



Muzaki Empowerment: Uncovering the Dynamics of Trust in Zakat Management Through Accountability and Transparency of Financial Reporting

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Abstract

Indonesia is one of the countries with the largest number of Muslims in the world. However, although the number of Muslims in Indonesia is very large, this is not in line with the amount of zakat funds collected. The potential of zakat in Indonesia is very large, recorded in 2023 the total potential of zakat reached Rp327.6 trillion. Unfortunately, in reality, the total accumulation of zakat potential collected since 2002-2020 is only around 1-5%. The low acceptance of zakat funds is caused by muzaki's distrust of zakat managers. This distrust arises due to the lack of transparency in financial reporting which should be a form of public accountability to muzaki. This study aims to measure how much the influence of accountability and transparency of financial reporting of zakat funds on muzaki trust in zakat management institutions, the research method used is explanatory research. The research sample was taken using the Slovin formula, with a sample size of 100 muzaki. The data collection technique used a questionnaire distributed to respondents and obtained 107 muzaki. validity and reliability as a research instrument, and data analysis techniques using SEM-PLS. The results prove that accountability and transparency of financial reporting have a positive and significant effect on muzaki trust. And this research is expected to make a meaningful contribution to zakat fund managers in improving muzaki empowerment, accountability, and transparency of financial reporting, so as to increase muzaki trust in zakat management institutions and ultimately increase the collection of zakat funds.

Keywords: Zakat, Accountability, Transparency, Muzaki Trust, Financial Reporting, SEM-PLS

INTRODUCTION

Indonesia is recognized as the country with the largest Muslim population worldwide, accounting for a substantial portion of the global Muslim demographic (Ismail, Wahid, & Karim, 2016). This position places Indonesia at the forefront of potential zakat collection, as zakat is a fundamental pillar of Islam mandating financial contributions for social welfare and redistribution of wealth. The potential zakat collection in Indonesia is estimated to be as high as Rp327.6 trillion in 2023. Despite this enormous potential, the realization of zakat collection is strikingly low. Historically, between 2002 and 2020, only around 1-5% of this potential has been collected (Jehle, 1994). This discrepancy suggests that the potential of zakat as an economic resource is far from being fully harnessed.

The low realization of zakat collection can be attributed to several factors, with one of the primary reasons being the lack of trust among muzaki, the zakat payers, towards zakat management institutions. Muzaki play a crucial role in the zakat system, as their willingness to contribute significantly affects the collection of zakat funds. However, many muzaki are hesitant to entrust their zakat to management institutions due to concerns over the efficiency and integrity of these organizations (Noor, 2017). The perception of mismanagement, ineffective use of funds, and a lack

of communication regarding the allocation of collected zakat often lead to muzaki opting to pay zakat individually rather than through formal institutions.

One of the critical issues leading to this distrust is the lack of transparency in financial reporting by zakat management institutions. Transparency is a fundamental aspect that allows muzaki to understand how their contributions are being managed and utilized. When financial reports are not made available or are unclear, muzaki may perceive a lack of accountability and assume that funds are not being handled appropriately. This lack of transparency not only affects the trust relationship between zakat management institutions and muzaki but also undermines the credibility and legitimacy of these institutions in the eyes of the public.

Accountability is closely linked to transparency and plays a significant role in shaping muzaki trust. It encompasses the obligation of zakat management institutions to demonstrate that they are managing funds responsibly, ethically, and in line with Islamic principles. When institutions fail to provide clear and accurate financial reporting, muzaki may feel that their zakat contributions are not being used effectively for their intended purposes, which include poverty alleviation, community welfare, and social development. Consequently, the perception of inadequate accountability can diminish muzaki's willingness to contribute through these institutions, further widening the gap between zakat potential and its actual collection.

This study seeks to investigate the relationship between financial reporting practices—specifically accountability and transparency and the trust of muzaki in zakat management institutions. The objective is to analyze to what extent these factors influence muzaki's decisions to entrust their zakat to formal management bodies. By focusing on muzaki trust, this research aims to identify areas for improvement in financial reporting practices that can enhance the reputation and effectiveness of zakat management institutions. Such improvements are expected to foster greater confidence among muzaki, leading to increased contributions and, consequently, a higher realization of zakat collection.

The findings of this study are expected to have significant implications for both policymakers and zakat management institutions. For policymakers, understanding the factors that influence muzaki trust can inform the development of regulations and standards for financial reporting that ensure greater accountability and transparency. For zakat management institutions, adopting best practices in financial reporting can enhance their relationship with muzaki, increase trust, and ultimately improve zakat collection. By bridging the trust gap between muzaki and zakat management institutions, this study aims to contribute to a more effective and transparent zakat system, which can better serve its intended role in addressing social welfare and promoting economic equity in Indonesia.

METHODS

The research adopts an explanatory approach, aimed at identifying and explaining the causal relationships between the variables in question. Specifically, this study examines how the accountability and transparency of financial reporting by zakat management institutions affect the level of trust among muzaki (zakat payers). Explanatory research is well-suited for this purpose, as it allows for a deeper understanding of the relationships between these variables and provides insights into the underlying reasons for muzaki trust or distrust. The research design involves

collecting data through a structured questionnaire distributed to muzaki, focusing on their perceptions and experiences related to zakat management practices. To determine the appropriate sample size for the study, the Slovin formula was utilized, which is a widely accepted method for calculating a representative sample from a larger population (Norazlina, & Abdul Rahim, 2011). As a result, the study targeted 100 muzaki respondents to ensure that the findings would be statistically significant and generalizable to the broader population of zakat payers in Indonesia. Ultimately, 107 muzaki responded to the questionnaire, providing a solid basis for analysis.

To ensure the reliability and validity of the data collected, rigorous testing of the research instrument was conducted. Validity testing was undertaken to verify that the questionnaire accurately captured the constructs it was intended to measure, while reliability testing assessed the consistency of the responses provided by the muzaki. The collected data was then analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS), a statistical method that is particularly effective for analyzing complex relationships between variables. SEM-PLS was chosen due to its ability to handle multiple dependent and independent variables simultaneously, making it ideal for exploring the influence of both accountability and transparency on muzaki trust. This approach allows for the development of a comprehensive model that not only identifies the strength and significance of these relationships but also provides a predictive framework that can be used to assess how changes in financial reporting practices may impact muzaki trust in zakat management institutions.

RESULTS

The results of this study reveal that accountability and transparency in financial reporting significantly influence the trust of muzaki towards zakat management institutions. This positive and significant effect suggests that when zakat institutions provide clear, accurate, and accessible financial information, muzaki are more likely to trust these institutions. The study demonstrates that muzaki trust is not just based on religious obligation or institutional reputation but is significantly shaped by tangible actions taken by zakat institutions to showcase their financial accountability and openness. These findings confirm that financial reporting plays a crucial role in shaping the perception and confidence of muzaki, highlighting that muzaki are attentive to how their contributions are managed and distributed.

Specifically, the data indicates that improvements in accountability, such as detailed disclosures on how zakat funds are collected, allocated, and used, directly correlate with increased trust from muzaki. This is further strengthened by transparency measures, which include the regular publication of financial statements, transparent allocation procedures, and timely communication about how funds are utilized for social welfare. The combination of these factors helps muzaki feel assured that their zakat contributions are managed effectively and in accordance with Islamic principles, which reinforces their trust in the institution. The statistical analysis through SEM-PLS confirms that both accountability and transparency have not only individual positive effects on trust but also combined synergistic effects, further emphasizing their critical role in the effective management of zakat funds.

These findings underscore the importance of adopting best practices in financial management for zakat institutions. Institutions that implement robust accountability measures and enhance the transparency of their operations are more likely to foster strong relationships with muzaki, leading to increased trust and potentially greater zakat contributions. The implications of these results are far-reaching; by boosting muzaki trust through transparent and accountable financial practices,

zakat institutions can more effectively collect funds and fulfill their social objectives. This ultimately can lead to a more efficient distribution of zakat, better poverty alleviation outcomes, and the establishment of a sustainable system that benefits both the contributors and recipients of zakat. The study's outcomes thus serve as a vital reminder of the need for zakat management institutions to prioritize financial transparency and accountability to build and sustain muzaki trust.

DISCUSSION

The discussion of the research findings highlights a critical issue within the framework of zakat management in Indonesia: the need for accountability and transparency in financial reporting to build and sustain muzaki trust. Accountability in financial reporting ensures that zakat management institutions are responsible for the proper allocation and utilization of zakat funds, adhering to ethical standards and Islamic principles. Transparency, on the other hand, guarantees that all financial information is openly accessible to the public, allowing muzaki to scrutinize and understand how their contributions are used. The research shows that these elements are fundamental in fostering muzaki trust, which is crucial for the growth and sustainability of zakat collections. Without trust, muzaki are less likely to channel their zakat contributions through formal institutions, opting instead for direct, often less efficient, disbursements.

The implications of enhancing accountability and transparency are multifaceted. When zakat management institutions improve their financial reporting practices, they are better able to demonstrate their commitment to ethical management and sound financial stewardship. This not only satisfies regulatory requirements but also creates a positive image among potential contributors. The findings suggest that muzaki value detailed and honest reporting, as it reflects the institution's commitment to social welfare and its adherence to Islamic values of honesty, integrity, and fairness. Such practices lead to increased trust and confidence in the institutions' ability to manage and distribute zakat funds effectively, ultimately encouraging more muzaki to contribute through these channels.

An increase in muzaki trust, fueled by better financial accountability and transparency, has the potential to significantly increase zakat collections. When muzaki perceive that their funds are managed transparently and accountably, they are more inclined to entrust their contributions to formal zakat management institutions (Mahyuddin, & Abdullah, 2011). This trust is fundamental to achieving the full potential of zakat collection in Indonesia, which remains largely underutilized. The study's findings imply that as trust in zakat institutions grows, more muzaki will contribute, leading to a more efficient and organized system for collecting and distributing zakat funds. This can contribute to the fulfillment of zakat's core objectives—poverty alleviation, social welfare, and wealth redistribution.

Moreover, enhancing transparency and accountability not only affects muzaki trust but also empowers muzaki by providing them with knowledge and confidence in their contributions. When muzaki are informed about how their zakat is used, they are more empowered to make informed decisions about their charitable giving. This empowerment fosters a sense of active participation in the broader goals of social welfare and community development. It aligns muzaki's individual religious obligations with collective social benefits, creating a stronger community bond and promoting the sustainability of zakat as a tool for socio-economic development.

The study encourages zakat management institutions to take actionable steps towards improving their financial reporting practices. This includes adopting standardized financial reporting frameworks, regularly publishing transparent financial statements, and communicating clearly with

muzaki about how funds are used. These practices not only comply with legal and religious obligations but also build credibility and trust among the public. Zakat institutions that proactively implement these measures can set themselves apart as trustworthy and reliable organizations, positioning themselves to become leading entities in the zakat management sector. By doing so, they not only fulfill their ethical obligations but also contribute to maximizing the impact of zakat on society.

In conclusion, the research has substantial implications for the management of zakat funds in Indonesia. By establishing a clear link between financial accountability, transparency, and muzaki trust, the study advocates for reforms in the way zakat management institutions handle and report on their financial activities. It suggests that improvements in these areas can lead to more effective zakat collection, better trust between muzaki and institutions, and a more empowered and informed community of zakat payers. Ultimately, this reinforces the role of zakat as an important instrument for social welfare and development, ensuring that the potential of zakat as a source of economic support for the needy is fully realized. The research calls for a concerted effort to enhance the financial management practices of zakat institutions, positioning them to better serve both muzaki and the beneficiaries of zakat.

CONCLUSION

The study emphasizes that transparent and accountable financial reporting is a key determinant of muzaki trust in zakat management institutions. Transparency in this context involves openly sharing financial activities, allocation of funds, and providing regular reports to the public. Accountability ensures that these institutions responsibly manage and distribute the funds according to Islamic principles and community needs. The research has demonstrated that when zakat management institutions prioritize these principles, they are more likely to foster greater trust among muzaki, who are the primary contributors to zakat funds. This trust is fundamental, as it motivates muzaki to contribute more consistently and confidently to formal zakat management institutions, ensuring that the funds are pooled and distributed efficiently for maximum impact.

By focusing on improving transparency and accountability, zakat management institutions have the potential to significantly enhance the collection and effective use of zakat funds. Increased muzaki trust can lead to higher contributions, which, in turn, can enable these institutions to better address social welfare needs, poverty alleviation, and economic development within the Muslim community in Indonesia. Moreover, the improved management and reporting of zakat funds not only fulfill the religious and ethical obligations of zakat but also build a stronger relationship between zakat payers and management institutions. Ultimately, this leads to a more sustainable and effective zakat system that can contribute to addressing social inequalities and uplifting economically disadvantaged groups, reinforcing zakat's role as a critical social and economic instrument in the Indonesian context.

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