

# Islamic philanthropy and the private sector in Indonesia

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## Abstract

This paper investigates the growing initiatives within the private sector to organize social welfare activities, and analyzes the way in which zakat (alms) is practiced among Muslim businessmen. The establishment of zakat agencies within private companies has marked the latest trend of the practice of philanthropy in Indonesia. Corporation-based zakat collectors have become new players in the rapid growth of the Indonesia's zakat sector in the past two decades. This paper examines the following issues: what are the main forces stimulating corporations to set up zakat collectors; what kinds of religious ideas are applied to mobilize charities from Muslim workers, and how these concepts are interpreted and practiced within private companies? This paper argues that the inception of a new concept in zakat practice, such as zakat on corporate wealth, has indicated the dynamics process of Islamization of the private sector in Indonesia.

Tulisan ini meneliti inisiatif yang tumbuh dalam sektor swasta untuk mengatur kegiatan kesejahteraan sosial, dan menganalisa cara di mana zakat (sedekah) dipraktikkan di kalangan pengusaha Muslim. Pembentukan lembaga-lembaga zakat dalam perusahaan swasta telah menandai tren terbaru dari praktek filantropi di Indonesia. Perusahaan berbasis kolektor zakat telah menjadi pemain baru dalam pertumbuhan yang cepat dari sektor zakat Indonesia dalam dua dekade terakhir. Makalah ini membahas isu-isu berikut: apa kekuatan utama merangsang

perusahaan untuk mendirikan kolektor zakat, apa jenis ide-ide keagamaan yang diterapkan untuk memobilisasi amal dari para pekerja Muslim, dan bagaimana konsep-konsep ini ditafsirkan dan dipraktekkan dalam perusahaan swasta? Makalah ini berpendapat bahwa lahirnya konsep baru dalam praktek zakat, seperti zakat pada kekayaan perusahaan, telah menunjukkan proses dinamika Islamisasi sektor swasta di Indonesia.

**Keywords:** *Philanthropy; Corporate social responsibility; Zakat; The private sector*

## **Introduction**

The private sector and the voluntary sector have often been positioned diametrically in the organizational theory, as the two sectors hold different purposes and functions. The former comprises profit-oriented companies, such as national and multi-national corporations; while the latter consists of non-profit organizations. In recent times, there were indications showing that profit-centered companies and NGOs can make a partnership. NGOs could act as "vital partners of corporations" in line with the growing intervention of what is to be called the CSR (corporate social responsibility) in "reinventing and reengineering" social development process.<sup>1</sup> In this regard, the Muslim world has also witnessed the growing encounter between the private and voluntary sectors. Current studies carried out in the Middle East, such as Egypt, Jordan, Saudi Arabia, Qatar, and Kuwait suggest that there are overlaps between religiously-motivated philanthropic activities and ideas of corporate social responsibility and this overlap leads to the spawning of religiously and economically hybrid Islamic charitable foundations.<sup>2</sup>

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<sup>1</sup>Manuel E Contreras, *Corporate Social Responsibility in the Promotion of Social Development*, Washington, DC: Inter-American Development Bank, 2004.

<sup>2</sup>Barbara Lethem Ibrahim and Dina H. Sherif, *From Charity to Social Change: Trends in Arab Philanthropy*, Cairo and New York: the American University in Cairo Press, 2008.

It appears that the interplay between voluntary associations and profit-centered companies has taken place in Indonesia as the world's largest Muslim country.<sup>3</sup> In the last two decades, there has been a considerable increase in the numbers of charitable organizations founded by Muslim professionals working in national and multi-national companies. Muslim professionals and businessmen are instrumental in introducing an innovation in today's zakat practice, in redefining the concept of Islamic benevolent acts in the private sector, as well as in discovering a new zakat organizing to handle both charity and CSR funds. It is also among Muslim experts that the notion of zakat on corporate wealth (*zakat al-muassasa*) is formulated.

The idea of zakat on corporate wealth, as we will discuss in the next sections of this paper, has become a key issue in the recent discussion of philanthropy in Indonesia. In 2008, a seminar on 'zakat on corporate wealth' was conducted in Jakarta. This seminar was attended by a number of Muslim scholars, professionals and social activists. The seminar aimed at exploring the fatwas (Islamic legal opinions) of the Indonesian Ulama Council (MUI) about zakat on corporate wealth. The MUI seemed to be reluctant to issue fatwa about zakat on corporate wealth. At that juncture, the MUI came to believe that zakat could only apply to individual Muslim. Ma'ruf Amien, the head of fatwa commission of the MUI, argued that zakat payment represents personal religious devotion, and zakat should be paid on behalf of an individual Muslim, not an institution.<sup>4</sup>

Nevertheless, in January 2009, the MUI held the 3<sup>rd</sup> Meeting of the Islamic Scholars (*Forum Ijtima Ulama III*) in Padang-West Sumatra.

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<sup>3</sup>Mohamed Ariff, *The Muslim Private Sector in Southeast Asia*, Singapore: ISEAS, 1991; Mohamed Ariff (ed.), *The Muslim Voluntary Sector in Southeast Asia*, Singapore: ISEAS, 1991.

<sup>4</sup>*Republika*, 3 April 2008.

In this forum, many Muslim scholars from Islamic associations were invited to share their concern and opinion on particular Islamic legal problems. One of the issues discussed was zakat on corporate wealth.<sup>5</sup> The result of this meeting suggested that zakat on corporate wealth is mandatory (*wajib*), and all companies have fulfill their duties by paying zakat. The notion of zakat on corporate wealth is mainly juxtaposed with that of zakat on commerce (*tijārah*). This means that profit-making companies should spend 2.5% of their revenue for religious purposes, zakat. What is interesting to me is that zakat collectors in Indonesia do not refuse the MUI's legal opinion about zakat on corporate wealth. This is perhaps because the fatwa certainly will increase zakat collection from private companies.

The newly-issued fatwa about zakat on corporate wealth has far reaching consequences to the zakat practices in Indonesia as a whole, especially among private sector organizations (companies). For example, the participation of companies in financing social works, charitable services, and Islamic *dakwah* activities grow significantly. The numbers of companies that set up zakat agencies increase either. However, the fatwa was not underpinned by strong arguments, and, therefore, and the implementation of the fatwa is practically still problematic.<sup>6</sup> According to Didin Hafifuddin, the director of BAZNAS, there are six categories of corporations eligible to pay *zakat*: 1) the company

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<sup>5</sup>According to this meeting, *zakat* can be levied from a corporation under certain circumstances: 1) there is a rule (law) insisting the *zakat* levied from a corporation; 2) the company's statute mentions something about zakat on corporate wealth ; 3) company's share holders have made a particular policy on corporate zakat; 4) company's share holders agree to transfer *zakat* on their stock to company's board of director. Apart from this, in promoting corporate *zakat* the BAZNAS and other *zakat* agencies refer to the First International Meeting on Zakat conducted in Kuwait 1984.

<sup>6</sup>Institut Manajemen Zakat, *Panduan Zakat Praktis*, Jakarta: IMZ, 2007; Didin Hafifuddin, *Anda Bertanya tentang Zakat, Infaq dan Shadaqah: Kami Menjawab*, Jakarta: BAZNAS, 2006, 24.

is owned by Muslims; 2) the company runs business that is acceptable according to the Islamic principles; 3) the company's values can be counted; 4) the company's business can grow; 5) the company's assets are equal to—or more than—85 gram of gold; 6) the company's activities are related to trading.

In the views of some observers, there are several arguments that can be utilized to condemn the fatwa. First of all, from the perspective of Islamic orthodoxy, the imposition of zakat rule in the private sectors (companies) can attract a huge debate among scholars, as zakat on corporate wealth is never clearly discussed in the Islamic classical texts. Second, from the perspective of companies, the MUI's fatwa is regarded as an 'ambiguous' and 'pragmatic' approach. The objective of this fatwa is simply mobilizing social funds. The problems to appear for zakat collectors are how to persuade corporations, which are spiritually or religiously not affiliated to any religion, to pay zakat; and which corporation is (and is not) obliged to pay zakat. Third, one may argue that a commercial company is a legal entity contingent upon other laws (i.e. Law on Corporation and the Law on Capital Investment), and at the same time, it cannot be associated with a particular religion. In other words, companies are 'value-free'. It is, therefore, unsurprising that the success stories pertaining to the mobilization of zakat on corporate wealth are very rare, despite the fact that in some regions of Indonesia, such as Nanggro Aceh Darussalam, West Sumatra, West Java, and Celebes, zakat on corporate wealth is also included in the Shari'a by Law enacted at the provincial and municipal (district) levels.

Keeping the above the development of the zakat sector in Indonesia in mind, this paper will explore the institutional development of zakat organizing within Indonesian companies. There are two corporation-based zakat organizing to be discussed: the first is BAMUIS Founda-

tion, a zakat organizing established by Indonesian National Bank (BNI); the second is Baituzzakah Pertamina, a zakat committee established by Indonesian Oil Company. I will make a brief comparison between the implementation of zakat in the two companies above and the practice of CSR in the Islamic banks.

### **Muslim social concern in the bussiness sector**

In order to understand the current development of the relationships between corporations and philanthropy; it is worthy to explain the types of the private sector in the Indonesia's social and political landscape. In the colonial period, Indonesian economy was mainly controlled by foreign companies. Dutch companies mainly worked on the plantation, mining, international trade, banking, shipping, manufacturing and construction. The medium scale of the business sector was managed by Chinese entrepreneurs. In the colonial era, Chinese bussinesmen "became the middlemen in the economy" as they were able to link "the modern Dutch-controlled economy with the traditional sector." Meanwhile, native Indonesians and Muslim entrepreneurs run small scale of businesses in the fields of agriculture, petty trade, local transportation, batik and handicraft.<sup>7</sup>

After the Indonesian Independence in 1945, Indonesia began promoting the ideas of 'economic nationalism' or 'nationalization' which was partly materialized in the process of 'decolonization of Indonesian economy'.<sup>8</sup> The notions of justice and national sovereignty were em-

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<sup>7</sup>Bahauddin Darus, "Venture Capital: The Indonesian Experience", in Mohammad Arif, *The Muslim Private Sector*, 162-163. Robert W. Hefner, "Market and Justice for Muslim Indonesians," in Robert W. Hefner (ed.), *Market Cultures: Society and Values in the New Asian Capitalism*, Singapore: ISEAS, 1998, 224-250.

<sup>8</sup>See Thee Kian Wee, "Indonesianization Economic Aspect of the Colonization of Indonesia in the 1950s," in J. Thomas Lindblad and Peter Post (eds.), *Indonesian Economic Decolonization and in Regional and International Perspective*, Leiden: KITLV, 2009, 19-38.

bedded in the ideas of economic nationalism. To a lesser degree, racial and ethnic sensitivity had characterized economic nationalism, and the Chinese entrepreneurs, in particular, became the target of 'discriminatory' policies. Yet, economic activities among Chinese businessmen were not entirely weakened. The very close ties between the top elites of the New Order regime and Chinese entrepreneurs enabled Chinese businessmen to become major economic players in the New Order era.<sup>9</sup> Together with military officers, Chinese entrepreneurs expanded their business units by controlling the Banking sector, plantations, and manufacturing. Business expansion in the aforementioned sectors among Chinese entrepreneurs becomes the main reason why they are classified as the 'strong category' of economic players in Indonesia.<sup>10</sup> Some big enterprises, in fact, were controlled by state-owned corporations, Indonesian military business, and Chinese entrepreneurs.

Following the oil boom in the 1960s-1970s, Indonesia underwent a rapid economic growth; the private sector began flourishing either. This coincided with the flows of foreign investments in the various business sectors; mining, oil, gas, banking, telecommunication, pharmacies, etc. Chinese businessmen, in particular, still became the strong economic players in agriculture, cigarette factories, palm oil, automobile, flour production and others. In Soeharto era, a number of Chinese entrepreneurs could control industrial and financial conglomerates.<sup>11</sup> Beyond the success stories of Chinese businessmen, the economic and social gap between the Chinese and *pribumi* (indigenous Indonesian) became increasingly visible. This gap, in turn, led to the rise a new aware-

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<sup>9</sup>Bahauddin Darus, "Venture Capital: The Indonesian Experience"..., 164.

<sup>10</sup>Bambang Purwanto, "Economic decolonization and the rise of Indonesian military business", in J. Thomas Lindblad and Peter Post (eds.)..., 39-58.

<sup>11</sup>Rajeswary Ampalavanar Brown, Indonesian Corporations, Cronyism, and Corruptions," in *The Rise of the Corporate Economy in Southeast Asia*, London: Routledge, 2006, 80-108.

ness among *pribumi* of the social injustice and economic inequality. Concerning the economic development in Indonesia and the economic gap among Indonesian society, Robert W. Hefner notes, "though attitudes toward the market and capitalism have changed greatly, there remains one obstinate problem in public perceptions of the new capitalism: the widely shared conviction that Muslims do not enjoy a fair share of Indonesia's economic pie." Hefner adds, "Though recent economic growth has expanded the ranks of the Muslim middle class, a sizable proportion of the Muslim community remains poor."<sup>12</sup>

Efforts were made by Muslim intellectuals and professionals in order to overcome the economic hardship among the *pribumi*. In the 1970s, Muslim intellectuals and social activists took the initiative to empower society, to alleviate hardship among Indonesian societies, and to narrow the gap between the rich and the poor by fostering small-and medium size of enterprises. The proliferation of NGOs working on development project in the 1970s and 1980s becomes an example how Muslim's social concern developed in response to the unjust political policies. Therefore, the notions of justice, welfare, and Islamic economy began to be disseminated by Muslim public intellectuals and NGO activists. It should be noted that, during the New Order era, the impact of Islam on the government policies was not as strong as in Reformasi era. Nevertheless, in the last years of the New Order regime, Soeharto provided a viable space for Muslim professionals and academia to insert some Islamic key ideas into the business sector. For example, the idea of Islamic economy could be translated in a concrete way, partly represented by the establishment of Islamic financial institutions, such as Islamic savings and loan cooperatives (*BMT-Baitul Mal wa Tamwil*)

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<sup>12</sup>Robert W. Hefner, "Market and Justice for Muslim Indonesians"..., 228.



and Islamic banking. Ever since, both government-sponsored and private banks in supporting the operation of Islamic banks have grown significantly.

The initiative to develop Islamic ethical theory in the social and economic fields became increasingly popular among the middle class and professionals. The fall of Soeharto in 1998, and the rise of Reformasi era under President B.J. Habibie gave a wider opportunity for Muslims to implement the Islamic views in the business sector. As a result, the numbers of Islamic Bank grew rapidly. In the New Order era, there was only one Islamic bank, namely *Bank Muamalat Indonesia* (BMI), and after the fall of Soeharto, both state-owned banks and private banks started opening Islamic banks. (See Table 1)

Table 1  
Shari'a Bank in Indonesia

No	Name of Bank	Date of Operation	The number of Branch Offices (2010)
1	Bank Muamalat Indonesia	May 1, 1992	75 branches offices 51 sub-branch offices
2	Bank Syariah Mandiri	November 1, 1999	115 branches offices 254 sub-branch offices
3	BNI Syariah	April 29, 2000	28 branches offices 31 sub-branch offices
4	Bank Mega Syariah	August 25, 2004	33 branch offices 319 sub-branch offices
5	Bank Syariah Bukopin	December 11, 2008	-
6	Bank BRI Syari'ah	January 1, 2009	-
7	Bank Panin Shari'ah	December 1, 2009	-
8	Bank Victoria Shari'ah	April 1, 2010	5 branch offices 2 sub-branch offices

No	Name of Bank	Date of Operation	The number of Branch Offices (2010)
9	BCA Shari'ah	April 5, 2010	8 branch offices 20 Shariah Service units
10	Bank Jabar Banten Shari'ah	May 6, 2010	21 branch offices 15 sub-branch offices
11	Maybank Shari'ah	September 23, 2010	(Malaysian bank)

Sources: *Republika Shariah Directory*, July 2010, *Indonesia Syari'ah Economic Outlook (ISEO) 2011*, and other reports.

### CSR: regulation and islamization

The engagement of business organizations with social services and sustainable development projects in Indonesia cannot be detached from the government's laws that regulate the roles of corporations in fulfilling societal needs.<sup>13</sup> The state's regulations on corporation have greatly appealed the private sector to be close to social enterprises.<sup>14</sup> There are laws enacted by the Indonesian government to urge corporations to organize sustainable development plans, such as the Law on Environment No 23 Year 1997, the Decree of the Ministry of the State-Owned Companies in 2003 on the partnership program between the state-owned companies and small-economic enterprise and environ-

<sup>13</sup>In order to underpin their social activities, these (public, private and voluntary) sectors mainly rely on the culture of giving which has been rooted in society over the centuries. As suggested by an observer, "The fusion of business, government, and societal values became the basis for ethical relationships and community giving, not only between individuals and society, and between citizens and government, but also between buyers and merchants." *Joaquin L. Gonzalez III*, *Corporation-Community Collaboration for Social Development: An Overview of Trends, Challenges, and Lessons from Asia*, in Manuel E Contreras, 4.

<sup>14</sup>Adi Sasongko, *Collaboration of NGOs and Private Sector in Improving the Health of Primary School Children in Jakarta, Indonesia (1987-2004): Managing Sustainability through Partnership Program*, Manuel E Contreras, 38.

mental conservation. Also, according to the Law on Corporation (UU Perseroan Terbatas) No. 40 Year 2007 and the Law on Capital Investment (UU Penanaman Modal) No 25 Year 2007, private companies must show their social commitment by operating a sort of sustainable development projects.<sup>15</sup> The above listed regulations have justified the private sector to increase their participation, both quantitatively and qualitatively, in fostering the public good. For example, a number of large companies began sponsoring their own foundations, acting as non-profit organizations, such as Putra Sampoerna Foundation (PSF-) (2001) and Bakrie Center Foundation (BCF-2010). Likewise, foreign companies and state-owned companies started establishing partnership with domestic NGO and creating joint projects in social, cultural, environmental, and research fields for sustainable development plans. The private sector's support to social development is partly materialized in the assistance for small- and medium-scale businesses and the informal economy.<sup>16</sup>

In some provinces, the local government also issued regulations on *zakat*, including the practice of *zakat* on corporate wealth. For example, in Aceh, the government considers that the *zakat* is a part of

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<sup>15</sup>According to Law Number 38 Year 1999 on *Zakat* Management (*Undang-undang Pengelolaan Zakat*), there different types of wealth subject to *zakat* law (chapter IV, article 11, number 2), which are *zakat* on: a) gold, silver and money; b) commercial assets and corporation; c) agriculture and fishing; d) mining; e) livestock; f) salary and service income; and g) buried treasure. As this law concentrates on *zakat* administration and attempts to explain who are eligible to administer *zakat* in Indonesia, further vindication, at least in the Indonesian context, about who are entitled to pay *zakat* seems to be failed to notice. Likewise, this law also fails to make clear how to reconcile the notion of *zakat* and conventional tax, especially as regards to 'corporate *zakat*'.

<sup>16</sup>The cooperation between private companies and local communities can be seen in the experience of PT Bogasari Flour Mills which focuses on transforming small-scale enterprises into medium scale businesses, Citibank with education and micro credit projects, and of PT Hero Supermarket Tbk with its partnership with local farmers. TUGI (The Urban Governance Initiatives) and URDI (Urban and Regional Development Institute), *The Role of Civil Society in the Informal Economy*, Jakarta: UNDP, TUGI and URDI, 2004), 45-60.

the fiscal system. This means that the zakat funds become the source of 'original regional revenue' (PAD-*Pendapatan Asli Daerah*). The idea of zakat on corporate wealth has been included in the Provincial Law (Qanun) No. 10 Year 2007 on Baitul Mal. According to the Qanun's article (number 10), the Baitul Mal is authorized to manage zakat funds collected from the central government-sponsored companies (BUMN), the local government-sponsored companies (BUMD), as well as from big private companies.<sup>17</sup> Nonetheless, in reality, there is no clue or convincing evidence to suggest that private companies in Aceh have paid zakat through the Baitul Mal. This indicates that the zakat on corporate wealth is not adequately implemented. There is another problem concerning the mobilization of zakat on corporate wealth. This can be seen in the lack of discussion how to reconcile the idea of CSR and zakat. For instance, the 2011 Zakat Law does not mention anything about CSR, nor does it describe the relationship between zakat and CSR.

A new trend among Indonesian companies relevant to our discussion about CSR and zakat is the increase of the participation of private companies in charitable work, such as humanitarian relief and community services. In many cases, relief and development oriented projects for low-income families run by companies are justified by the notion of CSR. What is interesting is that, in recent times, innovation has been made by Muslim professionals. They have formulated the concept of Islamic [corporate] Social Responsibility' (ISR). The example of how *zakat* on corporate wealth is practiced can be seen in the experience of the Bank Muamalat Indonesia (BMI) and Bank Syariah Mandiri (BSM). As the first private financial company that attempts to apply the con-

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<sup>17</sup>Interview with Sayyed Muhammad Husein, the Head of Fundraising Division of Baitul Mal, Banda Aceh, October 2010. See also *Pedoman Pemungutan Zakat Penghasilan/Profesi dan Arah Penggunaan Zakat* (Guidance of the Collection of Zakat on Salary and the Its Expenditure Direction, *Baitul Mal Aceh*, April 2009.

cept of *zakat* on corporate wealth, BMI since 1993 has put policies in place to allocate 2.5 % of the company's revenues for *zakat*, and levy 2.5% of employees' net income for *infaq*, not *zakat*.<sup>18</sup> This is interesting to discuss because according to the Islamic tradition, the rate of *zakat* on commerce is 2.5% of the net asset, not of the revenues. But of course, levying 2.5% of the total asset can hardly be applied on profit-oriented organizations. Apart from this, there is not agreement among Islamic scholars how to reconcile *zakat* and tax within the private sector. Similarly, in Malaysia different interpretations have shaped different 'assessment methods' for private sector organizations to estimate their *zakat* on corporate wealth: "the net assets (or working capital), net equity (growth model), net profit after tax, combined methods, and dividend methods."<sup>19</sup>

The advocates of the Islamic CSR believed that Islam has provided a strong ethical basis endorsing corporations in Muslim countries to expand their social responsibility projects. The Malaysian economist, Asraf Wajdi Dusuki, has pointed out that, in the Western conception, CSR can be based on several theories, such as 'social contract theory', 'instrumental theory', 'legitimacy theory', and 'stakeholder theory'. Therefore, CSR is often seen as "a means to ingratiate capitalism with a rightly suspicious public."<sup>20</sup> The diverse views of the concept of CSR

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<sup>18</sup>H Zainul Arifin, "Pemanfaatan Dana *Zakat* Perusahaan untuk Pemberdayaan Masyarakat sebagai Wujud Corporate Social Responsibility," in *Forum Zakat, Hasil Rumusan Musyawarah Kerja Nasional I Lembaga Pengelola ZIS*, Jakarta January 07-09, 1999/Ramadhan 19-21, 1419 H, 38-9.

<sup>19</sup>Nur BarizaH Abu Bakar, "A *Zakat* Accounting Standard (ZAS) for Malaysian Companies," *American Journal of Islamic Social Sciences*, Vol. 24, No. 4 (2007), 77; see also Norita Mohd Nasir and Salleh Hassan, "*Zakat* on Business in Malaysia: Issues and Current Treatment," in Bala Shanmugam et al. (eds.), *Issues in Islamic Accounting*, Serdang, Malaysia: UPM Press, 2005, 165-78.

<sup>20</sup>Asraf Wajdi Dusuki, "What does Islam say about Corporate Social Responsibility?," *Review of Islamic Economics*, Vol. 12, No. 1 (2008), 12.

and the absence of “absolute principle of ethical and moral conduct” in Western societies also bring about “a dilemma” for the private sector about the reformulation of their social responsibility. Dusuki comes to believe that the ideas of ‘Divine guidance’ (the *shari’a* and *taqwa*), can provide a comprehensive approach to CSR, especially in Muslim societies. By utilizing notions of *shari’a* and *taqwa*, Dusuki argues that Muslims can use legitimate Quranic concepts of human dignity, free will, equality and rights, as well as trust and responsibility to run CSR. Therefore, for Muslims, CSR should be “a moral and religious initiative based on the belief that a business should be ‘good’ regardless of its financial consequences, be they positive or negative.”<sup>21</sup>

There is another important factor compelling private companies to become new players in the Indonesian philanthropic sector. The increasing process of Islamization during and post New Order era has provided a broader space for Muslim workers to incorporate the Islamic principles of benevolent acts and the notions of justice into the business sector, by among other things, setting up zakat organizing. At the grassroots level, the Islamic forms of giving have overwhelmingly practiced, including among Muslims professionals working in private companies. The mobilization of zakat has become their annual activity, especially during the Ramadhan month. In many companies, the Muslim worker union is instrumental in the inception of the zakat committee.

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<sup>21</sup>Asraf Wajdi Dusuki, “What does Islam say about Corporate Social Responsibility?...”, 18.

Table 2  
*Zakat* Committees within Government owned and Private Companies

No	Name of Corporation	Name of <i>Zakat</i> Committee	Type of Corporation	Business Sector
1	PT BADAQ NGL	LAZ Yaumul	Government owned	Liquid Natural Gas
2	Pertamina	BAITUZZAKAH	Government owned	Gas and oil
3	PT Pupuk Kaltim	Baitul Maa Pupuk Kaltim	Government owned	Fertilizer
4	PT Pupuk Kujang	<i>Baitul Mal</i> Pupuk Kujang	Government owned	Fertilizer
5	PT Semen Padang	LAZ Semen Padang	Government owned	Insurance & finance
6	PT PAMA Bontang	LAZ Nurul Iman	Government owned	Mining
7	PT Telkom	<i>Baitul Mal</i> PT Telkom	Government owned	Telecommunication
8	PT Hotel Indonesia	Baperohis	Government owned	Hospitality

Table 3  
 Bank-sponsored *Zakat* Committees

No	Name Main of Corporation	Name of <i>Zakat</i> Committee	Date of Operation
1	Bank Muallamat Indonesia	Yayasan <i>Baitul Mal</i> Muallamat	Initiated in 1994
2	Bank (Shariah) Mandiri	BPZIS Bank Mandiri	October 1999
3	Bank BNI (Syariah)	BAMUIS BNI	October 1967
4	Bank Mega (Syariah)	NA *	-
5	Bank (Syariah) Bukopin	NA *	-
6	Bank BRI Syariah	Yayasan <i>Baitul Mal</i> BRI	August 2001
7	Bank Panin Shari'ah	NA*	-
8	Bank Victoria Shari'ah	NA*	-
9	BCA Shari'ah	NA*	-
10	Bank Jabar Banten Shari'ah	NA*	-
11	Maybank Shari'ah	NA*	-

\*NA: the Banks build partnerships with other established *zakat* agency to operate social services.

### **BAMUIS foundation (Bank Negara Indonesia)**

BAMUIS, which is the abbreviation of the Baitul Mal Umat Islam ("Muslim House of Treasure") is an Islamic foundation established by BNI (Bank Negara Indonesia). The BAMUIS Foundation was erected

on October 5, 1967 by a number of Bank BNI's employees. The former name of BNI bank was "BNI 1946" as it was founded in 1946. In line with the increase of its capital, BNI turned out to be a commercial bank in 1955, and in turn started to be a "go public" business since 1996. Recently, BNI has managed 914 branch offices in Indonesia and 5 offices overseas. In line with the growing enthusiasm to accommodate the 'Islamic economic system', BNI launched its first Shari'a Division on April 29, 2000 in five cities: Yogyakarta, Malang, Pekalongan, Jepara and Banjarmasin. Within a few years, BNI had expanded its shari'a bank. The rapid growth of Islamic banks in Indonesia indicates a remarkable enthusiasm among societies to use financial services with the Islamic ethical perspective.

BAMUIS was founded 1967, during which time zakat matter was still a marginal subject politically and economically. It implies that the roles of Muslim employees were instrumental in the establishment of BAMUIS. The mission of BAMUIS, as stated in its statute is to collect and redistribute zakat and sadaqa funds in order to improve the quality of life of the community, and to alleviate poverty through education, income generating projects, and the reconstruction of educational infrastructures. The intensified discussion among the members of the Labor Union of BNI, especially the Islamic Learning Board (Badan Pembina Kerohanian Islam Serikat Pekerja BNI-BAPEKIS SP BNI) played essential roles in organizing Islamic charity practices. In 1992, the BNI Labor Union, which was chaired directly by the Winarto Sumarto, S.H., the President of BNI, made a decision to levy 2.5% of salaries every month from all Muslim employees whose salaries are passing the minimum standard of welfare (*nisab*).<sup>22</sup>

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<sup>22</sup>The policy to levy of 2.5% of salaries for *zakat* by BNI was legitimized by a Joint Decree (Letter) between the Ministry of Religious Affairs and The Ministry of Interior No.29 Year 1991 and No. 47 Year 1991.



BAMUIS main benefactors include BNI's employees, retirees, and its customers. The BAMUIS, as a zakat collector, uses the BNI's networks to distribute and dispense charity funds to underprivileged groups of society (the poor, the orphans, elderly) in many regions, to support the establishment of mosques, orphanages, and madrasah, as well as to relieve the poor. Like other corporation-based zakat collector, the BAMUIS usually gives priority to the BNI's employees with lower income. To run its social enterprises, the BAMUIS has established networking with other parties, including BNI worker unions, BNI pension associations, Muslim BNI branches offices, *da'wah* associations, Islamic charitable organizations and NGOs. Another form of BNI's Islamic activities is included in the BNI CSR projects. BNI's CSR constitutes 6 key areas, such as education, health, infrastructure, religious affairs, disaster relief, and environmental preservation.

Table 4  
BAMUIS *Zakat* collection 2008-2010  
(in Indonesian Rupiah/IDR)

Source of <i>Zakat</i> Funds	2010	2009	2008
<i>Zakat</i> on salary of BNI employees	20,078,867,912	21,356,040,036	21,721,889,625
<i>Zakat</i> from BNI's customers and public	577,100,661	475,114,640	498,540,307
<i>Zakat</i> on Pension and BNI's families	683,397,496	604,709,238	545,982,994
Others	500,000	32,475,000	600,000
Profit sharing	4,797,566	5,808,246	2,561,909
<b>Total</b>	<b>21,344,663,635</b>	<b>22,274,147,160</b>	<b>22,769,574,835</b>

### **BAZMA (Baituzzakah Pertamina)**

PT Pertamina (National Oil and Gas Company) is one of the Indonesia's oldest BUMN (State-Owned Company). On December, 10 1957, the

Republic of Indonesia founded the Permina (the former name of Pertamina) as a fruit of a 'nationalization' project of Dutch's petroleum asset after Indonesian independence.<sup>23</sup> It was first headed by Lieutenant General Ibnu Soetowo. Since its inception, Pertamina has monopolized the distribution of oil and gas throughout Indonesia. In the New Order era, Pertamina had considerably contributed to the Indonesian economic growth. The increase of oil price in the 1970s led to the rapid growth of Indonesian economy. As one of the largest State-Owned Company, Pertamina has employed thousands of workers and professionals, and like other oil, gas and mining companies that operate in Indonesia, such as Caltex, ExxonMobil, KUFPEC (Kuwait Foreign Petroleum Exploration Company), CNOOC (China National Offshore Oil Corporation), Pertamina has been associated with big money, big business, and big investment. In short, this national oil company has become a place for high-paid workers and professionals (engineers, lawyers, accountants, technologists, programmers, seller, etc) to work.

Pertamina's sustainable development programs (CSR) can be seen in various projects. As mentioned previously, there are a number of government policies, in the forms of Law and Ministerial Decrees, regulating CSR by, among other things, establishing a partnership with small and medium enterprises as well as by providing programs on environmental development to achieve Good Corporate Governance (GCG). Pertamina's CSR lies in 4 strategic initiatives: education, healthcare, environmental, infrastructure. The Pertamina's CSR projects aim at increasing Human Index Development in Indonesia by supporting projects that relate to the Millennium Development Goals (MDGs). For example, Pertamina's programs on education have been materialized

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<sup>23</sup>For the history of oil company in Pertamina and other oil companies in Indonesia see, Pertamina, *Sedjarah Industri Minyak Indonesia*, Jakarta: Pertamina, 1969.

in the form of scholarship for students at different levels of educations. (See table 5)

Table 5  
Pertamina' CSR in Education (2004-2009)

Year	Recipients	The Values (IDR)	Explanation
2004	2285	640,580,000	
2005	800	332,306,000	
2006	1841	1,198,144,000	
2007	1852	1,274,123,000	
2008	2168	1,618,418,000	
2009	2100	9,362,455,000	The value increased as this project provides scholarship for university students

The Pertamina's zakat agency, namely BAZMA, was first founded in 1992, a few years before the enactment of the 1999 Zakat Law. The director of Pertamina at that time, Faisal Abda'ou, was instrumental in facilitating the seminar on zakat organized by the Labor Union of Pertamina. This seminar emphasized the necessity to mobilize zakat among Muslim workers. The Pertamina's intention to set up a zakat agency was not without obstacles. In 2001, Pertamina received a letter from the Ministry of Religious Affairs (MoRA) to set up a 'zakat collection unit' (UPZ) and to channel the collected funds to the government's zakat agency (BAZNAS).<sup>24</sup> This implies that the government, represented by BAZNAS asked Pertamina's zakat agency (BAZMA) to collect zakat funds but did not give authority to BAZMA to distribute the collected funds.

In response to the BAZNAS' letter, Pertamina (BAZMA) refused to fulfill BAZNAS' request. The supervisory boards of BAZMA worried that

<sup>24</sup>Interview with Amru, executive director of BAZMA Pertamina, 16 Nov 2011.

they would face many difficulties to carry out social activities in the local context once the whole zakat funds are channeled to BAZNAS. For Pertamina, the distribution of zakat functions as a way to strengthen the social cohesion among Muslim workers, and as a mechanism to establish relationships with the local communities. It is reported that there about 19.673 Muslim employees who become potential zakat payers in Pertamina company. 3 years subsequent to the legalization of BAZMA by the MoRA, in 2006, 10 zakat collectors under the auspice of Pertamina could collect IDR 7,410, 775, 742,- from 5345 zakat payers. Until now, BAZMA Pertamina has received regular zakat and sadaqa from Muslim employees. (See table 6)

Table 6  
BAZMA Pertamina Pusat  
*Zakat/ Sadaqa* Collection (in Indonesian Rupiah/IDR)

Year	<i>Zakat and Sadaqa</i> fund	Explanation
2003	502,157,481	BAZMA's legalization by MoRA
2004	1,328,134,760	
2005	1,523,850,934	
2006	1,370,922,490	
2007	1,891,684,458	
2008	1,874,958,481	
2009	-	The Data have not been found yet
2010	1,714,090,486	
2011 (Oct)	22,24,218,003	

**Corporate (islamic) philanthropy and sustainable development**

The implementation of zakat in Indonesia is characterized by the flexibility to make a legal innovation. Idea of zakat on corporate wealth, for example may blur the line between zakat on salary and zakat on corporate wealth, and the boundary between the concept of corporate zakat and CSR. A precise guidance how to implement zakat on corporate wealth is lacking. The absence of the legal umbrella to impose

zakat on corporate wealth has made a practice of zakat within companies is heavily contingent upon the political will of the Board of Directors in the companies. This means that private companies do not have any obligation to implement zakat on corporate wealth; but they can do if the board of directors agreed to issue a policy on philanthropy. The experience of BAZMA of Pertamina suggests that BAZMA regularly received zakat and sadaqa from Muslim employees working in the Pertamina; but it never received corporate zakat.

Moreover, it is necessary to take a look at the experience of the Islamic banks for our comparative studies. The implementation of CSR has become the concern Islamic banks which, in fact, have the ability to implement the idea of zakat on corporate wealth. Some Islamic banks have allocated certain portions of money to finance social activities. They combine the concepts of CSR and zakat on corporate wealth to justify their social enterprises and sustainable development projects. For example, in 2010, Bank Syariah Mandiri (BSM) has channeled Rp. 15.89 billion of its zakat through its zakat agency (BPZIS Bank Mandiri). The zakat funds were allocated to three kinds of programs: economic development, education, and charities to help 21.524 beneficiaries.<sup>25</sup> Meanwhile, the amount of zakat of Bank Mega Syariah (BMS) in 2010 and 2009 was about more than Rp. 2 billion of 85 billion revenues for each year.<sup>26</sup> The zakat fund collected by Bank Muamalat Indonesia (BMI) in 2009 reached Rp. 34,1 billion, and BMI through namely Baitul Mal Muamalat Foundation (BMM) provided 'venture capitals' for 4,697 low income families.<sup>27</sup>

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<sup>25</sup>Annual Report 2010, Bank Syariah Mandiri..., 19.

<sup>26</sup>Annual Report 2010, Bank Mega Syariah..., 49.

<sup>27</sup>Annual Report 2009, Bank Muamalat Indonesia..., 86-87.

The social funds offered by corporations can be taken from different sources: from the employees' charity, from the company's revenues, as well as from 'non-halal' sources. As a matter of fact, apart from zakat and sadaqa, another type of funds provided by Islamic banks to finance social projects is called 'benevolent fund' (*qard al-hasan*). In the banking industry, the *qard al-hasan* means "a loan given to the customer by the Bank for emergency purposes" for a certain period and its repayment can be set either in installments or full "without any profit margin." The benevolent funds can be collected from either halal or 'non-halal' revenues (bank interest). For example, the source of the benevolent fund obtained by Bank Syariah Mandiri (BSM) is from the fines, the non-halal incomes, and the social funds allocated by the banks. The BSM received IDR 1,81 billion in December 2010, and IDR 1,86 billion in 2009. Within two years, the BSM has dispensed IDR 3,20 billion to finance various activities.<sup>28</sup> Although the concept of benevolent fund is mainly translated as an 'interest-free loan' to finance income generating projects, but practically it has often used to support charitable services, such as the renovation of the places of worship and schools, disaster relief, health provision for the poor, etc. The use of benevolent loan for productive small-scale business activities is not always successful, and in many cases the repayment cannot be fulfilled by the borrowers.<sup>29</sup>

Bearing the above explanation in mind, we can conclude that the Islamic banks and their zakat agencies have attempted to translate different kinds of Islamic financial schemes (*zakat*, *sadaqa*, and *qardul*

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<sup>28</sup>Annual Report 2010, Bank Syariah Mandiri..., 139.

<sup>29</sup>See for example Muhammad Akhyar Adnan and Firdaus Furywardhana, "Evaluasi Non Performing Loan (NPL): Pinjaman Qardhul Hasan (Studi Kasus di BNI Syariah cabang Yogyakarta)," *Jurnal Akuntansi dan Auditing Indonesia (JAAI)*, Vol. 10 No. 2, (December 2006), 155 – 171.

*ḥasan*) in a flexible way.<sup>30</sup> The Islamic banks, in particular have provided different financing schemes advantageous to low income households. But it is worth noting that, in terms of professionalism, the role of Islamic banks in supporting and assisting their customers in the formal and informal economic sectors is differing from their support to those who use the 'benevolent loan'. This is evidenced in the failure of many projects whose financing scheme is derived from the benevolent loan. This failure can happen partly because the use of 'free-loan interest' or 'semi-altruistic loan' is not assisted and controlled properly.

### **Concluding remarks**

The study of Islamic philanthropy in Southeast Asia, in general and Indonesia, in particular, is timely, as the participation of the business sector in social activities become increasingly widespread. The relationship between corporations and Muslim voluntary organizations has also become a new trend in Indonesian Islam. Some factors have motivated the private sector to run social activities using religious jargons and symbols. First of all, the Muslim worker unions have been instrumental in the spread of the corporate Islamic philanthropy. The profound roles played by Muslim workers in the inception of zakat collectors within corporations can become a convincing evidence to suggest that the bottom-up process has characterized the spawning of Islamic philanthropy in the private sector.

The legal environment is another major factor central to the spread of Islamic charitable organizations in Indonesia, paving the way for the transformation of Muslim notions of the public goods into the religiously, socially, and economically hybrid philanthropic foundations. In a non Islamic state such as Indonesia, the efforts of Muslim social activists

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<sup>30</sup>Annual Report 2009, Bank Muamalat Indonesia..., 13.

and employees have shaped the nature of Islamic philanthropy in the private business. Civil society organizations and Muslim workers are instrumental in compromising the legal umbrella of the CSR and the notion of Islamic benevolent acts. Muslim leaders, workers, and social activists have attempted to reconcile the government law on corporation (CSR) and law on zakat as a means of fostering the practice of philanthropy in the business sector. Therefore, Indonesia has witnessed a considerable increase of the institutionalization of philanthropic practice under the support of private companies. Like in other Islamic countries, Muslim workers in Indonesia realized that a social development can also be "spearheaded by a vibrant private sector and the business community",<sup>31</sup> and the cooperation between the private and voluntary sector is still needed as a means of fostering the public good in the Indonesian social and economic environment.

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<sup>31</sup>Barbara Lethem Ibrahim and Dina H. Sherif, *From Charity to Social Change...*, 190.



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