

A COMPARATIVE QUALITATIVE ANALYSIS OF THE  
OPERATIONS OF BAITUL MAAL INSTITUTIONS IN  
INDONESIA: PAST, PRESENT, AND FUTURE

BY

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A research paper submitted in fulfilment of the requirement  
for the Master of Science (Islamic Banking and Finance)

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## ABSTRACT

Baitul Maal is deemed as a vital financial institution in the past, apart from its role as the state's treasury in managing all types of revenues and expenditures that the Islamic State had, previously, Baitul Maal served as the assurance body to ensure the public security and preserve the welfare of the public, due to this important function, the modern Muslim civilization, especially in Indonesia, once more intend to establish the identical institution and have the aspiration to replicate the past function of Baitul Maal. When this research is conducted, the main purpose of this research is to compare the role and function of the past Baitul Maal with the role and function of present Baitul Maal in Indonesia, identify and analyze the similarities and differences between the two generations, is the present Baitul Maal truly reflects the role and function of the past Baitul Maal or it is just merely a name? The result of this research implies that there are several similarities and differences between the two institutions, the similar aspect between the two generation is in the aspect of concept and philosophy of Baitul Maal, both institutions has identical concept in making the state as the welfare state, and for the philosophy aspect, both institutions has similar philosophy in developing the people with balance in their spiritual and financial aspect. Whereas the different aspect between the two institutions is in the aspect of definition, source of wealth or revenues, expenditures, and organizational structure, In general, the past Baitul Maal serve as the state's treasury while the present Baitul Maal serve as the charitable body, due to this different characteristic between the two institutions, the past Baitul Maal has a wider type of revenues to be managed and larger type of expenditures to be spent, whilst current Baitul Maal is limited to the sadaqah types fund only that consist of Zakat, Infaq, Sadaqah, and Waqf, thus, its expenditures is also limited and only can be spent to the beneficiaries and the needy, moreover, in term of organizational structure, the past generation structure was established based on the revenues and expenditures while present generation structure was formed based on modern corporate governance, Additionally, in this research, the researcher includes the innovative aspect of present Baitul Maal, issues and challenges of the present Baitul Maal, and predict the prospect of the present Baitul Maal in the future.

Keywords: Baitul Maal, Comparison, State's treasury, Charitable Body, Revenues, Expenditures, Sadaqah, Issues and Challenges, Prospect.

## ملخص البحث

يعد بيت المال في عهده الماضي مؤسسة مالية مهمة لها دورها العظيم، وبالإضافة إلى دورها كخزينة الدولة في إدارة جميع أنواع الإيرادات والنفقات التي امتلكتها الدولة الإسلامية سابقاً، كان بيت المال بمثابة هيئة ضمان مسؤولة عن الأمن العام والحفاظ على رفاهية المجتمع. ولأجل هذه الوظيفة المهمة، عزم المسلمون مرة أخرى في الحاضر، وعلى الوجه الأخص في إندونيسيا، على إنشاء مؤسسة مماثلة ولديهم طموح لإعادة وظيفة بيت المال الماضية. وعندما تم إجراء هذا البحث، فإن الغرض الرئيسي منه هو المقارنة بين دور ووظيفة بيت المال في عهده الماضي وبين دور ووظيفة بيت المال في عهده الحاضر في إندونيسيا، وتحديد وتحليل أوجه التشابه والاختلاف بين المؤسستين في عهديهما المختلفين، وهل بيت المال الحالي يعكس بالفعل دور ووظيفة بيت المال السابق أو أنه مجرد اسم؟ إن نتيجة هذا البحث تعني أن هناك العديد من أوجه التشابه والاختلاف بين المؤسستين، والجانب المتشابه بين العهدين يتمثل في الجانب الفكري والفلسفي لبيت المال، فكلتا المؤسستين عندهما فكرة مماثلة في جعل الدولة باعتبارها دولة الرفاهية، وبالنسبة للجانب الفلسفي، فكلتا المؤسستين لديها فلسفة متساوية في تنمية الشعب مع التوازن في الجانبين: الروحي والمالي. في حين أن الجانب المختلف بين المؤسستين هو في الجانب التعريفي، و مصدر الثروة أو الإيرادات، والنفقات، والهيكل التنظيمي، وبصفة عامة فإن بيت المال السابق كان يمثل خزينة للدولة وأما بيت المال الحالي فيعمل كهيئة خيرية، وبسبب هذه الخصائص المختلفة بين المؤسستين فإن بيت المال السابق لديه نوعية أوسع من الإيرادات التي قام بإدارتها ونوعية أكبر من النفقات التي يتعين إنفاقها، بينما يقتصر دور بيت المال الحالي على صندوق الصدقات (الصندوق الخيري) الذي يتكون من الزكاة، والإنفاق، والصدقات، والأوقاف، وبالتالي فإن نوعية نفقاتها تكون محدودة على الأصناف الثمانية والمحتاجين، وبالإضافة إلى ذلك، من حيث الهيكل التنظيمي، فإن هذه المؤسسة في عهده السابق تم إنشاؤها لهيكل تنظيمي مبني على أساس الإيرادات والنفقات الموجودة لديهم، وأما المؤسسة في عهده الحالي تم تشكيلها لهيكل تنظيمي قائم على حوكمة الشركات الحديثة. وعلاوة على ذلك، فإن الباحث في هذا البحث يتناول الجانب الابتكاري لدى بيت المال الحاضر، ثم يسرد القضايا والتحديات التي يواجهها بيت المال الحاضر أثناء عملياته، كما يتوقع بعض الاحتمالات التي يمكن أن تحدث لبيت المال الحالي في المستقبل.

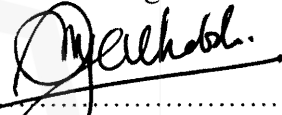
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.....  
Adam Abdullah  
Supervisor

This research paper was submitted to the IIUM Institute of Islamic Banking and Finance and is accepted as a fulfilment of the requirement for the degree of Master of Science (Islamic Banking and Finance)



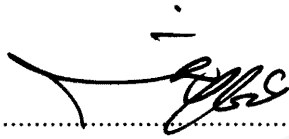
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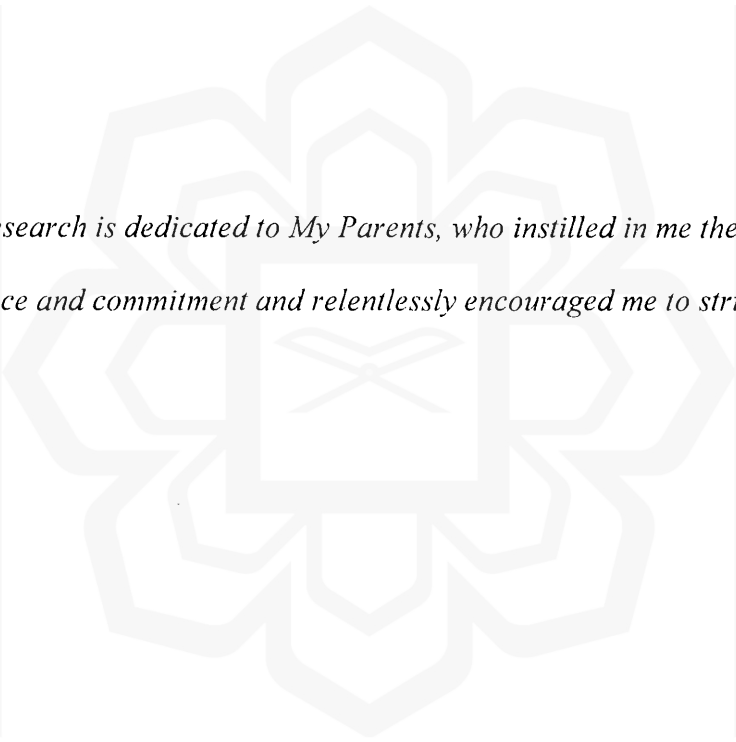
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*This research is dedicated to My Parents, who instilled in me the virtues of perseverance and commitment and relentlessly encouraged me to strive for the best*

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# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

The Economic Development Success is not just measured on how high the income and expenditure level, but also measured on how the wealth or property was managed, distributed and benefited to those who need, to achieve justice and fair welfare of society. Thus, in order to strengthen the public wealth sector and to realize its full potential for the socioeconomic development the mobilization and distribution of the resource are utmost important. The lack of focus on the public resources as a strategic tool and resource has greatly undermined the efficiency and effectiveness of public sector organization. Lack of investment in public resources contributes a great deal to the failure and disintegration of the economic welfare development. (Possumah & Ismail, 2012)

Baitul Maal was considered an important strategic tool to manage wealth and property of Muslim in the past, since the time of Rasulullah peace be upon him until the time of Khilafah, all of the financial matter at that time are referring to the Baitul Maal, from Zakat and Sadaqah distribution, collection of spoils of war (Ghanimah), Salaries of staffs and soldiers etc. are taken directly from Baitul Maal.

With the pass of the time, and with the growth of Islamic finance in modern age, the Muslim once again dreams about the establishment of Baitul Maal that reflects the function of the past Baitul Maal and can help them manage their financial aspect, in Indonesia the first intention to establish Baitul Maal was in 1980, at that

time Indonesian people are aware of the existence of Islamic Bank since Indonesia is occupied mostly by Muslim. The experiment of Islamic finance institution was done through the small scale by establishing of Baitul Maal in Bandung and Jakarta in the form of cooperative institution, but the real Baitul Maal institution was established along with the establishment of Islamic Bank in Indonesia in 1990.

With the big gap between the past and present, sometimes the role of the institution may differ due to a different era, people, purpose, and understanding, this research intend to compare the Role of today's Baitul Maal in Indonesia with the past Baitul Maal, did they role and operation reflect the past Baitul Maal ? what are the differences and what is the similarities?

## **1.2 PROBLEM STATEMENT**

Ziswaf (Zakat, Infaq, Sadaqah, and Waqf) institution are considered robust and well developed in Indonesia compared to its Islamic banking activities, these institutions play important role in the Zakat and Sadaqah distribution and poverty alleviation among the Indonesian citizen, but some issues and challenges to the institutions still persist.

One of the problems is the present Baitul Maal institution reflect the true nature and the true function of Baitul Maal in the past, or it was just merely a name to increase their marketing?, so that the people will entrust their Ziswaf (Zakat, Infaq, Sadaqah, and Waqf) in these institutions?

This research intends to investigate the role and existence of Baitul Maal institution in Indonesia, identify their achievement, issues, and challenges and

compare their activity and goals with the previous Baitul Maal in the glorious time of Islam to identify the gaps and similarities between the two.

### **1.3 JUSTIFICATION OF THE STUDY**

The growth of the modern Islamic Banking and Finance is deemed rapid and enormous, the expansion is perceived globally in the Muslim countries and Non-Muslim countries alike, unfortunately, according to some research, the expansion, and growth of Islamic finance is not followed by the welfare of Muslim civilization in the respective country, Arguably, the current Islamic Banking and Finance practices is merely a replication of conventional banking system, where the main objective is the profit maximization rather than social and environmental development.

Previously, as we knew, Islam has the Important Financial institution known as Baitul Maal, this institution collect the funds of Muslims from various sources including Zakat, Sadaqah, Spoils of Wars and etc, the wealth management that held by the Baitul Maal is deemed benefited the most of Muslim in the previous age, and this institution is considered the pioneer in promoting the equitable wealth distribution among society.

Today's society want to establish something more than the Islamic Banking, the institution that understands about the welfare and the preservation of the society well-being, as in Indonesia for example, this will is realized by the establishment of Baitul Maal institutions to manage the wealth of Muslims in Indonesia and distribute it fairly and equitably, and the main justification for this research is to understand the role of Baitul Maal in Indonesia and compare its role with the role of previous Baitul Maal, that because the attempt to develop Baitul Maal in current society may deliver

the function of the previous Baitul Maal, so the welfare and the prosperity for the Ummah can be achieved and no longer a dream.

#### **1.4 RESEARCH OBJECTIVES**

The main objective of this research is to compare the Role of today's Baitul Maal in Indonesia and the Role of Baitul Maal in the past, analyzing the differences and the similarities of the practice, and to understand the prospect of Baitul Maal in Indonesia.

And the specific objectives of this research are:

1. To understand the role and function of Baitul Maal in the past (using the library research to achieve this objective)
2. To understand the role and function of Baitul Maal in the present in Indonesia (using the library research and interview to achieve this objective)
3. To know the prospect and the future development for the current Baitul Maal operation in Indonesia. (using the interview and unstructured data analysis)

#### **1.5 RESEARCH QUESTIONS**

As this research plan to conduct, there are several questions that arise regarding the operation and function of Baitul Maal:

1. What is the function and operation of Baitul Maal in the past?
2. What is the function and operation of the present Baitul Maal in Indonesia?
3. What are the differences and similarities between the two institutions?
4. What are the issues and prospect for Baitul Maal institution in Indonesia?

## **1.6 SCOPE OF THE STUDY**

This study focuses on the Examining the Role of the Present Baitul Maal in Indonesia and compares their practice with the Past Time, in the glory time of Islam. And predict the future prospect of this Institution in Indonesia. And this study will be conducted in Baitul Maal Hidayatullah (BMH) since this institution available in the 27 provinces in Indonesia and has more than 250 networkings and 60 funding auxiliary units spread across the Nationwide and deemed the largest Baitul Maal institution in Indonesia.

## **1.7 LIMITATIONS OF THE STUDY**

As this research was conducted, there are several limitations since the researcher only limiting the comparison within one country and one institution to know exactly the similarities and differences from the two institutions, which are Baitul Maal in the past and Baitul Maal in the current time in Indonesia represented by Baitul Maal Hidayatullah. Thus, the findings of this research only circulated between the two institutions.

## **1.8 ORGANIZATION OF THE STUDY**

This study will be classified into five chapters consist of Introduction, Literature Review, Methodology, Findings and Analysis and The Conclusion. For the Introduction chapter, this chapter classified into nine sections consists of Background of Study, Problem statements, Justification of Study, Research Objectives, Research questions, Scope of Study, Limitation of study, Organization of the Study, and Significant of Study.

For Literature Review chapter, this chapter classified into twelve sections consist of Introduction to the chapter, Definition of Baitul Maal, The Concept of Baitul Maal, Philosophy of Baitul Maal, The Advent of Baitul Maal in Islam, The Practice of Baitul Maal in the past, The source of wealth in Baitul Maal, The Expenses of Baitul Maal, The types of Baitul Maal, The History of Baitul Maal development in Indonesia, Brief Information about Baitul Maal Hidayatullah and its comparison with the Baitul Maal wat Tamwil, and the chapter summary.

For Methodology Chapter, this Chapter classified into eight sections consists of the Introduction to the Methodology, Research Philosophy, Research Design, Research Area, Population, Research Data and Source, Research Instrument, and the last is chapter summary.

For Findings Chapter, this Chapter is classified into seven section consist of the introduction to the chapter, introduction to Baitul Maal Hidayatullah, comparative analysis between the past Baitul Maal and present Baitul Maal, Innovative aspect of present Baitul Maal, Issues and Challenges for current operation of Baitul Maal, prospect of present Baitul Maal in the future, and the chapter summary.

For Conclusion Chapter, this Chapter consists of the overall conclusion and summary of the research, the limitation of the study, and recommendation for the future research.

## **1.9 SIGNIFICANT OF THE STUDY**

The finding of this study will be beneficial to the academician for their further research in the Baitul Maal study, and Baitul Maal institution in Indonesia, due to the important role of Baitul Maal in the past as the main administrator of the fund for the

Muslim society. Today's Baitul Maal in Indonesia can replicate the functions and features that are suitable for current Muslim society, so the Muslim can be truly benefited from the existence of current Baitul Maal Institution.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter presents the overview of the Baitul Maal information obtained from various literature, this chapter begin with the definition of Baitul Maal to explain and define how the Baitul Maal is understood base on various perspectives, after the definition, the researcher will explain briefly the concept of Baitul Maal in Islam, and how the philosophy of Baitul Maal is understood.

From the historical point of view, the researcher will discuss briefly the advent of Baitul Maal in Islam, the practice in the past, the source of Baitul Maal's wealth, the expenses, and the types of Baitul Maal and how it was classified.

As additional information, the researcher will discuss and elaborate in brief the Baitul Maal institution in Indonesia, their development, and progress and why it is named as Baitul Maal institution.

#### **2.2 DEFINITION OF BAITUL MAAL**

Baitul Maal (بيت المال) is an Arabic term that is translated as "House of money" or "House of Wealth." Historically, it was a financial institution responsible for the administration of taxes in Islamic states, particularly in the early Islamic Caliphate. It served as a royal treasury for the caliphs and sultans, managing personal finances and government expenditures. Further, it administered distributions of zakat revenues for public works (the-wayfarer.com).

According to the Dictionary of Islam, Baitul Maal was defined as National Treasury who received the money collected by the state from various sources such as Zakat, Waqf, etc (Huges, 1964). According to Abdul Qadeem Zallum in his book, 'al-Amwal Fi Dawlah al-Khilafah' defines Baitul Maal as the competent authority in charge of all the State's revenues and all the expenditures for which the Muslims are eligible (Zallum, 1988). This definition describes Baitul Maal as a treasury of the state. So every property, be it land, buildings, minerals, money, or commodities, where the Muslims are entitled to have it according to the Shariah rules, and the individual who entitled to its ownership has not been specified, although certain parties have the right to accept the portion of it.

According to Shariah rule, such property would be a rightful property of Muslims' Treasury, regardless of whether it is already in the safekeeping of the Treasury or not. Likewise, every property due to be spent upon its beneficiaries and rightful owners, or in the interests of the Muslims and their affairs, or in carrying the Islamic Da'wah, all such funds are duty upon the treasury, regardless of whether the funds are spent or not. Therefore, the Baitul Maal in this description context is considered the competent authority to manage the state wealth either for income or expenditure.

However, Baitul Maal can also be interpreted physically as a place to store and manage all kinds of wealth to become the income of the countries.

### **2.3 THE CONCEPT OF BAITUL MAAL IN ISLAM**

Baitul Maal was developed as a financial institution in the Islamic states, this financial institution used to manage the taxes. The Baitul Maal was established in the era of the

Islamic caliphate. It was formed as the royal reserves for sultans and caliphs; another purpose of Baitul Maal was to manage personal finances and the expenditures of the government. Moreover, the Baitul Maal was used to manage the distributions of zakat for the public works.

The Baitul Maal was utilized to deal with the economic matters of Islamic state like revenues etc. During the reign of our Prophet Muhammad (SAW) a permanent Baitul Maal was not established, no reserves were kept, the revenues that were accumulated were immediately distributed. During the reign of Abu Bakar RA, Baitul Maal was also not kept as there was no prominent need for the reserves to be kept. Whereas during the caliphate of Umar RA the needs changed as the conquests started increasing and larger quantities of revenues were generated. Previously salaries were not paid but with the increasing men in the army and the increasing revenues, Caliph Umar started paying salaries to the fighting men (Jawad Ahmad, 2012).

As the revenues began to increase the second caliph Umar established a permanent Baitul Maal after consulting with his companions. A central treasury was established in Madinah. Accounts department was included. Later the provincial treasuries were also set up and salaries and stipends were paid. For the royal treasury, a separate building was built that was the Baitul Maal. Coins were made for the transactions.

Pension and welfare concepts were introduced as part of zakat. The taxes collected included zakat and they were given to all the needy people whether they were orphans, widows, poor, disabled or elderly.

The concept of Baitul Maal was included permanently to make the Islamic state a welfare state. Reserves of food were also kept for natural disasters and famine. No money was allowed to be wasted on luxuries that were unnecessary so that the

money can be used for the welfare of the people. With the permanent concept of Baitul Maal, the concept of social security was introduced by Umar when he was the Caliph. Insurance for unemployment was introduced by Caliph Umar at those times long before it appeared in the western world. Retirement pensions were introduced for the elderly people. With the permanent establishment of Baitul Maal, the concepts of public ownership and public trusteeship were also introduced (Jawad Ahmad, 2012).

## **2.4 PHILOSOPHY OF BAITUL MAAL**

According to A. Ghazali, the philosophy of the Baitul Maal is to form the basis of public financing. The final aim is to construct a society committed to balancing material and spiritual values by ensuring that wealth obtained by individuals is distributed from the "haves" to the "have-nots" (A. Ghazali, 1990).

The Baitul Maal is also able to manage national trading activities, coordination of foreign exchange and international trade transactions. In the modern-day context, this role is held by the banking system which need not necessarily be a separate entity of the financial system.

Finally, everyone in the Islamic state is entitled to a reasonable standard of living and the Islamic state should guarantee its citizens' clothing, housing, health facilities, educational opportunities, and access to food at reasonable prices. A. Ghazali also states that "although the Baitul Maal may not be directly involved in the administration of these welfare provisions, its funds may contribute towards the provisions of such matters." (A. Ghazali, 1990).

## 2.5 THE ADVENT OF BAITUL MAAL IN ISLAM

Some of the sources indicate that the Caliph Umar is the one who first initiated the function of Baitul Maal (Ibn al-Athir, 2/290). However, most of the sources mentioned that the Caliph Abu Bakr is the one who established Baitul Maal for the Muslims. Ibn Abd al-Barr (1358H: 3/455) mentioned in the biography of Mu'ayyib ibn Abi Fatimah that Caliph Abu Bakr employed him in Baitul Maal. Moreover, Ibn al-Athir mentioned: Abu Bakr has Baitul Maal in a suburb of the Medina, and he used to live there until he moved to the Medina. Someone told him: don't we appoint anyone to guard it? He said: no. In fact, he used to spend for (on) the Muslims whatever is there and do not allow anything to be left. After moving to the Medina he shifted Baitul Maal in his house. When Abu Bakr died Umar gathered all the managers and opened Baitul Maal, yet they did not find anything there except a dinar that is dropped from the sack, (Ibn al-Athir, 2/290).

Prior to this, at the time of the Prophet though Baitul Maal was not formed as a formal institution, but some of the activities and services of Baitul Maal were there. There were people who record the public properties of the Muslims like war booties, the one-fifth of the spoils, charity funds, weapons and instruments of the army and so forth. All of these were registered and stored until disbursement (Abu Yusuf, 36). In fact, Baitul Maal in the sense of the place where revenues are kept and from which expenses are spent, no such place is specified during the lifetime of the Prophet (may peace be upon Him); because at that time revenues were limited and there was hardly anything left after what had been distributed amongst the Muslims and spent for them. The Prophet used to distribute the spoils and the one-fifths (khumus) at the end of each battle. He would not delay the distribution of the funds or spend them on their