

## MODELING OF THE GOOD ZAKAH GOVERNANCE IN ISLAMIC SOCIAL ENTERPRISES FOR ECONOMIC EMPOWERMENT AND POVERTY ALLEVIATION IN JEMBER INDONESIA

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**Abstract:** Zakah is considered a reliable means of distributing wealth from the rich to the poor as an obligatory payment for all muslim with minimum amount of extra wealth. It is a method of creating financial wealth of the people. Thus, this present study attempts to model a sound zakah governance and portraying it's real advantage in promoting social welfare. This present study performs *Interpretative Phenomenological Analysis* involving six steps of analysis: 1) *Reading and re-reading*; 2) *Initial noting*; 3) *Developing Emergent themes*; 4) *Searching for connections across emergent themes*; 5) *Moving the next cases*; and 6) *Looking for patterns across cases*. The result shows that proper implementation of a good zakah governance attracts zakah investment, and through intensive assistance the people welfare can be improved. Economically, zakah provides capital finance for stimulating productive economic activities which impact on the income level of the recipients.

**Keywords:** Islamic Social Enterprises, Economic Empowerment, Poverty Alleviation.

### 1. INTRODUCTION

Considering zakah as a religious obligation, it has two significant dimensions: *ta'abbudi* dimension (complete divine worship) and *ta'aqquli* (interpretable divine worship). (Qaradhawi, 2006; Nawawi, 2007). These orientations makes zakah clearly distinguished from other financial resources for its absence of any impact in return except redla and reward from Allah. Zakah shows an obvious and definite sign of the God sovereignty to ensure that the very poorest society are protected from hunger and insecurity and the need for basic needs. Chapra (1999) Zakah can also be defined as the transfer of a portion of wealth from the rich to the poor or other communities in needs as prescribed in Al-Qur'an. In economics term, zakah is transfer of income from the rich (agniya/the have) to the poor (the have not). (Muhammad, 2009: 55).

At the same time, zakah can eliminate social gap thus allows for aset distribution and creates equal economic wealth (Chapra, 1993; Abdul *et., al*, 1995; Qardawi, 1999

and Shirazi 1996). Therefore, distribution of zakah to the *mustahiq* (deserving recipients) through productive zakah management would play a pivotal role in improving their economic prosperity. Productive zakah management should include detail concept and implementation through examaning the causes of poverty, insufficient capital resource, and low employment, (Hafidhuddin, 2002).

Zakah as a public entity, its management is weighted in favour of public services principles covering transparansy, accountability, acceptance, fairness, and equity (Principles of Corporate Governance OECD Report to G20, 2015). However, zakah institutions in Indonesia is considered unique that they are not fully centralized or managed by the government. Each institution is totally independent and seem to be enterprise-like institution and individual has Based on this present issue the concept of good zakah governance does exist. Good zakah governance organized by Lembaga Amil Zakah/ Islamic Social Enterprises (LAZ)

emphasizes on the essence of LAZ in the whole aspects of zakah. LAZ requires legal guidelines, effective management, reliable fiqh of zakah, including the government policy (Magdi and Nadereh, 2002).

## 2. GOOD ZAKAH GOVERNANCE

Bakar *et al.* (2007) indicates that *zakah* greatly differs from the taxation system. *Zakah* aims not only to achieve religious merit but also to become part of the modern state fiscal policies and share a greater role in removing inequalities in the society. In Islamic economics Sari explained that there are *two-dimensional utility function* (present and the hereafter), which leads to *homoislamicus*. (Asutay, 2007) or spirituality (individually) and social economy to empowerment and enhance the status of the ummah (community), (Sari *et al.* 2013).

Yogi (2015) suggests that good zakah management in favour of poverty alleviation should take empowerment into account. Ife (1995) adds that empowerment is a process of helping the disadvantaged groups and individual to compete more effectively with other interests, by helping them to learn and use in lobbying, using the media, engaging in political action, understanding how to work in a system, and so on". This elaborates the concept of empowerment as granting autonomy, authority, and trust to the individuals in all organization, and encouraging social creativity for better task execution.

In line with zakah management in Indonesia, the enactment of zakah legislation no 23, 2011 essentially authorize the zakah institution to utilize zakah. It can be depicted that good zakah governance covering recipients empowerment and good relationship, and enhance economic impact. Mannan (1997) postulated six Islamic law principles covering 'religious belief', 'equity and justice', 'productivity', 'reasoning', 'freedom', and 'ethics and fairness'. Good zakah governance also refers to transparency, accountability, participation and justice, *maslahah orientation* and *syariah law* of the government (Magdi and Nadereh, 2002; Al-Sabhany, 2001)).

### 2.1. Transparency

In many respects, marketing zakah through its inherent values of securing justice for the destitute and exposing

zakah agency as transparent and professional are actually what the public requires. (Jahar, 2015). The use of mass public communication means such as TV channels, radios, publications, entertainment events and religious ceremonies are efforts to enhance awareness of the benefits of zakah among the people.

### 2.2. Accountability

The implementation of good zakah governance is largely aimed at developing public trust, growing zakah collection, and proper productive zakah distribution.

According to Basel Committee on Banking Supervision. (2015), Accountability is a "concept encompasses who is liable, to whom, what are they liable for, through what processes is accountability assured, by what standards, and what are the potential effects when standards have been breached?". It gives strategic description how the zakah institution will work to meet the goals in a clear plan.

### 2.3. Fairness or equity

Equity in Zakah management encourages all parties concern *are more motivated when they feel that the institution service are allocated fairly, that institutional decisions are made in fair ways, and that their institution treats them fairly*. Moreover, muzakki who experience fairness are more likely to internalize the *institution's* goals and values, and to develop close bonds with other *institutional* members. In this way, a this may motivate muzakki to work collaboratively for the long-term.

### 2.4. Mashlahah orientation

Zakah management by LAZ should not totally oriented towards certain activities based on conventional orientation. It means that socio-economic development (Syarif, *et al.*, 2011), poverty alleviation and unemployment, should be taken into account through business loan. According to Sari *et al.* (2013), the purposes of zakah for socio economic aspect are distribution of income and Eradicate poverty.

Zakah can help *Zakah* institutions in eradicating poverty and improve the living standard of the poor and needy when managed efficiently and channelled for productive and sustainable means. (Anita *et al.*, 2011). Jahar

(2015) suggested that Zakah can be utilized to promote social justice such as providing educational aid for the poor and creating independent community.

An effective *zakah* fund management can help towards the relief of government's budgetary revenues in meeting other objectives, increase taxation collections through enhanced productivity, employment and output while proper timing of its collection and distributions can act as a tool to influence economic activity in a society. To meet the goals, contemporary islamic strategies for poverty allivation may be established (Salleh, 2017).

## 2.5. Sari'ah Law

The objective of *zakah* management is to achieve the best possible outcome in the timely collection and distribution of *zakah* as ordained in Islamic Shariah. (Suhaib, 2009). The whole idea of *zakah* management is to help Muslims perform this pillar of Islam and establish its primary function as a means to alleviate poverty. But if trust is not sufficiently maintained between Muslims and a government-controlled *zakah* House, the potential *zakah* payers would prefer to pay out *zakah* directly to their own relatives who are poor or needy, rather than deal through the *zakah* House.

## 3. METHOD

Two samples of non-governmental zakah institutions was chosen to provide new interpretations based on the primary data acquired from interview, focus group discussion, and documentation, supported by available secondary data sources. Secondary data was recorded in the form of documentation and notes concerning the management.

A face-to-face semi-structured interview were conducted separately with selected participants and informans regarding how the zakah is collected, socialization of programmes, information access for the *muzakki* (zakah donors) and *mustahiq* (recipients), publication of zakah transactions, responses of the public and recipients, and indicators of success. All the data were analysed ....

Data was obtained through interview, focus group discussion (FGD), participatory observation and

documentation. The procedure *Prosedur pelaksanaanya* disesuaikan dengan selected informans or research subjects using snowballing sample method. FGD method was applied to the groups of loan borrowers using joint and several liability system, recommended by key informan. While Interpretative Phenomenological Analysis (IPA) was carried out following Smith's model (2009: 79-107) 1) Reading and re-reading; 2) Initial noting; 3) Developing Emergent themes; 4) Searching for connections across emergent themes; 5) Moving the next cases; and 6) Looking for patterns across cases. Triangulation such as checking, re-checking and cross-checking the displayed data to confirm data validation.

## 4. FINDING AND DISCUSSION

### 4.1. Good Zakah Governance

#### *Transparency*

Administrative transparency of zakah institution is considered satisfactory that the institutions provide Buletin, magazine, and social media accessible by *muzakki* (alms payer).

“types of information varies from wall magazine, social media, buletin and magazine. We also colaborate with Republika newspapers to provide public access to informaion for transparency”. (interview, 15<sup>th</sup> June 2016).

It is also the implementation of Al-Quran Surah An-Nisa (4) verse 58:

“Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and Seeing.”

The system developed by LAZ concerning transparency is to encourage good zakah governance. LAZ tends to prioritize transparency around institution and donors as its responsibility for zakah collection and distribution. In fact, *good zakah governance*, requires unrestricted transparency process and should provides easy access to all parties to have controls on any zakah institutions (BAZNAS, 2014). All parties involvement has not met the target due to LAZ obligatory orientation.

**Tabel 1**  
**Transparency**

<i>Accessable web</i>	<i>Availability</i>
Alternative information access	Available
<b>Types of information accessible tool:</b>	
- web	Available
- magazine	Available
- wall magazine	Available
- social media	Available
- buletin	Available
<b>Report items</b> -operational cost in collecting and distributing zakah	Available
- amountt of zakah collected	Available
- amount of zakah distributed	Available
- number of zakah payers	Available
- number of zakah recipients who become zakah payers	Available
- number of zakah recipients successfully listed out of poverty line fixed	Not Available
- proportion of zakah collected to operational cost in collecting zakah	Available
- proportion of amount of zakah distributed to the number of zakah recipients	Available
Rahim & Rahman. (2007).	Available

Further assesment on transparency in both LAZ fail to present detailed report. Types of accessible information such as operational cost in collecting and distributing zakah, amountt of zakah collected, amount of zakah distributed, number of zakah payers, number of zakah recipients who become zakah payers, number of zakah recipients successfully listed out of poverty line fixed, proportion of zakah collected to operational cost in collecting zakah and proportion of amount of zakah distributed to the number of zakah recipients, Rahim & Rahman. (2007).

### Accountability

Concerning accountability, as stated by LAZ AZKA operational manager, all programmes require approval from the supervisory board weather it is in line with the syari'ah (islamic law) and considered beneficial. It is to guarantee that the process of zakah collection and distribution has been in line with *syariah* (Islam law).

“strict controlling by ulama (islamic scholars) on the supervisory board demonstrates complete

commitment and responsibility of AZKA. Not only to the God, but to the public as well, mainly to the *muzakki* of AZKA, that zakah distribution by LAZ AZKA is fully guaranteed according to syari'ah “.(Interview, 23<sup>th</sup> June 2016).

However, both LAZ weight accountability in favor of internal performance rather than public-interest responsibility. It seems contradictory to the publict accountability context which weight heavily on managerial aspect and neglect performance accountability as well as effective and efficient organization management. Syahrudin Rasul (2002:11). On the other hand, public satisfaction may deserve more attention, especially the donors and zakah recipients. Thus, optimum performance accountability in LAZ requires quality improvement to meet good zakah governance.

### Fairness / equity

Equity is crucially important because it represents the real concept of justice for both zakah donors and recipients including all parties involved. Donors or muzakki are usually interested in their own personal equity in the zakah institution, represented by fair service they get. Equity for the donors function the maintenance of the institution itself, so they will be permanent alms payers. Al-adalah (fairness) in zakah management includes:

**Fair distribution:** Distribution of zakah income is the way in which zakah is distributed among its alms resipients. A more equitable distribution of zakah income may help accelerate growth and promote economic empowerment of the community. Equitable doesn't mean equal distribution of income. It refers to the distribution of income that is 'fair,' but the concept of 'fair' is subjective. The amount of zakah income for each resipient is normally measured according to a certain criteria. It means that equality is proportional to each involving party based on established criteria. (Interview, 23<sup>th</sup> June 2016).

Equity principle in zakah management is not merely administrative process and verbal appreciation. Further, it substantially follows equity of service, equity of access and equity of distribution regardless amount of zakah given.

**Table 2**  
**zakah equity principle**

<b>Fair distribution</b>	
Criteria of zakah recipient	not mentioned
Criteria of zakah amount	not mentioned
<b>Egalitarian service:</b>	
Types of service	not mentioned
Methods of service	not mentioned
<b>Equitable access:</b>	
Types of access	not mentioned
Method of accessing	not mentioned

**Fair service:** service to the muzakki is not based on the amount they have paid.

**Fair access:** both muzakki and mustahiq can access all the information about the zakah institutions and how to enroll.

### ***Almaslahah or community welfare***

*Al-mashlahah* (community welfare) as one of *ijtihad* approach model prove strategically vital for Islamic economy development and *siyasah iqtisadiyah* (economic policy). Its execution reflects the ideal of islamic law and the essence of religious policy (*siyasah syar'iyah*) in response to social, political, and economic dynamics. *Maslahah 'ammah* (community welfare) is exigencies which necessitate protection of faith, life, progeny, property and rationality. Al-maslahah is the basic consideration in the formulation of law in Islam, not merely be driven by profit and material motive such as in konvensional economy.

Zakah has an important role in fostering socio-economic development of the poor and small entrepreneurs without charging interest (Rahim & Rahmani, 2007). Zakah income can be an alternative for socio-economic empowerment of the which are commonly not eligible to receive loans from commercial banks.

Based on ideal principles of the LAZ vision and mission and objectives, all zakah institutions are strongly oriented towards community welfare. However, they have different management concerning zakah distribution and economic empowerment. It was found that there are two

distinct categories of welfare community concept developed by the institutions: social and consumptive oriented and productive oriented LAZ.

### ***Syari'ah law (obidience of islamic law)***

Different from other financial institution, good zakah governance should reflect the aspect of *Al-Alantifalub* (obidience of islamic law). This present research found that in maintaining the regulation and management, LAZ function advisory board as filter to the existing programs and activities. This aims at ensuring that all programmes and activities follows islamic legal law.

“in order to maintain harmony of all zakah activities with the regulation of syari'ah, the advisory boards of AZKA include ulama' (islamic scholars) who have vital role”. (interview with the manager of LAZ AZKA)

The same response was given by the Manager Nurul Hayat Foundation. In this institution, the advisory board is invite regularly to give legal advice and guarantee that all programmes and activities follow the rule of syari'ah. Responsibility of all executions within the institution is not merely attributed to the parties but also to the God as well. Consultation was held about legality of any process according to syari'ah.

The restricted function of the advisory board may impact on the effectiveness of the LAZ institution (discussed in other sections) LAZ executives tend to occupy dominant role in management, while advisory board has not totally function. Media for this body to share opinion or advise and optimizing controlling role is not available. Position of the board members is subjected to sheer formality rather than full involvement in the policy making process and other strategic roles. Thus, for better management, advisory board might work together with the executive board to develop and design innovation without neglecting legal aspects and syari'ah principles.

Besides, concept of obidience can be defined as total acceptance of the governmental rule as commanded in Al-quran Surah An Nisa verse 59, Allah SWT says:

“O you who believe! Obey Allah and obey the Messenger and those in authority among you. Then if you disagree in anything, refer it to Allah and the

Messenger, if you believe in Allah and the Last Day. That is best and more suitable for (final) determination.”

An Nisa:59)

It is clear that the absolute command and rule is made by Allah and that we are demanded obedience to the Messenger of Allah and to the rulers who carry the command of Allah. In zakah management context, the rulers or the government are institutions or individuals who receive mandate from Allah for zakah regulation enforcement. In this case, the government is represented by Badan Amil Zakah (BAZ) in any level. The concept of obedience has been exacted by Amil Zakah Al-Baitul Amien (AZKA) for healthy institution and good zakah governance for economic empowerment of the community through zakah and existing legislation.

“Regular report is published by LAZ AZKA for every *asnaf* to the *muzakki* through email or Short Message Service (SMS) and to Badan Amil Zakah Daerah (BAZDA) in every semester”.(Interview, 23<sup>th</sup> June 2016).

Administrative report supplies the public with financial and social information while report presented to Badan Amil Zakah Daerah (BAZDA) include legal responsibility for LAZ to be a professional institution complying legislation initiated by the government (UU) No. 23, 2011 about zakah management). Based on this legislation, all LAZ was obliged to report their performance to the BAZDA (local governmental zakah institution).

#### 4.2. Zakah for Economic Empowerment and Poverty Alliviation

Based on the discussion on zakah management, this section is analyzing economic empowerment aspect of zakah distribution. It was found that valid data supporting zakah potentials remain vague. In seeking for valid answer to elaborate more accurate zakah potential may deserve survey approach. Regardless this case, social and macro-economic are assumed to give impact to the zakah empowerment in Indonesia. The indicators include (1) improvement of income level of the community (2) the increase of religious devotion of the community, and (3) the increase of professional zakah institution.

Zakah not only impact on zakah obligator or muzakki, but will also impact on the social community. Because the zakah has a dimension socioeconomic, there needs a good management system in the collection and distribution of zakah can run optimally and provide more efficient and effective result. (Sari et.,al 2013). However, the fundamental question weather potential zakah empowerment is followed by the increase of the amount of zakah collected? The actualization of zakah potential is influenced by several aspects: 1). Professionalism of the zakah institution; 2). Effectiveness and intensity of zakah education and socialization; 3). Supporting regulation and policy.

In general, zakah activities experience *trend of enlightenment*, as confirmed by the manager of Badan Amil Zakah Daerah (BAZDA) Jember:

“the phenomenon of LAZ growth in Jember could be traced since the last ten years, both governmental and non-governmental LAZ” (Interview, 15<sup>th</sup> June 2016).

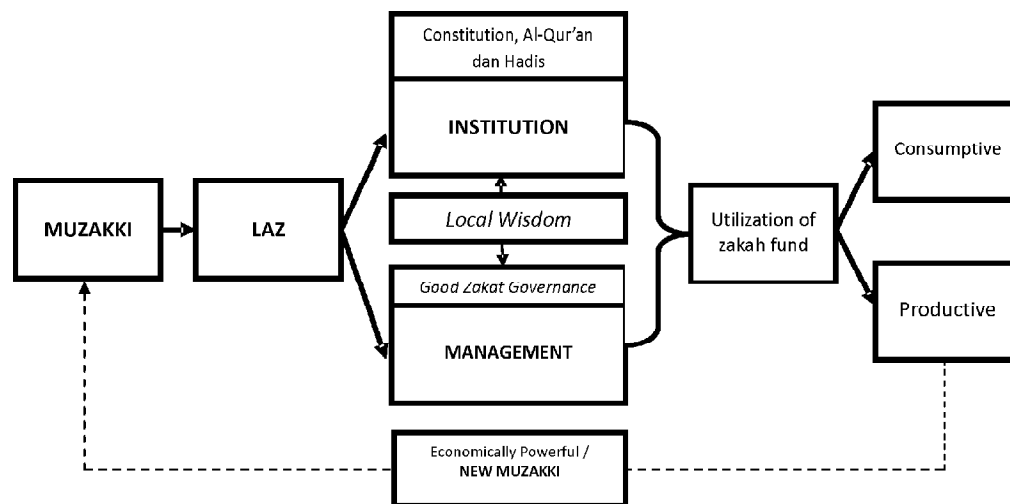
Awareness of more organized zakah payment which is empowering and beneficial encourage professional LAZ growth from any religious parties. However, referring to Suhaib model for financing the Islamic socioeconomic infrastructure from *Zakah* funds (2009), the goal for economic empowerment and poverty alleviation seems to fail.

The second dimension of zakah as socio-economic empowerment tool, “It does not only impact on zakah obligator or muzakki, but will also impact on the social community. Because the zakah has a dimension socioeconomic, there needs a good management system in the collection and distribution of zakah can run optimally and provide more efficient and effective result.” (Sari et al. 2013).

As zakah empowerment largely aims at economic empowerment, Suhaeb model (2009), its distribution is utilized to encourage the *mustahiq* to set up independent profitable business. Based on table 3, Zakah Al-Baitul Amien (AZKA) and Yayasan Nurul Hayat foundation Jember has developed the model with little modification covering several steps: 1) enrolment of alms recipients (*mustahiq*); 2) Survey of appropriateness; 3) grouping strategi; 4) coaching; 5) training; 6) third party involvement; 7) control and assesment.

**Table 3**  
**Suhaib model**

<i>Aspects</i>	<i>availability</i>
- <b>Channel of payments for the poor and the needy</b>	Not available
- <b>Professional training and rehabilitation for Zakah recipients:</b>	
- Training of craftsmen and tradesmen in order to enhance their productive efficiency and skills.	available
- Supplying of necessary tools to craftsmen.	available
- Provision of vocational training	available
- Supplying tools for productive families	available
- Establishment of ready-made clothes.	available
- Widows knitting and producing woollen clothes.	Not available
<b>Establishment of simple cottage industries:</b>	
- Production of handmade stuffs	available
- Production of leatherwear	available
- Other simple products, such as wooden manufactures.	available
<b>Establishment of simple agricultural and cottage industries:</b>	
- Breeding poultry and fishes.	available
- Establishing beehives.	available
- Establishing various kinds of rural and communal cottage industries.	available
<b>Provision of simple fixed assets in small utility and trade projects as iceboxes for selling canned food etc.</b>	available
Provision of some production facilities:	
- Raw materials.	available
- Semi finished articles produced by individuals or productive families who are recipients of <i>Zakah</i> .	available
<b>Provision of working capital to craftsmen eligible for Zakah.</b>	
<b>Low-cost housing:</b>	
- Building of low cost economic building blocks at minimum cost.	Not available
- Giving possession of flat on the basis of rent financing.	
- Encouraging of benevolent endowments ( <i>waqfs</i> ) concerning economic housing.	Not available
<b>Medical treatment and health care:</b>	
- Establishment of dispensaries in different localities for providing medical treatment to the poor in all fields of specialization free of charge or against nominal fees.	Not available
- Whenever possible, volunteer doctors or doctors charging nominal fees should be employed for these dispensaries.	Not available
- The <i>Zakah</i> institution should assume part of the costs of treatment of some individuals, eligible for <i>Zakah</i> , in some hospitals where a number of beds, carrying the name of the <i>Zakah</i> in-satiation may be reserved for the in-patients.	Not available



**Figure 1: The recommendation of zakah management in *Good Zakat Governance***

The major persisting problems, however, is the percentage productive distribution is still low compared with direct zakah distribution. Lack of coordination between all institutions of zakah management has also resulted in the achievement of zakah collection and distribution not optimum. Besides the sociological aspects of weakness, juridical aspect is also one reason why potential zakah Indonesia has not fully handled (Sari *et al.* 2013).

## 5. CONCLUSION AND POLICY RECOMENDATION

Zakah management to improve average income in Indonesia has not been adequately implemented. Consequently, it could not utilize the great potential of the population. Still many gaps were available that become the weakness of zakah management and requires immediate action. These weaknesses come from the uneducated community, lack of government role, and uncreativity of the Zakah institutions. Therefore, the improvement of zakah management should be done, by all stakeholders so that the potential of zakah to be optimal. Suggestions may be made around Zakah institutions members empowerment, detail plan and programmes and reducing passive zakah distribution.

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