparent and accountable, thus gaining the trust of the community, which will have a positive impact. Transparency has a positive effect on trust. Trust in BMT affects the intention to give cash waqf at BMT (Ahmad, Z. , 2020).

This study underscores the significant impact of transparency on trust regarding Baitul Mal, influencing the intention to contribute cash waqf. Trust partially mediates the relationship between perceived transparency and waqf contribution intent. The study highlights the direct influence of perceived transparency and accountability demand on cash waqf intention, with trust as a reinforcing mediator. Limitations include sample size, use of accountability demand variable, and statistical methods. Future research should address these limitations, explore additional trust-influencing variables, and investigate altruism's role in cash waqf contributions at Baitul Mal, drawing from prior zakat payment studies at BMT.

*Research and Evaluation*

In controlling fiscal policies that still use the capitalist system, such as deficit State financing, which is based on foreign debt containing Riba, this is considered to have a negative impact on the people's economy (Syamsyuri. 2020). Using Baitul Mal (the treasury or public fund) as a fiscal policy tool in a capitalist system can have several impacts, as described in the research:

1. Reduction of Riba (Usury): One of the significant impacts is the reduction of Riba, which is considered prohibited in Islamic finance. Riba refers to the charging of interest on loans, and by using Baitul Mal to finance state activities, the government can avoid relying on foreign debt that often involves interest payments. This aligns with Islamic financial principles and helps avoid the negative economic consequences associated with Riba.
2. Equitable Allocation of Funds: Baitul Mal can be a mechanism to ensure a more equitable allocation of the state budget (APBN) to the people. By following the principles of zakat, jizyah, khumus, and kharaj, resources can be allocated to meet the needs of the community while also focusing on poverty alleviation and the development of the state. This can help reduce economic disparities among the population.
3. Stabilizing Finances: Zakat and jizyah, among other sources of income to Baitul Mal, can help stabilize the state's finances. Zakat, in particular, has a focus on alleviating poverty by directly allocating funds to those in need. This can enhance economic stability and reduce social inequalities.
4. Focused Monetary Policy: Baitul Mal allows for a more focused monetary policy by emphasizing zakat for poverty alleviation and taxes like jizyah, khumus, and kharaj for state development. This targeted approach can lead to better economic outcomes and welfare for the people.
5. Historical Precedent: By drawing upon historical examples from the time of the Prophet and his Caliphs, this approach can provide a framework for modern fiscal and monetary policy that is rooted in Islamic principles and adapted to contemporary economic contexts.

Using Baitul Mal as a fiscal policy tool based on Islamic financial principles can help reduce the negative impacts associated with Riba, promote equitable allocation of funds, stabilize finances, and provide a historical and ethical framework for economic management.

The government varies the disbursement of Zakat to the recipients and the exemption levels to the Zakat payers whenever necessary during the phases of the business cycle (Yusoff, M. , 2006). Incorporating Baitul Mal as a key component of fiscal policy in an Islamic economy, particularly through the utilization of Zakat, offers a range of beneficial impacts. These impacts extend to both the automatic stabilizing mechanisms and discretionary policies that can be employed.

Through its role as a built-in stabilizer, Zakat helps to soften the blows of economic fluctuations. In times of recession, when people are in need, reduced Zakat collections provide a financial lifeline, stimulating economic activity and reducing the severity of economic downturns. During economic booms, the automatic increase in Zakat collections acts as a mechanism to prevent overheating and maintain economic stability.

Moreover, the discretionary use of Zakat within fiscal policy allows governments to fine-tune economic activity in line with the business cycle. Adjusting Zakat disbursements and exemption levels can be a valuable tool in regulating economic expansion and contraction.

This approach not only aligns with Islamic finance principles but also complements government spending and taxation, forming a cohesive set of tools for economic stabilization. It underscores the compatibility of Zakat, government spending, and taxation in addressing fiscal needs while maintaining economic stability within an Islamic framework.

In essence, the utilization of Baitul Mal, particularly through Zakat, as a fiscal policy tool in an Islamic economy demonstrates its effectiveness in achieving economic stability, demand management, and equitable wealth distribution while remaining rooted in the ethical and financial principles of Islam.

*Zakat-Funds Allocation*

Several enhancements that can be implemented to ensure a more directed distribution of Baitul Mal Zakat-funds to the community:

1. Transparency and Accountability: Implement a transparent reporting system to show how funds are collected and distributed, instilling trust in donors and beneficiaries. Regularly publishing financial statements and progress reports can help ensure accountability.
2. Digitalization: Introduce digital platforms for zakat collection and distribution. This can streamline the process, reduce administrative costs, and enable donors to contribute conveniently online.
3. Needs Assessment: Conduct regular needs assessments within the community to better understand and address emerging needs. This ensures that Baitul Mal resources are allocated effectively.
4. Education and Skill Development: Expand support programs to include vocational training and skill development for beneficiaries. This empowers individuals to become self-sufficient and reduces long-term reliance on zakat.
5. Collaboration with NGOs: Partner with local non-governmental organizations (NGOs) to leverage their expertise and resources in delivering aid. Collaboration can enhance the impact of Baitul Mal programs and reach a broader audience.

These improvements can help Baitul Mal distribution systems become more efficient, responsive, and beneficial to the communities they serve.

The Baitul Mal distribution system, as outlined in Aceh Qanun Number 10 of 2007, provides a strong foundation for effective and structured zakat administration. To further enhance its impact and extend its applicability to other regions, several improvements can be considered.

Transparency and accountability measures should be incorporated, ensuring that the collection and distribution of funds are openly reported, instilling trust among stakeholders. The adoption of digital platforms for zakat transactions can streamline the process, reduce overhead costs, and offer convenient online donation options. Regular needs assessments within the community should be conducted to identify emerging requirements and adapt Baitul Mal programs accordingly.

In addition, expanding the scope of support to include vocational training and skill development empowers beneficiaries to achieve self-sufficiency, reducing their long-term reliance on zakat. Collaborating with local non-governmental organizations (NGOs) can leverage their expertise and resources for an even greater positive impact. By incorporating these improvements, the Baitul Mal distribution system can serve as a valuable model for regions seeking to establish a more efficient and responsive framework for social support.

*Poverty Reduction*

The case study discusses by Sumai, S., A. N. Mutmainnah, A. N., & Arsyad, M. (2019) investigated the implementation and impact of Zakat aid for poor households by BAZNAS (Badan Amil Zakat Nasional) in Indonesia. Zakat is an Islamic form of charity aimed at benefitting the impoverished. The study highlights that the Zakat aid, provided as IDR 300,000 per household, is distributed through the village office's recommendations. However, due to low awareness of Zakat obligations among Muslims and limited government information, the funds are often insufficient to reach all eligible households. The study also differentiates between consumptive Zakat (provided during Eid Al-Fitr) and productive Zakat (utilized for business ventures), advocating for a shift towards productive use to alleviate poverty and enhance food security.

Data:

1. Zakat aid provided: IDR 300,000 per poor household.
2. Total potential Zakat funds in Indonesia annually: IDR 32 trillion.
3. Zakat obligation for civil servants: 2.5% of a monthly salary of IDR 3.6 million.
4. Examples of Zakat aid recipients: fried food seller, decorative craftsman, fried rice seller.

Points for Improvement:

1. Enhanced Awareness Campaigns; There is a need for extensive awareness campaigns to educate the public about the obligation and benefits of Zakat, encouraging a larger contribution and ensuring its effective distribution to reduce poverty
2. Government Involvement; Collaboration with the government can amplify the impact of Zakat aid. Government-led initiatives and support in facilitating the Zakat process can help reach a broader spectrum of the needy population.
3. Targeted Allocation; Focusing on targeting Zakat aid towards productive ventures and business capital, rather than consumptive use, can significantly elevate the socio-economic status of recipients and provide sustainable income opportunities.
4. Empowerment through Skill Development; Supporting recipients with skill development and marketing strategies can enhance the effectiveness of Zakat funds, enabling them to generate more income and uplift their living standards.
5. Long-Term Engagement; Implementing a continuous and long-term engagement model rather than a one-time annual disbursement can provide sustained assistance to impoverished households, leading to significant socio-economic improvements over time.

*Economic Stabilization*

By distributing resources in a fair and just manner, Baitulmal helps to bridge the economic gap between different segments of society. This aids in reducing socioeconomic inequalities and promoting a more balanced and stable economic environment. Additionally, it fosters a sense of community and unity by encouraging individuals to contribute to the well-being of others through voluntary donations.

Additional functions of Baitulmal contribute to economic stabilization:

1. Allocates funds to uplift marginalized communities, providing them with economic empowerment and integration.
2. Strategically invests in education, healthcare, and skills development, enhancing human capital and fostering economic growth.

3. Fair wealth distribution by Baitulmal reduces social tensions and conflicts related to economic disparities, fostering social harmony and stability.
4. Encourages the giving of Zakat and Sadaqah, promoting a culture of giving, compassion, and communal support, furthering economic stability through shared prosperity.
5. Effeciently mobilizes and allocates resources based on need and priorities, maximizing the impact of interventions and optimizing economic stabilization efforts.

*Collaboration*

Collaboration with other Islamic financial institutions enables the pooling of resources, expertise, and experience. These collaborations can enhance the capacity and capabilities of Baitul Mal in effectively managing fiscal policies. Sharing knowledge and best practices can lead to the development of innovative approaches and strategies for efficient fund allocation and utilization.

The issue of coordination amongst other Islamic financial institutions is another primary issue that should be seriously considered (Antonio, M. S. , 2011). This coordination encompasses the need for effective communication, collaboration, and harmonization of efforts within the Islamic finance industry.

To effectively utilize Baitulmal for implementing fiscal policies in line with Islamic finance principles, collaboration is essential on multiple levels:

1. Collaboration allows Islamic financial institutions and government bodies to share their expertise and knowledge regarding Islamic finance and the principles governing Baitul Maal.
2. By collaborating, institutions can coordinate the allocation of funds from Baitul Maal for projects and initiatives that adhere to Islamic principles.
3. Collaboration fosters the development of unified fiscal strategies that consider the unique requirements of Islamic finance.
4. Working together, financial institutions and government bodies can enhance regulatory frameworks related to Baitul Maal.
5. Collaboration allows for the pooling of resources from various stakeholders, enabling larger and more impactful initiatives.

In summary, collaboration between Islamic financial institutions and government bodies is vital for the effective and ethical utilization of Baitulmal in implementing fiscal policies. This ensures that funds are allocated and utilized in a manner that is consistent with Islamic principles, ultimately contributing to the socio-economic development of the community in a way that upholds Islamic values and ethics.

*Community Development*

Putriana (2021) analyze how programs funded by Zakat have some positive impacts on beneficiaries. However, its depend very much on the personal quality of the beneficiaries; creative and innovative beneficiaries are likely to achieve more from the program So, there are several considerations to ensure that beneficiaries receive more benefits, including:

1. The careful and meticulous selection of beneficiaries based on their skill sets, aptitude, and alignment with the program's objectives is fundamental in ensuring the efficient utilization of Zakat fundsSustainable mentoring to maintain the motivation of beneficiaries.
2. Sustained mentorship and ongoing guidance are paramount to maintain the motivation and progress of beneficiaries participating in Zakat-funded programs
3. Designing programs that are tailor-made to suit the unique needs and circumstances of the beneficiaries is essential.

4. Imparting financial literacy and management training equips beneficiaries with the knowledge and skills needed for effective fund management.
5. Facilitating collaborations and networking opportunities for beneficiaries is a strategic approach that can significantly amplify the benefits of Zakat-funded programs

By implementing these considerations, Zakat-funded programs can optimize their impact and empower beneficiaries to achieve meaningful and sustainable outcomes in line with the objectives of Zakat.

## RECOMMENDATIONS

In light of the comprehensive understanding of Zakat, Baitulmal, and their significant roles in economic stability, poverty alleviation, and community development, several recommendations are proposed for both individuals and institutions to optimize the impact of Zakat and improve the administration of Baitulmal:

1. Advocate for educational programs and campaigns to raise awareness about Zakat's role in poverty alleviation and economic equilibrium.
2. Encourage Zakat Management Organizations, including Baitulmal, to maintain transparent financial reporting practices to build trust and confidence among donors and beneficiaries.
3. Promote the regular publication of financial reports detailing the collection, allocation, and distribution of Zakat funds.Encourage Zakat institutions, including Baitulmal, to further integrate technology into their processes for seamless collection, distribution, and monitoring of Zakat funds while ensuring compliance with Islamic principles.
4. Support the development and adoption of secure user-friendly mobile applications and online platforms to facilitate Zakat contributions and enhance accessibility for donors.
5. Advocate for greater collaboration and coorperation between Zakat institutions, Islamic financial organizations, and government bodies to enhance the efficiency and impact of Zakat management.
6. Facilitate platforms for knowledge sharing and best practice exchange among Zakat institutions to improve their operations and outcomes.
7. Encourage continuous research and evaluation of Zakat policies and practices to assess their effectiveness in poverty reduction, economic stability, and community development.
8. Promote data-driven decision-making by Zakat institutions to refine their strategies, target the right beneficiaries, and optimize resource allocation.
9. Advocate for educational initiatives that focues on enhancing the financial literacy and skills of individuals, enabling them to manage their wealth responsibly and fulfil their Zakat obligations effectively.
10. Promote entrepreneurship and skill development programs that empoqer Zakat recipients, enabling them to become self-sufficient and break the cycle of poverty.
11. Encourage governments to establish clear legal frameworks that support and regulate the operations of Zakat institutions, ensuring compliance with Shariah Law and ethical standards.
12. Adovcate for tax incentives and benefits for individuals and businesses that actively participate in Zakat and other Islamic forms of taxation.
13. Encourage Zakat institutions to prioritize ethical and socially responsible investment in projects and initiatives that align with Islamic principles and contribute to community development.
14. Promote investments in sustainable development, healthcare, education,

15. and other sectors that have a lasting positive impact on society.

## CONCLUSIONS

Zakat is a vital aspect of Islamic practice, embodying compassion, social justice, and economic equity. Baitulmal, the finance arm in Islamic governance, efficiently collects, manages, and distributes Zakat funds in line with Islamic principles and Shariah Law. Baitulmal's strategic fund allocation plays a crucial role in poverty reduction and economic stability by promoting equitable wealth distribution. Collaboration between Baitulmal, Islamic financial institutions, and governments further can enhance fiscal policies, fostering socio-economic progress in Islamic communities. Continuous research, transparency, financial literacy, and ethical investment are pivotal in optimizing Zakat and Baitulmal's roles. Moreover, The integration of technology in Zakat institutions enhances efficiency without compromising religious values. By aligning with Islamic principles and embracing modern solutions, we can drive economic stability, poverty alleviation, and societal well-being within Islamic societies.

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