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Role and Responsibilities of the Sharia Supervisory Council (DPS) at Sharia Finance Bank in Depok City

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ABSTRACT

This study aims to explain the roles and responsibilities of the Sharia supervisory board (DPS) at the Sharia Finance Bank i in Depok City. This research used descriptive qualitative research, with descriptive qualitative analysis using the inductive method. The results of this study indicate that the responsibility of the DPS is not only to submit a report once a semester to Bank Indonesia but also to be accountable for the nature of the BPRS. When the DPS states that the transaction is prohibited and not following Sharia, the BPRS may not do so. It is the essence of the relationship between BPRS and DPS. The level of DPS credibility in terms of performance, independence, and competence hinders the credibility of Islamic banks. The role and function of DPS in Sharia internal supervision must be optimized. According to Sharia, BI's primary responsibility as a regulator is to improve the external environment of DPS by developing an efficient and effective Sharia supervisory mechanism

Keywords: Sharia Supervisory Council, Sharia Finance Bank, Indonesia.

INTRODUCTION

Banking has been known to run by two systems—the conventional bank operating system and an Interest system for its primary operations. Second, the operational system of Islamic banks, also known as Sharia, uses a profit-sharing system for its primary operations. Islamic financial institutions generally have several drawbacks, including the Differentiation of Islamic financial products, which is considered lacking in Indonesia. In this case, there is still a need for product innovation, and it is even said that the products of Islamic financial institutions only imitate conventional financial institutions (Muhammad. 2016).

The independent Sharia Supervisory Board (DPS) consists of Muamalat fiqh experts. On the other hand, the Sharia Supervisory Board may include members who are not fiqh experts but know Islamic financial institutions and Muamalat fiqh. The Sharia Supervisory Board of financial institutions is obliged to direct, review, and supervise the

institution's activities to ensure compliance with Islamic Sharia rules and principles (Anggadini, 2012).

This procedure must be forced because it functions as a medium for education and socialization. To carry out aspects of Sharia compliance, employees of Islamic Banks must be competent and patient. In addition, the Sharia Supervisory Board (DPS) is required to oversee the operations of Islamic banks, especially those related to Sharia compliance. Because professionalism has been an issue of DPS to date, it is hoped that the board or management of Islamic Banks will offer incentives in the form of respectable salaries or honoraria to encourage DPS to do their best (Afrianty, 2018).

Islamic and conventional banks' primary and fundamental difference is their adherence to Sharia. One of the main reasons people choose Islamic banks is the halalness of their products and services and the Islamic banking system that complies with Sharia principles. ³ Also, the contracts used are based on Sharia principles determined by the Sharia Supervisory Board (DPS). This finding results from research conducted in 2000 by Bank Indonesia and several research institutions of state universities on the island of Java regarding society's potential, preferences, and behaviour towards Islamic banks (Efrianto, 2019).

DPS must not only ensure that the business operations of Islamic Banks comply with the regulations issued by the DSN and Sharia principles but also must inform the public about the findings of its supervision and express an opinion that the banks it supervises operate following Sharia principles. Because this is a threat to the national economy and even threatens the success of the Islamic economic movement itself, DPS must not allow violations of Sharia principles to occur, such as the expansion of the Murabahah portion in the Sharia banking portfolio and the large number of sharia financial institutions that continue to use interest (Biasmara et al., 2021).

Following their duties and responsibilities, DPS has the authority to influence Islamic Banks to carry out transactions following Sharia principles through competency and organizational models. DPS can also help Sharia Banks improve the performance of profit-sharing-based financing that reflects Sharia principles, especially the principles of justice, benefit and balance in their activities.

The Sharia Supervisory Board (DPS), an independent internal organization specializing in Sharia compliance supervision, is required for Islamic banks to ensure their operations adhere to Sharia principles. The Sharia Supervisory Board plays an essential role in Islamic banking for three reasons: First, find out how much trust Islamic banks have. Second, it is a significant component in ensuring Sharia compliance. Third is one of the Islamic banks' main pillars to implement Good Corporate Governance (GCG).

The Islamic People's Financing Bank (BPRS) is one component of Islamic banking throughout the archipelago. The Sharia Supervisory Board (DPS) is needed to determine how much Islamic banking in Indonesia adheres to Sharia principles in its banking operations to improve the quality of work of Islamic banks in Indonesia. In addition, the

Sharia Supervisory Board (DPS) can guarantee that every bank activity follows Sharia law.

According to Isnaini (2018), the primary responsibility of DPS is to ensure that the bank's daily operations are carried out following sharia. In other words, DPS is an integral part of the success of Islamic banks. It will be very worrying if there are still many Sharia banking practices that deviate from the provisions of Islamic Sharia, so the role and function of DPS must be truly optimized.

METHOD

This study uses a qualitative method with a descriptive approach. The research uses data from literature studies. Descriptive analysis is used to explain the data that has been collected from various literature.

RESULT AND DISCUSSION

DPS Roles and Responsibilities

The internal Sharia review, conducted by the internal auditors to assess the compliance of the Sharia bank with the principles and rules of Sharia, will assist the DPS in discharging its responsibilities. The Sharia supervisory board will instruct internal auditors to conduct an internal Sharia review and present the results of their assessment and testing to the board. In this case, the internal auditor bridges the communication between DPS and management to control all bank activities and comply with Sharia law.

The following is a more in-depth description of their responsibilities and authorities. First, provide guidelines and outlines for using funds and other bank activities following sharia. Second, make adjustments if a product being implemented is suspected of conflicting with Sharia law. In the end, the third responds to questions raised by the executive and operational in the form of a fatwa. Forth, check the annual report book and make a statement about how all products and operations in the current year follow Sharia law.

The primary responsibility of DPS is to act as a mediator between Islamic financial institutions and directors, heads of Sharia business units, and heads of Sharia branch offices on matters relating to Sharia aspects and to communicate proposals and suggestions for the development of products and services from sharia financial institutions that require review and fatwa.

As a follow-up to the mandate of Ijtima' Sanawi (Annual Meeting) of the First DPS in Jakarta on 8-11 September 2004, regarding guidelines for Sharia supervision and procedures for reporting the results of supervision for the Sharia supervisory board as guidelines for the implementation of duties, authorities and responsibilities of DPS for banking sharia, the DPS is responsible for submitting periodic sharia supervision reports related to the duties of the DPS. In order to become a minimum reference for members of the DPS in carrying out the Sharia supervisory function of the operational activities of Sharia banks, guidelines for Sharia supervision and procedures for reporting the results

of supervision are prepared for the supervisory board Sharia (Pradipta et al., 2016). According to the definition provided in the annexe to Bank Indonesia regulations, DPS is an autonomous body that oversees Islamic banks' business activities per Sharia law. DPS is affiliated with a bank and is part of a bank.

DPS Authority

The Sharia Supervisory Board (DPS) has the authority to determine whether a product from the BPRS it supervises is permissible (halal) or prohibited (haram) for sale to customers and the general public. The DPS can also determine the legal status of the product. DPS refers to the DSN-MUI fatwa giving legal status; if a new product does not have a fatwa, the DPS will ask the DSN-MUI for a fatwa.

It indicates that the DPS can create new products that do not yet exist but still require a fatwa from the DSN-MUI to produce them. Examine Bank Indonesia Regulation No. 6/17/PBI/2004, issued on 1 July 2004, and Bank Indonesia Regulation No. 6/24/PBI/2004, respectively, issued on 14 October 2004, concerning Commercial Banks conducting business activities based on Sharia principles.

According to these regulations, the Sharia Supervisory Board (DPS) is responsible, among other things, for ensuring and supervising the suitability of bank operations against fatwas issued by the National Sharia Council (DSN), evaluating sharia aspects of bank operational guidelines and their products, providing opinions from sharia aspects on implementation bank operations as a whole in bank publication reports, reviewing new products and services that do not yet have a fatwa to request a fatwa from the DSN (Usnah et al., 2015).

The DPS supervises the BPRS under the authority of the DPS BPRS Depok City. DPS supervision in the field still needs improvement or could be more optimal. It is caused by communication between DPS and BPRS, which is still problematic. As a result, the arrival of DPS to BPRS to carry out supervision could be more optimal (Nasution et al., 2019).

Oversight Mechanism of the Sharia Supervisory Board (DPS) for Islamic People's Financing Banks (BPRS)

Islamic banking is unique because the management structure of the banking industry includes scholars. In determining and overseeing the application of Sharia principles in banking, scholars who know Sharia law and banking applications play a significant role. DPS members must also know banking economics and sharia muamalah experts. In this case, Sharia Banks have appointed DPS members based on the results of the general meeting of shareholders and directors.

The Sharia Supervisory Board must comply with the BPRS fatwa in its daily duties. The BPRS is the highest authority in issuing fatwas concerning the conformity of bank products and services with Sharia provisions and principles. The main responsibility of DPS is to ensure that the bank's business activities do not deviate from Sharia provisions issued by the BPRS. In Sharia banking institutions, DPS plays a strategic role in carrying out Sharia principles.

The Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) and the activities of the Sharia Supervisory Board in carrying out supervision at various BPRS in Depok City indeed refer to the applicable Bank Indonesia Regulations (PBI) and specifically to carry out supervision of BPRS sharia, both from the perspective of contracts, transactions, and products. DPS oversight is generally divided into two categories: Internal and external oversight. Internal oversight is the essential form of DPS oversight. It is because it relates to the credibility of the BPRS that it oversees.

Bank Indonesia Regulation Products specify how to carry out supervisory responsibilities. Most of the material in banking regulations directing the implementation of the precautionary principle is contained in Bank Indonesia Regulations. The purpose of these provisions is to indicate to banking service providers to carry out their business activities to create a sound banking system.

The Sharia Supervisory Board consists of economists and religious scholars specializing in fiqh muhammara (Islamic et al.). Its mission is to ensure the bank's operations and products comply with Islamic law. The Sharia Supervisory Board (DPS) must carefully examine Islamic financial institutions' contract formats. Regarding BPRS, DPS oversees contracts, transactions and operations with customers and third parties. Therefore, the Sharia Supervisory Board must thoroughly oversee all the BPRS they supervise (Nurhasanah, 2011).

The supervision carried out by the Sharia Supervisory Board is, of course, greatly influenced by the existence of the Sharia Supervisory Board in the BPRS. The level of regular DPS attendance at the BPRS will undoubtedly be maximized so that the BPRS can be supervised and supervised effectively and honestly transform into a "sharia" sharia financial institution. In addition, the way DPS is involved with the BPRS is influenced by the existence of the DPS in the BPRS. DPS is not too involved, especially concerning transactions and activities of BPRS in general. It is very worrying about the possibility of Sharia BPRS irregularities (Suryani. (2012).

Regarding accountability, DPS is fully responsible for all BPRS activities. The responsibility of DPS is not only to submit a report once a semester to Bank Indonesia but also to be accountable for the nature of the BPRS. When the DPS states that the transaction is prohibited and not following Sharia, the BPRS may not do so. It is the essence of the relationship between BPRS and DPS. On the other hand, the BPRS can carry out transactions properly if the DPS states that the transaction is following Sharia.

The information presented above is the obligation of DPS to BPRS. Even though we know that leadership in a BPRS consists of a Board of Directors and a Board of Commissioners, the DPS is a Sharia leader. In essence, the Directors' and Commissioners' responsibility is to advance the company to become more developed and generate more profits. However, the DPS bears the most significant responsibility of all. DPS must respond to BI because of its reporting obligations and the responsibility to the hereafter (Allah SWT). Following BPRS sharia, DPS must report and account for its work. DPS

must be held accountable in advance if there are BPRS that, according to BI, violate Sharia law (Oktarina, 2016).

CONCLUSION

The Sharia Supervisory Board (DPS), based on the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), sets standards for the composition of the DPS as well as related aspects such as regulations, reports and other matters. These standards stipulate that an Islamic institution must be an independent body of experts in Islamic law and science. Other specialists with scientific knowledge of Islamic law relating to commercial transactions can also form DPS in Islamic financial institutions. To ensure that Islamic financial institutions comply with Sharia rules and principles, the DPS is tasked with directing, inspecting and supervising their operations. The level of DPS credibility in terms of performance, independence, and competence determines the credibility of Islamic banks. In order to build Sharia compliance guarantees for all stakeholders of Islamic banks in Indonesia, the role and function of DPS in Sharia internal supervision must be optimized. Improving the DPS's external and internal environment is the first step to optimizing the role and function of the DPS in Sharia internal supervision. According to Sharia, BI's primary responsibility as a regulator is to improve the external environment of DPS by developing an efficient and effective Sharia supervisory mechanism. On the other hand, DPS and Islamic bank management are responsible for creating an efficient and effective Sharia compliance guarantee system to increase public trust in Sharia banks.

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Considerations of the Malaysian Standards Council in Setting Quality Standards Malaysian Standards (MS1900:2005)

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ABSTRACT

This study provides an overview of the Malaysian Standards Council's considerations in establishing the quality standard Malaysian Standard 1900 (MS 1900, p. 2005). MS 1900 is a structured system that helps organizations to provide products and services that suit customer requirements based on Sharia regulations and requirements. This system was launched in 2005 and aimed to complement the ISO 9001 standard concerning an Islamic perspective. To obtain this MS 1900, the organization must go through a process of quality audit and sharia audit. Various kinds of literature were reviewed, focusing on the Malaysian Quality Management Standard MS 1900:2005. This research found that the Sharia elements were synchronized into the existing ISO 9001 to establish the first Islamic quality management system, MS 1900:2005. MS 1900:2005 helps organizations improve their management systems and enables them to implement management systems per Shariah and Islamic obligations. The proposed model should be followed by managers so that MS 1900:2005 can be implemented effectively.

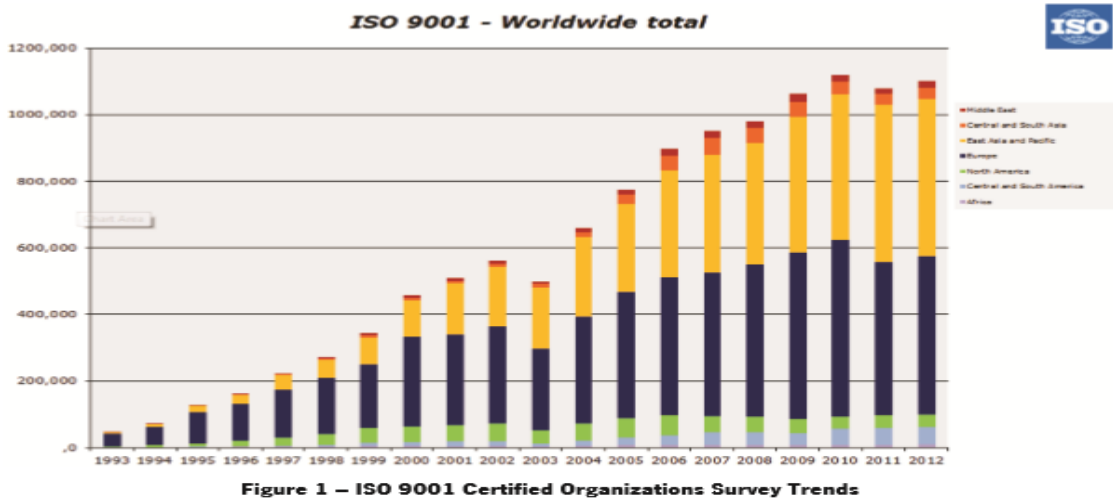
Keywords: Islamic quality management, MS 1900:2005, Malaysia.

INTRODUCTION

Along with the development of the business world in the era of globalization, it is triggering global competition between companies. Furthermore, consumers are becoming increasingly aware of and expect quality. Consequently, the industrial sector is developing its competencies to achieve success. As a solution, standardization then becomes essential. The implication is that the company's products must meet industry, consumer and government quality standards. One standard that illustrates a company or institution has excellent service is a certificate from the International Organization for Standardization, known as ISO (Aristian, 2017).

The potential benefits of an organization implementing a quality management system based on International standards are the ability to consistently provide products and services that meet customer needs and applicable legal and regulatory requirements, facilitate opportunities to increase customer satisfaction, manage risks and opportunities related to its context and objectives, as well as the ability to demonstrate conformity to specified quality management system requirements. (Cognoscenti, 2017)

Figure 1. Trends in Surveys of Certified Organizations



Source: (Fonseca, 2014)

From Figure 1, it can be seen that the ISO 9001 quality management system standard is indeed something that is considered relatively new in Indonesia. However, due to the community's demands and the existing conditions, the development of this application in organizations in Indonesia has shown quite significant numbers. Furthermore, this standard has become familiar, and an organization recognizes its benefits. (Azmi, 2011)

Initially, this standard was only considered market demand (market driven), but its development has provided a lot of added value for companies that implement it. ISO quality management system standards impact both in the short and long term and have tactical or strategic applications, such as increasing productivity, efficiency, reducing costs, and increasing customer satisfaction.

Several Islamic standards have been developed by Muslim scientists, quality experts, business professionals and industrialists, including MS 1900:2005, a standard issued by the Malaysian Standards Department. This standard was developed from ISO 9001 by adding three Sharia components, namely Aqidah (belief), morals (behaviour) and fiqh (interaction between humans, environment and law).

Malaysia is recognised by other Islamic countries and is called the most advanced and progressive Islamic country in terms of administration, economy and social development. Malaysia is also known internationally as one of the few Islamic countries that has introduced and established an Islamic financial system. In 2005, Malaysia created history again when it launched the world's first Islamic Quality Management System, namely MS 1900, from an Islamic perspective. Currently, MS 1900 has three objectives, namely: (Khalidah, 2014). It is first embedding Sharia requirements into quality management practices emphasising value-based management. Second, increase effectiveness and efficiency through universal good behaviour practices at all levels of

the organisation. Third, increase the level of Sharia compliance and trust among Muslims and stakeholders. (Rehat, 2016)

Based on the results of research conducted by (Rehat, 2016), it was found that MS 1900: 2005, which is based on Islamic guidelines on quality work, has become a benchmark for evaluating the efficiency of activities carried out by organizations in terms of quality management systems, management responsibility, resource management, product realization, measurement, analysis and improvement management..

From an Islamic perspective, the quality management system is a new field to be explored and may become a standard that will create another competitive advantage for an organization. Thus, every company needs a quality audit to measure the company's performance and how a company can compete by looking at the outcome aspect. The results of the efficiency and effectiveness of a company can be measured by input, output and outcome.

The Malaysian MS 1900 standard was developed to ensure that an organization is managed according to the principles and practices of the Shari'ah quality management system. This standard requires organizations to identify Shariah control points throughout their process, guided by the principles of halal and haram and the principles of muamalat (transactions). This standard also incorporates a framework of core organizational values for good governance. (Khalidah, 2014).

MS 1900 was developed using ISO 9001 as its basis. MS 1900 is a structured system to assist organizations in delivering products and services that meet customer requirements, regulatory requirements and Shariah directives. The Sharia requirements are included in addition to the ISO 9001 requirements and aim to close the existing gaps in the ISO 9001 standards concerning an Islamic perspective (Long, 2008).

Implementing a Sharia-based quality management system must be a strategic decision for an organization. The design and implementation of an organization's quality management system are influenced by various needs, specific goals, the products provided, the processes used and the size and structure of the organization (Khalidah, 2014). From the description of the background of the problem above, it can be drawn the main problem which will be the formulation of the problem in this writing, namely, what are the Considerations of the Malaysian Standards Council in Setting Quality Standards for Malaysian Standards (MS 1900:2005)?

METHOD

This study uses a qualitative method. The approach used in this research is descriptive and literature study. A descriptive approach explains the Malaysian Quality Management Standard MS 1900. Furthermore, a literature study approach is used as a source of study documents.

RESULT AND DISCUSSION

ISO 9001 Overview

ISO is an International Standard directing and controlling an organization to achieve its goals issued by the International Organization for Standardization. An independent, non-governmental organization, the largest international standard developer in the world, formed by national standard bodies from 156 countries. ISO is the world federation of national standards bodies. (Aristian, 2017)

ISO 9001 is an International standard for Quality Management Systems (QMS). Management systems use to direct and control the organization in terms of quality. Quality Management means what an organization does to ensure that its products or services meet customer quality requirements and comply with regulations that apply to products or services. (Aristian, 2017)

The international standard managing organization is the International Organization for Standardization, headquartered in Geneva–Switzerland, founded on 23 February 1947. Now it has more than 147 member countries, each represented by the National Standardization Body (KAN represents Indonesia) (Aristian, 2017). The need to order various national quality standards on an international scale emerged in the 1970s (Jodkowski, 2015).

Adopting a quality management system is a strategic decision for an organization that can help it improve its overall performance and provide a solid foundation for sustainable development initiatives. The potential benefits of implementing a quality management system based on international standards are fourfold. First, the ability to consistently provide products and services that meet customer needs and applicable legal and regulatory requirements. Second, facilitate opportunities to increase customer satisfaction. Third, address the risks and opportunities related to the context and objectives. Fourth is demonstrating compliance with the specified quality management system requirements. (Cognoscenti, 2017)

This International Standard uses a process approach incorporating the Plan-Do-Check-Act (PDCA) cycle and risk-based thinking. The process approach moves an organization to plan its processes and interactions. The process approach in the quality management system ensures consistent understanding and fulfilment of requirements, understanding of processes in terms of adding value, achieving effective process performance, and improving processes based on data and information evaluation results. (Ibrohim, 2015)

MS 1900:2005 International Standard Description

MS 1900 was developed using the ISO 9001 framework, a version of ISO 9001, and was the first of its kind worldwide. This Islamic version of the quality management system focuses on creating what can be called a Sharia-based quality management system. It does not mean that ISO 9001 is not following Islam. However, it is not very comprehensive if implemented by an Islamic organization or body, with most workers and clients consisting of Muslims. (Khalidah, 2014)

MS 1900 is an Islamic Quality Management System (QMS) launched by the Government of Malaysia in 2005. It is a structured system to assist organizations in delivering products and services that meet customer needs and Sharia's regulatory requirements and injunctions (Islamic injunctions). The Shariah requirements are additional to the ISO 9001 requirements and aim to close the gap between the ISO 9001 standards and an Islamic perspective. (Hasliza, 2017)

MS 1900 integrates Islamic values into ISO 9001. Although it was founded based on the ISO 9001 framework, MS 1900 is unique in that it has Islamic terms such as Sharia Compliance, Fiqh Council, Sharia Advisory Committee, Sharia Compliance Unit, Halal, Quran, Hadith, Sunnah, Al-Ijma'dan Fatwa. This standard's quality management system requirements complement the requirements for halal products. This standard can be used by internal and external parties, including certification bodies, to assess an organization's ability to meet sharia, customer, regulatory and organization requirements.

MS 1900 Implementation Process

Basir & Azmi (2011) developed a model for the implementation of MS 1900 and demonstrated a theoretical model that includes three components, namely the implementation step for the requirements of ISO 9001, Shari'ah in MS 1900, and the principles of MS 1900. They suggest that the basis of MS 1900 is ISO 9001. Organizations wishing to obtain MS 1900 certification must first implement ISO 9001. The ISO 9001 implementation process involves 13 steps and must be integrated with the Shari'ah elements embedded in the MS 1900 requirements. (Azmi, 2011)

They also outline five steps in the ISO 9001 implementation process that can be integrated with Sharia elements, namely understanding the quality system, preparing documentation, demonstrating commitment, clarifying policies regarding quality, and performing audits and reviews. The MS 1900 implementation process can be carried out by integrating the five steps in the ISO 9001 implementation process with the Sharia elements embedded in the MS 1900 requirements. The five steps are explained below. First, Understanding MS 1900. Understanding of MS 1900 must be ensured before implementation. Thus, training on MS 1900 should be emphasized. All top managers, middle managers and employees working for the organization must be provided with adequate training on halal and non-halal aspects of processes, products and services.

Training is essential for management representatives because it explains quality planning, quality control and improvement of the MS 1900 system. Training is essential for middle managers and operational workers because it relates to the implementation stage of MS 1900. Second, Documentation. As stated in the requirements of MS 1900, managers must identify and document procedures requiring Shariah compliance in the manual. Managers should also ensure that the contents of all documents are sufficient to support Shariah compliance. Even so, the placement and storage of documents containing elements of the Koran must be considered. Therefore, documents containing elements of the Koran must be placed carefully and stored in a safe, hygienic and respectful place.

Third, show commitment. Customer requirements must comply with Sharia. MS 1900 also states that management must consider Sharia requirements in financial management, human resource management, procurement procedures, production and marketing. Managers must ensure that the organization does not engage in financial transactions prohibited in Islam. Therefore, financial transactions involving usury (interest) must be avoided. Places to eat within the premise of an organization must provide halal food and drinks. (Arens, 2011).

Therefore, according to Islamic instructions, non-halal food and drinks such as wine, pork, and animals that are not correctly slaughtered cannot be served in restaurants. Managers should also ensure that non-halal items are segregated to avoid cross-contamination. In addition, as stated in the requirements of MS 1900, managers must provide a prayer room for their employees and customers. As stipulated in the requirements of MS 1900, managers must ensure that all inputs related to the product are Shariah-compliant. It is essential because halal products can only be produced from halal inputs. Managers must also ensure that all work instructions regarding the production and manufacture of halal products are well-documented and made available to all employees.

The availability of such documents is essential so that employees can constantly refer to work instructions when delivering their work. Finally, managers must ensure that equipment and assembly lines used in producing, preparing, handling and storing non-halal products are not reused to supply halal products. This condition must be complied with so that the products produced by the organization are guaranteed to be halal.

Fourth, quality policy. Management must ensure that the quality policy is Shariah-compliant. Therefore any quality policy that is not following Sharia must be avoided. Moreover, the quality policy must be carefully formulated to ensure compliance with Shariah requirements. In addition, organizations involved in halal and non-halal activities must establish separate quality objectives for their halal operations.

Fifth, Audit and Review Manager Performance. Performance Audit and Review Managers should monitor processes and products that continue to be Shariah-compliant as set out in the requirements of MS 1900. Managers should also ensure that non-Shariah-compliant products are not approved for subsequent delivery processes. This preventive action is essential to ensure that only Shariah-compliant products reach customers.

In addition, managers must collect and analyze appropriate data to demonstrate Shariah's compliance with the QMS and to continuously evaluate the system's effectiveness. They must be committed to continuous improvement and the effectiveness of the system. A review process should be carried out to check whether the adoption of MS 1900 benefits the organization. (Rehat, 2016)

Quality Management System

The Quality Management System, according to Gasperz, is a set of documented procedures and standard practices for system management that aims to ensure the conformity of a process and product (goods/services) to the needs or requirements

determined or specified by the customer or organization. The Quality Management System defines how an organization consistently implements quality management practices to meet customer and market requirements. (Tukiran, 2016)

ISO 9001:2015 is an international standard for quality management systems. ISO 9001:2015 sets out requirements and recommendations for designing and assessing a quality management system (Tukiran, 2016). The Quality Management System explains that ISO 9001:2015 relates to a Quality Management System. The Quality Management System is formed from the organizational structure, documentation, procedures and tools contained within the organization. Moreover, the goal is to provide transparency regarding the organizational structure, procedures, and tools, which can give consumers satisfaction.

In this case, from the two definitions previously mentioned, the quality management system is a tool implemented in an organization that provides transparency regarding activities. This activity is expected to provide satisfaction and can meet the needs of customers and the market. (Tukiran, 2016)

Quality Management Principles

Since ISO 1900:2000 was published, IOS/TC 176 has developed eight quality management principles which are an ideological basis of all the requirements articles developed (Tukiran, 2016). This International Standard is based on the quality management principles described in ISO 9000. The description includes a statement of each principle, a rationale for why the principles are essential to an organization, some examples of the benefits associated with the principles and examples of typical actions for improving organizational performance when applying these principles. The quality management principles are Customer focus, Leadership, Involvement of people, Process approach, Improvement, Evidence-based decision making and Relationship management. (Sugian, 2015)

Sharia Quality Management System

The Sharia Quality Management System is the Islamic Compliance Quality Management System. Compliance Requirements of Islamic Quality Management System from Islamic Perspective (ICQMS): MS 1900: 2005 has been introduced and implemented in Malaysia. Implementing MS 1900:2005 is based on ISO 9001, the Quality Management System established by the International Organization for Standardization (ISO) which applies to all types and sizes of organizations. It sets standards to increase the effectiveness of products, services and processes. Even ICQMS, MS 1900:2005, has become the basis for measuring standards nationally recognized in measuring quality from an Islamic perspective. (Othman, 2013)

In practice, Islam not only explores the issue of religious obligations but comprehensively includes guidelines on the quality of subsistence from an economic, social, cultural, political and other perspective. Therefore, carrying a positive image of Islam is seen as a progressive and dynamic religion instead of being static and negative.

Discussion

The development of the business world in the era of globalization, triggering a global competition between companies and increasing consumer awareness and expectations of quality, forces the industrial sector to identify better and develop its competencies towards competitive success (Tukiran, 2016). Standardization becomes essential so that the company's products meet industry, consumer or government quality standards. One standard that illustrates that a company or institution has excellent service is a certificate from the International Standards Organization, known as ISO (Aristian, 2017).

However, the existing quality management standards are still general, and no standards refer to Islam. At the same time, Islam views quality management as a holistic system that covers every aspect of human life. Therefore, many organizations will find it necessary to set up a quality management system based on Islamic principles. Based on ISO 9001, the MS1900:2005 standard provides a framework for a comprehensive management system. An organization will benefit not only from certifying its values but all of its processes, From the halal and non-halal aspects of production and delivery to whether this is communicated to every person in the organization. (Basir, 2013)

One of the goals of MS 1900:2005 is to improve Shariah compliance practices and increase trust among Muslims and stakeholders. This research mainly focuses on identifying the correlation between the adoption of MS 1900:2005 and organisational performance improvement (Rehat, 2016). MS 1900:2005 Islamic Compliance Quality Management is the quality management standard used in measuring Islamic quality in organisations' operations, management and production. In Malaysia, this standard is issued and supervised by SIRIM QAS International and created based on the ISO 9001 Quality Management System standard, recognised worldwide (www.msonline.gov.my, 2017).

The Malaysian Standards Department was established on 28 August 1966 under the auspices of the Ministry of Science, Technology and Innovation. The consideration of Malaysian Standards Board in establishing MS 1900 uses a structured system. It helps organizations to deliver products and services that meet customer requirements and comply with regulatory and Sharia requirements. (www.jsm.gov.my, 2017)

Initially, this standard was only considered market demand (market driven), but its development has provided a lot of added value for companies that implement it. Concerning Islamic quality management and compliance, in principle, even though the values used in this standard are based on an Islamic perspective, they are universal. All, including non-Muslims, can apply them.

The Malaysian standard MS 1900 was developed to ensure that an organization is managed according to the principles and practices of the Shari'ah quality management system. This standard requires organizations to identify Shariah control points throughout their process, guided by the principles of halal and haram and the principles of muamalat

(transactions). This standard also incorporates a framework of core organizational values for good governance. (Khalidah, 2014)

Implementing a Sharia-based quality management system must be a strategic decision for an organization. The design and implementation of an organization's quality management system are influenced by various needs, specific goals, the products provided, the processes used and the size and structure of the organization (Khalidah, 2014). The interest in implementing MS 1900 in Malaysia is quite essential. Despite the enthusiasm for MS 1900, no framework or model was offered to guide managers in implementing MS 1900 effectively.

The application of MS 1900 helps organisations improve their management systems and enables organisations to implement management systems that comply with Shariah and Islamic obligations. Complying with Sharia obligations also brings many benefits to the organisation, such as receiving blessings from Allah, growing market, increasing public trust, improving practices based on Islamic values, promoting a friendly environment, enhancing the organisation's image and becoming a reference for the organisation.

MS 1900 embeds Sharia requirements into quality management practices with an emphasis on value-based management by increasing the level of effectiveness and efficiency through universal good behaviour practices at all levels of the organization, as well as increasing the level of Sharia compliance and trust among Muslims and stakeholders (Rehat, 2016). Ensuring that the application of MS 1900 will benefit the organization is essential. Complying with Sharia obligations will bring many benefits to the organization, such as getting blessings from Allah, growing market, increasing people's trust, increasing the trust of Muslim customers, enhancing Islamic quality culture and improving organization-wide management.

This model shows that MS 1900 implementation requires three components: ISO 9001 implementation steps, Sharia requirements in MS 1900 and MS 1900 principles. Formerly. The ISO 9001 implementation process must be integrated with the Sharia elements embedded in the requirements of MS 1900 (Azmi, 2011).

As a basis for the implementation of MS 1900, The consideration of the Malaysian standards council in establishing MS 1900 is to add the essential aspects of Islam. Firstly, adherence to Halal and Haram principles. In Islam, Muslims cannot consume products, services or food considered unclean. Products and services offered by organizations must comply with the principles of halal and haram in order for them to obtain MS 1900 certification.

Organizations must ensure that non-halal foods such as wild animals, pork and grapes are not served to customers. In addition, organizations may not be involved in financial transactions involving usury (interest), which is not permissible in Islam. No management program, product or service may conflict with the principles of halal and haram. In Islam, Muslims cannot consume products, services and food considered

unclean. Muslim scholars explain Halal and haram clearly in the Koran, al-Hadith and ijtiḥad. (Hasliza, 2017)

The primary basis in Islamic law is that Allah created everything as lawful and permissible. However, it becomes illegal when it goes against the clear evidence of the Qur'an and Sunnah. Any item that is haram or illegal or anything related to haram or illegal things is considered haram or illegal from an Islamic perspective. If the harm outweighs the benefit, it is haram (i.e., illegal); if the benefit outweighs the harm, it is lawful.

Second, the organization operates based on values. This principle discusses how the organization incorporates Islamic values in its management and daily activities. Islam is a universal religion that offers many noble values. Islamic values are relevant and dynamic, according to human needs to organize and develop organizations. Good values must be included in organizational development. Islam has set guidelines on the values that administrators or employees must adopt to ensure that the core ethics shape the affairs of the services they provide and are judged by Allah SWT (Khalidah, 2014). This kind of management ensures the elimination of corruption, corruption and injustice to establish equality and order in organizations and society. Attributes important in organizational operations are trust, sincerity, discipline and dedication.

Any organization that aims to obtain MS 1900 certification must ensure that practised values do not conflict with Islamic values. Organizational values such as greed, selfishness, corrupt practices, exploitation and slander must be eliminated because these values will harm every organization. Instead, organizational values that align with Islamic values, such as teamwork, benevolence, striving for excellence, transparency, honesty, fairness and tolerance, should be promoted and cultivated. (Badjuri, 2011)

Instead, organizational values that align with Islamic values, such as teamwork, benevolence, striving for excellence, transparency, honesty, fairness and tolerance, should be promoted and cultivated. This principle relates to how the organization incorporates Islamic values in its management and daily activities. Morality and the value system are given the highest priority in Islam. In this way, morality and values must be mobilized from monotheism, which means that human behaviour must follow the guidance of Allah SWT, and any behaviour contrary to the guidelines is prohibited.

Third, the decisions or actions align with the Sharia Goals (Maqasid Syari'ah). This category relates to how the organization produces products and services that align with the goals of Sharia (Maqasid Syariah) goals, namely, to ensure protection for humanity. In other words, no decision made by the organization must not conflict with Maqasid Shari'ah. Maqasid sharia means the way of life (Syari'at), as provided by Allah SWT, the purpose of which is to preserve the life of humanity.

Any organization aiming to acquire MS 1900 certification must ensure that every decision must comply with Maqasid Shari'ah. For example, if any decision taken by managers could harm the Muslim faith, the organization is not eligible to get MS 1900 certification (Basir S. , 2001). This category relates to how the organization produces

products and services that align with Sharia's objectives, namely, ensuring protection for humanity. In other words, no decision made by the organization must contradict Maqasid Sharia. Any organization aiming to acquire MS 1900 certification must ensure that every decision must comply with Maqasid Shari'ah. For example, if any decision taken by the manager could harm the Muslim faith, the organization is not eligible to get MS 1900 certification. (Azmi, 2011)

CONCLUSION

From the research above, the consideration of the Malaysian Standards Board in Establishing MS 1900 is based on the fact that the existing quality management system does not comply with Sharia principles. Therefore, the Malaysian Standards Council established a standard that met the Sharia criteria. By adding Islamic elements, namely Aqidah (belief), morals (behaviour) and fiqh (interaction between people, environment and law), are synchronised into the existing ISO 9001 to build the first Islamic quality management system-MS 1900. This system helps organisations improve their management systems and enables them to practice management systems that comply with Shariah and Islamic obligations.

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The Effect of Liquidity and Financial Distress on Tax Aggressiveness With Firm Size As The Moderating Variable in State Owned Enterprises (BUMN) Companies Listed on The Indonesian Stock Exchange (IDX) in 2018-2020

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ABSTRACT

Tax aggressiveness is an act of tax planning to minimize the tax expense both legally (tax avoidance) and illegally (tax evasion). This study aims to analyze the effect of liquidity and financial distress on tax aggressiveness with firm size as the moderating variable. The analysis was performed with Multiple Linear Regression (MLR) and Moderated Regression Analysis (MRA). The population in this study are State Owned Enterprises (BUMN) Companies Listed on The Indonesia Stock Exchange (IDX) in 2018-2020. The sampling technique of this study was using a purposive sampling technique. The results show that liquidity negatively and significantly affected tax aggressiveness. Financial distress had a positive and significant effect on tax aggressiveness. Firm size did not affect tax aggressiveness. Firm size can moderate the effect of liquidity on tax aggressiveness, and firm size cannot moderate the effect of financial distress on tax aggressiveness.

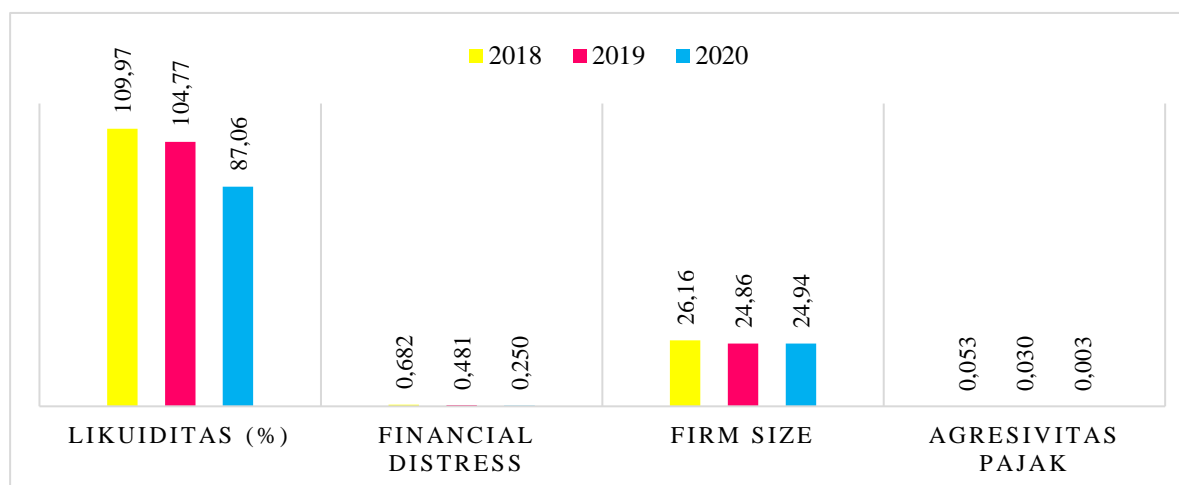
Keywords: tax aggressiveness, liquidity, financial distress, firm size

INTRODUCTION

Tax is a source of state income that contributes significantly to supporting the ability of state finances to implement various programs from a country. Taxes fund is ongoing national development and finance other state expenditures to increase people's prosperity and welfare (Hek et al., 2022). For the government, taxes are a source of state income that must be maximized to pay all state expenditures. However, for companies, taxes must be minimized because taxes are considered an expense that can reduce the company's net profit. The bigger the profit, the bigger the tax expenses borne by the company. The bigger the tax expenses borne by the company, will reduce the net profit obtained by the company (Apriliana, 2022).

The existence of differences in interests between companies and the government about taxes encourages companies to take aggressive action against their taxes by changing taxable income so that the tax expense borne by companies becomes smaller, which has an impact on the amount of net profit earned by companies and reduces the company's liabilities to pay taxes by taking action which is called tax aggressiveness. Tax aggressiveness is an act of tax planning to minimize tax expenses both legally (tax avoidance) and illegally (tax evasion) (Amalia, 2021).

Figure 1. Average Liquidity, Financial Distress, Firm Size and Tax Aggressiveness in 2018-2020



Source: Data processed by Researchers, 2022

Based on Figure 1, it can be seen that the overall average liquidity for 2018-2020 has decreased. In 2018-2019 it decreased from 109.97 % to 104.77%. In 2019-2020 it decreased from 104.77 % to 87.06%. Overall in 2018-2020, the average liquidity value is getting lower, which is less than 100%, so the average company cannot pay its current liabilities on time. The average financial distress as a whole in 2018-2020 has decreased. In 2018-2019 it decreased from 0.682 to 0.481. In 2019-2020 it decreased from 0.481 to 0.250. If the value of financial distress is less than 0.862, it indicates that the average company is in distress or unhealthy. Therefore, overall in 2018-2020, the average financial distress value was below 0.862, which means that the average company is distressed.

Overall average firm size in 2018-2020 has fluctuated, meaning it has increased or decreased, although not significantly. In 2018-2019 it decreased from 26.16 to 24.86, which shows that the companies have a small total of assets, which indicates the lower the company's operating activities. In 2019-2020 it increased, although not significantly, from 24.86 to 24.92, which shows that the companies have more considerable total assets, which indicates the higher the company's operating activities. As seen from the average overall tax aggressiveness in 2018-2020, it has decreased. In 2018-2019 it decreased from 0.053 to 0.030. In 2019-2020 it decreased from 0.030 to 0.003. It can indicate that the smaller the value of tax aggressiveness, the company reduces tax aggressiveness.

Liquidity is a factor that is considered capable of influencing tax aggressiveness. Liquidity is the ownership of adequate sources of funds to cover the company's operational activities and liabilities that will mature. Liquidity measures a company's ability to pay its current liabilities on time. Companies with low liquidity indicate that the company's sources of funds need to be more sufficient to pay its current liabilities on time, causing the company to experience liquidity difficulties (Ramadani & Hartiyah, 2020).

Every company must ensure that liquidity is in good condition because if liquidity is not in good condition, it will cause an increase in the number of liabilities owned by the company because it is not comparable to the sources of funds owned by the company, such as assets used to finance the company's operational activities and fulfil current liabilities are not sufficient so

that under these conditions the company will tend to act more aggressively towards the tax expenses (Herlinda & Rahmawati, 2021).

However, it is different when seen in Figure 1.1 in 2018-2020, which shows that liquidity value is low, and tax aggressiveness is also low. Sari & Rahayu (2020) said that liquidity positively affects tax aggressiveness, meaning that companies with high liquidity values show that the company cash flow is good. Good cash flow can be used to finance the company's operational activities to obtain the maximum profit. However, increasing profits encourage companies to act more aggressively to reduce their tax expenses. Conversely, if liquidity is low, companies will tend to minimize aggressive actions to reduce their tax expenses. Next, according to Allo et al. (2021) said that liquidity has a positive effect on tax aggressiveness, meaning that companies with high liquidity will trigger companies to act more aggressively in minimizing their tax expenses. The higher the liquidity, the higher the company's profit, which impacts the amount of tax expenses the company bears. The company will try to allocate the current period's profit to the next period so that the amount of tax paid is small.

Furthermore, the factor that is considered to influence tax aggressiveness is financial distress. Financial distress is a condition where the company finds financial difficulties, leading to bankruptcy (Djohar & Angelina, 2022). In a distress condition, it triggers the company to reduce its expenditure, one of which is by minimizing its tax expenses because, in a distress condition, the company will feel burdened if it has to be added to the tax expenses and the high tax liability that must be paid. Companies find financial difficulties find it problems related to increasing costs, continuously decreasing income, decreasing access to sources of cost and inability to pay credit when due. Companies in distress condition make the company act more aggressively towards their taxes. The company is increasingly in financial distress; it will tend to act more aggressively towards its taxes to decrease the total of its tax liabilities (Nugroho et al., 2020).

According to Permata et al. (2021) said that financial distress has a negative effect on tax aggressiveness, meaning that a high level of financial distress will reduce tax aggressiveness. Companies in distress are considered too risky if they are doing tax aggressiveness because companies that do tax aggressiveness are in distress will be more challenging to do funding activities. In addition, for investors, the tax aggressiveness will make it cause them to worry about bankruptcy which has an impact on the disappearance of investors' shares in the company. Meanwhile, if the action is classified as illegal, then the tax authority knows this; the company will receive sanctions and penalties, which certainly burden the company's finances, impacting the company's bankruptcy. According to Suyanto et al. (2022), when a company is in financial distress or is ongoing bankruptcy, the company to reduce its tax aggressiveness because there are risks that arise, such as a wrong view of the company's value in the eyes of stakeholders if do tax aggressiveness.

In addition, firm size is another factor that influences tax aggressiveness. According to (Ahdiyah & Triyanto, 2021), firm size positively affects tax aggressiveness, meaning that the larger the company size, the higher the corporate tax aggressiveness. Large companies are reflected in the company's total assets. The bigger the assets reflect that the company has a good performance in managing its assets. The bigger the assets, the more the company's operational activities increase, so it impacts the company's total profit. Therefore, large companies will be more aggressive with their taxes.

Meanwhile, Kartika & Nurhayati (2020) said that firm size has a negative effect on tax aggressiveness, meaning that the smaller the company, the more aggressive it is towards taxes, meaning that large companies have significant assets and tend to earn large profits, thus attracting the attention of the government to be taxed appropriately. On the other hand, small companies have small assets and tend to earn smaller profits, so they get less attention from the government. There is an opportunity for small companies to do tax aggressiveness.

This research uses State-Owned Enterprises (BUMN) companies listed on the Indonesia Stock Exchange (IDX) for 2018-2020. BUMN companies were chosen because BUMN companies are the main actors in the national economy. In addition, BUMN, as a business entity whose majority shares are directly owned by the government, is suspected of not doing tax aggressiveness because the state has entrusted them as low-risk taxpayers based on Minister of Finance Regulation Number 117/PMK.03/2019 Article 13 Paragraph 2. However, different facts and phenomena show that state-owned companies also aggressively tax to avoid their tax liabilities. Based on the elaboration above, this research is essential to do because there are still differences in research results and gaps in the results of previous research, and there is still a lack of research in examining the effect of liquidity and financial distress on tax aggressiveness with firm size as a moderating variable in State-Owned Companies (BUMN).

The research objectives of this study are to analyze the effect of liquidity and financial distress on tax aggressiveness, the effect of liquidity on tax aggressiveness through firm size and the effect of financial distress on tax aggressiveness through firm size. The research benefit is increasing researchers' knowledge regarding taxes, especially related to tax aggressiveness. For Companies, this research is expected to add information and input to carry out tax planning that does not violate the law so as not to cause harm to the company. For the Government, this research is expected to help analyze the things that influence companies to carry out tax aggressiveness and can evaluate tax regulations and identify cases and risks related to tax aggressiveness so that state revenues increase. For Society, this research can serve as an additional understanding for the public regarding tax aggressiveness and provide advice for people who wish to invest to invest in companies that are classified as low-risk.

This research uses the supporting theory is agency theory. According to Jensen MC & Meckling (1976), agency theory is a theory that explains the relationship between the principal and the agent, where the principal delegate's authority to the agent to manage the company and make decisions. The essence of agency theory is the conflict between individuals with different views working within a predetermined agreement (contract). The agency theory assumes that all individuals will act for their welfare and interests. The agent will take action for his own sake (opportunistic). This action is carried out by maximizing the profit the company earns to get the maximum reward or bonus for its performance in running the company. The actions taken by these agents can lead to tax aggressiveness because the difference in interests between principals and agents can affect various matters related to company performance, one of which is regarding corporate taxes (Prasetyo & Wulandari, 2021).

This research measures tax aggressiveness by Book Tax Different (BTD). BTD is measured by calculating the difference between profit before tax and taxable profit compared to the company's total assets. The higher the BTD value, the higher the level of tax aggressiveness. Liquidity is a company's ability to pay its current liabilities when they fall due (Herlinda & Rahmawati, 2021). Liquidity reflects the availability of funds for the company to meet all matur in liabilities (Ismail & Cahyaningsih, 2020). In this research, liquidity is

measured using a quick ratio. The quick ratio is calculated by calculating the difference between current assets and inventories compared to current liabilities.

Financial distress is when the company's finances are in trouble, in crisis or unhealthy, which occurred before the company went bankrupt (Nugroho et al., 2020). In this research, financial distress is calculated using the Springate model. Firm size is an attempt to classify the size of a company (Ningrum et al., 2021). Firm size shows the size of a company which is assessed based on total assets and total sales. The greater the number of assets owned, the greater the company's size. Companies that have significant total assets show higher company operating activities. This research measures firm size using the logarithm formula of total assets.

Based on agency theory, high or low liquidity values can cause conflicts of interest between principals and agents, namely the government and companies. The government assumes that a company that has high liquidity indicates that the company's cash flow is running well, the company is in good condition and is not experiencing financial problems so that it can pay all expenses that arise, including paying its tax expenses on time, this is because the high liquidity value reflects that the current good cash and sound financial condition so that this means that the company can fulfil its current liabilities so that the government also considers that a company that can fulfil its current liabilities on time then the company must also be able to pay its tax payable following the amount that should be without the company trying to take aggressive tax actions to reduce its tax expenses. For companies, high liquidity affects the high profits earned by the company. The company will try to allocate the current period's profit to the next period to minimize its tax expenses so that the high tax expenses can be reduced because small tax expenses will reduce the amount of tax that must be paid by the company so that the company will tend to take aggressive tax actions.

Previous research that analyzes liquidity on tax aggressiveness included Allo et al. (2021) entitled *Effects of Liquidity and Company Size on Tax Aggressiveness (Empirical Study of Manufacturing Companies Registered on the IDX in 2016-2018)*. Adiputri & Erlinawati (2021), entitled *Effects of Profitability, Liquidity and Capital Intensity on Tax Aggressiveness*, and Sari & Rahayu (2020), entitled *Effect of Liquidity, Leverage, Company Size and Independent Commissioner on Tax Aggressiveness* show that liquidity has a positive effect on tax aggressiveness. While research from Herlinda & Rahmawati (2021) entitled *Effects of Profitability, Liquidity, Leverage and Company Size on Tax Aggressiveness*. Poerwati et al. (2021) entitled *Financial Ratios and Company Size as Predictors of Tax Aggressiveness (Studies of Manufacturing Companies in the Consumer Goods Subsector on the IDX)*; and Yuliantoputri & Suhaeli (2022) entitled *The Effects of Liquidity, Profitability and Corporate Social Responsibility on the Tax Aggressiveness of Food and Beverage Manufacturing Companies Listed on the IDX in 2018-2020* show that liquidity has a negative effect on tax aggressiveness.

H1: Liquidity affects tax aggressiveness

Based on agency theory, companies in financial distress will encourage agency problems because of the different objectives of investors and management. For management who know more about the actual condition of the company, taking aggressive action when the company's condition is not good (distress) aims to maintain the company's image in the eyes of the public and strive to maintain the continuity of the company's performance. So that when a company is in a state of distress, it encourages the company to reduce its expenses, one of which is reducing

the obligation to pay taxes so that companies experiencing financial distress will be associated with an increase in tax aggressiveness.

For investors, the act doing tax aggressiveness when the company is in a state of distress is a significant and risky action, so investors do not want the company to take these actions because it adds a more burden to the company with the emergence of sanctions or penalty which will burden the company's finances more if the action is known by the tax authorities so that it has an impact on the emergence of investor concerns about the high possibility of bankruptcy so that the money invested by investors in the company does not return or even disappears.

Several researchers have analyzed financial distress on tax aggressiveness, including research from Handayani & Mandiansyah (2021) entitled *The Effect of Profit Management and Financial Distress on Tax Aggressiveness in Manufacturing Companies in Indonesia* and Ayem et al. (2021) entitled *The Effect Of Profitability, Profit Management, And Financial Distress On Tax Aggressiveness (Study On Companies Listed On The Indonesia Stock Exchange, 2016-2019)* show that financial distress has a positive effect on tax aggressiveness. While research from Permata et al. (2021) entitled *The Effects of Financial Distress, Profit Management and Management Skills on Tax Aggressiveness* and Jaffar et al. (2021) entitled *Determinants of Tax Aggressiveness: Empirical Evidence from Malaysia* shows that financial distress affects negative and significant to tax aggressiveness.

H2: Financial distress affects tax aggressiveness

Based on agency theory, firm size is contrary to the government's and companies' wishes. It can be seen if the government wishes that companies, both small and large, can pay their taxes following predetermined rules for the government to assume that large companies must be able to pay their tax obligations following the rules of tax legislation. Large companies can make a significant contribution to state tax revenues because large companies must have a lot of total assets and high company productivity, which impacts the amount of profit that companies get, and the taxes imposed on these profits are also significant. Meanwhile, for companies, the bigger the company, the company can choose and have good and quality resources that can be used, of course, in terms of carrying out financial planning, one of which is doing good tax planning. The larger the company reflects, the high productivity results in high profits. Hence, the ownership of sound and quality resources certainly causes the company to be able to have careful tax planning and effective accounting practices and be able to manage activities that can minimize the tax burden it bears.

Several types of research were conducted regarding the effect of firm size on tax aggressiveness research, e.g. Ahdiyah & Triyanto (2021), entitled *Impact of Financial Distress, Firm Size, Fixed Asset Intensity, and Inventory Intensity on Tax Aggressiveness*. Then, Legowo et al. (2021), entitled *Tax Aggressiveness in Trading Companies in Indonesia: Profitability, Capital Intensity, Leverage, and Company Size*, show that firm size has a positive and significant effect on tax aggressiveness. While research from Sari & Rahayu (2020) entitled *Effects of Liquidity, Leverage, Company Size and Independent Commissioners on Tax Aggressiveness* states that liquidity has a positive effect on tax aggressiveness and Kartika & Nurhayati (2020) entitled *Liquidity, Leverage, Profitability And company size as a predictor of tax aggressiveness (Empirical Study of Manufacturing Companies in the Consumer Goods Subsector Listed on the Indonesia Stock Exchange for the 2015-2018 period)* show that firm size has a negative effect on tax aggressiveness.

H3: Firm size affects tax aggressiveness

Based on agency theory states that liquidity influences companies to take tax-aggressive actions. Companies with high liquidity tend to use their retained earnings for company operations compared to relying on loans from external parties. Large companies need more funds than small companies, so large companies rely on capital loans from external parties to finance operational activities and gain large profits. The greater the profit, the higher the liquidity, so large companies are increasingly trying to allocate profits from the current period to the next period to avoid paying high taxes (Sari & Rahayu, 2020).

Several research results regarding the effect of liquidity on tax aggressiveness through firm size, including research from (Cahyadi et al., 2020) entitled Effects of Liquidity, Leverage, Capital Intensity, and Company Size on Tax Aggressiveness show that firm size is a moderating variable of liquidity on tax aggressiveness while research from (Ramdhania & Kinasih, 2021) entitled Effects of Liquidity, Leverage, and Capital Intensity on Tax Aggressiveness With Firm Size as a Moderating Variable show that firm size is not a moderating variable of liquidity on tax aggressiveness.

H4: Effect of liquidity on tax aggressiveness through firm size

Firm size can predict whether bankruptcy occurs. A large company shows that it has significant total assets. Hence, it reflects that the company has sufficient resources to meet the needs of its operational activities and obligations in the future. With sufficient resources, large-scale companies will survive in conditions of distress. The larger the firm size, the less likely the company is in distress (Kartika & Nurhayati, 2020). However, research from (Suyanto et al., 2022) entitled Transfer Pricing, Financial Distress, Profit Management, and Tax Aggressiveness: Company Size as Moderating and (Maulana et al., 2018) entitled The Effect of Transfer Pricing, Capital Intensity and Financial Distress on Tax Aggressiveness with Firm Size as Moderating Variables which show that company size is not able to moderate the effect of financial distress on tax aggressiveness.

H5: The effect of financial distress on tax aggressiveness through firm size.

METHOD

This unit of analysis is the research object to be analyzed; it can be a person, company or organization. This study uses the unit of analysis used in the company. The population is the entire unit of analysis. This study uses the population used are State-Owned Companies (BUMN) listed on the Indonesia Stock Exchange (IDX) in 2018-2020. BUMN companies were chosen because, based on facts and phenomena that occurred, BUMN companies which are the main actors in the national economy, companies whose majority shares are owned by the government and have been trusted by the state as low-risk taxpayers based on the Minister of Finance Regulation Number 117/PMK.03/2019 Article 13 Paragraph 2 also carries out tax aggressiveness. The sample is part of the population group obtained using a sampling technique.

This study used a non-probability sampling technique with purposive sampling in obtaining samples. The purposive sampling technique was used by selecting a sample according to the established criteria. The following criteria are used to obtain research samples, including 1) State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) in 2018-2020. 2) State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange in 2018-2020, reporting financial reports during the research year. 3) State-Owned Enterprises (BUMN) companies listed on the Indonesia Stock Exchange (IDX) in 2018-2020 which have complete

data needed for research during the research year. 4) State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) for 2018-2020 using the rupiah currency unit.

The data collection technique used in this study is observation by observing and recording secondary data. The secondary data used is the annual reports of state-owned companies listed on the IDX from 2018 to 2020. Research data sources can be accessed directly from www.idx.co.id and www.idnfinancials.com. This study uses a quantitative approach because the data processed in this study is data in the form of numbers. The data is processed and analyzed using mathematical or statistical calculations. This study aims to explain the causal relationship between the independent and dependent variables. In this study, several stages of analysis were carried out, where previously, the data was tabulated with Microsoft Excel 2019 software. Then, the data was processed and analyzed using data analysis methods, namely multiple linear regression analysis and Moderated Regression Analysis (MRA) using statistical test tools, namely Statistical Program Software of Special Sciences (SPSS) version 26.

RESULT AND DISCUSSION

The research uses secondary data from annual reports of State-Owned Companies (BUMN) listed on the Indonesia Stock Exchange (IDX) for 2018-2020. Based on the criteria specified in the previous chapter, the sample selection process is seen in Table 1.

Table 1. Selection of Research Sample Criteria

No	Sample Criteria	Amount
1	State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) in 2018-2020	20
2	State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange in 2018-2020 reporting financial reports during the research year.	20
3	State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) in 2018-2020 which have complete data needed for research during the research year.	(5)
4	State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) for 2018-2020 using the rupiah currency unit.	(0)
Total Sample Companies		15
Total Total Sample (3 years)		45

Source: Data processed by Researchers (2022).

Based on Table 1 above, it shows that of the 20 State-Owned Enterprises (BUMN) companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020, there were as many as five companies that did not meet the sample criteria, while 15 other companies met the sample criteria which has been determined so that the total data used in this study is 45 data obtained from 15 sample companies with a three-year observation period.

Table 2. Descriptive Statistical Analysis

	Descriptive Statistics				
	N	Minimum	Maximum	Means	std. Deviation
Liquidity	45	10	219	100.53	49,658
<i>Financial Distress</i>	45	-1,439	2,428	.47130	.637007
<i>Firm Size</i>	45	12	33	25.27	6,192
Tax Aggressiveness	45	-.240	.266	.02853	.081677
Valid N (listwise)	45				

Source: SPSS Data Processing Results 26, 2022

Table 2 above shows that the amount of data used for each research variable is 45. Liquidity (X1) has a minimum value (min) of 10, a maximum value (max) of 219, an average value (mean) of 100.53, and a standard deviation value of 49.658. Financial distress (X2) which is has a minimum value (min) of -1.439, a maximum value (max) of 2.428, an average value (mean) of 0.47130 and a standard deviation value of 0.6377007. Firm size (X3) has a minimum value (min) of 12, a maximum value (max) of 33, an average value (mean) of 25.27 and a standard deviation value of 6.192.

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		45
Normal Parameters ^{a,b}	Means	.0000000
	std. Deviation	.01940830
Most Extreme Differences	Absolute	.124
	Positive	.072
	Negative	-.124
Test Statistics		.124
asympt. Sig. (2-tailed)		.082 ^c

a. Test distribution is Normal; b. Calculated from data; c. Lilliefors Significance Correction.

Source: SPSS Data Processing Results 26, 2022

Based on Table 3, the normality test results can be seen in the *Asymp. Sig. (2-tailed)* of 0,082. This value indicates that the *Asymp. Sig. (2-tailed)* is greater than *the significance level* (by 0,05 then the data is usually distributed..

Table 4. Multicollinearity Test Results

Model		Coefficients ^a		Standardized Coefficients Betas	Q	Sig.	Collinearity Statistics	
		Unstandardized Coefficients	std. Error				tolerance	VIF
		B						
1	(Constant)	.022	.016		1,374	.177		
	Liquidity	.000	.000	-.212	-3,444	.001	.363	2,758
	Financial Distress	.138	.009	1,077	15,192	.000	.274	3,648
	Firm Size	-.001	.001	-.071	-1,475	.148	.601	1,664

a. Dependent Variable: Tax Aggressiveness

Source: SPSS Data Processing Results 26, 2022

Based on Table 4. above, it can be seen that liquidity (X1) has a VIF value of 2.578, less than ten and a tolerance value of 0.363 greater than 0.10. Financial distress (X2) has a VIF value of 3.648, less than ten and a tolerance value of 0.274 greater than 0.10. Firm size (X3) has a VIF value of 1.664, less than ten and a tolerance value of 0.601 greater than 0.10. It can be concluded that of the three research variables used in the study, the data does not occur in multicollinearity.

Table 5. Heteroscedasticity Test Results

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	std. Error	Betas		
1	(Constant)	.005	.009		.548	.587
	Liquidity	-8.115E-5	.000	.352	-1,440	.157
	Financial Distress	.005	.005	.277	.986	.330
	Firm Size	.001	.000	.352	1,851	.071

a. Dependent Variable: Abs_RES

Source: SPSS Data Processing Results 26, 2022

Based on Table 5, it can be seen that liquidity (X1) has a significance value of 0.230 which is greater than the level of significance of 0.05. Financial distress (X2) has a significance value of 0.046, more significant than the significance level of 0.05. Firm size (X3) has a significance value of 0.071, more significant than the significance level of 0.05. It can be concluded that of the three research variables used in the study, it was said that the data did not occur of heteroscedasticity.

Table 6. Autocorrelation Test Results

Summary Model ^b					
Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.971 ^a	.944	.939	.020106	2,121

a. Predictors: (Constant), Firm Size , Liquidity , Financial Distress

b. Dependent Variable: Tax Aggressiveness

Source: SPSS Data Processing Results 26, 2022

Based on Table 6 shows that the Durbin-Watson value is 2.121. With the amount of data (n) = 45 and the number of independent variables (k) = 3, the dU value is 1.6662, and the dL is 1.3832. So that 2.338 is obtained $4 - dU = 4 - 1.6662$. From the calculation obtained dU d $4 - dU$ or 1, 6662 2,121 2,338, it can be concluded that the Durbin-Watson value is the area where it does not occur of autocorrelation.

Table 7. Multiple Linear Regression Analysis Test Results

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	.022	.016		1,374	.177
	Liquidity	.000	.000	-.212	-3,444	.001
	Financial Distress	.138	.009	1,077	15,192	.000
	Firm Size	-.001	.001	-.071	-1,475	.148

Dependent Variable: Tax Aggressiveness

Source: SPSS Data Processing Results 26, 2022

Based on Table 7, the multiple linear regression equation can be formulated as follows:

$$Y = \alpha + \beta_1.X_1 + \beta_2.X_2 + \beta_3.X_3 + e$$

$$Y = 0,022 + 0,000.X1 + 0,138.X2 - 0,001.X3 + e$$

So based on the regression test above, it can be explained as follows: 1) a constant value of 0.022 means that if liquidity, *financial distress* and *firm size* are stable or have a value of 0, then the average (*mean*) level of tax aggressiveness is 0.022. 2) The regression coefficient value for liquidity (X1) is 0.000. It shows that the tax aggressiveness has increased by 0.000 for every one-time increase. 3) The regression coefficient value for *financial distress* (X2) is 0.138. It shows that tax aggressiveness has increased by 0.138 for every one-time increase. 4) The regression coefficient value for *firm size* (X3) is -0.001. It shows that tax aggressiveness has decreased by 0.001 for every one-time increase.

Table 8. Moderated Regression Analysis (MRA) Test Results

Model		Coefficients ^a			Q	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	std. Error	Betas		
1	(Constant)	.067	.028		2,410	.021
	Liquidity	-.001	.000	-.579	-3,050	.004
	<i>Financial Distress</i>	.161	.024	1,252	6,616	.000
	<i>Firm Size</i>	-.003	.001	-.221	-2,518	.016
	<i>Liquidity*Firm Size</i>	2.605E-5	.000	.413	2030	.049
	<i>Financial Distress*Firm Size</i>	-.001	.001	-.172	-1,014	.317

a. Dependent Variable: Tax Aggressiveness

Source: SPSS Data Processing Results 26, (2022)

Based on Table 8 it can be seen that the MRA equation can be formulated as follows:

$$Y = \alpha + \beta_1.X1 + \beta_2.X2 + \beta_3.X3 + \beta_3.X1.X3 + \beta_4.X2.X3 + e$$

$$Y = 0.067 - 0.001.X1 + 0.161.X2 - 0.003.X3 + 2.605E-5.X1.X3 - 0.001.X2.X3 + e$$

MRA test above it can be explained as follow: 1) regression coefficient value for liquidity* *firm size* (X1*X3) of 2.605E-5. It shows that tax aggressiveness has increased by 2.605E-5 for every one-time increase. 2) regression coefficient value for *financial distress* * *firm size* (X2*X3) of -0.001. It shows that tax aggressiveness has decreased by 0.001 for every one-time increase.

Hypothesis testing

Statistical Test Results t

T_{table} calculated from = 0.05 and df = nk-1, where N is the number of respondents and K is the number of research variables. The number of data samples is 45, so t_{table} can be calculated as follows T_{table} = t (0 .05 / 2; n - k - 1) = t (0.025; 45 - 3 - 1) = t (0.025; 41) = 2.020

Based on Table 7, the liquidity variable (X1) has a t count of -3.444 greater than the t table of -2.020, and a significance level of 0.001 is less than a significance of 0.05 which means H1 is accepted. The variable *financial distress* (X2) has a t count of 15.192, which is greater than the t table of 2.020, and a significance level of 0.000 is less than a significance of 0.05 which means H2 is accepted. The *firm size variable* (X3) has a t count of -1.475, which is smaller than the t table of -2.020, and a significance level of 0.148 is more significant than a

significance of 0.05, meaning H3 is not accepted. Then, based on Table 4.8, the variable liquidity* *firm size* (X1*X3) has a t count of 2.030, which is greater than the t table of 2.020 and a significance level of 0.049 is less than a significance of 0.05, meaning H4 is accepted. The variable *financial distress***firm size* (X2*X3) has a t count of -1.014, which is smaller than t table -2.020, and a significance level of 0.317 is more significant than a significance of 0.05, meaning H5 is not accepted.

The Effect of Liquidity on Tax Aggressiveness

A company with a high liquidity value indicates that the company has sufficient sources of funds to pay its current liabilities because the proportion of total current assets owned by the company is more significant than its current liabilities, so the company is considered to have no difficulty in paying its current liabilities on time. Companies with high liquidity reflect that the company's cash flow is good. Good cash flow reflects that the company is in excellent and healthy condition so that it can pay its current liabilities on time and follow the amount of tax to be paid. In addition, good cash flow shows that the company's operational activities are increasingly complex. The more complex the company's operational activities, the higher the operational expenses incurred by the company. The higher expenses incurred by the company will cause the small profit earned. The smaller the profit earned by the company, the smaller the tax burden borne by the company. Therefore, companies with high liquidity will trigger companies to tend to reduce tax aggressiveness.

Based on the results of this research support the agency theory, which says that companies that have high liquidity can fulfil their current liabilities on time, so the government hopes that companies can also pay their taxes on time because companies that have high liquidity show that the company's cash flows are good so that with this conditions the company tends to reduce aggressive action on its taxes because the government assumes that companies are in good condition and are certainly able to pay their taxes on time. The results of this research are the same as do by (Herlinda & Rahmawati, 2021); (Poerwati et al., 2021); (A. Hidayati et al., 2022); (Yuliantoputri & Suhaeli, 2022); and (Indriani et al., 2022) shows that liquidity has a negative and significant effect on tax aggressiveness. However, this research is not identical to do of Allo et al. (2021); Adiputri & Erlinawati (2021); Sari & Rahayu (2020); Stiawan & Sanulika (2021) and Apriliana (2022) shows that liquidity has a positive and significant effect on tax aggressiveness and Purba & Kuncahyo (2020); Hurrohma & Ardiana (2021); Amalia (2021); Nurdiana et al. (2020); and Ramdhan & Kinasih (2021) shows the results that liquidity does not affect tax aggressiveness

The Effect of Financial Distress on Tax Aggressiveness

Based on the results of this study support the agency theory said that companies that are in a state of *distress* would trigger company management to seek solutions to overcome financial problems to maintain business continuity so as not to go bankrupt or liquidate; the actions taken by the management are to do tax aggressiveness when *distress* occurs because of the agreement with the investor. Companies in *financial distress* are characterized by a variety of problems they face, including facing problems related to the increasing cost of the company's capital, the income earned by the company continuing to decline, the company's credit rating decreases so that it is difficult for the company to access sources of funds to obtain additional funds so that it impacts the company's inability to pay all its obligations. Therefore, if there is a high tax expense, the company will feel the burden will be more significant. In addition, companies that are in a state of *distress* raise concerns about the possibility of the company

going bankrupt because if the company goes bankrupt, it will have an impact on the loss of investors' money invested in the company, so management will try to keep the company getting a good image from the public, and the company still shows good financial performance. Either one is to take tax planning actions by engineering taxable profits so that profits look good in the eyes of investors and that investors do not feel worried about the funds that have been invested in the company.

Based on the theory, the lower the value of *financial distress*, it indicates that the company is in a state of *distress* or unhealthy. The more a company is in a state of *financial distress*, the more the company will tend to act aggressively towards taxes to reduce the obligation to pay taxes. The results of this research are also the same as research conducted by Handayani & Mandiansyah (2021); Nugroho et al. (2020); Qalbi & Asmara (2022); (Ayem et al., 2021) state that *financial distress* has a positive effect on tax aggressiveness. The more companies that are distressed or unhealthy, the more aggressively the company will act towards taxes to reduce the obligation to pay taxes. However, this research is different from research conducted by Permata et al. (2021), Pratiwi et al. (2021) and Hermawan & Aryati (2022). It shows that *financial distress* negatively and significantly affects tax aggressiveness. Ahdiyah & Triyanto (2021); Kartika (2022); Octaviani & Sofie (2019); and Djohar & Angelina (2022) show the results of research that *financial distress* does not affect tax aggressiveness.

The Effect of Firm Size on Tax Aggressiveness

Firm size is used to determine the activity of a company. If the *firm size* is large, it indicates that the more activities the company carries out, the more profit it generates. So the tax burden to be paid is also significant. Large-scale companies will report the condition of their financial statements more accurately because they will receive special government attention so that large companies have little opportunity to manipulate their taxable profits. In addition, the company's scale also determines the size of the assets owned by the company. Large-scale companies have significant assets as well. The existence of assets owned by the company then creates a depreciation expense on these assets. The more assets, the greater the depreciation expense on the assets owned by the company. So that the depreciation expense causes *firm size* not to affect the company to carry out tax aggressiveness because the depreciation expense is used as a deduction from the profit earned by the company without the company having to take tax aggressiveness. The results of this study are in line with research conducted by Herlinda & Rahmawati (2021); Ramdhaniana & Kinasih (2021); Qalbi & Asmara (2022), and Cahyadi et al. (2020).

However, the results of this study do not support agency theory, which states that large companies certainly have a high level of asset intensity. With significant resources owned by the company, the company can use it to minimize its tax burden. However, with the increasing size of the company, which the assets owned by the company show, the company will receive more special attention from the tax authorities or investors. In addition, large companies will use practitioners who have a better understanding of tax regulations to look for accounting techniques that tend to reduce the profits earned by companies. Company management will choose accounting methods that can reduce current profits to future periods to reduce the political costs they must bear. Because the more significant the political costs of a company, the more likely it is for company managers to choose accounting methods that reduce current benefits to future periods. The results of this study are not identical to research by Allo et al. (2021), Ahdiyah & Triyanto (2021), and Ningrum et al. (2021), which state that *firm size* has a positive effect on tax aggressiveness and is not line with research conducted by Sari & Rahayu

(2020); Poerwati et al. (2021); and Kartika & Nurhayati (2020) show that *firm size* has a negative effect on tax aggressiveness.

The Effect of Liquidity on Tax Aggressiveness through Firm Size

The company's size can be shown by the number of assets owned by the company and the number of sales made, which affects the company's profit. Significant assets and high sales levels can affect the cash and receivables owned by the company, which can affect the company's cash flow. The high level of liquidity indicates that the company's cash flow is going well. Large companies tend to have a high level of liquidity, reflecting that the company can fulfil all of its obligations, including paying taxes.

In addition, the high liquidity value will affect the company's high profit. The amount of profit shows that the company is doing many activities that can lead to increased profits. Companies that are categorized on a large scale can be seen from their high liquidity and high profits, so large companies will reduce their aggressive actions towards taxes because large companies are considered solid and able to fulfil their obligations, including paying taxes, so tax aggressiveness tends to decrease. Efforts to reduce tax aggressiveness by companies are also shown to maintain a good image of companies in the public eye, and large companies also have the resources to carry out good tax planning by reducing tax aggressiveness.

The results of this study are the same as research conducted by (Cahyadi et al., 2020) and (Khoirunnisa & Asih, 2021) show that *firm size can* moderate the influence between liquidity and tax aggressiveness. However, this research is different from research conducted by (Ramdhanisa & Kinasih, 2021) and (Hanifah, 2021), which state that *firm size* cannot moderate the effect of liquidity on tax aggressiveness. The company's size is associated with the amount of liabilities owned by the company. Tax is a company's short-term obligations that must be paid on time. The bigger a company, the more it prefers to finance using its operational resources and will comply more with its tax obligations.

The Effect of Financial Distress on Tax Aggressiveness through Firm Size

Firm size cannot moderate the effect of *financial distress* on tax aggressiveness. It shows that companies that have been established or developing for a long time do not rule out the possibility of experiencing *distress*. However, many companies have been relatively small for a long time and still survive because they have many partners and a high level of trust from financial institutions. In addition, large companies with significant profits will be in line with high-interest rates, so *the firm size* cannot be used to indicate whether the company is in a state of *financial distress*. This study's results differ from the research of Kartika & Nurhayati (2020), which states that *firm size* can moderate *financial distress* on tax aggressiveness. Many assets indicate that the company will find it easier to pay off its obligations. Companies with a large size are considered more capable of dealing with *financial distress*. The company's characteristics will also influence management's views. Therefore, the larger the *firm size*, the less likely the company will be entangled in *distress*.

CONCLUSION

The research conclusions are: 1) Liquidity has a negative and significant effect on tax aggressiveness. 2) Financial distress has a positive and significant effect on tax aggressiveness. 3) Firm size does not affect tax aggressiveness. 4) Firm size can moderate the effect of liquidity on tax aggressiveness. 5) Firm size cannot moderate the effect of financial distress on tax aggressiveness. Based on the discussion and research results, the suggestions that can be given by research are as follows: 1) Recommendations for further researchers based on research results are to add other variables to assess tax aggressiveness, use other proxies on liquidity,

financial distress and firm size and add research samples and years of observation. 2) For the company, maintaining liquidity in good condition cause good liquidity and prevents the company from liquidity difficulties. Liquidity difficulties are conditions where a company cannot pay off all its current liabilities on time, including paid taxes. The company also know the good or bad condition of the company's finance in to avoid the risk of bankruptcy. This action aims to enable the company to identify from the beginning what is the cause of the company's distress. 3) For investors, be more careful with companies that always carry out tax aggressiveness because it is very risky for investors. 4) The government must be able to act decisively and provide more supervision to companies that are always tax aggressive.

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The Role of the National Board of Zakat in Improving the Community's Economy

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ABSTRACT

People's welfare is one aspect that must be considered by every country with various policies, but it still cannot be implemented properly and effectively. Zakat management institutions such as the National Board of Zakat (Baznas) optimize zakat funds to minimize poverty and improve the community's economy. In this case, Islam has obligated Muslims to pay Zakat to achieve prosperity. The purpose of this study is to discuss the role of Zakat in improving the community's economy. This research method uses descriptive qualitative based on previous literature. The results of this study indicate that the role of the National Board of Zakat (Baznas) has been carried out optimally, starting from the collection process to the distribution of the community by looking at results.

Keywords: Islamic public finance, Zakat, economy, Baznas.

INTRODUCTION

Indonesia has the world's largest Muslim population (2022), looking at the total population data equivalent to 86.7 per cent of the total population. In Islam, we are familiar with public financial instruments that protect strategic assets that can be utilized by society at large for the common welfare. *Zakat* has a great history in Islam. In the past, the golden age of Islam could be achieved by fulfilling these Sharia instruments. These instruments must be revived to respond to global economic challenges because some Muslim countries only focus on conventional instruments

In general, when talking about public finance in Islam, it indirectly talks about how a country can manage public finances in terms of receipts and expenditures adequately and appropriately. In this case, one of the instruments that the state can manage is called *Zakat*. *Zakat* is a public financial potential owned by Muslims and a form of the importance of public participation in improving people's welfare (Zauro et al., 2020). With public participation, alleviating poverty and equitably distributing economic welfare becomes easier and relatively lighter (Dewa & Fitriani, 2021).

The National Board of *Zakat* (Baznas) is a forum for managing *Zakat* in Indonesia, which is entirely under the auspices of the government, from the central government to regional governments. Meanwhile, the *Amil Zakat* Institution (LAZ) is an *Amil Zakat* institution managed by the community, private sector, or social and religious

organizations that are given legality by a constitutional court decision. In Islamic public finance, two categories of instruments are used as a source of state revenue. The first is a mandatory public financial instrument, namely *Zakat*. Second, instruments that are voluntary, namely *Infaq*, *Alms*, and *Waqf* (Aulia et al., 2022). In order to build a *Zakat* - based poverty alleviation and community welfare system, there needs to be cooperation between one party and another to maximize the role of *Zakat*.

The state is one of the highest authorities in formulating a policy (Nafi'ah et al., 2021). Government policies that directly influence the climate of community activities are policies in the economic sector, so the most crucial policy contained in government authority is fiscal policy. In this case, the state regulates economic activity so that financial stability is maintained correctly because this will indirectly relate to people's welfare.

Indonesia is a relatively large country, which consists of several provinces in it and has an area of around 1.905 million km (BPS, 2021). According to data from the Central Statistics Agency (BPS) for 2020, Indonesia's population reached 269.603 million, with 135.337 males and 134.266 females (BPS, 2020). Meanwhile, 27.55 million (10.19%) residents were classified as poor in 2020 and are still unemployed (BPS, 2021). It is feared that the low level of economic welfare will hurt them.

In this case, the role of Baznas is needed to create the feasibility of life for all humanity. Among them, one of the institutions that can reduce poverty is Baznas. People who are unable (poor) must be empowered by providing capital or training or providing jobs so they can develop their talents and also be able to improve their standard of living. Several programs in the National *Zakat Amil* Institute consist of Word *Zakat* Forums, village empowering sacrifices, Ramadan, economic, social, and da'wah (Baznas, 2022). In the economic program, there are four criteria, one of which is community economic empowerment. If you look at the community's poverty level, the Baznas institution still needs to be more optimal, and some people still need help meeting their daily needs.

Therefore, Baznas becomes a forum in an area capable of solving social and economic problems. Besides that, it can also minimize poverty, social inequality, inequality, unemployment, and economic income. However, this depends on how to be optimal in collecting it so that it can make a significant contribution to solving economic problems and richly reducing social inequalities in society can provide sustenance to the less fortunate so that welfare in society can be created and economic inequality can also be reduced.

METHOD

This research is research that relies on library data. So this type of research is library research based on a qualitative scientific framework. This research was conducted by collecting data and information using various kinds of material assistance such as literature, books, and journals related to the problem to be solved. This activity is carried out systematically, namely by collecting, processing, and concluding data using the

deductive method to analyze the rationality concept of the role of *Zakat* in general, then examining the issues that apply specifically to arrive at specific conclusions, namely knowing the role of *Zakat* as an instrument Islamic public finance in improving the community's economy.

This research was conducted by collecting data or scientific writing with the object of research or collecting data of a literary nature. This study selects topics, explores information, determines the research focus, collects data sources, and analyzes it using content-analysis techniques qualitatively. The data sources used in this study are books, research journal articles, websites, and other sources of information that are trusted and related to the role of Baznas Institutions in improving the community's economy. Therefore, the data that has been collected is analyzed using descriptive qualitative analysis methods.

RESULT AND DISCUSSION

***Zakat* Management System in Indonesia**

Zakat activity at the time of Rasulullah SAW was one of the activities that had to be carried out by Muslims. Activities, in this case, make one form of benchmark of one's faith in building religion and can also improve the economic conditions of the people according to what is prescribed in Islamic teachings. However, during the Rashidun Khulafaur period, *Zakat* played a significant role as one of the primary forms of income in a country. Also, it became a benchmark in the financial aspect, which had the goal of being able to fix universal problems in the economic field so that if *Zakat* were not carried out as an obligation, it would be subject to a fine of 50 per cent (Purbasari, 2015). Therefore, fines are imposed on every Muslim who does not issue *Zakat* on his wealth or possessions. So, in this case, it can be seen that *Zakat* has a significant role for the benefit of Muslims.

The instrument of *Zakat* in the Islamic economy can influence the behaviour of individual Muslims and build the economy of the people. At the beginning of Islamic history, *Zakat* had the most significant role as a source of state revenue compared to other incomes such as *kharaj*, *jizyah*, *ghanimah*, and *fa'i*. If *Zakat* is managed efficiently and effectively, it will certainly provide extraordinary benefits for people unable to meet their daily needs. In this case, *Zakat* has succeeded in becoming an instrument that can release Muslims from poverty and make a solution for equity in the economy of people classified as poor and can encourage the development of the people's economy.

In Indonesia, the primary income comes from paying taxes (Muttaqin & Matin, 2022). In this case, Indonesia also applies the obligation of *Zakat* through the *Zakat* Management Law. *Zakat* is an obligation for Muslims, in which Muslims are obliged to issue their wealth to those entitled to receive *Zakat* by Islamic provisions (Sahroni et al., 2018). As for the provision of assets that must be issued *Zakats*, such as money, silver,

gold, and securities, as well as the income of someone who has reached the nisab limit (Qardhawi 2011).

Zakat management in Indonesia has been regulated in Law Number 2 of 2011. *Zakat* management is carried out by the National Board of *Zakat* (Baznas), *Amil Zakat* Institutions (LAZ), and other *Zakat* Management Organizations (OPZ). BAZNAS is one of the official bodies and the only one formed by the government and has the function and duty to collect and distribute *Zakat*, *Infaq*, and *Alms* funds (ZIS) at the national level. At the same time, LAZ is an institution that plays a role in managing *Zakat*. It is formed by its legal entity or community thinking, which was inaugurated by the government (Baznas, 2022). Therefore, the existence of a *Zakat* institution is expected to be able to implement *Zakat* management by the provisions in the legislation whose formation is based on each region, such as sub-districts, districts/cities, and provinces.

Seeing these conditions, it cannot be denied that establishing a *Zakat* management institution is very important because most of Indonesia's population is predominantly Muslim, so it has enormous potential. In this case, even though most of Indonesia's population is Muslim, some are still minimally aware of paying *Zakat*. One of the reasons for the low collection of *Zakat* in Indonesia is the low level of public literacy regarding professional *Zakat* management. It is evidenced by a study conducted by Baznas in 2020, which shows that some still need to understand and understand the importance of making *Zakat* payments in official institutions.

According to Hafidhuddin (2006), campaigns and outreach about *Zakat* can get positive results on public awareness to give *Zakat*, which has implications for increasing the level of *Zakat* collection. The results of research conducted by Mukhlis & Beik (2013) found the importance of continuous socialization and public education about the concept of *Zakat* because these two things are one of the factors that can influence a person's interest in paying *Zakat* through the *Amil Zakat* Institution.

Meanwhile, according to Istikhomah & Asrori (2019), *Zakat* literacy positively and significantly influences *Muzaki*'s interest in donating to *Zakat* institutions. Therefore, the strategy that can be implemented to increase the collection of *Zakat* funds is increasing the public. *Zakat* management institutions can carry out these efforts through education, socialization, and *Zakat* campaigns to build a brand image and brand awareness regarding *Zakat*. In the internal aspect of *Zakat* management, the capacity and professionalism of human resources (HR) or *Amil* and a robust governance system for *Zakat* institutions is one of the keys to success for *Zakat* institutions in convincing the public, especially *Muzaki*, to distribute their *Zakat*. Therefore, with this reality, all *Zakat* management institutions must be able to carry out their duties and functions as *Amil Zakat* institutions, namely by carrying out their responsibilities to be able to oversee the management of *Zakat*, which is based on Islamic law, trustworthiness, benefit, legal certainty, accountability and integration.

Based on data obtained from the results of a survey on the performance of *Zakat* management through measurement of the 2020 National *Zakat* Index, there are 4547 *Amil*

human resources in Indonesian *Zakat* institutions, of which *Amil* fills 32 per cent at the leadership level, and other 68 per cent are *Amil* at the executive level. As for the context of the *Amil* profession, there is 731 *Amil*, 16 per cent of 4557 *Amil*, of which 84 per cent of *Amil* in Indonesia have not yet received certification, so the level of *Amil* participation in the certification process in Indonesia is relatively low (Baznas, 2021).

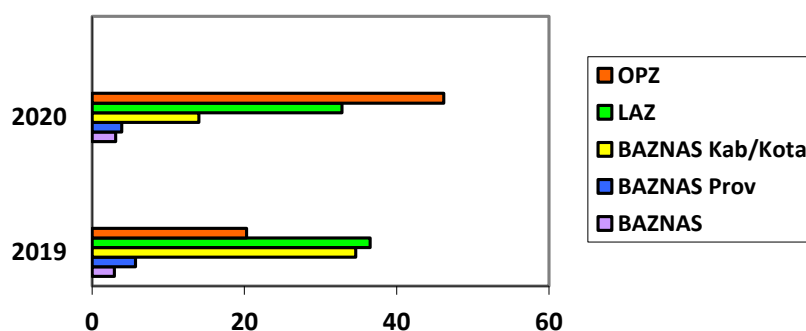
Then form a quality institution that should be able to manage *Zakat* efficiently or effectively. In the *Zakat* distribution program, it must be able to touch the *Mustahiq* and have a practical value for the *Mustahiq*. *Zakat* management institutions must also be responsive to the needs of *Mustahiq*, *Muzaki*, and the natural surroundings. It can encourage *Amil Zakat* to be proactive, anticipatory, creative, and innovative so that they are not only passive and reactive to social phenomena that occur. The forms of *Zakat* management in Indonesia are as follows..

Collection of National *Zakat* Funds

In this case, the government does not collect *Zakat* but only functions as a coordinator, motivator, regulator, and facilitator in managing *Zakat*. *Zakat* collection is carried out by *Amil Zakat* bodies formed by the government and *Amil Zakat* institutions formed by the community and confirmed by the government. As for the scope of authority in collecting *Zakat* at the *Amil Zakat* agency in its operations, each is independent, autonomous, and adapts to its level of authority.

Zakat collection can also be done through direct submission to the *Amil Zakat* Agency through *Zakat* collection units, *Zakat* counters, banks, salary deduction posts, and *Zakat* payments which can reduce taxable income. Procedures for collecting, utilizing, and distributing *Zakat* by determining the collection formula previously archived and agreed upon by the Agency. In collecting *Zakat*, the *Amil Zakat* institution opens an account at a bank to make it easy to access. The following is the level of development of the collection of national *Zakat* funds in the 2019-2020 period based on the type of OPZ. (Baznas, 2022)

Figure 1. Collection of National ZIS based on OPZ Type



Source: Baznas (2021)

The data collected by the OPZ above includes *Zakat* funds, including *Zakat fitrah* and *Zakat mal*. *Zakat mal* is divided into *Zakat mal income* and *Zakat mal agency*. The next type of fund is an *Infaq* or *Alms* fund divided based on *Infaq* or *Alms* directly or indirectly. Based on data processed by Baznas, the number of national collections has increased significantly every year. Increased awareness in the community regarding paying *Zakat* can provide a positive signal for all OPZs in Indonesia to maximize their function and role in grounding *Zakat* in Indonesia.

The collection of *Zakat* funds has several stages (Baznas, 2021). The first is, Perform donor profile analysis. In collecting *Zakat*, *Zakat* institutions must first know the donor's background by providing a *Muzaki* registration form. After that, the donor data is given to the central Baznas as a form of the Institution's database, which aims to provide reports on *Zakat* funds that have been distributed or information on activities related to *Muzaki*.

The second is, Promote and socialize. In collecting *Zakat*, Baznas needs to carry out promotions or outreach to the whole community about the importance of giving *Zakat*. It is done by the fundraising method, namely by promoting or socializing using electronic media such as placing advertisements on radio, television, and any mass media. Apart from that, remember to hold webinars to establish friendships with companies or other agencies.

Next, the third is Service access on transactions. In collecting *Zakat* funds, a transaction tool can be used when paying *Zakat*. Transaction service techniques can be done in cash or non-cash. Non-cash transactions can be done using an ATM or mobile banking with *Zakat* payment facilities, *Zakat* pick-ups, and the *Muzaki* Corner application. Meanwhile, *Zakat* payments in cash can be made by visiting the Baznas office directly.

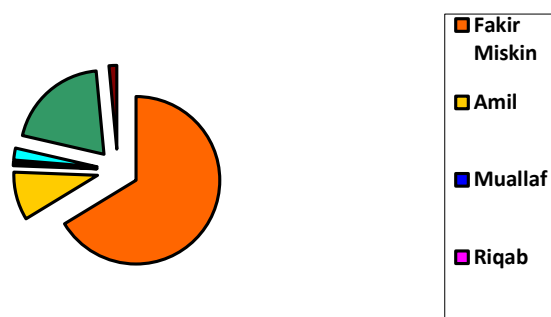
The fourth is to Maintain service to donors. In collecting *Zakat* funds, there is a strategy for providing services to donors. Services to donors can be carried out by providing monthly reports in magazines that remind donors to take leave every month. However, there is a potential service for donors, namely by conducting hospitality and inviting donors to attend various events or activities organized by Baznas.

Distribution of National *Zakat* Funds

At each *Amil Zakat* institution, after collecting *Zakat*, the *Zakat* funds that have been collected must be distributed to those who are entitled to receive them by the provisions of Islamic law. According to Wahyu and Anwar (2020), the distribution of *Zakat* funds to *Mustahiq* has three characteristics, including the following. The first is a grant (gift) in nature and considers the priority scale of the needs of *Mustahiq* in their respective regions. Next is assistance in nature, namely helping *Mustahiq* reduce or solve urgent problems. In the end, Empowerment in nature, namely helping *Mustahiq* improve their welfare, both individually and in groups through related programs, provides more opportunities to the community.

Several reasons emphasize that the Distribution of *Zakat* must be done by guaranteeing compliance with payments, eliminating the awkwardness and feeling of discomfort or awkwardness that *Mustahiq* may experience when dealing directly with *Muzaki* (those who give *Zakat*). Then according to Iqbal et al. (2019), there are two strategies for distributing *Zakat* funds to *Mustahiq* including namely. First is Alms distribution directly. The direct Distribution of *Zakat* is done to *Mustahiq* or by visiting the Baznas office. The second is the Distribution of *Zakat* indirectly. This indirect *Zakat* distribution is carried out by institutions or partners who are handed over to one of the local *Zakat* distribution units or can be submitted to LAZ.

Figure 2. Distribution of National *Zakat* Funds Based on Asnaf

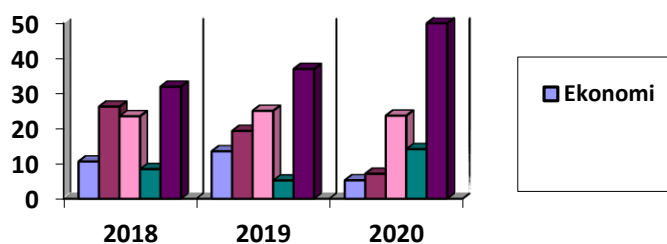


Source: Baznas (2022)

In the distribution of *Zakat* funds, eight groups are entitled to receive *Zakat* funds, namely, the poor, the poor, *Amil Zakat*, Muallaf (people who have just converted to Islam), Riqab (enslaved people), Gharimin (people who are in debt), Fi Sabilillah (people who are new to Islam and Who plays a role in the way of Allah), and Ibn Sabil (people who are on their way). The following is the distribution of *Zakat* funds based on asnaf in 2019. The most dominant distribution of *Zakat* in the picture above is first to people experiencing poverty (66.3%), Fi Sabilillah (19.9%), *Amil* (9.3%), Gharimin (2.3%), Ibn Sabil (1.5%), Muallaf (0.6%), and Riqab (0.1%) (Baznas, 2022).. Looking at the data on the distribution of *Zakat* funds that Baznas have distributed, it can be said that Baznas have a role in improving the economy and people's welfare.

Thus, according to research conducted by Nine et al., in his research, he obtained results that *Zakat* has a significant role, so when *Zakat* funds are distributed to beneficiaries or *Mustahiq*, they can feel the benefits so that they can become even more active and arouse interest in the business (Yoelanti, 2020). The distribution program covers several fields at once (Baznas, 2021).

Figure 3. Based on Distribution Field



Source: Baznas (2022)

As for those included in the distribution sector, namely education, da'wah, health, and social humanity, what is included in the utility sector is a distribution for economic activities. In the figure, the distribution in the economic sector is given as a form of economic development for people experiencing poverty. In this case, there are three events, including the provision of working capital, the provision of financing by BMT under the auspices of Baznas, and the provision of work facilities. Distribution in the education sector is provided through a scholarship program for underprivileged students, starting from the elementary level to tertiary institutions, and this assistance is in collaboration with a foundation or other institution. As for distribution in the field of da'wah is a program in the field of improving the quality of human resources through training and collaboration with other institutions such as building da'wah mosques, fostering campus or school *da'wah*, and fostering community *da'wah*.

The distribution in the health sector is a form of activity providing free health to the community, providing guidance related to health, and providing assistance with hospital fees. In this service, mobile health units use Baznas ambulances to visit each area, which is carried out every month. As for the distribution in the social and humanitarian field, this is one of the programs that can help people whom a disaster or disaster has hit. This distribution is in the form of basic needs such as groceries, medicines, clothing, and others.

Thus according to research conducted by Pratama related to the role of *Zakat*, the result is that productive *Zakat* in community empowerment is less than optimal for beneficiaries or Mustahik because the *Zakat* funds obtained can be used as working capital for businesses where the business is included in the lower middle/small category and is not covered by financial institutions/banks (Pratama, 2015).

The Role of *Zakat* in Community Economic Empowerment

In Indonesia, Islam spreads in various regions or remote villages. In this case, there are some Muslims who live in cities with easy livelihoods and even with relatively large incomes. While some also live in villages with very few job opportunities, most are farmers or factory workers. By seeing conditions like this, it is usually caused by several factors, including first, the population is increasing, while the agricultural sector has not.

Second, many farmers still need help managing their land because of high production costs. Third, in Indonesia, there are still farmers who still need to receive capital loans and are even having difficulties applying for financing or credit from

financial institutions. Thus all of that will have an impact, especially on the world of education, because of inadequate costs.

Of the several issues above, what is needed is the role of Sharia in the impact of existing poverty. The practice of channelling national *Zakat* funds by OPZ goes according to Allah's commands in the Qur'an Surat At-Taubah verse 60. The following is a table of the realization of *Zakat* funds distributed by type of OPZ. (Baznas, 2021)

Table 1. Distribution of National *Zakat* Funds by Type of OPZ

OPZ Rate	Collection 2019	Distribution	Collection 2020	Distribution
Baznas	296.234.308.349	270.716.950.765	385.126.583.224	357.673.073.6626
Baznas	583.919.722.674	481.796.534.289	489.538.808.289	444.926.604.298
Provinsi				
Baznas	3.539.980.546.674	2.586.872.888.351	1.735.824.169.041	1.590.768.396.569
Kab/Kota				
LAZ	3.728.943.985.109	3.519.873.720.039	4.077.297.116.443	3.527.539.299.233
OPZ	2.078.865.243.749	1.828.961.140.910	5.741.459.770.472	5.609.737.828.531
Total	10.227.943.806.555	8.688.221.234.354	12.429.246.447.469	11.530.645.166.257

Source: Baznas (2021)

Looking at the table above, the National *Amil Zakat* Institution has accumulated that the collection of *Zakat* funds is IDR12.4 trillion in 2020 or increased income from achieving *Zakat* funds in 2019. The central Baznas collection reached IDR385 billion in 2020, and 357 billion was disbursed.

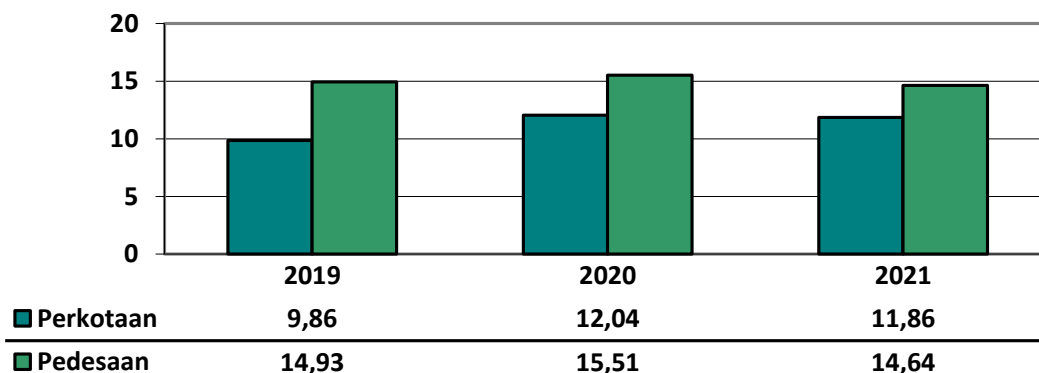
The total collection of Baznas in 2020 is estimated to reach IDR12.5 trillion from the projected Rp. 11 trillion. Central Baznas distributes 91.74% and helps *Mustahiq* 755,539 people. In this case, Baznas also carries out programs or services designed and realized to create six financial institutions. Therefore, the role of Baznas can be seen from the data of the past few years, which is better and more effective in terms of collection and distribution. In addition, the benefits are felt by the *Mustahiq*, not only for consumption but to be empowered so that the goal can be prosperous and can change conditions or circumstances or even hope to become a *Muzaki*.

In research conducted by Nine et al. (2020) in Tasikmalaya Regency itself, 1,230 staple foods were distributed during the Covid-19 pandemic, which was distributed to beneficiaries in several circles, such as; traders who stopped because of school holidays, teachers of the Koran and honorary teachers according to the recommendations of UPZ, large mosques from each sub-district, pedicab drivers and others.

Therefore, *Zakat* plays a significant role, especially in improving people's welfare and overcoming poverty, fostering social awareness, and eliminating economic disparities in society as a strategy for the economic development of people with great potential. *Zakat* is sharia and an Islamic economic system that can deal directly with people's lives. *Zakat* is considered the most prominent feature of the Islamic economic

system in community empowerment (Zauro et al., 2020). In practice, *Zakat* is a mandatory alms of 2.5 per cent which must be issued to the less fortunate. Thus it will be beneficial for community empowerment. The picture below shows that when *Zakat* is not managed correctly, the number of poor people by region will continue to fluctuate because *Zakat* has significant potential and an excellent role in improving the community's economy.

Figure 4. Number of Poor Population by Region



Source: Baznas (2022)

From the picture above, it can be understood that *Zakat* plays an essential role in increasing access to finance and reducing poverty rates, as well as being able to promote socio-economics among the Muslim community. It is considered an Islamic financial instrument that can encourage the circulation of capital in an economy. In the opinion of the scholars, the primary current in the Islamic economy, *Zakat* can be used to achieve socio-economic justice and equal distribution of income redistribution among contemporary Muslim communities who are facing the global challenge of poverty, making it very difficult to be able to meet the needs of their daily lives.

So therefore, forming an *Amil Zakat* Institution whose goal is to be able to manage *Zakat* funds so that they can be effective and efficient because being able to manage *Zakat* funds properly can reduce poverty and unemployment rates also reduce. Thus, Siti Nurbayah (2016) found that assistance, namely the results of revolving capital loans in micro-small business programs from Baznas, can have a real impact and improve the economic welfare of micro-traders in Indonesia. So that the assistance obtained from Baznas can encourage the development of its business so that it continues to make progress for the community.

CONCLUSION

Zakat is an Islamic financial instrument suitable for addressing the financing needs of society's poor and vulnerable segments. This instrument in Islam will influence a person's behaviour and can develop the economy. Indonesia has regulated *Zakat* management in the Law on *Zakat* Management conducted by Baznas. The Baznas

institution, in this case, has optimally been able to collect and distribute it by the provisions contained in the Al-Qur'an letter At-Taubah verse 60, which explains the group's entitlement to receive *Zakat*. The effect of *Zakat* on increasing the economy already exists. However, it still needs to look more significant because some *Mustahiq* receives it only for consumptive purposes. While Baznas have held many programs, they have yet to be fully utilized properly.

Therefore, to realize all philanthropic programs to achieve social justice and community welfare, it is necessary to re-strengthen such as strengthening the vision and mission, increasing the insight and skills of Baznas administrators to run empowerment programs, and being able to build partnerships to run joint programs in sustainable empowerment. It is integrated and sustainable. In this way, conditions that are inadequate or poor and downtrodden will be destroyed, so the role of *Zakat* is very prominent, of course, in helping Muslim communities to prosper and prosper.

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Measuring the Effectiveness of *Zakat* Distribution at the National Board of *Zakat* of Bandung City

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ABSTRACT

Zakat, collected by the National Board of *Zakat* (Baznas) of Bandung City, has practical value for the community's welfare. This study aims to measure the effectiveness of *Zakat* distribution in Baznas Bandung City. This research was conducted using quantitative methods. Data sourced from the Baznas Bandung City Financial Report for the 2017-2021 period. Distribution effectiveness measurement uses the allocation-to-collection ratio (ACR) approach. In addition, this study uses a descriptive approach. The results showed that the ACR value was 94 per cent. Thus, the level of effectiveness in the distribution of Baznas Bandung City is in the Highly Effective category. Therefore, Baznas Bandung City needs to optimize the distribution of Mustahiq *Zakat*, which covers five program areas: Education, Economy, Health, Da'wah, and Humanity.

Keywords: effectiveness of *Zakat* distribution, ACR, *Zakat*, Baznas Bandung City.

INTRODUCTION

Zakat and *Infaq/Alms* receipts in the Bandung City carried out by the National Board of *Zakat* (Baznas) of Bandung City during the 2017-2021 period reached IDR 225.67 billion (Bandung, 2019, 2020, 2021, 2022). Each year, the *Zakat* and *Infaq/Alms* receipts by the Baznas Bandung City reach IDR 45 billion. Thus, the *Zakat* and *Infaq/Alms* collection achievement by the Baznas Bandung City has reached 2% compared to its potential of IDR 2 trillion (Fatah & Effendy, 2020). Fatah & Effendy (2020) explained that the *Zakat* Organization Forum (FOZ) had carried out the Ayo Pay *Zakat* Movement to increase public awareness of paying *Zakat*.

The average annual *Zakat* and *Infaq/Alms* receipts, which have only reached IDR 45 billion, are influenced by many factors, including accessibility, credibility, and *Zakat* collection programs (Nugroho & Widiastuti, 2017), *Zakat* literacy (Canggih & Indrarini, 2021), and the quality of *Zakat* distribution (Muhammad & Saad, 2016). In this study, the focus is on one factor that needs attention is the quality of *Zakat* distribution (Muhammad & Saad, 2016). Zainal, Bakar, and Saad (2016) identified that the satisfaction of *Zakat* distribution could affect *Muzaki's* trust. However, on the other hand, the effectiveness of *Zakat* distribution can encourage *Zakat* collection (Din et al., 2019). Therefore, the effectiveness of distribution must be the concern of all parties.

Based on Law No. 23 of 2011 concerning *Zakat* Management, the distribution of *Zakat* is related to the distribution and utilization of *Zakat* to Mustahiq. In the Al-Quran, the distribution of *Zakat* has been determined for eight asnaf (Mikail & Adekunle, 2020). The eight asnaf who are entitled to receive *Zakat* are the Fakir, Miskin, Amil, Muallaf, Riqob, Ghorimin, Ibnu Sabil, and Fii sabilillah (Bahri & Khumaini, 2020; Din et al., 2019; Ismail et al., 2018). Furthermore, the *Zakat* distribution's effectiveness is related to achieving the goals of *Zakat* distribution (Bahri & Khumaini, 2020; Rifa'i, 2013; Syahriza, Harahap, and Fuad, 2019). Ansori (2018) identifies two objectives of *Zakat* distribution: distribution of wealth to Mustahiq and fair distribution of factors of production to the community. Therefore, the distribution of *Zakat* in the city of Bandung is related to efforts to distribute wealth and equalize the factors of production carried out in the city of Bandung.

However, the description of the effectiveness of *Zakat* distribution in Baznas Bandung City still needs to be improved. This condition is caused by the limited research that discusses the effectiveness of *Zakat* distribution in Baznas Bandung City. It causes the collection of *Zakat* in Baznas Bandung City to reach its potential, IDR 2 trillion. This description of the effectiveness of *Zakat* distribution is essential because it can affect *Zakat* collection. Therefore, one effort must be made to measure the effectiveness of *Zakat* distribution in Baznas Bandung City.

Various analyzes of the effectiveness of *Zakat* distribution, e.g. Bahri & Arif (2020); Bahri, Aslam, and Muhammad (2020); Bahri & Khumaini (2020); Bahri & Utama (2021); Husin et al. (2022); Nafi (2020); Syahriza et al. (2019); Uddin et al. (2020); Yudhira (2020); and Yusup, Sobana, and Fachrurazy (2021). However, the analysis conducted by Bahri & Arif (2020); Bahri et al. (2020); Bahri & Khumaini (2020); Nafi (2020); Yudhira (2020); and Yusup et al. (2021) was carried out at Rumah *Zakat*, IZI, the National Board of *Zakat* (Baznas), and Baznas of Kudus Regency. Bahri & Utama (2021) measure the effectiveness of *Zakat* distribution nationally in Indonesia. Husin et al. (2022) identified the determinants of effective *Zakat* distribution with a research locus at tertiary institutions in Selangor, Malaysia. Syahriza et al. (2019) discuss the effectiveness of the distribution of productive *Zakat* at Rumah *Zakat* North Sumatra. Furthermore, Uddin et al. (2020) measured the effectiveness of the Central for *Zakat* Management (CZM) efforts regarding using of *Zakat* for microfinance in Bangladesh.

Meanwhile, discussions regarding the effectiveness of *Zakat* distribution at Baznas Bandung City still need to be completed. In line with this information, research on the effectiveness of *Zakat* distribution in Baznas Bandung City needs to be carried out because it can provide information about the effectiveness of *Zakat* distribution at Baznas Bandung City. In addition, these findings can be used as a basis for research on the effectiveness of *Zakat* distribution in other cities and districts in Indonesia. Furthermore, the results can also be used by *Zakat* management institutions that want to increase the effectiveness of *Zakat* distribution. Therefore, this study aims to measure the effectiveness of *Zakat* distribution at the Bandung City Baznas.

METHOD

This research was conducted using quantitative methods. In quantitative research, knowledge discovery uses data in numbers (Bahri & Khumaini, 2020). Then, it is used as an analytical tool to determine the desired result. The data comes from the Bandung City Baznas Financial Report for the 2017-2021 period. Measuring the effectiveness of distribution uses the allocation-to-collection ratio (ACR) approach, which comes from the *Zakat* Core Principle approach.

ZCP explains the ACR ratio used to measure the ability of *Zakat* institutions to distribute *Zakat* by dividing the total disbursement funds by the total collection funds. There are five categories of ACR assessment (Bahri & Khumaini, 2020; Baznas, 2018): Highly Effective (if ACR \geq 90 per cent), Effective (if ACR reaches 70-89 per cent), Fairly Effective (if ACR reaches 50-69 per cent), Below Expectation (if ACR reaches 20-49 per cent), and Ineffective (if ACR $<$ 20 per cent). Furthermore, this study uses a descriptive approach to explain the results of measuring the effectiveness of *Zakat* distribution at the Bandung City Baznas. The quantitative approach with a descriptive approach aims to explain various conditions and situations of the research object (Abdullah, 2015).

RESULT AND DISCUSSION

Profile of Baznas Bandung City

The Baznas Bandung City is one of the *Zakat* management entities in Indonesia at the City level. The Baznas Bandung City manages *Zakat* in Bandung City, West Java Province, Indonesia. Bandung has a population of 2.461 million and a Muslim population of 2.309 million (BPS-Bandung, 2018). *Zakat*'s potential amount in Bandung is IDR 2 trillion (Fatah & Effendy, 2020), or 7.4 per cent of West Java's potential, IDR 26.8 trillion (Baznas, 2020).

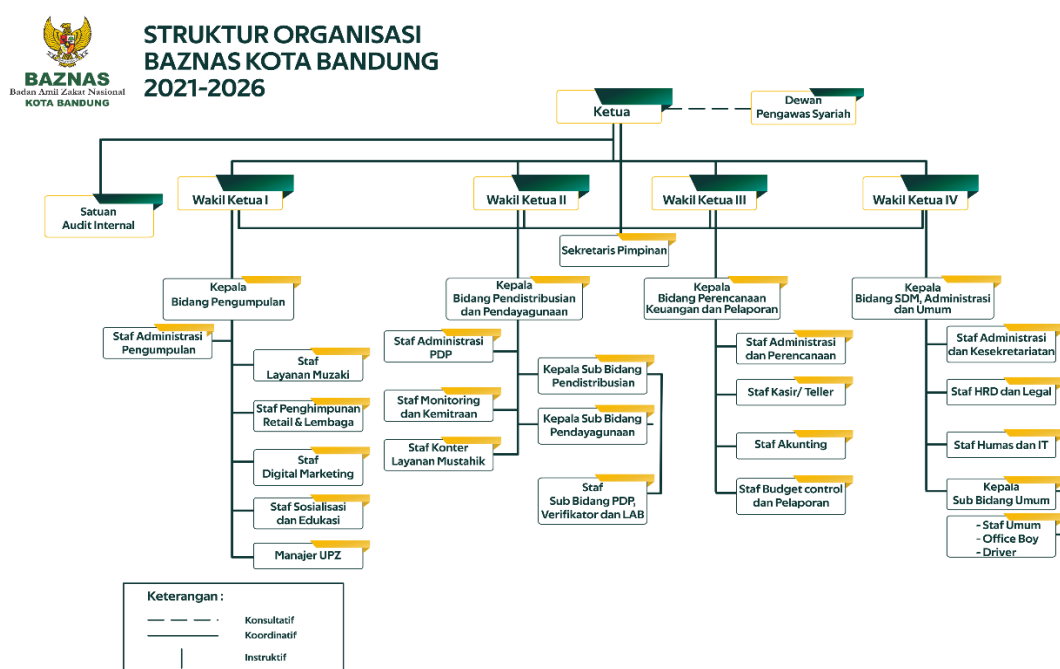
In order to carry out the mandate as *Zakat* administrators in the City of Bandung, the Bandung City Baznas compiles the Vision and Mission of the Institution. Based on the opinion of Mumford & Strange (2005), vision is related to a mental model to accommodate top-down and bottom-up approaches in leadership (Pakkala, 2010). Furthermore, according to Pakkala (2010), the mission is a statement of purpose for the institution's existence.

The results of this study explain that the vision of the Bandung City Baznas is "Becoming the main institution for the welfare of the ummah at the Bandung City level". Furthermore, there are nine missions of the Bandung City Baznas: (1) To build a robust, reliable and modern Baznas as a non-structural government institution authorized to manage *Zakat*; (2) Maximizing *Zakat* literacy in the city of Bandung and increasing collection of ZIS-DSKL in a regular and measurable manner; (3) Maximizing the distribution and utilization of ZIS-DSKL to alleviate poverty, improve people's welfare, and reduce social inequality; (4) Strengthen the competency, professionalism, integrity, and welfare of the *Zakat* Amil Bandung City in a sustainable manner; (5) Modernization and digitization of *Zakat* management in the city of Bandung with a solid and measurable

data-based management system; (6) Strengthening the system of planning, controlling, reporting, accountability and coordination of *Zakat* management in Bandung City; (7) Building a partnership between *Muzaki* and *Mustahiq* with the spirit of helping in kindness and piety; (8) Increase the synergy and collaboration of all relevant stakeholders for the development of *Zakat* in the City of Bandung; and (9) Play an active role and become a reference for the *Zakat* movement in West Java.

Furthermore, the Baznas Bandung City establishes an Organizational Structure to run the program. In detail, the Organizational Structure of Baznas Bandung City can be seen in Figure 1.

Figure 1. Organizational Structure of the Baznas Bandung City



Source: <https://baznaskotabandung.org/visi-dan-misi/>, diakses tanggal 02 Juni 2023.

Collection of *Zakat* Baznas Bandung City

Baznas in Bandung City manages *Zakat* and *Infaq/Alms* within the scope of Bandung City, West Java Province, Indonesia. The collection of *Zakat* and *Infaq/Alms* carried out by the Baznas Bandung City in the 2017-2021 period can be seen in Table 1.

Table 1. Collection of *Zakat* and *Infaq/Alms* by Baznas Bandung City Period 2017-2021 (IDR)

Year	Acceptance of <i>Zakat</i> and <i>Infaq/Alms</i>
2017	19.753.946.713
2018	23.939.175.161
2019	26.390.675.433
2020	24.074.315.730
2021	22.411.274.581

Total	116.569.387.618
Annual Average	23.313.877.524

Source: Baznas Financial Report (Bandung 2019, 2020, 2021, 2022), processed

Based on Table 1, the *Zakat* and *Infaq/Alms* collection by the Bandung City Baznas for the 2017-2021 period (IDR) reached IDR116,569,387,618. The average collection of *Zakat* and *Infaq/Alms* per year reaches IDR23,313,877,524. The largest *Zakat* and *Infaq/Alms* collection was achieved in 2019 with IDR26,390,675,433. Meanwhile, the lowest collection of *Zakat* and *Infaq/Alms* in 2017 was IDR19,753,946,713.

Distribution of *Zakat* Baznas Bandung City

One of the functions of *Zakat* and *Infaq/Alms* management carried out by the Baznas Bandung City is managing *Zakat* and distributing *Zakat* and *Infaq/Alms* within the scope of the City of Bandung, West Java Province, Indonesia. The distribution of *Zakat* and *Infaq/Alms* carried out by the Bandung City Baznas in the 2017-2021 period can be seen in Table 2.

Table 2. Distribution of *Zakat* and *Infaq/Alms* by Baznas Bandung City Period 2017-2021 (IDR)

Year	Distribution of <i>Zakat</i> and <i>Infaq/Alms</i>
2017	12.504.008.515
2018	24.472.228.041
2019	23.899.169.085
2020	22.979.970.130
2021	25.247.652.482
Total	109.103.028.253
Annual Average	21.820.605.651

Source: Baznas Financial Report (Bandung 2019, 2020, 2021, 2022), processed

Based on Table 2, the distribution of *Zakat* and *Infaq/Alms* by the Baznas Bandung City for the 2017-2021 period (IDR) reached IDR109,103,028,253. As a result, the average distribution of *Zakat* and *Infaq/Alms* per year reaches IDR21,820,605,651. The most extensive distribution of *Zakat* and *Infaq/Alms* was achieved in 2019 with IDR 25,247,652,482. Meanwhile, the distribution of *Zakat* and *Infaq/Alms* was the lowest in 2017, amounting to IDR12,504,008,515.

The Effectiveness of Baznas Bandung City Distribution

Based on the opinion of several researchers, e.q. Bahri & Khumaini (2020), Rifa'i (2013, and Syahriza et al. (2019), the effectiveness of *Zakat* distribution is related to success in achieving goals in *Zakat* distribution. Therefore, this study measures the effectiveness of *Zakat* distribution in Baznas Bandung City. Measuring the effectiveness of *Zakat* distribution at the Baznas Bandung City is essential because it can affect the *Zakat* and *Infaq/Alms* collection at the Baznas Bandung City.

Measurement of the level of effectiveness of *Zakat* and *Infaq/Alms* uses the ZCP approach with the ACR formula. The ACR formula divides the total disbursement funds

by the total collection funds. In detail, the use of the ACR formula can be seen in Table 2.

Table 2. Collection and Distribution of *Zakat* and *Infaq/Alms* by Baznas Bandung City Period 2017-2021 (IDR)

Year	Acceptance of <i>Zakat</i> and <i>Infaq/Alms</i>	Distribution of <i>Zakat</i> and <i>Infaq/Alms</i>	Total	ACR (%)
2017	19.753.946.713	12.504.008.515	32.257.955.228	63
2018	23.939.175.161	24.472.228.041	48.411.403.202	102
2019	26.390.675.433	23.899.169.085	50.289.844.518	91
2020	24.074.315.730	22.979.970.130	47.054.285.860	95
2021	22.411.274.581	25.247.652.482	47.658.927.063	113
Total	116.569.387.618	109.103.028.253	225.672.415.871	94
Rata-Rata Per Tahun	23.313.877.524	21.820.605.651	45.134.483.174	94

Source: Baznas Financial Report (Bandung 2019, 2020, 2021, 2022), processed

Based on Table 2, the average ACR value for the 2017-2021 period reached 94 per cent. The highest ACR value was achieved in 2021, reaching 113 per cent. Meanwhile, the lowest ACR value occurred in 2017. Within five years, the Bandung City Baznas increased the ACR value by 31 per cent, from 63 per cent to 94 per cent.

The results of the ACR measurement are then assessed based on five categories, namely: Highly Effective (if ACR \geq 90 per cent), Effective (if ACR reaches 70-89 per cent), Fairly Effective (if ACR reaches 50-69 per cent), Below Expectation (if ACR reaches 20-49 per cent), and Ineffective (if ACR $<$ 20 per cent). Based on the measurements carried out in this study, the distribution effectiveness level at the Bandung City Baznas is 94 per cent in the Highly Effective category with ACR requirements of \geq 90 per cent. The results of measuring the effectiveness of the distribution of *Zakat* and *Infaq/Alms* at the Bandung City Baznas are in line with the Sharia Enterprise Theory presented by Triyuwono (Bahri, Ali, and Aslam, 2022; Bahri & Arif, 2020; Bahri, Putri, and Romansyah 2022). Based on the Sharia Enterprise Theory, *Zakat* management must be accountable vertically to Allah SWT and horizontally to humans and the environment.

CONCLUSION

The *Zakat* collection carried out by the Baznas Bandung City has increased. This study has measured the effectiveness of *Zakat* distribution in Baznas Bandung City. This research was conducted using quantitative methods. The data comes from the Baznas Bandung City Financial Report for the 2017-2021 period. Measuring the effectiveness of distribution has been carried out using the allocation-to-collection ratio (ACR) approach. In addition, this study uses a descriptive approach. The study's results found that the ACR value was 94 per cent. Thus, the level of effectiveness in the distribution of Baznas Bandung City is in the Highly Effective category. Therefore, Baznas Bandung City needs to optimize the distribution of *Zakat* to *Mustahiq*, which covers five program areas: Education, Economy, Health, Da'wah, and Humanity.

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