

# An Overview of the Government of Indonesia's Sustainable Initiatives to Encourage Saving Behaviour among Zakat Recipients in Indonesia

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## Abstract

It seems that the Indonesian government has made several efforts to promote sustainable development and address poverty in Indonesia. While it is impossible to pinpoint the precise impact of these initiatives on the saving habits of zakat beneficiaries, they may probably help to increase economic stability and financial security, which in turn may have an impact on Indonesian zakat recipients' saving habits. However, we know relatively little about the saving patterns of Indonesian zakat beneficiaries. As a result, the purpose of this conceptual paper is to review previous literature to discuss issues concerning saving habits among zakat recipients and government efforts in Indonesia to promote saving behaviour among zakat recipients. The study discussions could lead to a better understanding of the recent development and trend of the Indonesian government's efforts.

**Keywords:** Sustainable, Zakat, Poverty, Saving Behaviour, Indonesia

## Introduction

Zakat could have contributed significantly to lifting beneficiaries out of poverty and reducing income inequality in society (Abdullah et al., 2015; Ayuniyyah et al., 2018; Ibrahim, 2006; Kasri, 2016). Zakat can be used to assist the eight categories of recipients who do not have enough income to meet their basic needs, which are known as *asnaf* or *mustahik* in Islam (see Q.S. 9:60). The needy (*fuqara*), the poor (*masakin*), zakat collectors (*amil*), new Muslim converts (*mualaf*), slaves (*ar-riqab*), insolvents (*gharimin*), Muslims striving in Allah's way (*fisabilillah*), and wayfarers (*ibnu sabil*) are among them (Embong et al., 2013). Furthermore, the government collected and disbursed zakat in many Muslim-majority countries, including Indonesia, Malaysia, and Pakistan. In a resource-constrained economy where budgetary constraints limit social sector spending, the government could use zakat as an undefined social safety net or social security (Ahmad et al., 2017; Toor & Nasar, 2004). In turn, if zakat is appropriately administered, it has the potential to bridge the gap between the wealthy and the needy.

On the other hand, the financial behaviour of zakat recipients is also crucial in the fight against poverty (see Mekonen et al., 2022; Wardhono & Nasir, 2022; Zhu, 2019). Financial behaviour in this context refers to how zakat recipients used financial management processes such as saving, spending, and budgeting (Rahman et al., 2021). Therefore, no matter how much money is obtained through zakat or from other sources, if they do not start engaging in positive financial behaviour, the issue of poverty may not be resolved or may persist in their lives. In other words, when they practise the behaviour, they will be better with their finances and are more likely to save rather than wastefully spend. As a result, they would have more opportunities to break free from poverty traps. However, we know very little about the saving habits of zakat recipients in Indonesia. What factors motivate them to save instead of relying on zakat? Are the government initiatives helping them improve their standard of living in the long run and become among the people who pay the zakat instead of receiving it?

For several reasons, it may be necessary to research the saving behaviour of Indonesian Zakat recipients. First, knowing how people who receive Zakat, an Islamic form of charity, save their money may help us understand how those funds are being used to enhance the receivers' financial security. This data could be used to inform policy choices and create programmes that are better suited to the needs of the intended audience. Additionally, analysing the saving habits of Zakat recipients may help to spot any obstacles or limitations that might be keeping them from obtaining financial independence and stability. By comprehending these elements, interventions could be created to assist in removing these obstacles and enhancing the overall efficacy of Zakat programmes.

Additionally, studying the savings behaviour of Indonesian Zakat recipients has many advantages. Policymakers and programme designers could create interventions that better target the needs of recipients and increase the overall success of Zakat programmes by better understanding the saving behaviour of Zakat recipients. Finding measures to encourage financial inclusion among people who might not have access to conventional financial services could also be useful for enhancing these people's financial stability.

Hence, this current conceptual paper explores the current literature focusing on the saving behaviour of zakat recipients in Indonesia. We extend the discussion on the current state of zakat recipients in Indonesia. In addition, we suggest future research directions in the related field. The following section discusses the current literature review and the current state of zakat recipients in Indonesia. Following a discussion on potential study routes for saving habits among zakat recipients, the topic is expanded to include the government of Indonesia's initiatives to encourage saving habits among zakat beneficiaries.

### **Literature Review**

Previous studies have discovered that poor and low-income people can save. Hogarth and Anguelov (2003) indicated that 60% of low-income and impoverished people who said they were ready to save are proven to put aside a small amount of money regularly. Moreover, approximately a quarter of the poorest of the poor said their spending was lower than their income. Additionally, Okech et al (2013) discovered that slightly more than one-third of those living in poverty claim to set money aside and have some drive to save for a "rainy day." Meanwhile, Heckman and Hanna (2015) showed that low-income individuals could increase their saving behaviour when they receive advice from a financial expert and have a compelling incentive to do so. In the end, Maison et al (2019) persuaded us that saving money does not require wealth. Someone will likely have some money set aside if she tends to save money.

However, it can be challenging to comprehend how low-income and underprivileged people save their money regularly. Their saving behaviour can only be understood if viewed as an ongoing process because it is a component of a more comprehensive behavioural layer of financial management (Veldhoven & Groenland, 1993). So far, studies on the saving behaviour of poor or low-income individuals tend to focus on its relationship with the lack of institutional financial support (e.g., Beverly & Sherraden, 1999; Beverly et al., 2008; Han & Sherraden, 2009; Heckman & Hanna, 2015). Therefore, there is still enough room to conduct research that focuses on its relationship by combining motives and personality traits, allocation processes, decision-making, sentiments, or cultural aspects into an ongoing process.

In terms of pursuing research interests, financial behaviour will be aligned with saving behaviour, which is known to be challenging to engage in but provides significant benefits to savers<sup>1</sup>. Despite knowing that saving is beneficial, many people do not save because of their economic or motivational circumstances (see GoBankingRates, 2017; ING, 2017; Snapcart, 2020). In contrast, many poor or low-income people, who could fit into the zakat recipients' profile, are motivated and able to put a small amount of their money aside regularly (Heckman & Hanna, 2015; Hogarth & Anguelov, 2003; Maison et al., 2019; Okech et al., 2013). Furthermore, saving provides savers with psychological peace of mind and improves their overall well-being. While they could save to meet short-term emergencies or plan for a future relationship between their income and their needs, they may also have opportunities to bequeath wealth to their offspring (see Keynes, 1936). Furthermore, retirement is the most common reason people save, and the likelihood of saving is highly correlated with self-actualized aspirations. Accordingly, focused stimuli should emphasise saving objectives and goals to assist people in achieving a specific desired result.

### **Indonesia's Current Status of Zakat Recipients**

Meanwhile, the main objective of zakat is to help a large number of impoverished people in Indonesia. Following the data in Table 1, zakat was usually and practically required for all poor people in 2018. According to earlier studies, zakat contributed to reducing poverty for its beneficiaries in Indonesia. Ayuniyyah et al (2018) discovered that 1,309 zakat receivers across five cities and West Java regions enjoy improved lives due to participating in zakat distribution programmes. Sari, Beik, and Rindayati (2019) found that 200 impoverished individuals in West Sumatra who receive aid from zakat donations can escape poverty more quickly than those who do not. In addition, Dasangga et al (2020) showed that the average income of 31 *mustahik* in Surabaya increased after receiving zakat funds. In turn, these findings could serve as a springboard for further investigation into how zakat recipients handle their money so they can escape poverty. Besides, the context under research has not been the subject of any recognised studies.

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<sup>1</sup> <https://www.afcpe.org/news-and-publications/blog/understanding-saving-behavior/>

Table 1

*The number of impoverished persons and zakat recipients in Indonesia 2015 - 2021*

Year	Poor (Soul)*	People	Zakat Beneficiaries (Soul)**
2015	28.51 million		5,079,911
2016	27.76 million		6,806,175
2017	26.58 million		8,733,486
2018	25.67 million		22,186,918
2019	24.79 million		N/A
2020	27.55 million		N/A
2021	26.50 million		N/A

Source: \*BPS - Statistics Indonesia (2022), \*\*BAZNAS (2019)

### Government Initiatives to Encourage Zakat Beneficiaries To Save

There have been several initiatives by the Indonesian government to encourage saving habits among zakat recipients and improve the management of zakat in Indonesia. For example, the Zakat Foundation of America<sup>2</sup> has focused much of its humanitarian relief efforts in Indonesia on emergency care for those in dire poverty or affected by yearly food security programmes and natural calamities. Indonesia, the world's most populous Muslim nation, is also one of the regions most vulnerable to natural disasters. While these initiatives are not explicitly focused on encouraging saving habits, they may contribute to improved economic stability and financial security for zakat recipients, which could influence their saving behaviour. The majority of the contributions to and assistance provided by professionals working with the Zakat Foundation of America go to Indonesia.

The first comprehensive law managing zakat was added to Indonesia's statute book with the enactment of Law No. 38/1999 on Zakat Administration by the Indonesian government. Alfitri (2005) discusses Law No. 38/1999, which covers semi-governmental and non-governmental zakat collector agencies in Indonesia. The legislation mandates balanced auditing and yearly government reports, as well as encouraging public openness. These rules may improve the openness and accountability of Indonesian zakat collection organisations, thereby encouraging more responsible and effective use of zakat revenues.

Furthermore, Indonesia has achieved considerable strides in eliminating poverty over the past ten years, with the population living in poverty decreasing from 17.75% in 2006 to 10.7% in 2016<sup>3</sup>. The government has implemented various efforts in the health sector, including developing the National Social Security System, which aims to provide universal health coverage and improve the quality of healthcare in Indonesia. Hence, zakat beneficiaries could save up their money without allocating considerable amounts to healthcare expenses.

<sup>2</sup> <https://www.zakat.org/our-work/where-we-work/indonesia>

<sup>3</sup> <https://sustainabledevelopment.un.org/memberstates/indonesia>

Overall, it appears that the Indonesian government has taken several measures to promote sustainable development and alleviate poverty in the country. While it is impossible to identify the particular impact of these initiatives on zakat recipients' saving behaviour, they will probably contribute to greater economic stability and financial security, which will influence zakat recipients' saving behaviour in Indonesia.

### **Avenues for Future Saving Behaviour Research**

Based on various viewpoints, future research could be developed and ventured into. A study to explore how zakat recipients engage in saving in Indonesia and/or any part of the world could serve as the basis for comparison. Future research also needs to focus on attempts to incorporate all potential determinants of zakat recipients' saving behaviour, including socioeconomic context, events and stimuli, perceptions, cognitions, emotions, financial planning and saving antecedents, saving motives, saving strategies, saving acts, and saving preferences, into a comprehensive proposed framework. The framework could be extended from Veldhoven and Groenland's (1993) work since it has not been tested empirically but is strongly behavioural. More qualitative analysis is needed to identify, describe, and explain the behaviour of zakat recipients who save in Indonesia and other Muslim countries.

The need to explore whether zakat recipients are disciplined in saving up regularly and what makes them motivated to save is crucial and needs to be analysed in depth. In other words, what are the factors that make them save up even though they are in the position of not having excess in their daily needs in the current environment? Having analysed all the critical factors, researchers could use them as a basis for designing programmes and policies to assist other recipients in saving. Hence, the findings will make significant theoretical, empirical, and practical contributions to the literature. Theoretical advances will make a unique contribution within a framework of zakat recipients' saving behaviour and its antecedents.

### **Conclusion**

Zakat may have contributed substantially to pulling recipients out of poverty and eliminating the economic disparity in society. The Indonesian government has launched many efforts to encourage zakat beneficiaries to save and enhance the zakat administration in Indonesia. It is critical to investigate if zakat beneficiaries are disciplined in saving regularly and what motivates them to save. The findings would improve zakat institutions' financial products or solutions by encouraging the positive financial behaviours of zakat recipients. In the long run, successful programmes could improve the welfare situation of Indonesians. They would also increase the country's domestic savings. Evaluating a framework of saving behaviour and its antecedents should be possible to bridge this gap because it can incorporate all potential determinants of its ongoing process. Meanwhile, Table 2 summarises the major conclusions of this current conceptual paper.

Table 2

*The major conclusions of the study*

The importance and significance	This study could provide important information for policymakers, program designers, researchers, or practitioners in the field of Islamic finance in understanding the government's efforts and initiatives to encourage saving behaviour among Zakat recipients in Indonesia.
The contributions:	
Theoretical	This study contributes to providing insight into the gaps in knowledge and areas where further research is needed, which could inform the development of future research on saving behaviour among Zakat recipients in Indonesia.
Contextual	This study contributes to providing insight into the strategies and initiatives that have been implemented by the Indonesian government to encourage saving behaviour among Zakat recipients and could serve as a guide for policymakers and program designers looking to implement similar initiatives in other countries.

Altogether, it appears that the Indonesian government has undertaken many measures to promote sustainable development and alleviate poverty in Indonesia. While it is impossible to identify the particular impact of these measures on zakat recipients' saving behaviour, it is feasible that they might contribute to greater economic stability and financial security, which could influence zakat recipients' saving behaviour in Indonesia.

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