

## Financial Inclusion through Zakat Institution: Case Study in Indonesia and Brunei Darussalam

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### Abstract

*This research aims to reveal the financial inclusion occurs in zakat institutions within zakat distribution and empowerment program in Indonesia and Brunei Darussalam. This study will deliver zakat distribution and empowerment program held by zakat institutions in two countries and then analyze how are financial inclusion process happened to mustahiq in both institutions. The object of this research are the government zakat institution in two countries, namely Indonesia (BAZNAS) and Brunei Darussalam (BAKAZ). This study uses a qualitative method within multiple case strategy. Data collection in this study was carried out through in-depth interviews with several expert informants of BAZNAS and BAKAZ and also mustahiq of each institutions. This study shows that there are mustahiq financial inclusion process on empowerment program held by BAZNAS and BAKAZ by distribution of zakat for consumption and production needs. Financial inclusion happened in zakat institution are transferring zakat fund, financing mustahiq business within capital loan, and channeling to financial institutions, so that mustahiq can transform gradually to be bankable and have financial access to scale up their business.*

### Keywords:

Financial inclusion; Zakat

Empowerment Program;

Mustahiq; BAZNAS; BAKAZ.

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## 1. Introduction

Islam as a religion that shares goodness to the entire world or said as *rahmatan lil alamin*, provides various solutions to the problems of human life, including the problem of poverty. According to (Pratama, 2015), Islam views the rich condition as the favor of Allah SWT which should be grateful and regard the poor condition as a matter to be avoided and prevented (Rijal, 2018). After that, Islam served various solutions to alleviate it, including the provision of zakat. Islam answers the poverty problem with zakat of, as stated in the QS. At Taubah verse 60.

Indonesia Zakat Development Report (Yudha, 2019) says that there are several reasons explains the significance of of zakat in poverty alleviation. First, the allocation of zakat funds has been determined definitively in Islamic law (QS. At Taubah: 60) where zakat is only allocated for eight groups (*asnaf*) only, namely: namely: *fuqara* (indigent), *masakin* (poor), *amilin alaiha* (the zakat management), *muallafat ul qulub* (the person whom his heart being tamed), *fir riqab* (freed slaves), *gharimin* (those who owed), *fi sabilillah* (who fight in the way of Allah), and *Ibn saabil* (people who were on the travel). (Nurlaelawati, 2010) explains that al Quran mentions the indigent (*fakir*) and the poor (*miskin*) as first and second group in the list of recipients. They received priority and primacy of the al Quran. It shows that overcoming the problem of poverty is the primary objective of zakat (Samad et al., 2016). Thus, zakat becomes an instrument of poverty alleviation which is pro-poor and self-targeted that emphasize the role of government through a policy of income distribution and equity in favor of the poor (Fikriyah & Ridlwan, 2018).

As has been obligated in the Qur'an in the letter At Taubah verse 60, since the year nine hijriyah, Rasulullah SAW began to apply zakat *maal* as a primary source of income in Medina at that time (Djatmiko, 2019). According to Muhammad (El-Brassi et al., 2020), in its historical development, zakat can even transform the social status of the people from *mustahiq* (people who are entitled to zakat) to be *muzakki* with the economic empowerment of the people. This success has occurred in the time of Caliph Umar bin Abdul Aziz. Gradually during his leadership for 3.5 years, the community which originally became *mustahiq* then transformed into non-*mustahiq*, which is not eligible to receive zakat. The success of the zakat institution in the process of transformation *mustahiq* is a proof of the success of their role in eradicating poverty.

However, in reality, the current poverty rate in Muslim countries is relatively high. Statistical Economic and Social Research and Training (Kusuma & Ryandono, 2016) data show that the poverty rate of OKI countries reaches 35% or a total of 465 million people, measured by the World Bank poverty standard of US \$ 1.25 per day per person (Wijayanti & Ryandono: 2019). From the whole OIC countries, according to (Muhammad Firdaus et al., 2012), there are only 11 countries that have regulations on zakat, in various forms and levels including the presence of supervisors and implementers of zakat collection and distribution. Zakat organization development has reached across countries. Borneo Bulletin, 3 July 2008 in Abdullah (2015: 10), explained that in 2006 the Southeast Asian Zakat Conference held in Kuala Lumpur was initiated the Southeast Asian Zakat Council, then in 2008 was formed international zakat organization initiated by MABIMS which consists of Malaysia, Indonesia, Singapore and Brunei foreign ministries. This history recall an enthusiasm conducting cross-country zakat studies, and encourage the authors to seek the role of zakat institutions in two OIC countries, namely Indonesia and Brunei Darussalam. As stated by Jaelani (2015: 15), zakat management and implementation in Indonesia and Brunei Darussalam are unique in terms of zakat distribution and empowerment program to

tackle poverty.

Although it has implemented an institutional zakat system, both countries are also still in an effort to alleviate poverty (Fatmawati et al., 2020). More specifically, Indonesia bears the relatively high poverty rate, which is around 10.7% of Indonesia's total population or around 27.76 million people (BPS, 2016). Even though according to CIA World Factbook data, the population of Indonesia in 2016 reached 258.32 million people or in other words, 87.2% of the population were Muslim (Yudha, Harisah, et al., 2020). Whereas Brunei Darussalam, is a petroleum country whose economic growth is supported by oil and natural gas assets (Murniati & Beik, 2014).

According to (Hudaefi et al., 2020), zakat which acts as an instrument to alleviate poverty in the current era, has many advantages over conventional fiscal instruments that already exist. However, supporting instruments are still needed so that the zakat provided can have a sustainability aspect for the life of *mustahiq* (Yalina et al., 2020). Zakat optimization requires the support of various parties, including one of them is the effort made by BAKAZ and BAZNAS to synergize with financial institutions (Sukoco et al., 2020). The synergy efforts carried out by BAZNAS, can be seen in the April 27 2017 edition of Journal Asia, which reports that the National Zakat Agency (BAZNAS) has begun cooperation with the Financial Services Authority (OJK) in order to improve financial literacy and inclusion. While the synergy carried out by BAKAZ is building cooperation with Islamic banking in terms of the collection and distribution of zakat (Ab Rahman et al., 2019).

The Commissioner Chairman of Indonesia Financial Services Authority, Otoritas Jasa Keuangan (OJK), explained that zakat has a relationship with financial inclusion because it plays an important role in reducing poverty (Yudha & Lathifah, 2018). Through this collaboration, he stated that he would produce several benefits at once (Roy & Goswami, 2013). First, it will facilitate the process of zakat payment from the zakat payers (*Muzakki*) and help the process of distributing zakat to the recipients of alms (*Mustahiq*). Second, providing a wider amount of access to payments and distribution of zakat, infaq and alms (ZIS). Third, increasing the financial inclusion of the community by opening access to financial products and services for *Muzakki* and *Mustahiq*. Fourth, expand the function of smart sales agents to conduct financial education and zakat especially for Agents who fulfill the requirements, as well as economic empowerment of the surrounding community (Ridwan et al., 2019). This statement indicates that there is a multiplier effect on the implementation of synergy of zakat institutions and financial institutions (Nastiti & Kasri, 2019). Thus zakat optimization can occur because there is a synergy of financial institutions so that *mustahiq* who receives zakat can later be financially inclusive (Michelle et al., 2017). Finally, the impact generated from zakat can be sustainable.

This is the background of the authors to examine a financial inclusion happen through the zakat empowerment program. With the comparative study of the implementation of financial inclusion by zakat institutions in Indonesia and Brunei Darussalam, it is expected to provide output in the form of inputs and references for the management of zakat in Indonesia which is more inclusive of finance. So that the impact zakat distribution for *mustahiq* can then run sustainably and optimally. Regarding this background, in this study, the author raised the title, "Financial Inclusion through Zakat Empowerment Program: in Indonesia and Brunei Darussalam"

## 2. Method

The research approach used in this research is qualitative descriptive research with case study strategy. Case study is a suitable strategy to answer how and why question (Yudha, Ryandono, et al., 2020). In this case, the research question is about How are the Financial Inclusion held in Indonesia and Brunei through Zakat Empowerment Program? So this research use a qualitative case study strategy to answer those question. The data used in this study are primary and secondary information about empowerment program given by zakat institution in Indonesia and Brunei Darussalam. The primary data taken from zakat officer of governmental zakat institution in Indonesia and Brunei Darussalam, and also some zakat recipients (*mustahiq*) of their empowerment program. They are head of BAZNAS (Center Commissioner and Jatim), head of Empowerment Program BAZNAS (Center and Jatim), Head of PROPAZ BAKAZ MUIB Brunei, and also some *mustahiq* from both countries. Then secondary data derived from books, economic journal and articles which are related to research topic, either printed or online.

Validity test data that have been done in triangulation methods, they are triangulation of source and triangulation of method (Yudha, 2020). Triangulation of source happened in the in depth interview process with zakat officers in Indonesia and Brunei Darussalam, with information from *mustahiq* of zakat institution. While the triangulation of method is the way to find that information from informants is same with the information from documents and other informants. After collecting data, the next step is analyze the data to obtain a conclusion. Data analysis techniques are done by descriptive and data interpretation is done by content analysis. In conducting this research, the technique was used to determine *zakat program*. Then, after the collected data is classified, the next is the analytical technique to find the pattern of financial inclusion process trough zakat empowerment program then can be deduced.

## 3. Result and Discussion

### 3.1. Management of Zakat Indonesia and Brunei Darussalam

#### 3.1.1. Indonesia

Indonesia is the fourth most populous country in the world with an area of 1.913.578.68 km<sup>2</sup> spread over 34 provinces. Based on data from the Statistical Year Book of Indonesia (Bank Indonesia, 2011), population of Indonesia amounted to 255.461.700 inhabitants. Of the total population of 87% are Muslim (Olalekan & Simmeon, 2015). This figure is much higher when compared to other countries, that is why Indonesia said to be a country with a majority Muslim population in the world. Data from UNDP (Rosadi et al., 2018), states that the Indonesian Human Development Index (HDI) is 0.684. The figure shows that Indonesia is in the middle position, which is ranked 110 out of 188 countries. Economically, Indonesia is included in the category of developing countries with various economic potential in it.

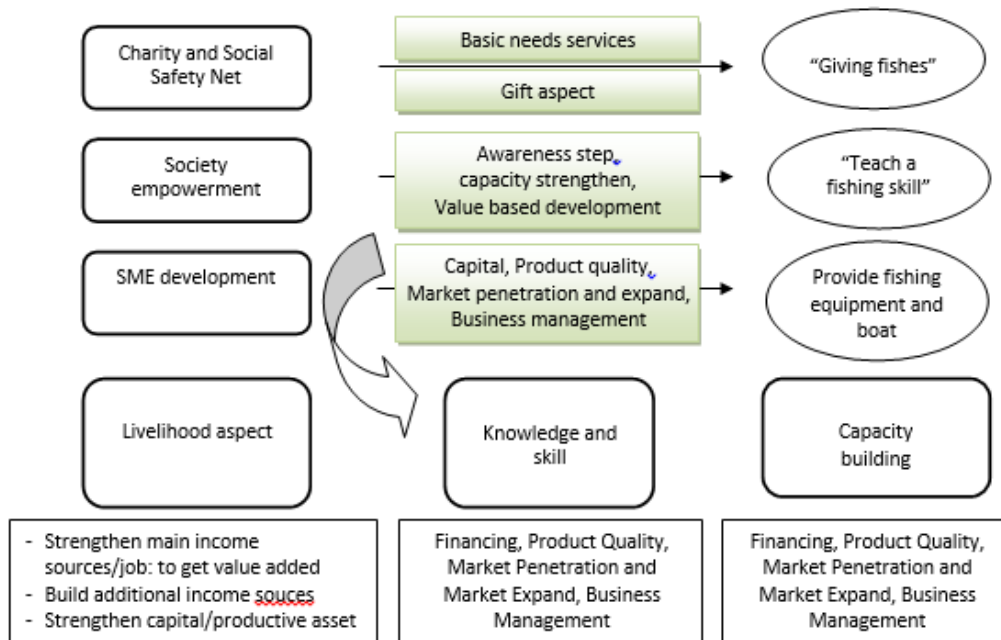
Management of zakat in Indonesia, which has the largest Muslim population spread across the province, is undertaken by a government-formed body (BAZNAS) and an institution founded by the community (LAZ). In the formal scope of the state, the government has established BAZNAS which, according to [baznas.go.id](http://baznas.go.id), is aimed at the national scale of zakat management by Badan *Amil* Zakat Nasional (BAZNAS) and Lembaga *Amil* Zakat (LAZ) can run professionally, trusty and transparent, the purpose of zakat management for the benefit and prosperity of the people can be achieved.

Badan *Amil* Zakat Nasional (BAZNAS) is the official and the only one formed by the government based on Presidential Decree No. RI. 8 of 2001 which has the duty and function

of collecting and distributing zakat, *infaq*, and *shadaqah* (ZIS) at the national level. Not only have role as zakat manager and organizer, BAZNAS also acts as coordinator of zakat management of national scale which is confirmed through the Act No. 23 of 2011 on the Management of zakat. Under the Act, BAZNAS is declared a nonstructural government institution which is independent and responsible to the President through the Minister of Religious Affairs. Thus, BAZNAS with the Government is responsible for guarding the management of zakat which is based on: syariah Islam, *amanah*, beneficiaries, justice, legal certainty, integrated and accountability. For the implementation of such duties and functions, BAZNAS has authority to a) Collect, distribute, and utilize zakat; b) Providing recommendations in the formation of Provincial BAZNAS, Municipal BAZNAS, and LAZ; and c) Requesting reports on implementation of zakat, *infaq*, and other religious social funds to Provincial BAZNAS and LAZ.

As mentioned before, the management of zakat in Indonesia is done decentralized. Centralized, zakat regulation and reporting is held by the Central BAZNAS located in Jakarta, complemented by zakat management at central government agencies. More broadly, zakat management in local government institutions is carried out by the Provincial or Regency / City BAZNAS. The rest, zakat to the wider community is managed interspersed between BAZNAS and LAZ. In every province in Indonesia there are zakat managers located in one coordination line of the Central BAZNAS, namely the provincial BAZNAS.

In general, the pattern of zakat distribution and empowerment *mustahiq* through zakat on BAZNAS done gradually with a special treatment on each *mustahiq*. The charts that become the reference for the implementation of zakat disbursement by BAZNAS in general, are as follows:



Source: Ryandono and Wijayanti, edited (2019)

Figure 1. BAZNAS Empowerment's Pattern

Explanation of the schematic above is as follows. Based on Ryandono and Wijayanti (2019), the first stage devoted to the very poor category which could not even fulfill their basic needs is given an alms or *qardhul hasan* scheme. In analogy, first stage is stage of

giving fishes to be eaten by *mustahiq*. Because in those poor condition, *mustahiq* must be assisted to meet basic needs first. The second stage are for those who have been categorized as poor, they were who economically active but still insufficient to fulfil their needs. This vulnerably poor is still given *qardhul hasan*, but it is expected to enter scheme like those in BMT or syaria micro finance. This point is a starting point of zakat empowerment which zakat officer start to awakening *mustahiq* to enter real sector. In this part, *mustahiq* must be taught in advance, not just given a capital but also needs assistance like capacity building so that later results become sustain. The empowerment of *mustahiq* in BAZNAS is more comprehensively summarized in Zakat Community Development (ZCD) program, where in field there are some successful cases, some are still learning, and some have not succeeded. The third stage is micro enterprise development. It is started when *mustahiq* SMEs by BAZNAS can stable and bankable then they are possible to develop, in this stage they can enter into the profit-sharing scheme. To overshadow the people who are at this stage still need the role of sharia financial institutions to meet their financing needs, because they are no longer able to receive from the zakat institution. Informant from BAZNAS added that the existence of zakat institutions that have tried to enter into *al bai* (real sector) also still need support from the financial, especially micro finance sector.

BAZNAS empowerment program named ZCD according to manager of ZCD in BAZNAS Center, Zakat Community Development (ZCD) is a channeling activity by elaborating the fields of education, *da'wah*, economy, health, and humanity in a comprehensive container community development. The stages of implementation of the ZCD Program are as follows: 1) The first stage is the pilot stage. BAZNAS conducts the assessment process, conducts the process of compacting the needs of the community, then delves further what the *mustahiq* wants, and then BAZNAS create a program for them. 2) Reinforcement stage, how BAZNAS strengthen *mustahiq* with program program to be compiled, which will be done together, where the program has been prepared according to the desire and necessity of *mustahiq*. 3) The third stage is self-reliance is about how *mustahiq* can be independent, and collaborate with other stakeholders, *mustahiq* can get the best results from what they do.

Based on information collected from the website [baznas.go.id](http://baznas.go.id), it is known that the main ZCD Program is "Realization of Prosperous and Independent Society". The specific objectives of the ZCD Program are: a) Growing awareness of *mustahiq* / beneficiaries about quality life; b) Growing participation towards community self-reliance; c) Growing social and economic social network; and d) Creating a sustainable empowerment program in realizing community welfare and independence.

ZCD activity began to be applied since 2012, but still few areas in Indonesia that apply this ZCD. Including in one of big Province-Java Province, the ZCD program has not been effectively implemented due to several constraints, including human resource constraints and facilities (Ryandono & Wijayanti, 2019). So that in BAZNAS Province like East Java they had implemented an empowerment program that is aligned with the pattern of empowerment submitted Figure 4.1 above. The program is called a revolving capital loan. The capital loan has been applied since 2006 where one group of MSEs received a business capital loan with a 1 year return term directly to BAZNAS. Then since 2015 this program is more mandated to Partners of BAZNAS East Java.

### 3.1.2. Brunei Darussalam

Brunei Darussalam is a small imperial state located on the northwestern island of Borneo (Borneo). Data from Brunei Darussalam Statistical Yearbook (BDSYB, 2015: 1), states that

the total area of the Negara Brunei Darussalam is 5.765 km<sup>2</sup> with a total population of 417.200 people in 2015. The population composition is dominated by Malay ethnicity (66%), followed by China 10%), and others (24%) (BDSYB, 2015: 9). The Brunei Darussalam region is divided into four districts, with densely populated districts being Brunei Muara (72% of the population), followed by Belait area (15%), Tutong (11%), and Temburong (2%). The level of Human Development Index (HDI) of Brunei is high, that is 0.856 higher than Indonesia, even it reached 31st place of 188 countries in the world (UNDP, 2015: 2). Of the total population, 66% of the population of Brunei is Muslim. Economically, Brunei is one of the highest per capita income countries in Asia (Abdullah, 2012: 41). Brunei's majority economy is sustained by oil and gas output.

### 3.1.3. *The Brunei Government Institution of Zakah: BAKAZ MUIB*

The management of zakat in Brunei Darussalam is conducted centrally under the coordination of the Ministry of Religious Affairs in Brunei, namely the Islamic Council of Brunei Darussalam or commonly referred to as the Majelis Ugama Islam Brunei (MUIB). Fund management Zakat is then specifically handled in a single unit under the MUIB called the Badan Agihan dan Kutipan Zakat (BAKAZ). BAKAZ is the only government zakat institution responsible for the collection and distribution of zakat in Brunei Darussalam. In BAKAZ there is a special unit focused on managing zakat empowerment program known as PROPAZ. PROPAZ is a zakat aid program to the poor asnaf in the form of skills training, skills and guidance implemented by the PROPAZ board under the control of BAKAZ in cooperation with several royal parties and private companies as service providers.

Zakat Empowerment program given to *faqir miskin* in a form of zakat assistance are PROPAZ PPB and PROPAZ Perantis. In the implementation, PROPAZ Perantis and PROPAZ PPB Training by doing collaboration with Pusat Pembangunan Belia (PPB) of Kementerian Kebudayaan, Belia, dan Sukan (KKBS). PROPAZ PPB held in a year within 9 months, with 3 months of incubation training at Pusat Pembangunan Belia (PPB), 3 months internship in company, 3 months job placing. After it they can also build their own business if they want to. From the data of PROPAZ BAKAZ (2017), the training given to zakat recipients are including information and communication technology, the art of Kulinari and Banquet facilities, beauty therapy, the fashion technology and tailoring, and also technical (welding and vehicle body repair, pipe fittings and plumbing, as well as air-conditioning and refrigerators). The course choosing is depend on the willingness of recipients, in what course they are interesting. The output of this PPB Program is more to make the recipient to be an entrepreneur by their skills.

Then PROPAZ Perantis is a 2 years program that more focus to linked the *faqir miskin* to the good work by some companies. Before do it, PROPAZ will assist them to get the job training from the near companies (with them) for 6 months, and they can have job placing for next 6 months, and if they are good enough for the next year they can make a MoU with the company if they can officially work there. After company take that recipients it means that PROPAZ job is done. In both program PPB and Perantis, recipient also given a zakat fund as their income. This fund is taken from zakat fund in BAKAZ to help them fulfill their need, even to empower them.

### 3.1.4. *Financial Inclusion on Zakat Empowerment Program*

Zakat distribution in Muslim countries has two function to help poor people in different financial condition. It can be used to fulfill consumption and production needs of *asnaf*. Consumption needs of poor people can be covered by zakat distribution which functioned as redistribution instrument. This redistribution means the income and wealth of *aghniya'*



are given to *dhuafa'* as alms within *qardh al Hassan* aqad or in BAZNAS model analogy is giving them fish. Then for the better condition *dhuafa'* who can do the work but their income is not sufficient to fulfil their needs and even vulnerably become poor, zakat can be functioned as microfinance instrument. This microfinance means zakat fund can be given as productive fund to do *mustahiq* work/business during empowerment program. In BAZNAS model, this function analogy is teaching *mustahiq* fishing skill and hand them fishing equipment's. So that *mustahiq* can learn to take responsibility as a borrower to payback zakat fund using *syirkah aqad* or *qardh*. The implementation of zakat distribution on consumption and production fulfilment, needs some participation from related parties to support *mustahiq* financial inclusion process.

On results of in-depth interviews with expert informants at BAZNAS and BAKAZ, it was found that there were attempts at financial inclusion in zakat distribution by government zakat institution.

Table 1. Financial Inclusion through BAZNAS and BAKAZ

Zakat institution		Financial inclusion in zakat distribution	Financial institution partner
Indonesia (BAZNAS)	Central	Zakat for consumption needs	Islamic banks
	BAZNAS	Zakat for production activity: ZCD Zakat Community Development	Islamic banks, BMT, BPRS linked by OJK
	BAZNAS	Zakat for consumption needs	Manually
	East Java	Zakat for production activity	Islamic banks and BMT
Brunei (BAKAZ)	Java	Jatim Makmur: capital loan	
		Zakat for consumption needs Zakat for production activity: PROPAZ PPB and Perantis +additional : capital loan	Manually and Islamic banks Islamic banks

Source: Research result (2020)

Data compiled from BAZNAS management stated that the financial inclusion done by BAZNAS has different implementation. It is caused by implementation of decentralized on zakat management in Indonesia so there are many different factors. In central BAZNAS Jakarta which the system has been settled, informant told that zakat consumption has been delivered to *mustahiq* by bank transfer to their account. But it is not applied yet to province BAZNAS, as to BAZNAS in East Java or BAZNAS Jatim. Informant BAZNAS Jatim stated that sometimes zakat officer gave zakat funds directly to *mustahiq* in reachable location. But if *mustahiq* location is far from office, distribution of zakat fund would be delivering to municipal BAZNAS or BAZNAS partners in city or rural area and they will give it directly to *mustahiq* within report mechanism.

In terms of productive zakat by empowerment program as what have been planned in BAZNAS system, in this stage BAZNAS task is to train *mustahiq* during financial inclusion processes. Because zakat managers thought that financial inclusion is an important thing to make the zakat impacts more beneficiaries to help *mustahiqs*. That's why in BAZNAS empowerment program (ZCD), *mustahiq* SMEs possibly grow stronger, stable, and bankable, so that they can get further profit-sharing financing from Islamic banks, BMT, BPRS which are linked by OJK. In other side, implementation of zakat empowerment program in BAZNAS Jatim is a bit different. The lack of resources and system cause municipal BAZNAS like BAZNAS Jatim did not applied ZCD Program. In fact, they still gave assistance within capital loan to support *mustahiq* SMEs and gradually will adopt ZCD program. This capital loan for *mustahiq* in BAZNAS Jatim is mandated to BAZNAS Jatim partners from non-governmental organizations (NGO) and foundations. Then this NGO will distribute capital loan to *mustahiq*

groups during the empowerment program they gave like bookkeeping, accounting, marketing, and so on. BAZNAS partner informant stated that capital loan program is given in 3 years gradually to train them repay their loan, and after the program completed and the assistance will be loaned to other *mustahiq* groups in need. So that in those 3 years BAZNAS partners optimize *mustahiq* with many entrepreneur skills so that after program, they can become independent SMEs and bankable.

In BAKAZ, Brunei Darussalam, Islamic banks have a big role in compilation and distribution of zakat funds. Zakat distribution for consumption needs, *mustahiq* have choices to take zakat fund directly and manually to central zakat office, or can be transferred from Islamic banks if they have bank account. Islamic banks who become BAKAZ partners are Tabung Amanah Islam Brunei (TAIB) and Bank Islam Brunei Darussalam (BIBD). On those participation, Islamic banks as BAKAZ partners are not given *amil* fund portion but they can get *ujrah* from administration fee of bank account, bank services, and so on.

Zakat empowerment program in BAKAZ Brunei named PROPAZ and PROPAZ PPB is done centrally in a training center KKBS, beside that BAKAZ also give *mustahiqs* monthly salary during their training in KKBS. The fund given to *mustahiq* both to fulfill their family daily needs and some of *mustahiq* also use the rest of it as a capital to run a small business. Once they can prove that their business runs well, *mustahiq* also can proposed capital loan based on productive zakat fund. Besides that, Brunei government under KKBS also provide financing program named JAPEM to give capital loan to the recommended *mustahiq* alumnus of PROPAZ or PROPAZ PPB that need to scale up their business. All of this zakat distribution in Brunei, whether it is for consumption or production, are all done by bank transfer. So that, the integrated system of central agency of government will easier to transfer the charity fund, as well as they can avoid the over lapping charity fund given by another ministry. This scheme also makes *mustahiq* easier to access the fund, also to keep save their money in bank as savings.

These two kinds of zakat empowerment program held by BAZNAS in Indonesia and BAKAZ in Brunei Darussalam, have a different type of financial inclusion. As well as the theory of financial inclusion, those two systems have been containing principle of financial inclusion that also contain in zakat empowerment program. There are several principle and benefits of financial inclusion contained in zakat empowerment programs (Wahid: 2014), including 1). Related to Access, especially access to business loan sources, will automatically open business opportunities and/can be used to increase the investment size of small entrepreneurs. 2) Second, the opening of networks into the formal financial sector allows the poor to access various types of business loans, utilizing savings options, and utilizing insurance products on soft terms. 3) Third, regarding costs, it is intended that the existence of an inclusive financing will reduce the costs of repaying loans that must be borne by the low income poor, 4) Fourth, it can utilize accounts that have been integrated with various government programs, thus facilitating and securing funds society.

Here we can infer that both zakat in BAZNAS and BAKAZ have already fulfill all the principle and benefits of financial inclusion through zakat distribution and empowerment program. BAZNAS and BAKAZ have proven that zakat institution also brings financial inclusion process when they delivered zakat on consumption and production needs of *mustahiq*. In zakat for consumption distribution, even though BAZNAS Jatim distribute manually but mostly central BAZNAS and BAKAZ have done within bank transfer which means *mustahiq* became literate and open access into Islamic banks facility. In zakat for production activity, along with empowerment program, both BAZNAS and BAKAZ also

provide capital loan or financing *mustahiq* SMEs whether in *qardh or syirkah aqad*. This process aims to train business skills and responsibility of *mustahiq* to repay those capital loan, then they can sustain in doing their business and become bankable. After that, hopefully they can access facility of Islamic financial institution and gradually scale up their business. So that they can cut those vicious cycle of poverty, transform as no longer *mustahiq* or even transform into *muzakki*. This Islamic charity institution in zakat instrument practically can answer *mustahiq* needs by financial inclusion that most of them are un-bankable which most of banks institution would not attach them, and right after zakat empowerment program they are targeted to be bankable and financially included. So it can be said that zakat institution is actually an Islamic financial inclusion's institution.

#### 4. Conclusion

Zakat institution in Indonesia (BAZNAS) and Brunei (BAKAZ) have done financial inclusion process during their distribution on consumption needs and productive activities for *mustahiq*. Most of zakat institution have done bank transfer to distribute consumption zakat which made *mustahiq* became literate and open access into Islamic banks facility. In productive zakat along with empowerment program, beside using bank transfer, both BAZNAS and BAKAZ also provide capital loan or financing *mustahiq*. This process aims to train business skills and responsibility of *mustahiq* to repay those capital loan, so that *mustahiq* can transform gradually to be bankable and have financial access to scale up their business. Based on those facts, zakat institution has contained four principles and functions of the financial institution. So, it can be said that zakat institution is an Islamic financial inclusion's institution.

This research suggests Indonesian government to support the integrated system of zakat program like have been started in Brunei, as well as other zakat institution to always do the betterment for zakat management. And for other researcher, there are many opportunities to creating concept about Islamic financial inclusion from zakat or other Islamic charity instrument. The further research about this area is always needed to support the Islamic economic development in Indonesia and around the world.

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