

ANALYSIS OF GOVERNMENT BUDGET IN ISLAMIC VIEW : CASE OF ACEH GOVERNMENT BUDGET

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ABSTRACT - Aceh province has a special right to implement Sharia principles throughout the area (Law Number 11/2006) though Indonesia is not an Islam country. Among the Sharia laws implementation, government budget was one of the first to be carried out in the province. It was showed up as Zakat post in the APBD (local government budget). The issue is whether putting in the Zakat post was enough to demonstrate an Islamic based budget as well as the transparence of zakat disbursement. Therefore, this paper trying to analyze the existing budget based on Sharia principles (Islamic Law) as explained by Chaudhry (1999) and Kahf (1997) The provincial budget needs improvement to be more sharia compliance. Fulfilling the Sharia criterion consequently will improve the accountability, transparency and the fairness of the budget toward people needs and development enhancing.

Keywords: Budget system, Zakat, Aceh Government Province

ABSTRAK - Aceh adalah provinsi yang memiliki hak khusus dalam mengimplementasikan prinsip-prinsip syariah dalam wilayahnya (Undang- Undang no.11 tahun 2006) walaupun Indonesia bukanlah suatu negara Islam. Diantara implementasi hukum syariah, anggaran pemerintah adalah satu hal yang pertama yang dikelola dalam provinsi ini. Hal ini muncul pada pos zakat pada APBD (Anggaran Pengeluaran dan Belanja Daerah). Masalahnya adalah apakah penempatan dana Zakat sudah cukup untuk menunjukkan sebagai anggaran yang berbasis Islam serta transparansi dalam penyaluran zakat. Untuk itu paper ini bertujuan untuk menganalisis anggaran yang ada berdasarkan prinsip- prinsip syariah (Hukum Islam) seperti yang telah dijelaskan oleh Chaudury (1999) dan Kahf (1997). Anggaran provinsi perlu perbaikan agar lebih patuh syariah. Dengan terpenuhinya kriteria syariah maka akan meningkatkan akuntabilitas, transparansi, dan keadilan dalam anggaran terhadap kebutuhan masyarakat dan meningkatkan pembangunan.

Kata Kunci: Sistem Anggaran, Zakat, Pemerintah Provinsi Aceh



INTRODUCTION

Provincial Government of Aceh designs the budget (*Anggaran Pendapatan dan Belanja Daerah - APBD*) following the central government fiscal year¹. Government budget supposed to reflect the size of government intervention in the economy in order to correct some market failures occurred. Aceh is one of the provinces in Indonesia rewarded the special autonomy and the right to implement Islamic law throughout the provincial territory based on Law No. 11/2006. The fiscal decentralization revolution took place in 1999 has made the local government think about expanding the revenue based on local economy while intergovernmental transfer from central government supposed to fill in the gap of the fiscal need and capacity of the local government.

The province budget then characterized by zakat post as one of government revenue (Article 180 (1) of Law No. 11/2006 stated about zakat as one of own resource revenue). The action considered as recognizing sharia compliance to the government budgeting. The effort need to be recognized as part of the implementation of sharia in the province. However, suitability implementation with the sharia principles need to be explored hence this paper tries to analyze the implementation of the government budgeting from Islamic perspective.

This paper is organized as followed introduction, introductory government budget theory, government budget in Islamic perspective, analysis of government budget of Aceh Province:, Proposed Framework of Zakat budgeting, and conclusions.

GOVERNMENT BUDGET: INTRODUCTORY OVERVIEW

The introduction of government as the third sector in an economy is aim to correct some market function failures. The government intervention to the economy reflects either in the central or local government budget. Government budget consist of revenue and expenditure designed to fulfill the need of the people which fail provided by private-market system. In developing countries, the need for government role even bigger for issues like human resource development, foreign exchange insufficiency, low saving, poverty and limited institutional development are more crucial problem than those in developed countries (Howard, Faucade & Scott 2009).

¹Starting year 2000, Indonesia government fiscal year starts on 1 January to 31 December of the current year.



The revenue derives from taxes, charges (retributions), natural resources, and/or borrowing. Taxes are compulsory and have no direct return/benefit while charges paid due to the benefit accepted. Taxes receipts foreseen as a sustainable source of revenue and are policy tools (i.e. tax on liquor or cigarette to limit trade on the goods). As the source of revenue the tax should fulfill the criteria of adequate yield, equal tax burden distribution, minimized excess burden, facilitates stabilization and growth objective, fair and well administered, minimum administration and compliance cost. (Musgrave & P.B., 1989)

Further, a country with several level of government will divide the tax imposition accordingly. The taxes levied on the higher level government based on the mobility of the taxed objects. The mobile factor will not bear the local taxes (Musgrave & P.B., 1989; Stiglitz, 2000). In Indonesia, the tax allows to provincial or kabupaten/kota to collect regulate under Act no. 33/2004.

The expenditure principle to multilevel government based on the externality or redistribution incurred by the programs/projects (Anderson, 2012). Hence, expenditure design in line with public goods provide in the area. For example, national defense should be bear by central budget while schools or highways financed by local budget due to the benefit intake. Additionally, the expenditure generally disburse according to some principle such as type of projects (divisible or indivisible), measured social benefit and cost (including the shadow price of the intangible benefit and cost), then selecting the projects based on the cost and benefit analysis (Musgrave & P.B., 1989).

Adapting such principles in designing government budget optimize the role of the government in achieving the macroeconomics goals of the country optimum output, employment or price stabilization.

GOVERNMENT BUDGET IN ISLAMIC PERSPECTIVE

Government role in the economy is classified into some criteria. Smith's role of government entail the national defense, administration of justice, and provision of public goods while Musgrave categorized the economic role of government into allocation (resource allocation of public goods), distribution of income (eliminating income gap) and stabilization (maintaining output, price and employment at stable rate). These roles appear as the capitalism failed to clear out some problems such as the existence of public goods where private reluctant to produce, externality, natural monopoly, and inexistence of perfect information which is one of the foundation of market economy. Therefore,



government intervention needed to correct the market failure (Anderson, 2012).

Nonetheless, the role of Islamic state is those believes in and implement Islamic mandate to every aspects of life (Possumah & Ismail, 2012). In broader view, improve the capability of the state to level of achieving the ability to protect the religion, the society and spreading the value of Islam throughout the world by improving the economy, science and technology and military necessary (Kahf, 1997) as cited in (Possumah & Ismail, 2012).

Chaudhry, 1999 explain some criteria on government budget based on Islamic perspective. The revenue that government may collect has appointed in the Quran are, first, zakat, mentions many times in the Quran as one of the obligation of the Muslims (QS. 2:43, 9:103) and part of the five pillar in Islam. For zakat, it is not a private charge hence must collected by state institution or 'Amil institution such as Baitul Mal as reflect in Quran 22:41 and 9:103 (*Noble Quran*, 1999). Moreover, Kahf (1997) mention that leaving the zakat management to state has two benefit (within legal boundaries and allows state to supervise the distribution) hence maximize the impact to the society.

Second, source of revenue is Ushr or tax on agricultural production which paid one tenth of the crops. The collection refers to Quran 2:267 and 6:141 (*Noble Quran*, 1999). Next, is al Khums, the produce from mines or mineral or sea products of the conquered land paid with rate of 20%. The collection is based on Quran 8:41 (*Noble Quran*, 1999). Jizyah and Fai are other revenue collected based on Quran 9:29 and 59:6-7 (*Noble Quran*, 1999). Jizyah is tax imposed on non-muslim resident in lieu of Islamic state protection and the latter is the war gain. Then, al Kharaj is an agricultural tax received from non-muslim owner of the land and collected based on Quran 59:7-10 (*Noble Quran*, 1999). For Indonesia most of these sources of revenue are not eligible choice. But, in practice there are other possible sources of revenue for the state such as import tax (practice during caliphate Umar), income from land own by Baitul Mal, waqf, lease/license, property found from thieves or robber or no claim from owner, estates from no heirs and no will, property of zimmi-rebels guilty of treason and income from forest. Levying other tax was allowed under strict condition² and the possibility of withdrawing the tax after the purpose is fulfilled. Moreover, (Faridi, 1983) suggest that other tax can be imposed to regulate price fluctuation and provide public goods to ensure social welfare.

² Some conditions are levied for emergencies, holding the principles of equity, justice, and fairness, and most importantly must not be inconsistent with any injunction of provision of Islam.



In case of zakat, Kahf (1997) highlight some condition for zakat to impact in an economy. First, the revenue from zakat receipts is enough to cover the needs. Second, government is responsible for collecting and the disbursing of the zakat as well as regulating the methods of disbursement. The cost of collecting must not exceed 12.5% or to be the most minimized. Finally, zakat cannot be an alternative to other policy so that government still has revenue from those already imposed. Once these conditions met then the impact can be view as substitution of budget revenue directly and increasing tax based and productivity, consumption, investment, employment³ and tool of economic policy (indirectly).

State expenditure budget reflected as welfare and general budget where the shortfall of welfare transfer from general but not in reverse since welfare spending is to the poor and needy while general is spend for civil administration, defense, economic development debt payment etc. Furthermore, the principles in budget spending should be the intention of the wellbeing of people. Then, priority made based on the larger interest of the majority, eradicating hardship and injury, saving public sacrifice rather than private loss and consider that those receive benefit bear the cost (Chaudhry, 1999). The next table depicts the comparison of conventional and Islamic budgeting system:

Table 1. Comparison of conventional and Islamic budgeting

	Conventional		Islamic
Revenue	Taxes resources	Charges Borrowing	Natural Zakat, Ushr, Khums, Kharaj, Jizyah, Fai Other revenue recognized by shariah (i.e. import taxes, lease, unclaimed property, etc.)
Expenditure	(Indonesia Case) Operational Capital		General Welfare

In summary, conventional budgeting revenue rely on taxes and retributions imposed based on laws and the expenditure based on projects cost and benefit analysis. On the other hand, Islamic budgeting, the revenue based on the Quran and the additional source can only imposed holding the principles of equity, justice, and fairness without any divergence from the provision of Islam while the expenditure based on the interest of the people, poverty eradication, saving public sacrifice than individual loss.

³Study by (Beik, 2009) evidence the empirical impact of zakat to reduce number of poor family from 84% to 74% and lessen the poverty depth



GOVERNMENT BUDGET OF ACEH PROVINCE: AN ANALYSIS

The local government revenue consist of own resource income and intergovernmental transfer in the budget (APBD). Furthermore own resource income mainly come from local tax and retribution, gain from government's asset and capital management, and other owns resource income (Act no 33/2004). Special for Aceh province in Act 11/2011) about Aceh government has include Zakat as one of the own resource income in the local government budget.

Own resource revenue at the provincial level have different type of tax and retribution levied to the people than those at the *kabupaten/kota* level. Tax levied on the provincial level such as vehicle tax, vehicle transfer tax, fuel tax, and surface water tax; while retribution levied for the use of health facilities. When the government sold asset or invest using the state capital then the gain must also recorded on the budget as the revenue which include the interest gain due to fund deposit in a bank current account.

Refer to the criteria exposed in Chaudhry (1999) the tax and retribution levied was not inconsistent with the provision of the injunction of provision of Islam since the tax and retribution levied to those who use the facilities and benefited from it direct and indirectly. For example, vehicle tax levied only to those with cars or motorbikes and revenue then will be used to improve the street/highway (indirect benefit). By paying the health retribution, people can have health examination (direct benefit).

The revenue from local government enterprise and investment need to look carefully because when the government invests in a conventional bank then the return is questionable in Islamic perspective. Similarly to the action of depositing the government fund into a current account in a conventional bank before disbursement which result in some amount of interest then the revenue cannot considered as the revenue based on the Islamic principles.

The most interesting part in analyzing the Aceh government budget is the zakat post which become the trademark of the Islamic law implementation to the province and officially recognized at the national level (Act no 11/2011 article 180(1) about including zakat as one of own resource revenue). The recent study on zakat potential in Aceh showed that the province has IDR 1.4T which is about 2.5 – 3.6% of the province GDRP (aceh.tribunnews.com, 2015). Kahf (1997) point out that when zakat collection more than 1% of GDP then the impact to government budget directly and indirectly (direct substituting effect



and indirectly productivity, employment and economic policy). The existence of zakat in APBA in the last three years depict in the next table :

Table 2. Zakat budget and actualization

Tahun	Budget (Billion rupiah)	Actual (Billion rupiah)	%
2011	5	8.47	169.5%
2012	8.96	10.28	114.69%
2013	10	13.30	132.99%

Source: Budget actualization report

The figures showed that there is always an increase in zakat collection every year and the actual collection always more than 100% the estimation. Therefore, the source is very potential to develop, though, the collection still only about 1% of the own resource income.

The issue with the zakat collection arises when the state audit agency release the report on potential budget misconduct for the zakat collection where the report said that there is a delay in zakat deposit to state account and there is possibility of interest gain if the fund deposit in other account (www.modusaceh.com, 2010). The statement need to be analyze carefully as for zakat as a pure fund that must not mixed with non halal revenue such as interest. This suspicion then not supposed to happen when both the manager and the auditor realized the essential of zakat fund. Therefore, a special methods and regulation needed to be issued to accommodate the collection and disbursement of zakat as part of government revenue.

Based on the principles of government spending explain by Chaudhry (1999), the APBD-Aceh rather difficult to analyze in detail since the LRA (budget accrual report) format was very general. Nevertheless, as mention in the book of "Deskripsi dan Analisis APBD 2014" released by Ministry of Finance, portion of budget goes to the province development was the capital expenditure (*belanja modal*) while others goes to governmental operation. The last available years (2011-2013) data revealed that the ratios of capital expenditure to total expenditure are 21.2%, 10.45% and 16.26%. The more comprehensive analysis need more detail on program execution and implementation so that the extent of the program following the Islamic budgeting principles can clearly examined.

Further, one needs to highlight on the budget expenditure; the zakat expenditure is not explicitly stated on the budget expenditure items. Such condition may reduce the accountability and the transparency of the budget



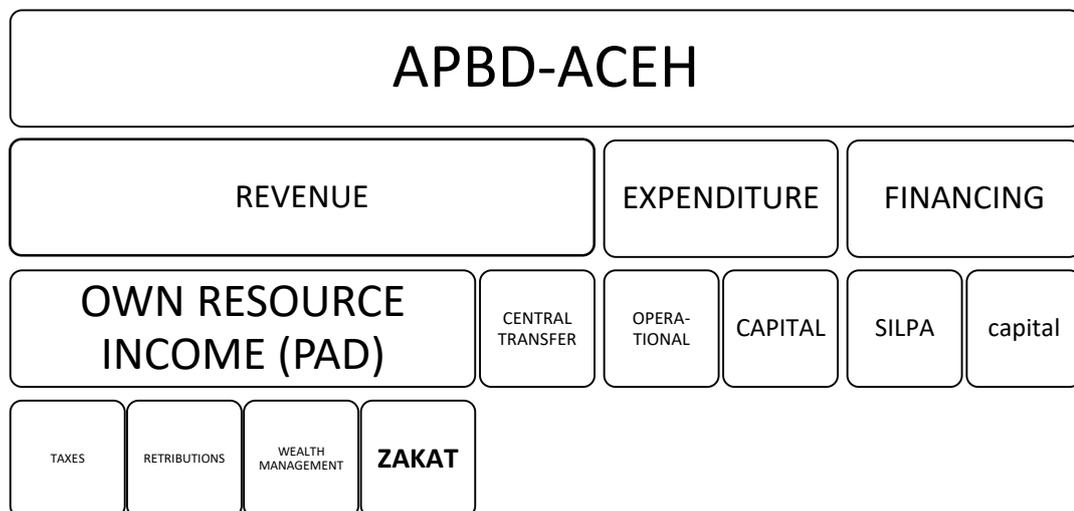
whereas zakat expenditure should strictly follow the Quranic guide (QS.9:60) of spending (*Noble Quran*, 1999).

The critiques on zakat expenditure mention by the state audit agency (Badan Pemeriksa Keuangan-BPK) was direct disbursement of zakat without the budget (APBA) mechanism (www.modusaceh.com, 2010). This condition then needs some considerations and thoughts of how to manage the zakat in more sufficient way in line with sharia principles. For illustration, in time of Daulah Abasiah when the Islamic accounting considered most developed, the government recorded the revenue and expenditure of zakat in special ledger called Jaridah Al Mal (fund journal) as mentioned by Zaid (2001) as cited in kanalislam.com (2014).

In conclusion, overall, the provincial budget needs improvement to be more sharia compliance. Fulfilling the sharia criterion consequently will improve the accountability, transparency and the fairness of the budget toward people needs and development enhancing. Hence, the role of government will be optimized as the result.

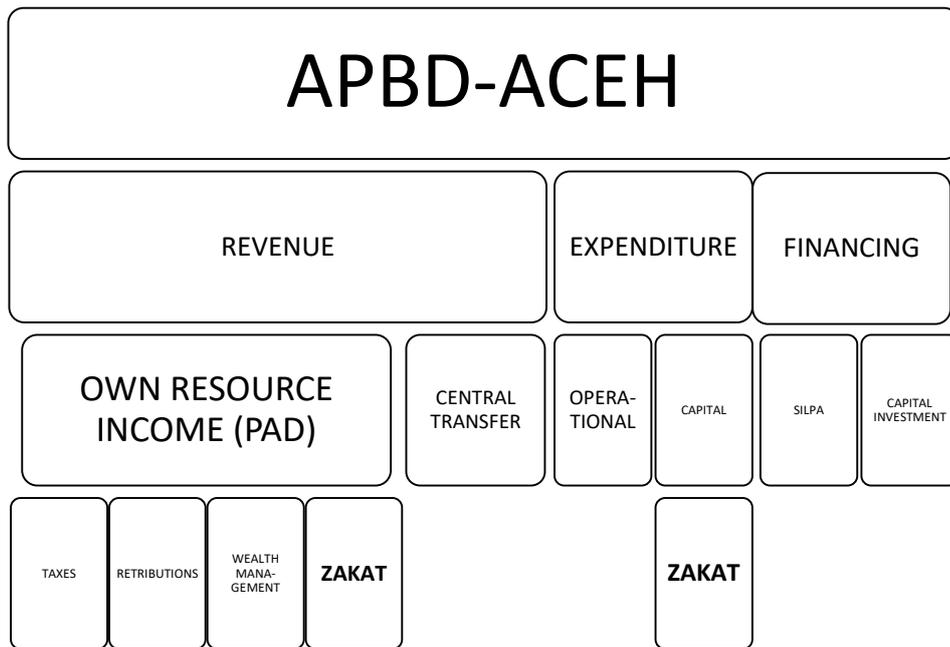
PROPOSED FRAMEWORK OF ZAKAT BUDGETING

The existence of provincial budget of Aceh can be schematized as follow:



Proposed scheme:



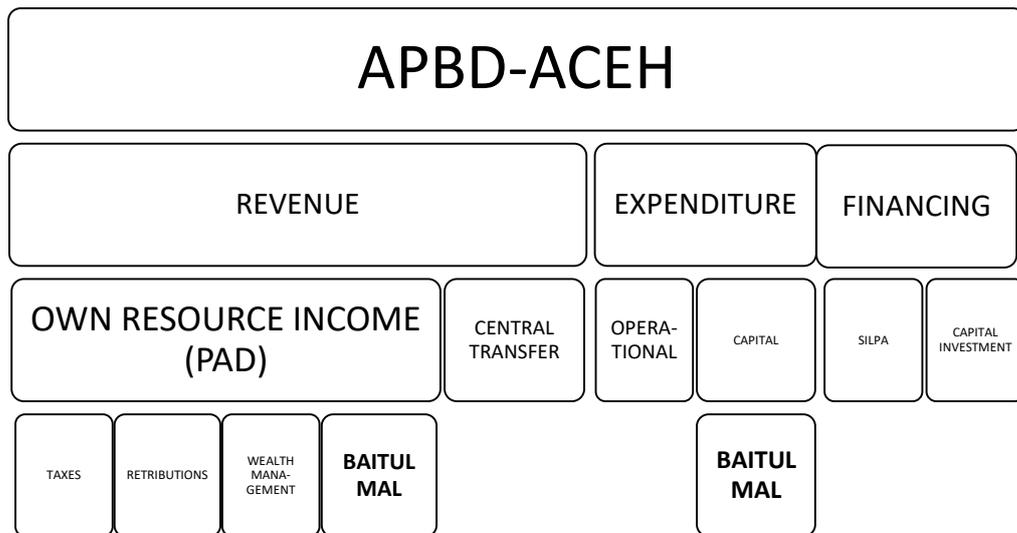


The proposed scheme seems very simple just to verify that the zakat expenditure explicitly stated to the budget. But, this simple act then will show some implication. First, clarity and transparency of the zakat practice where the explicit recording strongly recommended in Islam in order to avoid dispute and disagreement (QS 2:282) and gain trust (QS 28:26) to the ruler (*Noble Quran*, 1999). Second, accountability, the government as the ruler of the area responsible for every policy enactment and the impact incurred which clearly stated in the Quran 6:165 therefore every ‘amanah’ must be assured to reach the beneficiaries (QS 8:27).

The beneficiaries of zakat has clearly stated in the Quran (QS. 9:60) that are for the poor and the needy, for those employed to collect zakat, those bringing hearts for Islam, freeing captives or slaves, those in debt, and for the cause of Allah and for traveler in an obligation imposed by Allah (*Noble Quran*, 1999).

Another scheme this paper would like to propose is to put Baitul Mal instead of zakat in the budget. The scheme becomes:





The Baitul Mal as Islamic wealth management should adopt the management strategies as propose in Possumah and Ismail (2012) which cover the enhancement of income source and income distribution simultaneously. As income sources, the Baitul Mal re-exploring new fund development potential, establishing procedures on unclaimed money, charity product branding etc. On the other hand, as income distribution channel, Baitul Mal disburses revenue in form of charity donation, micro financing, sukuk investment or social security net.

In summarize, the essence of the proposed scheme was to explicitly report the zakat to public under provincial budget reporting. Though, Qanun No. 10/2007 article 11 already mention about Baitul Mal accountability report to governor and society but the reporting form has not explicitly stated. Hence, this paper suggests that the reporting should be included in the provincial budget for the constituent of Aceh to monitor the disbursement of the fund.

CONCLUSION

Aceh is the only province in Indonesia grand with the authority to implement sharia principles throughout the province. One of the aspects of sharia principles implemented is having the zakat into provincial budget. Unfortunately, it is recorded explicitly as the revenue but is not explicitly recorded on the expenditure side. Hence do not fulfill conditions for appropriate the recording system where zakat revenue can only be disburse to given expenditure based on the Quran. Therefore, this paper proposes the



schemes to overcome the issue by recording zakat explicitly on the expenditure or using Baitul Mal as part of the budget system.

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