

Creating an Eco-Sustainable Community: the Role of Zakat

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ABSTRACT

According to Saud (1988) and Shad (1986), the institution of Zakat, is a divine obligatory sort of taxation acting as the most effective measure in upgrading the financial condition of the destitute. This institution strives to achieve objectives, which are broader in nature. This is because, not only does it aim at providing the society with financial security, but it also, as a whole, inculcates moral, social and spiritual values in each individual. In view of the institution of Zakat aiming at achieving broader objectives, this research therefore, seeks to prove that the institution of Zakat may not only form the basis of today's modern social security system, but also brings some other benefits to the society. The whole research however, is divided into several sub-sections besides a conclusion. It therefore, presents the foundation of the institution of Zakat followed by the evaluation of whether the institution of Zakat can provide a meaningful social security along with a justification that, the institution of Zakat is capable of providing a result oriented alternative to the modern social security system.

Keywords: Zakat, poverty eradication, sustainability, social security

JEL Classification Code: E62, H21,P51

INTRODUCTION

Socio-economic understanding of Zakat

Zakat could well be defined as one of the five tenets of Islamic teachings (Muhammad, 1993) which appears in the form of an obligatory tax (Saud, 1988) aimed at purifying a person's soul and wealth in establishing social justice in the society (Muhammad, 1993). Mannan (1970) argued this Islamic institution could be regarded as one of the principal threats to the root of today's capitalism *Zakat* is not only a form of charity but also compulsory tax collected from those who are rich and wealthy, and distributed among the right recipients as described in the Holy *Qur'an*. The principal objectives of *Zakat* are not only to reduce the rate of poverty in the society, but it simultaneously acts as a means of

purifying one's soul and wealth. It is however, unfortunate that, the notion of *Zakat* is often misunderstood by the people who often regard it as to be only a mean of charity given out by the rich to the poor and the needy. The reality of the application of this institution could be summed up as follows:

- Apart from being charitable act, *Zakat* is also a compulsory tax imposed on the rich and wealthy at the rate varying from 25% to 20%.
- It does not only provide financial assistance for the needy, but also purifies one's soul so as to make it closer to *Allah* (SWT) and also purifies one's property and wealth so as to eliminate from one any sense of selfishness.

The scope of *Zakat* should not be narrowly interpreted today, relying only on

the items specified and mentioned during the time of the Prophet (SAW). In the early Islamic period, the idea of levying *Zakat* was on an annual savings of a prescribed amount¹, after deducting self and family maintenance and settlement of one's debts. Since, the notion of 'Zakatable property' was previously understood as an annual savings of a prescribed amount, it is only fair, in the context of today's contemporary society, to give a broader interpretation to the word, in the light of the Islamic doctrine of *Masalih al-Mursalah* (public interest), in order to enable us to apply the institution of *Zakat* in a more practical manner, towards providing a solution to the problems faced by the destitute in today's society. Thus, 'Zakatable wealth' of today should also include any annual savings, which the amount is prescribed by the *Shari'ah*², be it in the form of currency or other forms of income or profits, made up from any business or other types of legal transactions.

The reimbursement of *Zakat* should also not be narrowly interpreted to be a mere act of charity, which means to help the beggars only. Broadly speaking, *Zakat* is an institution aimed at eradicating poverty by providing financial protection to the poor, the needy, the old and the weak, the unemployed, the disabled, the widows and so on, regardless of whether they asked for it or not. The fact is that, *Allah* (SWT) has determined that, in everyone's, wealth there is a portion for the people of the above classes. *Allah* (SWT) says to the effect:

"And in their wealth and possession, the right of (needy), him who asked and him who (for some reason) was deprived".
(QS. Ad-Dhariyat : 51)

¹Also included in 'Zakatable properties' are gold, silver, animal, agricultural products, etc.

²The annual savings is made after deducting one's self and family maintenance and settlement of debts from one's income or property.

According to Qudama in I.DoI (1990) there is also another most common misconception of the word 'Zakat' among Muslims, that *Zakat* is being Divinely sanctioned for the Muslims only, while rendering the non-Muslims ineligible to enjoy any benefits of the *Zakat* institution. This is not so. Responding to this misconception, there are many Scholars who have accepted the idea that, the institution of *Zakat* is meant to be for both the Muslims and also the non-Muslims alike. This concept is further acknowledged by *Abu Ja'far Mohd. B. Jarir al-Tabari* (Al-Tabari in I. Doi, 1990). Based on these arguments, it is hence a hypothetical solution that, *Zakat* provides the most practical solution to the problems faced by the poor and the needy in the contemporary society, as it protects each and every member of the society, regardless of difference in religious beliefs. It is very clear by the decree of *Allah* (SWT), whereby the recipients of *Zakat* need not to be Muslims alone³. Mannan (1970), thus, further clarified it as follows:

"Zakat acts as a unique measure provided by Islam to abolish poverty from the society by making the rich live to the social responsibilities they have. In the economic sphere, Zakat prevents the morbid accumulation of wealth in a few hands and to defuse it before it assumes threatening proportions in the hands of its possessors, as it is a compulsory contribution of the Muslims to the State Exchequer"

Sources of Zakat fund

It is undoubtedly submitted that, *Zakat* in its capacity may play its role in providing social and spiritual security in the

³The words *Fuqara* and *Masakin* at QS. At-Taubah: 60 which do include any needy and destitute regardless of one's religion.

contemporary society, a brief analysis is made on the sources of *Zakat* fund. Thus the sources are namely on: self-assessment (*al-Fitr*), income over commercial businesses, savings, shares, employees provident fund, gold and silver, wealth, asset and property, agro-products, cattle and buried treasure.

Prior to the full implementation of *Zakat*, it is of utmost importance to ensure that, the sources for its fund are of tradable value and are *Zakatable* in nature, due to the rapid economic growth in contemporary society. In order to arrive at a determination whether the goods and properties are indeed *Zakatable* in nature (i.e. able to be used as a legal *Zakat* fund), it is important to apply, *inter alia*: the tradable test, which must be conducted in light of the Islamic principles of *Qiyas* (analogy) and *Masalih al-Mursalah* (public interest) so as to come up with more practical solutions on the test of tradability of the goods and properties.⁴ This is to enable the society to obtain maximum benefit from *Zakat* in ways recognized by *Shari'ah*. Hence, in order to determine whether the goods or properties used as the fund are indeed tradable and *Zakatable*, the following three-fold tradable test may be applied:

The goods or properties to be *Zakatable* must be in the form of additional goods, properties or profits after deducting one's self expenditures, family maintenance and settlement of debts. The goods or properties should be *Zakatable* on manual basis. The goods or properties to be *Zakatable* must reach a certain amount determined by *Shari'ah*.

Although, the modern social security system creates its fund from *inter alia*, taxes imposed on financially able citizens,⁵ and the Islamic institution of

Zakat on the other hand, also creates its fund from mandatory taxes imposed on the tradable goods and properties⁶ the fact is that, *Zakat* still presents the society with a more ideal and practical solution compared to the modern system. This is because *Zakat* is not only a mere physical act of paying taxes by able persons, but it goes beyond that limit, as we find that it is also an act sanctioned by *Allah (SWT)* Himself, embodying spiritual, moral and educational elements. Whereas, the modern social security system offers only material assistance to the needy public, the institution of *Zakat* not only confers material assistance, but also contains spiritual moral and educational benefits.

After carefully digesting the two points already forwarded, let us see the proposed *Zakatable* goods in the contemporary world: Gold, silver (Saad, n.d.) and diamond: All sorts of monetary savings, which are derived from salary (Muhammad, 1993), premiums obtained from legal transactions and other sources: Assets and capitals of any company or business firms: Stocks and shares: Animals (Saad, n.d.): Any business license (Saad, n.d.): Hoarding articles or properties (Saad, n.d.): Agricultural products such as paddy, palm oil, cocoa, etc.⁷ Wealth obtained from mine such as tin, petrol, natural gas, and so on (Aliyu, n.d.).

Underlying objectives of Zakat

Al-Harran (1993) argued every injunction, which had been revealed by *Allah (SWT)* must have its own rationale and objectives. Hence, as regards to the institution of *Zakat*, *Allah (SWT)* has sanctioned it with the aim of providing social security for the poor and the needy in the society, and to

from willful contributions made by employers and employees.

⁶Although, the fund of *Zakat* is from mandatory taxes determined by *Allah (SWT)*, it is also impliedly and simultaneously accepts willful contributions from the public.

Goods and properties here also include savings, products and so on.

⁵Besides the mandatory taxes imposed, the modern social security scheme also derives its fund from Contributory Benefits scheme which sources come

develop a balanced economic growth as well as to become the act of spiritual purity and development. The principal objectives of *Zakat*, in other words, could be summed up as follows: It is an act of purifying one's soul, by enabling one to become closer to *Allah (SWT)*. It is thus justified in the Holy *Qur'an* when *Allah (SWT)* says to the following effect:

"... But it is righteousness ... to spend of your substance ... for your kin, for orphans, for the needy, for the wayfarer, for beggars and for the ransom of captives... and practice regular charity (Zakat)..."

(QS. Al-Baqarah: 177)

It is also meant to be an act of protecting the poor and the needy from any type of financial and material constraints. Mannan (1970) said that in other words, it strongly opposes the system of capitalism which means, it does not allow one to practice the habit of hoarding goods and wealth. *Allah (SWT)* has indeed warned people against any act of capitalism in the following sanction:

"Woe to every scandalmonger and backbiters, who piled up wealth and layeth it by. Thinking that his wealth would make him last forever. By no means he will be sure to be thrown in to that which breaks to pieces. And what will explain to you that which break to pieces? (It is) fine of (the wrath of) Allah (SWT) kindled (to a blaze). The which doth mount (right) to the hearts. It shall be made into a vault over them. In columns outstretched?"

(QS. Al-Humazah: 1-9)

Such hoarding attitude of one's wealth is against the rules of *Allah (SWT)* and it surely deprives the poor and destitute from their actual rights. It is thus ruled out by *Allah (SWT)* as follows:

"And in their wealth and possessions (was remembered) the right of the (needy). Him who asked and him who (for reasons) was prevented (from asking)" (QS. Adh-Dhariyat: 19)

It does not only benefit the poor but also the rich. According to El-Gouri (1982), the poor and the destitute would benefit from the financial and material assistance obtained from the rich, while the rich and wealthy will be handsomely rewarded by *Allah (SWT)* in the hereafter for their act of obedience to *Allah (SWT)*. It also plays a vital role in the progress of the spiritual aspect, economy and also technology in the society, bearing in mind that, this Islamic institution of *Zakat* benefits both the Muslims and the non-Muslims. Dr. R.R. Marett views that, the "real progress is in charity". Aldous Hoxley, meanwhile, observes that, "technological advance" will become useless without the "progress in charity". While *Zakat* functions as a means to eradicate poverty in the society, it also simultaneously molds the individuals into responsible and caring persons, who are always ready to help the poor and those who are unfortunate (Mannan, 1970).

At the same time, the institution of *Zakat* inculcates the spirit of brotherhood (Saud, 1988) in upholding social solidarity in the society (Islahi, 1933). It, at the same time, ensures an ideal sustainable social security for the poor, the needy, the old, the disabled, and other unfortunate individuals in the society regardless, of their religious beliefs, languages, races and so on. Finally, the Islamic institution of *Zakat* also creates creative individuals who are non-materialistic, self-sufficient and always grateful for the bounties of *Allah (SWT)*, enabling them to experience and enjoy vast spiritual development, social solidarity and also material prosperity (Islahi, 1933).

Socio-economic impact of Zakat

As we have discussed earlier, the institution *Zakat* does not only provide the basis for social security but also plays many other important roles in the society. The fundamental roles played by *Zakat*, however, could be itemized as some points.

It provides the society with soul and wealth purity (Muhammad, 1993) developing the moral aspect, which mold the rich into being responsible and caring about the poor (Mannan, 1970). At the same time developing the spirit of brotherhood and cooperation based on goodwill in the society (Islahi, 1933). Moreover, it benefits the rich and the poor alike, whereby the rich will be rewarded by *Allah (SWT)* in the hereafter (El-Gourt, n.d.) the poor will be thankful for the material assistance rendered to them under the sanction of *Allah (SWT)* (Islahi, 1933). It also plays a vital role in providing a sustainable social security scheme in the following ways:

- By providing material assistance for the poor, the needy and the destitute (QS. At-Taubah: 60) in the society in order to fulfill their material needs, and enabling them to be self-reliant.
- By catering the required assistance in the circumstances of unemployment, insufficient medical expenses, for the old, the disabled and the handicapped, as well as inadequacies to maintain one's life, for widows and children with no parents: and so on, on the basis of needy test.
- By helping other members of the society who might not be originally poor materially and financially, but nevertheless, unexpectedly facing material or financial constraints due to certain unexpected and unfortunate happenings, such as having financial difficulties during traveling, and so on (QS. At-Taubah: 60).

The institution of *Zakat* also relieves a person from the burden of insolvency should he or she is unable to settle the debts (QS. At-Taubah: 60). *Zakat*

indeed also plays an extremely important role in protecting and helping those who are sacrificing themselves in the path of Islam, in order to uphold the System (*Deen*) of *Allah (SWT)* in this earth (The Holy Qurán in Ali, n.d.). After seeing the vital roles played by *Zakat* in the society, it is hence easy to point out its significance as summarized in points below.

According to Al-Harran (1993), the institution of *Zakat* benefits both the rich and the poor. Mannan (1970) said that it creates members of the society with responsible and caring attitude. It inculcates strong spirit of brotherhood, goodwill, cooperation and tolerance in the society (Islahi, 1933). It also provides the society with purification of soul and wealth (Muhammad, 1993). *Zakat* provides material and financial security for the poor and other unfortunate members of the society (QS. At-Taubah: 60). It provides both the Muslims and non-Muslims with material and financial protections (I. Doi, 1990). It also seeks to relieve an insolvent from his unsettled debts (QS. At-Taubah: 60). Likewise, it helps those who are sacrificing themselves in the cause of upholding the religion of *Allah (SWT)* (The Holy Qurán in Ali, n.d.).

SCOPE OF *FUQARA* (POOR) AND *MASAKIN* (DESTITUTE)

We have seen earlier how the modern social security system derives a two-fold solution to help the poor and the needy in the society, i.e. through the contributory-based scheme, whose fund is obtained by way of willful contributions by the employers and the employees, and the non-contributory-based scheme, whose fund is collected from the state tax revenues. We have also seen how the institution of *Zakat* derives one-fold method in helping the poor and the needy on non-contributory based scheme, whereby the fund is derived from obligatory taxes paid by the able citizens.

The issue to be determined before us now is, whether the type of beneficiaries prescribed by the modern social security system (such as the poor, the disabled, the handicapped and so on) are within the ambit of the *Fuqara* and *Masakin* as mentioned in the Holy *Qur'an*? (QS. At-Taubah: 60) The answer is, yes, the words *Fuqara* and *Masakin* do cover all the beneficiaries prescribed under the non-contributory based scheme of the modern social security system, based on the Islamic doctrines of *Qiyas* and *Masalih al-Mursalah*. It is thus, further justified as follows:

The beneficiaries under the non-contributory-based scheme prescribed by modern system are determined on the basis of the 'needy test', while the meaning of the words *Fuqara* and *Masakin* are also based on the 'needy test' i.e. the beneficiaries of the fund must indeed be based on the need of financial or material assistance. In fact, the broad interpretations of the two words include not only those beneficiaries prescribed by the modern scheme but also those who are not prescribed by it, but it includes any person so long as one falls within the definition of needy. Hence, it is only natural to deduce from it the notion that the definitions of beneficiaries under the modern social security system falls within the broad interpretation of the words *Fuqara* and *Masakin* in the Holy *Qur'an* at 9:60. The broad interpretation of the words *Fuqara* and *Masakin* are also shared by some Islamic dictionaries, for example, Abdullah Yusof Ali has interpreted the word *Miskin* as 'needy', and *Faqiris* as someone who is in financial need' (QS. At-Taubah: 60).

Bassam Sulaiman also shares the same view as Abdullah Yusuf Ali on the interpretations of the definition of the words *Faqir* and *Miskin* (Abughosh, *et. al*, 1993). The dictionary in Islam on the other hand, defines the word *Faqir* as the 'poor' and *Miskin* as one who has no property whatsoever (Hughes, 1985). Another

encyclopedia defines the word *Faqir* as a beggar, a dependent or the one who is in need as opposed to *Ghani* or a rich (Gibb *et al*, 1974), while another encyclopedia of Islam defines the word *Miskin* as the poor, the most needy, miserable or the person whom it is an obligation for believers to support (Houtsma, 1936). Therefore, the broad definitions and interpretations of the word *Faqir* and *Miskin* given by the above dictionaries and encyclopedias of Islam further enhance the view that, the ambits of both words cover the poor and the needy, who not only cover the prescribed beneficiaries under the modern system, but also other beneficiaries besides it. Act that both *Faqir* (the poor) and *Miskin* include anyone who is in need of material or financial assistance (which of course includes those beneficiaries prescribed by the modern social security system) is further strengthened by the fact that, even the modern English dictionaries give broad interpretations of both words. For instance, *The New Shorter Oxford English Dictionary* defines a 'poor' as a person who is unfortunate, needy, destitute or indigent or the one who is lacking or procure comforts of necessities of life, or the one who is having less than is wanted or expected (Brown, 1993). The same dictionary also defines the word 'needy' as the one who is 'poor', destitute or a person without necessities (Brown, 1993). Meanwhile, *Webster's New Twentieth Century Dictionary* defines 'poor' as the one who is poor, or needy or indigent, or money less or insolvent, lacking pleasure or comfort. It also defines 'poor as the one who is lacking material possessions or having little or no means to support oneself (Webster, 1983). The same dictionary defines the word 'needy' as the one who is poor or not having enough to keep up an adequate standard of living (Webster, 1983). Based on all these logical arguments, it is of no surprise that we have finally came to the conclusion that, the words *Fuqara* and *Masakin* as mentioned

by Allah (SWT) in the Holy *Qur'an* at 9:60 indeed carry broad interpretations, based on the doctrines of *Qiyas* and *Masalih al-Mursalah*, so as to include anyone, who is in need of financial or material assistance, which of course include also the prescribed beneficiaries determined by the modern social security system.

APPLICATION OF ZAKAT AS TO SOCIO-ECONOMIC AND CULTURAL REALITY

It has already been acknowledged in the light of our earlier analysis that, the institution of *Zakat* provides material and financial assistance for the modern needy society as a whole, regardless of one's religious belief, color, race or even sex. This phenomenon presents us with the clear idea that *Zakat* could act as an ideal solution towards helping the poor and the needy in the modern world of today. The next question to be answered is, how can we turn this fact into a reality? Hence, in materializing this noble aim, the following logical methodologies could be adopted:

Inculcation of the significance of Zakat

It has already been realized that *Zakat* contains more significance towards not only the material aspect, but also social, moral and spiritual aspects of the society as compared to what is offered under the modern social security system. *Zakat*, as we have already seen, also extends its role to each individual in the society who is poor and needy, regardless of one's sex, religion, race, color or whatsoever reason may be. Hence, in order to educate and inculcate such phenomenon and ideas of Islamic institution of the *Zakat*, exhibitions and seminar dialogues could be held for the public and government officials around the globe. This effort must always be accompanied by publishing of writings, articles and journals in propagating the idea and significance of the institution of *Zakat* in the contemporary society.

Correction of the misconceptions about Zakat

The well-known misconception about the institution of *Zakat*, which portrays it as an institution for beggars and low-class people should be rebutted in upholding that *Zakat* is a form of social security provided for those who are poor and in order to transform them into self-reliant. Such material and financial assistance is indeed a duty and an obligation upon those who are able materially and financially, as it is aimed at assisting and accommodating these unfortunate members of the society, making them welcomed and not to degrade their personalities.

Pragmatic application of the rules of Zakat based on the Islamic principles

It is undeniable truth that the society is always developing and changing with culture, thinking and so on. Hence, in sustaining the development and changes, there is a need to apply the rules of *Zakat* in the light of the Islamic concept of *Siasah al-Shari'ah* which stresses the application of all Islamic principles based on the doctrine of *Qiyas* (analogy) and *Masalih al-Mursalah* (public interest). Such move is needed in order to ensure a successful application of the Islamic rules of *Zakat* based on the doctrine of *Siasah al-Shari'ah*, in order to provide financial and material protection for the poor, the needy and the unfortunate in today's society, which *inter alia*, surely eliminates one's hardship while securing a comfortable life for all. It is indeed in line with *Qur'anic* principles where Allah (SWT) says:

"... God (SWT) intends every facility for you: He does not want to put you in difficulties..."
(QS. At-Taubah: 60)

CONTEMPORARY HUMANITARIAN CONCERN

Even though, it is an undeniable fact that, the modern humanitarian paradigm is trying to help the poor and the needy in the society to live comfortably and with dignity, there are still some aspects of it, which may be questioned: First of all, the modern security system fails to cater for the insolvent with providing financial assistance to settle their debts.

Secondly, even though it helps the unemployed by offering them financial assistance, such a move is unwise as it might turn them into lazy citizens, who would depend solely on assistance without having any kind of urge to solve their own plight. Hence, instead of providing them with such assistance, it may be better to provide them with a short-term loan to allow them to open their own businesses, which will of course be more beneficial to the unemployed, rather than giving them financial aids. Thirdly, there is also no financial assistance available under this modern system for the needy wayfarers, who are unable to maintain their costs for the rest of the journey.

ZAKAT IS AN ALTERNATIVE TO THE MODERN HUMANITARIAN CONCERN

After scrutinizing both systems above, we have seen the similarities and differences on both systems. Hence, for the purpose of further analysis between the two systems, let us make a comparative evaluation on the programs designed by both systems: The modern social security system provides a two-fold solution in helping the poor and the needy in the society. The two-fold solution is classified as the contributory-based scheme (whose fund is derived from willful contribution from employers and employees): the non-contributory based scheme (whose fund is created from the State's tax revenues).

The institution of *Zakat* on the other hand, offers a one-fold scheme, which is broader in nature. This scheme is non-contributory one, in which the needy people of the society are to be helped out by the compulsory tax (*Zakat*) payable by the rich. In other words, the needy people who are benefited by the *Zakat* are on non-contributory basis under the principles of *Zakat*.⁸ The type of beneficiaries described by the modern social system such as the poor, the disable, the old, the handicapped and so on are (QS. At-Taubah: 60) also approved by the *Shari'ah* in the light of the institution of *Zakat* under the broad meaning of *Fuqara* and *Masakin*, which means the 'poor' and the 'needy'. Such broad interpretation of the above two words is based on the doctrines of *Qiyas* (analogy) and *Masalih al-Mursalah* (public interest) and will be dealt with in the forthcoming section.

The dissimilarities between both the modern and the Islamic systems as we have seen so far, are undeniable. However, it must always be remembered that, the Islamic institution of *Zakat* offers a much wider role and scope in its application, making it to be the most suitable and practical method in providing the poor and the needy with a proper social security. In other words, among the things offered by *Zakat*, which are not available under the modern system are: The *Zakat* fund helps an insolvent to settle his debts provided that, the insolvent does have sufficient financial ability to settle the debt. As *al-Tabari* pointed out that, the insolvent is the indebted without extravagance. According to Qardhawi, the rule is required to pay his debt from the treasury (*Zakat*). It also sets up a scheme to provide necessary financial aid for the wayfarer who unexpectedly faces financial risk regardless of rich or poor.⁹ By QS. At-

⁸ See QS. At-Taubah: 90, where all the identified beneficiaries are non-contributory based.

⁹ Note that the interpretation of the word *Masakin* is very broad.

Taubah: 90, the *Zakat* fund extends its services to those needy people who are striving in the path of *Allah* (SWT). The people who are striving in the path of *Allah* (SWT) include fellow students who are seeking knowledge, as well as those who sacrifice themselves, their property, energy and time in establishing the *deen* (religion) of *Allah* (SWT) in any manner. *Zakat* also relieves those who are under financial bond. In the contemporary world, those who are under this category included detainees and hostages who could only be released by their captors on the payment of certain amount of ransom. It also provides reasonable wages for those who are involved in collecting the *Zakat*.

Zakat also provides protection for Muslims and non-Muslims alike (I. Doi, 1990), rendering it to be one of the most equitable means of social security. As Abdur Rahman I. Doi quotes, in support of this view that when Sayyedana Umar (r.a) was traveling to Syria and saw a needy Christians he (r.a.) ordered that, they should be looked after by the *Zakat* fund (Al-Baladhuri, n.d.). The institution of *Zakat* also creates a caring society (Mannan, 1970), inculcating the strong spirit of brotherhood, goodwill, tolerance and cooperation among the members in the society (Muhammad, 1993). Last but not least, this Islamic institution also provides the society with wealth and spiritual purification (Muhammad, 1993).

ZAKAT IS AN ABLE ALTERNATIVE TO THE MODERN SOCIAL SECURITY SYSTEM

Under the contributory-based scheme of modern social security system, among the benefits available are retirement pensions, widows' benefits, invalidity benefits, unemployment benefits and sickness benefits. This scheme is operated on the basis of willful financial contributions by the employers and the employees, while it works for the designed-people on the

needy test basis. Although, *Zakat* is the collection of compulsory tax paid by those who are financially able, it is spent for the security of needy people in the society. Since beneficiaries designed under the contributory-based of modern social security system are on needy test basis hence, it is obvious that the *Zakat* could undoubtedly provide a social security for those needy people on the basis of needy test. The only difference here is that, those needy are helped out under the modern social security system upon the contribution basis, whereas under the principles of *Zakat* they are helped out on non-contribution basis.

Here, I would like to analyze with a justification that the beneficiaries under the contributory-based scheme of the modern social security system could be catered by the institution of *Zakat* on the needy test basis. The justifications are as follows: As regards to the concept of retirement pension, it was even practiced long time ago during the era of the Caliph Umar (r.a) who set up a special *Dewan* or department to manage the retirement pension. He even once ordered the government to pay regular pensions to both Muslims and non-Muslims (Al-Baladhuri, n.d.). Because, retired is a jobless with no income, hence is usually considered as a needy. Thus, those who are considered as a needy surely deserve *Zakat*. As regards the widow's benefits, it is one of the great virtues to look after the welfare of the widows as the Holy Prophet (SAW) once said to the effect:

"The one who looks after and works for a widow and for a poor person is like a warrior fighting for Allah's (SWT) or like a person who fasts during the day and prays all the night..." (Sahih al-Bukhari in Khan, 1983).

Thus, such welfare is also on the needy test. An invalidity benefit is for those beneficiaries who are unable to work and earn their necessities due to

sickness and such a concept is also in harmony with the commandments of Allah (SWT) in helping the needy, as He (SWT) narrated to the following effect:

“And in their wealth and possession, the right of (needy), him who asked and him who (for some reason) was deprived.”
(QS. Adh-Dhariyat: 19)

Unemployment benefits are meant for those who are unemployed due to crisis in the job market or under qualification. Islam has indeed indicated that, it is a moral obligation to help those who are unemployed and face difficulties as the result of that phenomenon. The Holy Prophet (SAW) said to the effect:

“Whoever solves the worldly difficulties of a believer, Allah (SWT) will remove from him one of the grieves of the Day of Judgment. Whosoever alleviates (the lot of) a needy person, Allah (SWT) will alleviate (his lot) in this world and the next ...” (QS. Adh-Dhariyat: 19).

There are some situations whereby some people are unable to maintain themselves as well as their families due to unexpected sickness, which hamper their ability to earn their basic necessities and needs. As such, Islam also encourages the people to help these types of needy people as we find the Prophet (SAW) saying to the following effect in one of his traditions:

“... Whosoever alleviates (the lot of) a needy person, Allah (SWT) will alleviate (his lot) in this world and the next....”

Furthermore, Shaikh Shamsuddin Ramli, in support of his view said that, in the case of a person facing hardship due to sickness or any other cause, which results him in becoming poor and needy. Such a person regardless of religion should be

assisted, not only by providing cloth and food, but also with all the necessary aids of medical treatment (Ramli, 1292 SH).

On the other hand, under the non-contributory based scheme of the modern social security system, the beneficiaries may be helped based on the fund financed by the compulsory tax imposed on those who are materially and financially able. Indeed, both the modern security system and the Islamic system of *Zakat* offer such scheme. The only difference that exist between the two systems is that, under the modern system the beneficiaries have been ‘specified’, whereas the institution of *Zakat* covers unlimited category of beneficiaries under the broad application of the words *Fuqara* and *Masakin* upon the application of the needy test, which of course, includes not only the beneficiaries specified under the modern social security system, but also any person of the society so long as he/she falls under the meaning of needy and destitute, regardless of one’s religion, race, gender or even color.

A closer look at the application of the notion of the institution of *Zakat* will reveal that, it besides acknowledging the limited recipients specified by the modern system, also extends its helping hand to the other type of needy people living in the society. For instance, the institution of *Zakat* does not oppose the material and financial assistance for the under aged children under the modern social security system as they are considered among the needy in the society. The Holy Prophet (SAW) in fact, encouraged the people to look after the needy children when He (SAW) said to the effect:

“I and the person who looks after an (needy) orphan and provides for him will be in paradise.”
(*Sahih al-Bukhari in Khan, 1983*)

The under aged children are income less and thus, they are considered as a needy to maintain themselves sufficiently. The Holy Prophet (SAW)

emphasized to look after any need people living in the society. He (SAW) said to the effect:

“The one who looks after and works for ... (the) poor person is like a warrior fighting for Allah’s (SWT) cause....” (Sahih al-Bukhari in Khan, 1983)

The Islamic institutions of *Zakat* also shares the same notion with the modern social security system that, single parents (such as those who lost their spouses through death or divorce) should be financially and materially helped out, as the Holy Prophet (SAW) said to the effect in one of the traditions that:

“The one who looks after and works for a widow and for poor is like a warrior fighting for the cause of Allah (SWT)” (Sahih al-Bukhari in Khan, 1983).

As far as one’s disability is concerned, Islam has also encouraged fellow human beings to look after those who are helpless and disabled in order to sustain a meaningful life. In Islam, it has always been a responsibility of the able person to remove all hardships from the disabled and helpless, as we find the Prophet (SAW) mentioned to the effect in the coming tradition:

“Whosoever removes a worldly grief from a believer, Allah (SWT) will remove from him one of the grieves of the Day of Judgment. Whosoever alleviates (it from) a needy person, Allah (SWT) will alleviate (his lot) in this world and the next.... Allah (SWT) will aid a servant so long as his servant aids his brothers...” (Sahih al-Bukhari in Khan, 1983)

Zakat also shares the policy with the modern social security system that,

financial and material assistance to the income supplement should also be reserved for a person whose income is low and insufficient to support his own family. Indeed, Islam regards it as a duty, which has to be shouldered by those who are financially and materially secured. The Prophet (SAW) expressed in one of the traditions that one who removes the grief of another will obtain the help from *Allah* (SWT). The very idea of providing free health service for those who are unable to pay for medical and health treatments (such as by providing medicines, subsidizing in treatments, sick-beds accommodations at clinics and hospitals, food for those who are hospitalized, etc.) is very much in line with Islamic principles, teachings and belief. The institutions of *Zakat*, in fact, is also in favor of providing even more extensive assistance in this regard, by providing total exclusion from medical expenses and so on. Moreover, in the view of *Shaikh Shamsuddin*, both the Muslims and the non-Muslims are entitled to any kind of assistance under *Zakat* (Ramli, 1292). Other types of beneficiaries under the modern social security system who are entitled to obtain benefits such as attendance allowance, mobility allowance, invalid care allowance, housing benefits, social funds and so on are indeed recognized under the Islamic institutions of *Zakat*.

MULTI-RELIGION DESTITUTE AND THE ROLE OF ZAKAT

The modern social system was invented based on conventional thought in order to cater for the poor and the needy in the society, regardless of their race and religion. The question here is, can *Zakat* and its fund offer similar protection to the poor and the destitute in today’s modern society, which is multi-racial and multi-religious?

We have already seen that *Zakat* in practice is a compulsory tax, accumulated

for those whose income and property has reached to a certain amount. However, as regards to the question whether it is able to cater for multi-religion society or not, the *ulama* or Islamic jurists have mixed views on it. Some of them are of the opinion that, *Zakat* is a compulsory tax collected from Muslims and it is therefore, should provide social security for Muslims only (Qudama in Abdur Rahman, 1990). However, the majority of the *Ulama* are of the view that, *Zakat* is an Islamic institution, which not only provides social security for the Muslims, but also for the non-Muslims who are poor and needy, regardless of differences in religion, color or sex. This view is indeed justified by the following evidences:

The words of *Faqir* and *Miskin* mentioned in verse 9:60 are '*Am* (general) in nature so as to include any 'poor' or 'needy' person be them Muslims or non-Muslims. It is indeed justified by the case when the second Caliph of Islam, Sayyidana Umar (r.a.) once saw Jew begging from other people due to old age and financial constrain. He (r.a.), upon witnessing this situation recited the Holy verse (QS. At-Taubah: 60) which means:

“undoubtedly the Zakat is for the poor and the destitute” (I.DoI, 1990)

He (r.a.) then said that, the recipients of *Zakat* must not necessarily be Muslims only, but should also be extended to the non-Muslims (Abu Yusof, n.d.) Once, the second Caliph (r.a.), in another occasion, saw some Christian lepers. He (r.a.) ordered that they should be given *Zakat* and be looked after by the property (Al-Baladhuri, n.d.). During the period of Sayyidana Abu Bakar (r.a.) the first Caliph, Khalid ibnWalid (r.a) wrote in respect of the Christian inhabitants of *al-Hira* in Iraq, saying that:

“Any old man incapable of work or anyone who has suffered from any calamity, or any person who

was rich and suddenly became a pauper asking for charity from his people, Jizyah must not be collected from him. He and his family, as the contrary, should be maintained through the Baitul Mal of Muslims.”

(Abu Yusof in I.DoI, 1990)

The First and Second Caliph (r.a.) of Islam had also established an organization for social security, which functioned for the betterment of the needy, both Muslims and the non-Muslims. (I. Doi, 1990) Imam Zufar (r.a.) ruled that, the non-Muslims who are needy and poor should also be helped out of the *Zakat* fund, which may bring them closer to Muslims (I.DoI, 1990) The Maliki and Zaidi Schools of law are also of the opinion that, the non-Muslims who are poor and needy should also be given the opportunity to share the benefits of the *Zakat* fund, so as to soften their hearts in order to become more friendly and closer to Muslims (Ibnu Qudama in I.DoI, 1990). Al-Nawawi also expressed that it is a common obligation to help the needy and feed the hungry (Al-Nawawi in I.DoI, 1990) regardless of their religion. Ramli, meanwhile, acknowledged that:

“The non-Muslims are like Muslims when it comes to relieving them from their sufferings. It is essential for all Muslims to remove any harm coming to them. Apart from food or clothing of the needy non-Muslims, it is also Fardu Kifayah to help them in the treatment of their sickness and giving fees to the doctors, and buying medicine, etc.” (Ramli, 1929 SH).

Abdur Rahman I. Doi accepts the view that, although the non-Muslims do not contribute to the *Zakat* fund they should be assisted by it (I. Doi, 1990). He went on to say that non-Muslims are

indeed part and parcel of the Islamic State. Hence, it is the responsibility of the state to provide social security for all Muslims and non-Muslims alike (Ramli, 1929 SH). All the above-mentioned justifications prove that the Islamic institution of *Zakat* and its fund is able to provide a meaningful social security for all members of the society, regardless of their color, race, sex and religion. As long as one falls within the definition of needy and destitute he could be aided out by the institution of *Zakat*.

INVESTMENT OF ZAKAT FUND

It had been a traditional mind-set that, *Zakat* is a mandatory charity, which shall be given away to the recipients by having no objective of commercial gain or income generation. This mind-set might have ensured only a short-term achievement, despite the true divine objective of *Zakat* is among others is, to care about poverty eradication with a sustainable and long-term results. To meet the Divine objective of *Zakat* the mind-set of the managing authorities shall be shifted from traditional to reality. Enriching the *Zakat* fund by applying whatever legitimate mechanisms and strategies may create added opportunities for the poor with eco-stability. Thus, investing of *Zakat* fund with securitization may not be a *Shari'ah* contradiction, rather the idea to be encouraged in view of expanding the scope of the humanitarian opportunities with sustainable and long-term goals.

The possibilities of investment of *Zakat* fund along with its possible model has recently been reemphasized by Prof Dr Mohammad Sahyabani in his presentation held at the Islamic Economics Institute, King Abdul Aziz University, Saudi Arabia (Sahyabani, 2016). But, only risk may be anticipated if case a deficit is encountered by the principal (*Zakat* fund) in the course of investment. Who shall take the responsibility? The state or the *Zakat*

foundation or the project owner (investee)? And how should it be resolved? It is thus, recommended that, an investment of *Zakat* fund shall be securitized by a principal deficit risk policy (Islamic insurance) against any risk (deficit) if in case befall against the principal during the course of investment.

LONG-TERM HUMANITARIAN PLAN FOR ZAKAT: A FURTHERANCE MODERN APPROACH

As has been discussed earlier that, *Zakat* fund shall not be treated with a short-term objective, but a long-term strategic plan over the *Zakat* fund may truly lead to an achievement of sustainable goals and that is an ultimate objective of *Zakat*. There are five basic aspects of life to be satisfied as the natural right of all mankind regardless of one's religion, status or background. They are namely: economic stability, education, health care, shelter and free from debt. If those five aspects of a man are satisfied, is a primary success to the social security in any state. Thus, the *Zakat* fund can be planned strategically with long-term objective to achieve those five basic aspects for the poor and destitute, aiming at a good social security as follows:

Cooperative micro-entrepreneurship

Economic stability in creating cooperative micro-entrepreneurship among the selected poor and destitute by providing *Qardul Hasan* (benevolent loan) from the *Zakat* fund, which shall be refundable out of the income generated from the business. Such scheme may be granted for a period of five years to enable the entrepreneur becomes financially stable.

Edu-cooperation

Financial assistance may be awarded as a *Qardul Hasan* (benevolent loan) out of *Zakat* fund for the poor students, which shall be refundable out of the income

generated only upon one's graduation. The objective of the refund is to enrich the *Zakat* fund to help strategically other helpless ones, which may ultimately contribute to a good bye to the poverties in the global environment.

Group health care

A group health care insurance scheme (*takaful*) may be designed for those of poor and destitute, in which the premium shall be payable out of the *Zakat* fund, aiming at opening an opportunity for the poor and helpless patients to enjoy with basic health care rights. This may eventually create a healthy society.

Cooperative housing scheme

Financing facility may be awarded as a *Qardul Hasan* (benevolent loan) out of the *Zakat* fund for the poor families to purchase a reasonable house in allowing them to enjoy with their basic right as to live in own shelter. This *Qardul Hasan* shall be refundable within an affordable duration. If in case the house owner fails to complete the refund because of his or her death or disablement, the legal heirs of the owner shall settle it or a mortgage *takaful* plan on the house may take care of it or the *Zakat* fund may issue a waiver note with forgiveness to the house owner.

Immunity insolvency plan

There are many poor people living in the society suffer with unsettled debt, resulting them to be declared bankrupt or to face other disastrous consequences. *Zakat* fund may provide financing facility as a *Qardul Hasan* (benevolent loan) for those of poor debtors or insolvents in relieving them from the unexpected suffering due to unsettlement of debt. The *Qardul Hasan* shall be refundable within an affordable period. If in case the borrower fails to complete the refund because of his or her death or disablement, the legal heirs of the borrower shall settle it or the *Zakat* fund

may issue a waiver note with forgiveness to the borrower.

CONCLUSION

Finally, it is submitted that, the institution of *Zakat* is unique and is capable of providing practical and ideal solutions in its capacity as an able alternative to the modern social security by caring about least fortunate ones, regardless of one's religion, race, language, color, status and gender with no discrimination (QS. Al-Baqarah: 185). The institutions of *Zakat* is a non-contributory based scheme by mandatory payment (alms) payable by those who are financially and materially able (*sahebul maal*), aimed at providing social security for the poor and the needy in the society with Divine concern (QS. Al-Hujurat: 11). The proper application and administration of *Zakat* does not only guarantee a meaningful social security and solidarity¹⁰ but also provides an alternative way out of today's most common threat of the capitalism (Saud, 1988).

RECOMMENDATIONS

Towards a result oriented implementation of *Zakat* in view of a better social security in today's reality, the followings are recommended:

1. It is important that, the institution of *Zakat* besides being able to provide for the needy with material and financial security, also contributes in one's socio-moral and spiritual achievement. This institution does not provide a meaningful social security for the Muslims only, but for non-Muslims too. It is thus timely to inculcate the value of *Zakat* with its significant results for the humanity through writings, talks, debates and views.

¹⁰Based on QS. At-Taubah: 60, the words *Fuqara* and *Masakin* refer to the 'poor' and the 'needy' in the society, regardless of their religion, race, sex, or color.

2. The misconception that *Zakat* is an institution, which caters for the beggars and low class citizens, should be refuted. This is because, *Zakat* in the view of the *Shari'ah* is an obligatory alms imposed upon the materially and financially able persons, in helping the unfortunate ones (the poor and the needy) aiming at upgrading their lives based on the spirit of brotherhood. It is not meant to downgrade the position of the poor and the needy in the society. Moreover, the fund of *Zakat* should not be disbursed as a charity to the poor, but it should be utilized accordingly in upgrading the life of the needy while strengthening the spirit of brotherhood between the rich and the poor.

3. The administration and application of the rules of *Zakat* should be done on the basis of *Siasah al-Shari'ah* in an effort to meet the legitimate demands of the needy society. Such a move is aimed at ensuring that *Zakat* remains as the most ideal and practical solution for the society, by structuring it as a model for the social security system, benefiting all needy citizens, regardless of one's religion, race, color or gender.

Zakat may, with gradual effect, gain the recognition of the modern world as the most ideal and practical solution in helping the poor and the needy in the contemporary society. Such aspiration is not just based on the commandments of *Allah* (SWT), but also based on the fact that it may cater for each and every individual in the needy society, the Muslims and the non-Muslims alike, as justified earlier. *Zakat* operates on the divine concept of brotherhood aims at strengthening the unity of the nation. Furthermore, as its application is based on the principle of *Siasah al-Shari'ah*, it is not impossible to see the institution of *Zakat* emerges as the most ideal and practical solution in providing the contemporary society with a meaningful social security, accepted by all.

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Zakat Collectible in OIC Countries for Poverty Alleviation: A Primer on Empirical Estimation

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ABSTRACT

This study estimates potential Zakat collectible in 17 member countries of the Organization of Islamic Cooperation (OIC). In our estimation, we found that the zakat to GDP ratio exceeds the poverty gap index to GDP (PGI-GDP) ratio in all but 3 countries, with poverty line defined at \$1.25 a day. We also found that the zakat to GDP ratio exceeds the PGI-GDP ratio, except in 4 countries with poverty line defined at \$2.00 a day. We also compared zakat to GDP ratio against poverty headcount ratio. According to our estimates, the Zakat to GDP ratio exceeds the poverty head count ratio to GDP (PHCR-GDP), except in 5 countries with poverty line defined at \$1.25 a day. We also found that zakat to GDP ratio exceeds PHCR-GDP ratio except in 7 countries, with poverty line defined at \$2.00 a day. Thus, the institution of Zakat has ample potential to contribute towards the alleviation of poverty. Lastly, we show that the aggregate resources pooled together from the potential Zakat collection in 17 OIC countries will be enough to fund resources for poverty alleviation in all 17 OIC countries combined.

Keywords: Zakat, Fiscal Policy, Poverty, Redistribution

INTRODUCTION

More than a billion people live in poverty even in the twenty first century. On the other hand, there has been an unprecedented change in income disparity between the poor and the rich people during the last half century. According to Oxfam, the 62 richest billionaires own as much wealth as the poorer half of the world's population. In contrast, one in every four people in Africa goes to bed hungry every night, according to the Food and Agriculture Organization. Do we really have such a scarcity of resources that we cannot end poverty, hunger, and famine? Nobel Laureate Sen (1983) did research on famine in Bengal and argued that the famine was not caused from the lack of resources. It is also striking to note that

the world agriculture produces 17 percent more calories per person today than it did 30 years ago, despite a 70 percent increase in the population (Pingali, 2002).

These considerations imply that the world has sufficient resources to feed everyone, but these resources are not equally distributed. Inequality in wealth distribution is often the result of income differences arising due to differences in risk tolerance, work effort, productivity, and human capital, to name a few factors. However, the level of inequality increased dramatically in the post-World War II period, as documented by Piketty (2014), even as some of the developed economies actually faced slowdown of productivity growth since the 1980s.

While both the developed and developing worlds need to find answers for the egalitarian distribution of income, the developing world also has to achieve a decline in poverty. Most of the countries in the Organization of Islamic Cooperation (OIC) are generally poorer than other countries. Most of the population in poverty resides in Africa and Asia, and the bulk of the OIC countries are located in these continents. Half of the global poverty is from the Muslim world, while the Muslim population comprises only 24 percent of the total global population. In a recent study conducted in Pakistan by Naveed and Ali (2012), as many as 58.7 million people in Pakistan are living in multidimensional poverty, with 46 percent of the rural population and 18 percent of the urban households falling below the poverty line. Other OIC countries such as Bangladesh and Nigeria also have a high poverty headcount ratio of 43 percent and 62 percent respectively. Due to the widespread poverty and weak governments, most of the OIC countries rank lower than other countries in spending on schooling and health services. Hence, the level of human capital, productivity, and national income in these countries remain at low levels.

Under these circumstances, we sought to empirically analyze the potential of zakat as an institution of wealth redistribution to help in addressing the poverty in the OIC countries. The paper is organized as follows. Section 2 provides a review of literature on the socio-economic effects of zakat and its administration in the contemporary economies. Section 3 gives details on the research methodology, including sampling methodology and the methods we used to estimate potential zakat collectible. Finally, section 4 presents the results of our analysis. We estimate and compare the potential zakat collectible

against the funding gap for alleviating poverty in each of the 17 OIC countries.

LITERATURE REVIEW

Wahid (1986) explains that zakat is a compulsory payment on the part of Muslims as a share to the poor. Although it is a religious obligation, zakat also has a variety of economic and social ramifications. In early empirical literature on the welfare potential of *Infaq* (charity) to alleviate poverty in Pakistan, Malik et al. (1994) use micro-data to establish that *Infaq* (charity) does have a significant impact on reducing the poverty gap. In a recent empirical study on OIC countries, Shirazi and Amin (2009) estimate the resources required for poverty elimination under \$1.25 a day and \$2.0 a day. Their estimates for Pakistan suggest that the country needs 1 percent of gross domestic product (GDP) for elimination of poverty defined by earnings less than under \$1.25 a day and 6.77 percent of GDP for elimination of poverty defined by earnings under \$2 a day. In another study from Pakistan, Kahf (1989) uses different zakat categories, and according to his estimate, zakat collection can be between 1.6 percent of GDP to 4.4 percent of GDP.

In a more recent study, Azam et al. (2014) in an empirical study in Pakistan established that zakat significantly enhances the welfare of the households. Akram and Afzal (2014), in an empirical study from Pakistan, report that zakat disbursement among the poor, needy, destitute, orphans, and widows has played a significant role in poverty alleviation. Their results show that there is an inverse relationship between poverty and zakat disbursement, both in the short and long run.

Using aggregate data for Malaysia, Suprayitno et al. (2013) find that zakat distribution has a positive, but small impact on aggregate consumption. Hence, zakat

distribution should not be limited to the consumption needs, but should also cover other forms of monetary aid that can generate a continuous flow of income for zakat recipients. In another recent study, Abdelmawla (2014) argued, based on empirical evidence using aggregated data for Sudan, that zakat along with educational attainment significantly reduced poverty in Sudan. However, we note here that using aggregated data for most OIC countries where official zakat collection is very low does not make a convincing case for poverty alleviation.

In another empirical study from Bangladesh, Hassan and Jauanyed (2007) estimated that zakat funds can replace the government budgetary expenditures ranging from 21 percent of Annual Development Plan (ADP) in 1983-84 to 43 percent of ADP in 2004-2005. In a study from Malaysia, Sadeq (1996) reports that about 73 percent of the estimated potential zakat collection will be needed annually to change the status of hard-core households to the status of non-poor households in Malaysia. Ibrahim (2006) contends in an empirical study from Malaysia that zakat distribution reduces income inequality. His analysis reveals that zakat distribution reduces poverty incidence and lessens the severity of poverty. Firdaus et al. (2012) estimate the potential of zakat institution in Indonesia by surveying 345 households. Their results show that Zakat collection could reach 3.4 percent of Indonesia's GDP.

Some studies have also shown the comparative potential of zakat as a superior tool for poverty alleviation. Debnath et al. (2013) assessed the effectiveness of Zakat as an alternative to microcredit in alleviating poverty in Bangladesh. Through the Propensity Score Matching (PSM) techniques, the study indicates that the impact of the zakat scheme was greater than that of the microcredit programs.

Furthermore, the study also highlights that the zakat scheme significantly, with increases in both income and expenditure of the recipients in comparison to the microcredit programs.

Other researchers such as Nadzri et al. (2012) recommend integrating the various poverty alleviation and redistribution tools for creating synergies. The effectiveness of zakat institutions may improve by collaborating with other institutions such as microfinance institutions. Shirazi (2014) suggests that the institutions of zakat and waqf (charitable trust) need to be integrated into the poverty-reduction strategy of the Islamic Development Bank (IDB) member countries. The proceeds of these institutions should be made part of their pro-poor budgetary expenditures. Hassan (2010) suggests a model that combines Islamic microfinance with two traditional Islamic tools of poverty alleviation such as zakat and waqf in an institutional setup. Hassan (2010) argues that the poor borrowers will have less debt burden because their capital investments will be partly met by funds from zakat, which would not require any repayment.

Norazlina and Rahim (2011) identify that there are many types of programs that could be funded by zakat such as providing schooling, vocational training, and business support by establishing cottage industries and providing fixed assets and equipment to small businesses. In addition, zakat could also be used to provide low-cost housing and health care. Abdullah and Suhaib (2011) argue that if zakat is established as an institution, it will create a collective social security scheme for mutual help and the generated resources can be further utilized for social development.

To achieve such diverse contemporary needs, the institution of zakat is dynamic and flexible. In the Umer (rta) and Abu Bakar (rta) period of government,

zakat was collected by the government. However, in the Usman (rta) period, people were allowed to pay zakat privately (Kuran, 2003). Horses were exempted from zakat in the Prophet's time, but Umer (rta) brought them in the zakat net in his period. Similarly, Mahmud (2001) informs that Umer (rta) levied zakat on horses and skins, and at the time when the Arab region was hit by drought and famine, he exempted the poor from zakat and suspended zakat from the rich. Usman (rta) also levied Zakat on the production in forests, which was not the case in the earlier period (Nadvi, 1996). Hence, a policy maker in a modern economy can use the flexibility of this institution to maximize the welfare benefits of the zakat system.

Nevertheless, at present, zakat is not collected by the government in most countries and is not considered a compulsory payment to the government (Powell, 2009). Ahmad et al. (2006) examines factors contributing to the dissatisfaction towards formal zakat institutions based on a sample of 753 respondents who paid zakat to six privatized institutions. They used logistic regression to analyse the probability of paying to such zakat institutions. Their results indicate that the satisfaction on the distribution and efficient management of zakat are the main factors influencing zakat payment. About 57 percent of the respondents were dissatisfied with the distribution of zakat funds, which significantly affects payments to the zakat institutions. Wahid et al. (2008) reveals two main factors contributing to dissatisfaction, namely, the ineffectiveness of zakat distribution and the lack of transparency on information about the distribution of zakat. The lack of confidence regarding the governance of zakat institutions due to the perceived lack of efficiency and effectiveness may directly undermine the collection of potential zakat and the realization of the desired socio-economic

objectives. Abu Bakar et al. (2007) argue that the lack of proper implementation of zakat in OIC countries limits the success of the noble aims of the zakat institution.

To help change this state of affairs, Yusoff (2011) urges that every Muslim country must organize zakat collection and zakat spending in the most effective and efficient manner. Azam et al. (2014) also suggest that there is a need to institutionalize the Zakat collection system in order to increase the overall zakat collection. In another study, Rahman (2003) proposes the introduction of two zakat governance measures: the promulgation of Islamic accounting standard and structural and policy reform towards more effective zakat distribution.

One of the other potential reasons for the insignificant size of central zakat collection and ineffective disbursement is that the mainstream Islamic scholarship allows taxes to be levied other than zakat for mobilizing public finance. Maududi (1970) argues that zakat is a religious obligation and is not a substitute of tax. The same opinion is held by Siddiqui (1978) and Shaik (1979). Siddiqui (1978) cites the opinion of prominent Islamic jurists such as Ibn-e-Hazm and Imam Shatibi in support of this view. These scholars hold that taxes other than zakat can be imposed in an Islamic economy if these taxes are levied by the legislative council and used for public welfare. He contends that the taxes discouraged in Ahadith are those imposed by the autocratic kings for their own lavish consumption, and this kind of usurpation of public property was discouraged in Islam.

Besides governance, there is a dire need for a standardized approach on determination of the zakat base. Shirazi & Amin (2009) argue that since there is no agreement among the scholars on the new wealth that may be covered by zakat, there is an urgent need for general consensus on

the definition of the items to be considered as zakatable items. This requires Ijma (consensus) of the Ulama (Islamic scholars) and other contemporary scholars on the issue.

On the need for extending the coverage of zakat by including all forms of wealth and produce, Qardawi (1999, p. 333) applies the methodology of Qiyas (analogical reasoning) and reasons that the emerging and increasing types of wealth in the modern times such as bank deposits and financial securities such as shares and bonds may also be covered under zakat (Qaradawi, 1999). Abu Bakar et al. (2007) also suggest that the Illah (basis or reasoning) for zakatability should no longer be productive property, but any property which is in excess of one's personal use. Haneef and Mahmud (2011) also argue that the general directives of the Quran do not restrict the application of zakat to certain types of wealth to the exclusion of others.

That is why wealth or assets subject to zakat should include cash in hand or at bank; gold; and silver; held-for-trade inventory; real estate purchased for the purpose of resale; and all kinds of financial investments in stocks, bonds, debentures, national saving schemes, and mutual funds. Likewise, production is not limited to agriculture nowadays. The major part of production comes from industries as well as services sector. Therefore, income from the industrial production and from the services sector could also be taxed similar to agricultural yield.

Lastly, we discuss another important question regarding whether the investment in financial instruments should be subject to wealth zakat with total investment value or should only the income from such financial investments be subject to income zakat. Khan (2005) contends that investment in stocks should be interpreted as any other investment with some means of earning

income. Investment in a stock is a means of earning dividend income or capital gains. Like means of production/income are exempted from zakat, investment in stocks should be exempted from wealth zakat. Therefore, any income arising from the investment in stocks must be subject to income zakat. Similarly, this argument could be extended to introduce income zakat on mutual funds, investment in National Savings Schemes (NSS), debentures, and bonds. Furthermore, if a real estate is leased, the real estate becomes the means of earning rent for the owner. Hence, income zakat could also be introduced on rental income.

To summarize, we see that on theoretical grounds, zakat is an important redistributive institution. If the governments improve the governance, administration, and effective and transparent distribution of zakat funds, then tremendous gains can be achieved in improving public welfare.

RESEARCH METHODOLOGY

Sample

For the estimation of potential zakat collectible at the aggregate level, we selected 17 members of OIC. The selection is based on the availability of complete data. Due to non-availability of data for some variables, we had to drop a few OIC countries from the sample. Since the variables are needed to form an aggregate series, any missing value would have been detrimental in this estimation exercise. This is different from the case of missing observations or variables in a regression analysis where the variables are used to explain changes in a dependent variable rather than form an aggregate series.

Data

The data are obtained from World Bank's World Development Indicators (WDI) for the period 2008-2013. For official gold

holdings in each country, we used the data provided by the World Gold Council. For measuring poverty, we use following variables:

Table 1. List of Variables Used for Poverty Measurement

Variable	Description
Poverty gap at \$1.25 a day (PPP)	Mean shortfall from the poverty line (\$1.25 a day), as a percentage of the poverty line.
Poverty headcount ratio at \$1.25 a day (PPP)	Percent of total population with income below \$1.25 day.
Poverty gap at \$2 a day (PPP)	Mean shortfall from the poverty line (\$2.0 a day), as a percentage of the poverty line.
Poverty headcount ratio at \$2.00 a day (PPP)	Percent of total population with income below \$2.0 day.

Source: Author (2016)

In this estimation exercise, we selected following variables:

Table 2. List of Variables Used in Zakat Estimation

Variable Name	Unit of Measurement
Total reserves (includes gold)	Current US\$.
Total reserves minus gold	Current US\$.
Official gold reserves	Current US\$.
Broad money	Current US\$.
Broad money to GDP	Ratio
Market capitalization	Current US\$.
GDP	Current US\$.
Changes in inventories	Current US\$.
Agriculture, value added	Current US\$.
Industry, value added	Current US\$.
Services, value added	Current US\$.
Agricultural irrigated land	Percent of total agricultural land.
Total natural resources rents to GDP	Ratio
Total natural resources rents	Current US\$.
Population	Total number of people alive in the country.
Proportion of Muslim population	Percent of Muslims in total population.
Percent income held by top 20 percent	Percent of total personal income.

Source: Author (2016)

Method for Computing Aggregate Zakat

For estimating zakat on wealth, we used the following heads:

- ❖ Estimated private gold holdings
- ❖ Broad money
- ❖ Market capitalization of stock
- ❖ Inventory investment (as proxy for unsold inventory).

To estimate private gold holdings, we use the following formula:

$$\text{Private Gold Holdings} = \frac{\text{Official Gold Reserves}}{\text{Total Reserves} / \text{Broad Money}} \quad \text{--- (i)}$$

The proxy uses an assumption that government holds as much official gold reserves as the ratio of private gold holdings as it holds total reserves as the ratio of broad money. For instance, if the ratio of total reserves to broad money is 20 percent, then we assume that the government's official gold holdings as a ratio of total private gold holdings will also be 20 percent. Since we know the official reported gold holdings of governments, we can estimate the private gold holdings using the above formula. Here, we assume that the government's choice of keeping monetary and gold reserves as a proportion of broad money and total private holdings, respectively, is the same in the long run.

Since zakat is levied on currency in ownership as well as on money deposited in bank accounts, we use broad money as a proxy for the wealth held as currency and in bank accounts. For zakat on market value of stocks, we use market capitalization. It is calculated as follows:

$$\text{Market Capitalization} = \sum_{i=1}^n N_i P_i \quad \text{--- (ii)}$$

Where N_i is the number of shares outstanding for company "i", and P_i is the

current market price of the stock of company "i".

Lastly, to estimate the unsold tradable inventory, we use the figure for "inventory investment", as reported in the national income accounts. In national income accounting, "inventory investment" represents the value of production in a particular year that remains unsold during that year. It is assumed that the firm has purchased unsold inventory from itself. However, the "inventory investment" figure reported in national income accounts gives an estimate of the tradable inventory for production that took place only in that year. The actual tradable inventory could be much more than the reported figure. We sought to estimate the value of this wealth zakat function:

$$WZ = \sum_{x=1}^n 0.025(W_x - MNA) \quad \text{--- (iii)}$$

Here,

"WZ" refers to total wealth zakat.

" W_x " refers to wealth in ownership of individual x.

"MNA" refers to minimum *nisaab* amount. It is computed as the market value of 612 grams of silver.

To deduct the *nisaab* amount at the aggregate level, we have to estimate the number of people whose wealth in ownership exceeds the *nisaab* amount. We take a conservative route to assume that the people in the top income quintile of the population will have wealth exceeding the *nisaab* amount.

We define " P_{MNA} " as a set of all people belonging to the top income quintile and have wealth exceeding the *nisaab* amount. Mathematically it is expressed as follows:

$$P_{MNA} = \{x \in P_{\text{top 20\%}} | W_x > MNA\} \quad \text{--- (iv)}$$

If an individual “x” belongs to the top income quintile, he is assumed to have wealth exceeding *nisaab* amount. From the aggregate value of assets that are subject to wealth zakat, we have to deduct the product: $\{P_{MNA} \times MNA\}$

In the second part of the estimation, we attempted to estimate the total production value tax that can be collected in individual economies in our sample. The rate of production value tax can be 5 percent, 10 percent, or 20 percent. Production processes that mix both labor- and capital-intensive inputs are subject to 5 percent production value tax. Production processes that majorly use either labor- or capital-intensive inputs are subject to 10 percent production value tax. Incomes from sources that neither use labor- nor capital-intensive inputs are subject to 20 percent production value tax.

Mathematically, we can represent this principle of levy as in equation (v). Here, \bar{L} and \bar{K} represent very minimal use of the inputs in fixed amount. “PVT” refers to the production value tax.

$$PVT = \begin{cases} 10\% & y = f(L, \bar{K}) \\ 10\% & y = f(\bar{L}, K) \\ 5\% & y = f(L, K) \\ 20\% & y = f(\bar{L}, \bar{K}) \end{cases} \quad \text{--- (v)}$$

Hence, we apply a 5 percent production value tax on production arising from irrigated land and production value of output produced in industry and services sector. We apply 10 percent production value tax on production arising from rain-fed lands. Finally, we apply 20 percent production value tax on production arising from rents on natural resources.

Since zakat is only levied on Muslims, we make the adjustment in all variables to account for that. We assume that in the long run, the proportion of Muslims

and non-Muslims in the top income quintile will be the same as their proportionate distribution in total population.

For measuring poverty, we use two measures, namely, poverty headcount ratio and poverty gap. Poverty headcount ratio is computed as a ratio of the number of people in poverty divided by the total population. The poverty gap index is computed as follows:

$$PGI = \frac{1}{N} \sum_{j=1}^q \left(\frac{z-y_j}{z} \right) \quad \text{--- (vi)}$$

$$PGI = \frac{1}{N} \sum_{j=1}^N \left(\frac{(z-y_j) \cdot 1(y_j < z)}{z} \right) \quad \text{--- (vii)}$$

Here, “N” is the total population of a country, “q” is the total number of poor people in the population with income below the poverty line, “z” is the poverty line defined by a particular threshold of income like \$1.25 or \$2 a day and “y_j” is the income of the poor individual “j”. In this index, the poverty gap for individuals whose income is above the poverty line is zero.

Ahmed (2004) uses a conservative crude measure of poverty gap by multiplying the number of poor people with the average minimum annual income of \$365 or dollar a day, per non-poor person. This is a conservative measure since it assumes that poor people have zero annual income (Shirazi & Amin, 2009). Hence, we use both measures for comparative analysis.

RESULTS & DISCUSSIONS

In this section, we present the results of our estimation. We have presented the results in Table 3. In Table 3, “ZGDP” refers to zakat to GDP ratio. “PGI-GDP” refers to the Poverty Gap Index to GDP ratio. It is computed as follows:

$$PGI \text{ to GDP} = \frac{PGI \cdot y_p \cdot N}{GDP} \quad \text{--- (viii)}$$

Here,

“PGI” refers to Poverty Gap Index value.

“ y_p ” refers to income at poverty line in current \$.

“N” refers to the total number of people in the country.

“GDP” refers to the value of Gross Domestic Product.

In Table 3, “PHCR-GDP” refers to Poverty Head Count Ratio to GDP. It is computed as follows:

$$\text{PHCR to GDP} = \frac{\text{PHCR} * y_p * N}{\text{GDP}} \quad \text{--- (ix)}$$

Here,

“PHCR” refers to Poverty Head Count Ratio.

“ y_p ”, “N” and “GDP” have the same meaning as defined above.

We can see that zakat to GDP ratio exceeds the PGI-GDP ratio, except in 3 countries with poverty line defined at \$1.25 a day. Only in Bangladesh, Mozambique and Nigeria, the zakat to GDP ratio is less than PGI-GDP ratio with poverty line defined at \$1.25 a day. Mozambique is one of the members of OIC, with a very small proportion of Muslim population. Additionally, zakat to GDP ratio exceeds PGI-GDP ratio in all but 4 countries, with poverty line defined at \$2.00 a day. Only in Bangladesh, Mozambique, Nigeria, and Pakistan, the zakat to GDP ratio is less than

the PGI-GDP ratio, with poverty line defined at \$2.00 a day.

We also compared the zakat to GDP ratio against the poverty headcount ratio. However, one must note that the estimate of funding gap from poverty headcount ratio assumes that poor people have zero income. Hence, it exaggerates the true funding needed to alleviate poverty. We can see that the zakat to GDP ratio exceeds PHCR-GDP ratio in all but 5 countries, with poverty line defined at \$1.25 a day. The countries in which zakat to GDP ratio is less than PHCR-GDP ratio when the poverty line defined at \$2.00 a day include Bangladesh, Mozambique, Nigeria, Pakistan, and Tajikistan. Further, the zakat to GDP ratio exceeds the PHCR-GDP ratio in all but 7 countries with poverty line defined at \$2.00 a day. Countries in which zakat to GDP ratio is less than PHCR-GDP ratio with poverty line defined at \$2.00 a day include Bangladesh, Indonesia, Kyrgyz Republic, Mozambique, Nigeria, Pakistan, and Tajikistan.

Therefore, we can see that in most countries, if the potential zakat collection is made and disbursed effectively, the poverty gap can be funded even in the first round. Since zakat is a combination of net worth and production value tax, it works effectively, irrespective of the phase of the business cycle. Furthermore, it targets the poor and ultra-poor specifically and achieves direct redistribution.

Table 3. Zakat to GDP, Poverty Gap to GDP and Poverty Rate to GDP Ratio

Country	ZGDP	PGI-GDP (\$1.25)	PGI-GDP (\$2.00)	PHCR-GDP (\$1.25)	PHCR-GDP (\$2.00)
Albania	2.60%	0.01%	0.09%	0.05%	0.47%
Azerbaijan	5.83%	0.01%	0.05%	0.02%	0.14%
Bangladesh	2.76%	5.32%	23.13%	20.63%	58.30%
Egypt	3.69%	0.05%	0.62%	0.23%	3.39%
Indonesia	3.53%	0.35%	2.74%	2.13%	9.10%
Jordan	4.30%	0.00%	0.02%	0.01%	0.17%
Kazakhstan	2.69%	0.00%	0.01%	0.00%	0.03%
Kyrgyz Republic	3.13%	0.43%	3.07%	1.84%	12.19%
Malaysia	4.59%	0.02%	0.16%	-	-
Morocco	5.01%	0.08%	0.74%	0.38%	3.30%
Mozambique	0.97%	19.49%	52.67%	45.77%	99.54%
Nigeria	2.20%	4.17%	10.88%	9.41%	19.97%
Pakistan	2.54%	0.69%	7.58%	4.54%	29.02%
Saudi Arabia	8.45%	-	-	0.35%	0.70%
Tajikistan	2.36%	0.56%	4.71%	9.11%	19.30%
Tunisia	3.73%	0.02%	0.16%	0.27%	0.76%
Turkey	3.42%	0.00%	0.03%	0.06%	0.17%

Source: Author's Computations (2016)

In Table 4, we show the zakat estimation for the individual years during the period between 2008 and 13. It can be seen that the estimates have little variance over the years. Hence, the institution of zakat can provide a stable source of public revenue that can be spent on public welfare directly by transfer of monetary and non-monetary assets along with the provision of health and educational services mediated by welfare institutions from the zakat fund. Since the institution of zakat only collects zakat from the people who hold at least a prescribed amount of wealth, it ensures that the zakat payers are richer than the Zakat

recipients. This ensures socio-economic mobility and contributes towards egalitarian income distribution.

In our estimation, we assumed that only people in the top income quintile are asked to pay zakat. The actual number of people eligible for zakat payment may be even more, particularly in the middle-income countries and emerging economies of South Asia. Since the *nisaab* value is equivalent to the value of 612 grams of silver, the people who come out of poverty can eventually become zakat payers after having been zakat recipients.

Table 4. Zakat to GDP Ratio during 2008-2013

Country	2008	2009	2010	2011	2012	2013
Albania	2.51%	2.46%	2.58%	2.57%	2.62%	2.60%
Azerbaijan	7.57%	5.92%	6.13%	5.86%	5.41%	5.83%
Bangladesh	3.48%	3.06%	3.01%	2.91%	2.83%	2.76%
Egypt	5.34%	4.02%	3.85%	3.99%	3.72%	3.69%
Indonesia	4.66%	4.03%	3.82%	3.69%	3.52%	3.53%
Jordan	5.84%	5.01%	4.79%	4.67%	4.50%	4.30%
Kazakhstan	3.62%	3.05%	2.97%	2.95%	2.72%	2.69%
Kyrgyz Republic	2.98%	3.02%	3.28%	3.12%	3.20%	3.13%
Malaysia	6.05%	5.99%	5.28%	4.85%	4.65%	4.59%
Morocco	5.61%	4.92%	5.02%	5.10%	5.16%	5.01%
Mozambique	1.21%	1.07%	1.12%	1.03%	0.98%	0.97%
Nigeria	1.80%	3.01%	2.30%	2.39%	2.22%	2.20%
Pakistan	3.06%	2.68%	2.68%	2.64%	2.59%	2.54%
Saudi Arabia	10.58%	8.81%	8.53%	8.85%	8.48%	8.45%
Tajikistan	2.39%	2.37%	2.44%	2.37%	2.36%	2.36%
Tunisia	4.20%	3.59%	3.66%	3.77%	3.77%	3.73%
Turkey	3.48%	3.80%	3.53%	3.55%	3.49%	3.42%

Source: Author's Computations (2016)

In Table 5, we present the correlation between zakat to GDP ratio and GDP growth rate for the 6 year period between 2008 and 13. It can be seen that the absolute value of the correlation coefficient is more than 0.7 in only 3 of 17 countries. It is more

than 0.8 in only 2 out of 17 countries. In 10 out of the 17 countries, the correlation is negative, which indicates the countercyclical stabilization potential of the institution of zakat.

Table 5. Correlation between ZGDP & GDP Growth during 2008-13

Country	Correlation Between GDP Growth & ZGDP
Albania	-0.58093
Azerbaijan	0.686503
Bangladesh	-0.25932
Egypt	0.785502
Indonesia	-0.22489
Jordan	0.895576
Kazakhstan	-0.42568

Kyrgyz Republic	-0.59264
Malaysia	-0.52276
Morocco	0.40042
Mozambique	-0.80824
Nigeria	0.241723
Pakistan	-0.71059
Saudi Arabia	0.436444
Tajikistan	-0.03663
Tunisia	0.301337
Turkey	-0.57057

Source: Author's Computations (2016)

Next, we examine how long it will take to fund the poverty gap through the institution of zakat. The time is represented as the number of years for each of the four poverty measures that we have used in the study. We have assumed that the zakat

recipients do not become zakat payers immediately; otherwise, the speed of reaching the target will increase as social mobility sets in. Table 6 presents the results of this analysis.

Table 6. Years Required to Fund Poverty with Potential Zakat Collection for 2013

Country	ZGDP	PGI-GDP (\$1.25)	PGI-GDP (\$2.00)	PHCR-GDP (\$1.25)	PHCR-GDP (\$2.00)
Albania	2.60%	0.00	0.04	0.02	0.18
Azerbaijan	5.83%	0.00	0.01	0.00	0.02
Bangladesh	2.76%	1.93	8.38	7.47	21.12
Egypt	3.69%	0.01	0.17	0.06	0.92
Indonesia	3.53%	0.10	0.78	0.60	2.58
Jordan	4.30%	0.00	0.01	0.00	0.04
Kazakhstan	2.69%	0.00	0.00	0.00	0.01
Kyrgyz Republic	3.13%	0.14	0.98	0.59	3.89
Malaysia	4.59%	0.00	0.03	0.00	0.00
Morocco	5.01%	0.02	0.15	0.08	0.66
Mozambique	0.97%	20.09	54.29	47.19	102.62
Nigeria	2.20%	1.89	4.94	4.28	9.08
Pakistan	2.54%	0.27	2.99	1.79	11.43
Saudi Arabia	8.45%	0.00	0.00	0.04	0.08
Tajikistan	2.36%	0.24	2.00	3.86	8.18
Tunisia	3.73%	0.01	0.04	0.07	0.20
Turkey	3.42%	0.00	0.01	0.02	0.05

Source: Author's Computations (2016)

In Table 7, we present the number of people that can be lifted out of poverty with the realization of potential collectible zakat. The second and third columns show how much poor people can be lifted out of poverty in terms of the multiple or fraction of the total poor people with poverty line defined at \$1.25 and \$2.00 a day. It can be seen that in most countries, the value is greater than 1, which suggests that if the potential zakat collectible is indeed collected by the government and disbursed through direct transfers, these poor people can be

helped adequately. However, it is necessary that poor people are provided with this transfer payment for the necessary duration so that they can survive as well as permanently move on to the status of non-poor. In this regard, the educational and health institutions of the public sector need to provide effective and affordable services with state of the art quality so that the income earning capacity of these poor people can be enhanced, along with ensuring their survival and meeting the basic physiological needs of life.

Table 7. People Lifted Out of Poverty from Potential Zakat Collection for 2013

Country	People Lifted Out of Poverty (No.)	Multiple of Total Poor (\$1.25/Day)	Multiple of Total Poor (\$2.00/Day)
Albania	735,046	53.00	21.52
Azerbaijan	8,669,335	306.88	129.95
Bangladesh	9,082,150	0.13	0.00
Egypt	22,000,113	15.77	1.08
Indonesia	67,120,324	1.66	0.04
Jordan	3,171,523	491.02	414.16
Kazakhstan	13,658,865	801.69	1,776.80
Kyrgyz Republic	495,829	1.70	0.09
Malaysia	31,492,916	211.95	150.09
Morocco	11,401,599	13.29	0.94
Mozambique	333,727	0.02	0.00
Nigeria	25,118,087	0.23	0.01
Pakistan	12,921,233	0.56	0.01
Saudi Arabia	138,644,438	24.05	19.24
Tajikistan	440,016	0.26	0.01
Tunisia	3,844,006	88,981,612.33	314.37
Turkey	61,680,905	58.80	22.94

Source: Author's Computations (2016)

Lastly, we show whether the OIC countries we had selected in our sample collectively have enough resources to overcome poverty from the realization of

potential zakat collectible. It can be seen from the table that on most counts of poverty, the aggregate resources pooled together from the potential zakat collection

will be sufficient to fund resources for poverty alleviation. Hence, it is important that OIC to collaborate with member

countries and transfer necessary resources from the zakat surplus regions to the zakat deficit regions.

Table 8. People Lifted Out of Poverty from Potential Zakat Collection for 2013

Country	Potential Zakat Collectible (mln \$)	PGI (\$1.25 Per Day)	PGI (\$2 Per Day)	PHCR (\$1.25 Per Day)	PHCR (\$2 Per Day)
Albania	335	1	12	6	61
Azerbaijan	3,955	5	37	13	103
Bangladesh	4,144	7,981	34,694	30,936	87,450
Egypt	10,038	139	1,695	636	9,225
Indonesia	30,624	3,055	23,785	18,468	78,980
Jordan	1,447	1	8	3	57
Kazakhstan	6,232	1	15	8	62
Kyrgyz Republic	226	31	222	133	881
Malaysia	14,369	68	499	68	499
Morocco	5,202	83	773	392	3,422
Mozambique	152	3,046	8,232	7,154	15,558
Nigeria	11,460	21,752	56,766	49,111	104,180
Pakistan	5,895	1,612	17,618	10,554	67,413
Saudi Arabia	63,257	2,631	5,261	2,631	5,261
Tajikistan	201	48	401	775	1,642
Tunisia	1,754	10	76	129	358
Turkey	28,142	17	241	479	1,422
Total	187,432	40,478	150,336	121,497	376,573
Surplus/Shortfall		146,954	37,096	65,935	-

Source: Author's Computations (2016)

In Table 9, we provide a numerical example of wealth redistribution under the zakat system. Suppose, we have an interest-free economy that comprises 10 rich people, each having wealth of \$1,010. We also assume that there are 50 poor people, each having wealth of \$2. Let us suppose that the *nisaab* amount in this interest-free economy is \$10. Column 2 shows the aggregate wealth of the rich people. Column 3 shows the wealth transferred from the rich to the poor during each year. Column 4 shows the aggregate wealth of poor people after wealth

transfer. For simplicity, we suppose perfect wealth equality between the people in each group. For the sake of highlighting the effect of wealth redistribution of wealth transfers, we assume that income is generated randomly in this interest-free economy, with no interest-based lending allowed. Furthermore, we assume that income earned is consumed in that period to enable us to focus our attention on the wealth redistribution effects of zakat in an interest-free economy. Column 5 shows the wealth multiple in each year for the two groups.

Table 9. Numerical Simulation of Wealth Redistribution under the Zakat System

Year	W_R	Wealth Transfer (R to P)	W_P	W_R to W_P Multiple	W_R to W_P Multiple Per Person
0	10,100.00		100.00	101.00	505.00
1	9,850.00	250.00	350.00	28.14	140.71
2	9,606.25	243.75	593.75	16.18	80.89
3	9,368.59	237.66	831.41	11.27	56.34
4	9,136.88	231.71	1,063.12	8.59	42.97
5	8,910.96	225.92	1,289.04	6.91	34.56
6	8,690.68	220.27	1,509.32	5.76	28.79
7	8,475.92	214.77	1,724.08	4.92	24.58
8	8,266.52	209.40	1,933.48	4.28	21.38
9	8,062.36	204.16	2,137.64	3.77	18.86
10	7,863.30	199.06	2,336.70	3.37	16.83
11	7,669.21	194.08	2,530.79	3.03	15.15
12	7,479.98	189.23	2,720.02	2.75	13.75
13	7,295.48	184.50	2,904.52	2.51	12.56
14	7,115.60	179.89	3,084.40	2.31	11.53
15	6,940.21	175.39	3,259.79	2.13	10.65
16	6,769.20	171.01	3,430.80	1.97	9.87
17	6,602.47	166.73	3,597.53	1.84	9.18
18	6,439.91	162.56	3,760.09	1.71	8.56
19	6,281.41	158.50	3,918.59	1.60	8.01
20	6,126.88	154.54	4,073.12	1.50	7.52
21	5,976.20	150.67	4,223.80	1.41	7.07
22	5,829.30	146.91	4,370.70	1.33	6.67
23	5,686.07	143.23	4,513.93	1.26	6.30
24	5,546.42	139.65	4,653.58	1.19	5.96
25	5,410.26	136.16	4,789.74	1.13	5.65
26	5,277.50	132.76	4,922.50	1.07	5.36
27	5,148.06	129.44	5,051.94	1.02	5.10

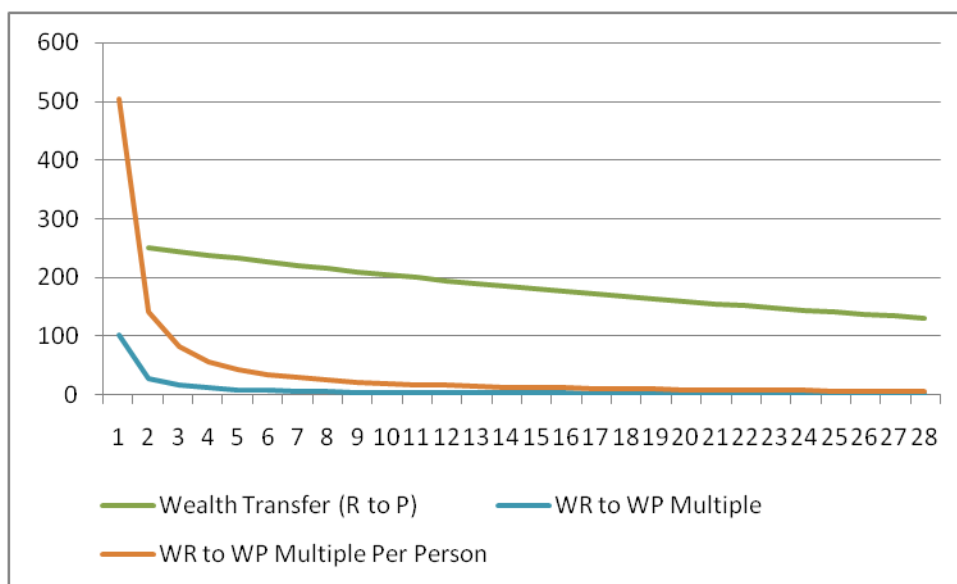
Source: Author's Computations (2016)

It can be seen that after around 27 years, the wealth multiple will drastically decrease from 101 to almost 1, for the two

groups as a whole. Column 6 shows the wealth multiple per person. It can be seen that wealth multiple will become only 5

after 27 years from the initial value of 505. Eventually, the wealth recipients will become ineligible for zakat receipts, and on the contrary, they will become part of the zakat payer group. It can be seen from

Figure 1 that the wealth multiple as a group and on per person basis declines as time passes. Wealth transfer is greater when there is relatively higher inequality and declines as inequality reduces in the economy.



Source: Author (2016)

Figure 1. Wealth Inequality and Zakat (Result of Numerical Simulation)

CONCLUSION

In this study, we found that zakat to GDP ratio exceeds the PGI-GDP ratio in 14 of the 17 enrolled countries with poverty line defined at earnings of \$1.25 a day. Only in Bangladesh, Mozambique, and Nigeria, the zakat to GDP ratio was less than the PGI-GDP ratio, with the poverty line defined at \$1.25 a day. We also discovered that the zakat to GDP ratio exceeds the PGI-GDP ratio in 13 of the 17 countries when the poverty line was defined at \$2.00 a day. Only in Bangladesh, Mozambique, Nigeria, and Pakistan, the zakat to GDP ratio was less than the PGI-GDP ratio, with the poverty line defined at \$2.00 a day. Our empirical analysis also showed that the zakat to GDP ratio exceeds the PHCR-GDP ratio

in 12 of the 17 countries, with the poverty line defined at \$1.25 a day. The countries in which zakat to GDP ratio was less than PHCR-GDP ratio with poverty line defined at \$2.00 a day were Bangladesh, Mozambique, Nigeria, Pakistan, and Tajikistan. We also found that the zakat to GDP ratio exceeds the PHCR-GDP ratio in 10 of the 17 countries with poverty line defined at \$2.00 a day. The countries in which the zakat to GDP ratio was less than the PHCR-GDP ratio, with poverty line defined at \$2.00 a day, included Bangladesh, Indonesia, Kyrgyz Republic, Mozambique, Nigeria, Pakistan, and Tajikistan. Hence, we conclude that the institution of zakat has ample potential to contribute towards poverty alleviation. Our analysis also revealed that the aggregate resources pooled

together from the potential zakat collection in 17 OIC countries will be sufficient to fund resources for poverty alleviation. Thus, OIC can collaborate with other member countries to transfer necessary resources from regions with zakat surplus to the regions that have zakat.

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Had Kifayah Zakah and Adequacy of Income Redistribution: A Proposal Framework

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ABSTRACT

Social security systems traditionally serve a dual purpose: they maintain acquired living standards in the event of the materialization of social risks and combat poverty by guaranteeing adequate minimum income. In this paper we consider Zakat as an important mechanism that strengthens the economy of the entire society by providing Had kifayah as a way to redistribute income. Zakat is also a source of social security to the community, especially to those under inadequate living standards. Had Kifayah Zakat can work as a minimum standard to manage redistribution of income, thereby reducing poverty and balancing economic growth in our society.

Keywords: Had Kifayah; Zakat; Social Security; Income redistribution; adequacy

INTRODUCTION

Poverty is a classic and complex socio economic problem that has plagued human life through centuries; it has always existed and will remain for decades to come (Food and Agriculture Organization of the United Nations, 2012). Poverty persists in both rural and urban areas, in developed and developing economies, but its nature may vary from community to community, culture to culture and time to time (Hassan, 2010). Poverty has a direct effect on material progress and civil development at individual and social levels (Usmani, 2000). In many countries, international organizations and non-government organizations have introduced several programs to reduce poverty. These programs such as initiatives to create employment and market opportunities by constructing small scale industries, enable people get access to jobs and sell their goods at favourable prices. There are also programs for promoting infrastructural development by good governance and

effective administration, constructing good roads to make transport and communication easy for the rural population, and promoting agriculture and farming which are the main sources of income in rural areas. All of these programs create opportunities that empower the needy (Singh, 1999).

The World Development Report (World Bank, 1990) also recommended a dual approach to reducing poverty: (i) efficient labor-intensive growth based on appropriate market incentives, physical infrastructure, institutions and technological innovations; and (ii) adequate provision of social services, including primary education, basic health care and family planning services. Generally, in monetary terms, poverty is measured based on the income levels or consumption per capita or per household. Bretton Woods Project (2016) informed that in October 2015, as differences in the cost of living across the world continue to evolve, the World Bank published its updated international poverty line (IPL) and announced its estimate of the number

of people living in extreme poverty globally. The IPL, which came to prominence with the dollar-a-day figure devised by the Bank in 1990, is revised periodically in line with new data from the independent International Comparison Program (ICP) hosted by the World Bank. The new figure of \$1.90 is based on ICP's purchasing power parity (PPP) calculations and represents the international equivalent of what \$1.90 could buy in the US in 2011. The new IPL replaces the \$1.25 per day figure, which used data from 2005.

According to the World Bank, "global poverty rates will have fallen from 902 million people or 12.8 per cent of the global population in 2012 to 702 million people, or 9.6 per cent of the global population [in 2015]". The Bank's announcement highlighted a change in the composition of poverty, noting that "in 1990, East Asia accounted for half of the global poor, whereas some 15 per cent lived in Sub-Saharan Africa; by 2015 forecasts, this is almost exactly reversed: Sub-Saharan Africa accounts for half of the global poor, with some 12 per cent living in East Asia." (Bretton Woods Project, 2016). World Bank reported that for the current 2016 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the *World Bank Atlas* method, of \$1,045 or less in 2014; lower-middle-income economies are those with a GNI per capita between \$1,046 and \$4,125; upper-middle-income economies are those with a GNI per capita between \$4,126 and \$12,735; and high-income economies are those with a GNI per capita of \$12,736 or more (The World Bank, n.d.).

The main objective of the present paper, however, is to explore the relationships between poverty and inequality in income distribution, social security and poverty, and last but not least how the Kifayah zakah mechanism may be used as an instrument of redistribution of income and social security to reduce poverty levels and deliver the minimum standard of living.

POVERTY AND INCOME INEQUALITY DISTRIBUTION: REVIEW OF ISSUES

Many researches show that, sometimes, even poverty and inequality are studied separately, whereas in reality there are significant trade-offs between both issues. Cornia and Court (2001) highlighted the five main issues related to the second wave of globalisation. First, inequality has risen since the early-mid 1980s. Second, the traditional common factors causing inequality, such as land concentration, urban bias and inequality in education are not for the agents of worsening the situation. Third, the high level persistence of inequality makes poverty reduction difficult. Fourth, a high level of inequality can curtail the rate of growth and lead to undesirable political and social outcomes. Some scholars such as Kanbur (2010) and Basu (2006), in trying to explain the relationship between globalization, inequality and marginalization that are theoretically and empirically interconnected, had formalized the concept of "poverty minimizing level of inequality", arguing that they are in reality interconnected as well.

Changes in per capita income are the main determinants of changes in poverty. Even though the debate on whether the degree of inequality has increased or decreased over time remains unsolved, inequality still remains high. However, efforts towards maximizing per capita income might not place sufficient weight on poverty and inequality reduction as well in this era of fast global integration (Basu, 2006).

Small changes in income distribution can have a large effect on poverty alleviation as visualised by a simple arithmetical example. We imagine a country where the share of national income that goes to the poorest 20 percent of the population increases from 6 percent to 6.25 percent. A change in income distribution of a quarter of one percent would barely affect

the Gini coefficient, but for the poor this represents a 4 percent increase in their total income. Such a small redistribution would have the same effect on poverty alleviation as doubling the annual growth of national income from 4 percent to 8 percent, which is necessary to achieve the Millennium Development Goal (MDG) 1. This is in reality the projected growth rate recommended for many African countries as seen in examples from White and Anderson (2001). The effect is also confirmed by evidence from Cote d'Ivoire and Bangladesh (Wodon, 1999). Again, a numerical example helps to show the importance of distribution of wealth for poverty. In Table 1, distribution 1 has only half the headcount of 2, and compares favourably with 3, but its poverty gap and gap squared are higher than those in both 2 and 3. This is only because its Gini coefficient is marginally higher. Similarly, distribution 2 has lower poverty gap and poverty gap squared measures than 3, although its headcount is considerably higher. Again this is due to very marginal changes in the Gini coefficient.

According to Dabla-Norris, et al. (2015), there are some factors that influence income inequalities such as:

- Global economic trends where inequality has risen despite opening new markets and bringing growth opportunities in countries rich and poor alike.
- Technological change. Technological advances have contributed to rising income inequality in OECD countries, accounting for nearly a third of the widening gap between the 90th and the 10th percentile earners over the last 25 years (Organisation for Economic Co-operation and Development, 2011).
- Trade globalization. Recent studies on relation between trade globalization and inequality do not focus on poverty impacts but rather on the distributional consequences of globalization. Global trade openness potentially raises the skill premium, but could also increase real

wages by lowering (import) prices (Munch & Skaksen, 2009).

- Financial globalization. Financial globalization can facilitate efficient international allocation of capital and promote international risk sharing. At the same time, increased financial flows, particularly foreign direct investment (FDI) and portfolio flows have been shown to increase income inequality in both advanced and emerging market economies (Freeman, 2010).
- Redistributive policies. Increase in net income inequality points to gaps in existing tax-and-transfer systems to counteract rising market inequality. Redistributive impact of conditional cash transfers varies widely across countries, reflecting differences in both the size and progressivity of these transfers.

Inequality of income describes the uneven income distribution of the community in an area or region at a specific time. There are some patterns to the relationship between poverty and income inequality as follows:

- All of society has high income (no poor) but higher-income inequality.
- All of society has high income (no poor) and the inequality of incomes are low (the best pattern).
- All of society has low income (all poor) and higher-income inequality.
- All of society has a low income (all poor) but inequality of incomes is low.
- The level of public income varies (mostly poor and non-poor), and higher-income inequality is reported.
- The level of public income varies (mostly poor and non-poor) but inequality of incomes is low.

There are several methods to measure the inequality of income distribution that affect the poverty level. It is divided into two approaches: axiomatic and stochastic dominance. The first approach is often used in the literature with

three parameters: the generalized entropy (GE), the size of Atkinson index, and Gini coefficient. The formula of GE is:

$$GE(\alpha) = \frac{1}{\alpha} \left(\frac{1}{n} \sum_{i=1}^n \left(\frac{y_i}{Y^*} \right)^\alpha - 1 \right)^{\frac{1}{\alpha-1}}$$

n = the number of individuals (people) in the sample,

y_i = the income of the individual ($i = 1, 2, \dots, n$), and

Y^* = $(1/n) \sum y_i$ is a measure of average income of the GE's value.

A GE value of zero (0) means an equitable distribution of income (income of all individuals in the sample), and 4 means that there is a very large gap. This first parameter measures the magnitude of the differences in incomes between the different groups within the distribution, and has a real value.

$$A = 1 - \left| \frac{1}{n} \sum_{i=1}^n \left(\frac{y_i}{Y^*} \right)^{1-\epsilon} - \frac{1}{1-\epsilon} \right|$$

ϵ is the parameter of inequality, where $0 < \epsilon < 1$ is the higher value of ϵ (increasingly unequal distribution of income). Its value ranges from 0 to 1, such that a value of 0 (zero) means no bias in the distribution of income.

For the third part of the measuring instrument by this approach, the axiom used in the empirical studies on the gap in income distribution is the Gini coefficient; the formula here is as follows:

$$Gini = \frac{1}{2n^2 Y^*} \sum_{i=1}^n \sum_{j=1}^n |y_i - y_j|$$

Gini coefficient values are in the interval of 0 - 1, with the caption:

- If the value is, 0 (zero), it means: perfectly equal income distribution (everyone gets the same portion of the income).
- If the value is 1 (one), it means complete inequality in the distribution of income, meaning that one person (or a group of

beneficiaries) in a country enjoys all the income of the country.

The main idea for the calculation of Gini coefficient is derived from the Lorenz curve. The Gini coefficient is the ratio of: (i) the area in the graph that lies between the Lorenz curve and the line of perfect equality (which forms an angle of 45 ° from the point 0 intersecting the y and x axis) to (ii) the triangle area between the equal lines and the y-x axis, The higher the Gini ratio, or in other words the closer the value is to 1 or further away the Lorenz curve from the 45 ° line, the greater the level of inequality in income distribution.

Another commonly used measurement approach, especially by the World Bank, is to classify a population into three groups; 40 percent of the population with low income, 40 percent of population with middle-incomes, and 20 percent of the population with high incomes. Furthermore, inequality of income is also measured in terms of the income enjoyed by 40 percent of the low income population. According to World Bank criteria, the level of inequality in income distribution is declared high if 40 percent of the low-income population groups receive less than 12 percent of total income; the level of inequality is moderate if the group receives 12 percent to 17 percent of total income; and inequality is considered low if the group receives more than 17 percent of total income.

Foster, et al. (1984) introduced three indicators to measure the level of poverty; these indicators are used in many empirical studies as follows:

- The first indicator is the incidence of poverty, measured in terms of the percentage of the population who live in families with per capita consumption expenditure below the poverty line. The index is often known by the H ratio.
- The second indicator is the depth of poverty that illustrates the depth of poverty (IJK), or the so-called poverty gap index. This index

describes the difference in the average income of the poor from the poverty line as a proportion of the line with the formula:

$$Pa = (1/n) \sum_i [(z - y_i) / z] \text{ a for all } y_i < z$$

Pa index is sensitive to the distribution if $a > 1$. Section $[(z - y_i) / z]$ is the difference between the poverty line (z) and income level of the first group of poor families (y_i) in the form of a percentage of the poverty line, while $[(z - y_i) / z]$ is an exponent percentage of the amount of income. When the amount of income of the poor is divided by the population (n), the Pa index is produced.

- The third indicator is the severity of poverty as measured by the poverty severity index (CCI). This index is equal to the IJK. However, CCI can also measure the income gap among the poor or the distribution of expenditures among the poor population. This index is also called *distributionally sensitive Index* and also used to determine the intensity of poverty. The existence of these two indicators (other than the H ratio) is useful to describe the weakness of the H ratio, which could not describe the severity of poverty in a country.

Poverty researchers have been long interested in the other two factors: the amount of income shortfalls of the poor and the magnitude of inequality in income distribution among the poor. With the assumption of *ceteris paribus*, the highest the average magnitude of the shortfall in income of the poor, the larger the gap of income among the poor is, and greater the tendency for poverty to increase. The development of the above rationale is evident in the Sen Poverty index, which incorporates these two factors, namely the Gini coefficient and the H ratio:

$$H: S = H [I + (1-I) \text{ Gini}]$$

where (I) is the average amount of the deficit of the poor, expressed as a percentage of the poverty line and the Gini coefficient which measures inequality among the poor. Thus, when one of these factors increase, the poverty rate also increases (as measured by S).

Unequal distribution of income, besides affecting poverty, also hampers the economic growth of a country. The World Development Report 2000/2001 (World Bank, 2001) concludes that better distribution is possible without a reduction in economic growth. Economic theory does not tell us why or how inequality may affect growth (Atkinson, 1997). As a result, research on this relationship tends to be ad hoc, and the evidence conjectural. The links have mainly been explained in terms of political economy, economic, or social factors. The following highlights a few explanations:

Political economy: Inequality can be thought of as the difference between the mean and the median voter. The median voter will lobby for higher taxes on the rich, leading to a disincentive to save and invest, and thus reduced economic growth. This earlier political economy line of argument, while commonly cited, is not well supported through evidence. A more recent argument suggests that inequality creates political instability that leads to lower investment (Alesina & Perotti, 1993) and more resources being wasted bargaining over the distribution of rents (Rodrik, 1997). Instability also reduces the government's ability to react to shocks, and - in its more extreme form - leads to direct and opportunity costs due to violence (Bourguignon, 1998).

Economic factors: Economic factors of why inequality reduces growth centre on capital market imperfections and also hinge on the role of the poor, not only as beneficiaries but also as contributors to economic growth. Due to credit rationing, the poor often cannot afford the minimum

initial investment in education or other investments, or cannot get insurance for their investments, even if they are profitable, since they lack collateral. Thus, distribution of initial asset has a negative effect on subsequent economic growth. Birdsall, et al. (1996) found that the poor's savings rate is exceptionally high when they can expect higher returns for their labour and investment. If the poor are provided with greater incentives to invest/work their income will rise, national income will increase, and inequality will fall.

Social factors: Social inequality may create self-fulfilling expectational equilibria with lower growth. If workers are paid according to social class, gender or ethnicity, rather than by what they achieve, this reduces the incentive to work/earn more (Bourguignon, 1999).

We may see how poverty, inequality and growth interact with one another through a set of two-way links in the figure below (Naschold, 2002). Some of these links (A, B and C in Figure 1) can be explored separately, but often one influences another causing indirect effects. For instance, inequality can indirectly influence poverty as inequality affects growth (B) and growth in turn influences poverty (C). The figure describes how inequality and poverty affect each other directly (A). Section 2.2, through its discussion of links (B) and (C), shows how they interact indirectly through growth.

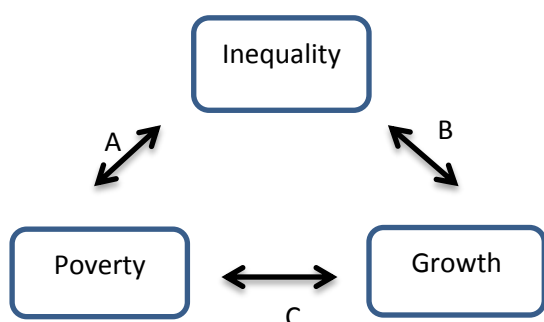


Figure 1. Interaction between Poverty, Inequality, and Growth

ZAKAT BASED SOCIAL SECURITY AND INCOME REDISTRIBUTION

Redistribution of income means distributing the income from the wealthy group to the poor communities, in the form of either taxes or other charges. Income redistribution is a form of social security provided by the state to the public. Rather than public spending, Social security is a form of social investment that, based on two main pillars (redistribution of income and social solidarity), is profitable in the long term (Spicker, 1995).

The social security system according to Reyda (1994) consists of components of active labor-power market, social insurance and social assistance as well as demogrant. The essence of social security in principle is that it covers the provision of health services to the entire population and the pensioners.

International Labor Organisation (2003) defined social security as “the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner”. The International Social Security Association (ISSA as cited in Kahf & Al Yafai, 2015) defines social security as follows: “social security may be defined as any program of social protection established by legislation, or any other mandatory arrangement, that provides individuals with a degree of income security when faced with the contingencies of old age, survivorship, incapacity, disability, unemployment or rearing children. It may also offer access to curative or preventive medical care. In this case, social security can include social insurance programs, social assistance programs, universal programs, mutual benefit schemes, national provident funds, and other arrangements including market-oriented approaches that, in accordance

with national law or practice, form part of a country's social security system”

Social security generally comprises of the five schemes commonly used in the UK. First, social insurance or the contributory benefits scheme is a program funded by contributions from employees, employers, and governments; the program benefits are paid to everyone who has paid their contributions. This program is intended to replace any loss or interruption of income due to reasons such as job loss, illness, retirement and death of the breadwinner. The second type, categorical or universal benefits, is a program funded from general taxes; program benefits are paid to the people who fit the program's target categories such as households with children, or people with disabilities. Third, tax-based benefits, is a program that uses the tax system to provide benefits (tax credits) to people who have income below the threshold of non-taxable income. Fourth, occupational benefits, is a program where benefits such as pensions, sickness and maternity benefits are paid by the employer. This program is regulated by the government. Fifth, social assistance or means-tested benefits, is a program funded by general tax; the program benefits are paid to low-income people according to their household situation. Examples include giving aid to the people with low income who cannot cover their basic needs.

In the United States, the term social security refers to the schemes covered under the Federal Old Age, Survivors and Disability Insurance (OASDI) program. These programs provide benefits for retirement, disability, safety and death of the breadwinner of a family. However, this program does not cover unemployed people (unemployment insurance) or social assistance that uses income as a basis for determining those worthy of assistance (mean-tested). Along with a program that provides assistance in the form of goods (means tested assistance in kind) such as food stamps, and services for the poor (means tested services for the poor) such as

medical Clinique's and public housing, this social assistance program is categorized as welfare or social welfare.

HAD KIFAYAH OF ZAKAT BASED ADEQUACY OF INCOME REDISTRIBUTION

Redistribution (personal distribution) in Islam has social-economic policy implications for the government or a philanthropy initiative. It can be imperative or not in other regions. For example, Zakah, household expenditure, heritage, *kafarat*, and *nadzar* are of imperative. Sometimes, it is also obligated by the government so as to make zakat visible. Philanthropy measures such as *sadaqoh*, *hibah* and *wasiah* are of this nature. Redistribution, as mentioned by Zarqa and Al Jarhi (2007) should meet at least the following objectives: (i) fight against poverty, in light of the teachings to the children of Adam (this is the ultimate goal); (ii) purify the donors; and (iii) reduce inequality (the second purpose of redistribution). Islam is the only religion that systematically pursues this goal and regulates the supporting instruments through zakat or direct redistribution. Fair and equitable distribution of income and wealth is actually based on the concepts of justice or *falah* (wellbeing) and happiness for the whole community. In this context, it is noteworthy that the concept of redistribution does not stand alone but is closely linked to the ideology of the society charity engaging. That's why capitalism advocates unlimited freedom and private property ownership in the production areas and ends up with inequality in the distribution of wealth while, another school of thought, communism curtails individual freedom and private property ownership.

The objective of redistribution of wealth and income is to create socioeconomic justice. It is regarded as an integral part of Islam and a moral philosophy based on a definite commitment to the brotherhood of humanity (Chapra,

2000). Justice and brotherhood are two elements that cannot be separated, and both can be realized by a system of redistribution of wealth and income. Redistribution within Islam is different from the capitalist system or socialist redistribution. Islam does not only emphasize the social community aspects but also the spiritual aspect, namely carrying out one's duties as a servant of God. According to Samuelson (1989), in the conventional economic order, the assistance to the poor is only voluntary. In this context, there is no policy of direct transfer obliging high-income groups to transfer their surplus wealth to low-income groups. The only way by conventional economics for the redistribution of income is transfer (visible transfer programs) whereby the government makes efforts to redistribute income by allocating tax advantages to the low-income groups. Justice requires us not to be selfish, and rather act equitably (Siddiqi, 2004). Redistribution system is an attempt to enforce the fair distribution of wealth and income in society. Apart from religious duty, a suggestion to convey the excess wealth to the needy can serve as the driving factor for the redistribution of wealth and income.

According to Veit-Wilson (1998), the problem with the notion of minimum incomes is that, what is being judged is the adequacy of income levels for achieving some specified minimal level of living. What that specification is, and what the context of evaluation of the minimal level of living is, have to be arguable and justified in its social context. There cannot be a free-floating and universally acceptable criterion of 'adequacy'; it can be argued only in terms of answers to real-life questions such as adequacy for what? Adequacy for how long? Adequacy for whom and who says? (Dubnoff, 1985) The last question raises the issue of the authority to determine and validate the meaning of adequacy. Based on Adam Smith's *Custom of the Country*, does authority in this context pertain to power holders' authority

or the authority that derives from the values and experience of the population as a whole? Social research methods may be used to discover what the population as a whole regards as the answers to the first three questions, or power holders can arrogate to themselves the right to answer them, as they commonly do.

The measurement division of income in zakat mentions a concept known as *had al-kifayah*, which in general is a tool for measuring poverty. Quite simply, it is used to measure the adequacy of expenditure, by comparing the gross income and minimum spending of the family or the individual. Using this principle, more specific and precise decisions were obtained in determining the level of one's zakat applicant, as to whether they are rich, poor or indigent (absolutely poor).

The Management Fatwa of distribution of Zakat Selangor provides a definition of *had al-Kifayah* as 'the distribution of zakat to *asnaf* (needy) and poor who have to meet their real, basic needs. Correspondingly, the zakat institutions actually apply this method for a more accurate determination of the poor and a more focused and well-managed distribution of zakat. We should also understand that the institution of zakat takes into account the six basic needs of human life. The needs are shelter, food, clothing, education, health and transportation. These items are the basic needs for every human being. Thus, if the household income per month is not able to meet these minimum requirements, the persons belonging to that household are eligible to be considered either poor or indigent (*fakir*).

Most of zakat institutions use financial approach based on Had Kifaya methods (zakat average poverty line) for measuring poverty. Had Kifaya (HK) method is almost the same as the Average Poverty Line (APL) as it uses income as a variable to determine whether an individual or household is poor (JAWHAR, 2007). APL is defined as the income needed to

meet the minimum needs including food, health, clothing, education, recreation, transportation, fuel and rent. APL was established by the Economic Planning Unit (EPU) of the Prime Minister, while the Had Kifayah is determined by the institution of zakat of each state.

Had Kifayah plays a role in determining the level of income required by households to meet their daily needs. It is calculated based on several variables such as the number of members in the household, age group, etc. Department of Awqaf, Hajj and Zakat Malaysia (JAWHAR) has outlined some of the key components in determining the needs of Had Kifaya such as shelter, food, clothing, health, education and transport based on Maqasid al Sharia (Objective of Syariah) as described by Qardhawi (2000). However, it is up to each zakat state institution to determine the need level of each these components. It is important to note that Had Kifayah varies and depends on the number of household members in the household and their ages. The using of Had Kifaya is intended to facilitate the determination of the absolute poor. Qardhawi (2000) and Ahmad (2001) recommended that the distributed amount of zakat should at least meet the minimum cost of living and the basic comforts for the recipients and their dependents. A certain amount of zakat is necessary to ensure the continuity of the quality of life. In other words, the intended effect of zakat distribution is to achieve a fair standard of living or meet the basic needs (*daruriyyat*) and comforts (*hajiyyat*).

To address the problems of poverty, we can help the poor to achieve "self-sufficiency" through zakat by six elements that can be identified and tracked as follows:

- Income and economic assets
- Educational skills
- Housing and environment
- Access to healthcare and other social services as needed
- Close personal ties, as well as networks with other people

- Personal resourcefulness

The World Bank also recommends a six-pronged approach o tackling inequality of income distribution that can be seen in everyday life in most of the countries:

- Early childhood action focused on better nutrition
- Universal health coverage
- Universal access to good schools
- Cash transfers to poor families
- Better roads and electrification
- Progressive taxation to transfer resources from the rich to the poor.

MECHANISM AND MEASUREMENT

In relation to social security, redistribution of income can be vertical and/or horizontal. Vertical redistribution refers to the transfer of money from the rich to the poor. In this context, social security is a form of support from the rich citizens to citizens who are weak economically.

Horizontal redistribution is "inter-group" money transfer, from one group to another group, for example, from men to women, from adults to children, or from teenagers to the elderly. Horizontal redistribution also can be "inter-personal", from one part of an individual's life-cycle to another. Spicker (1995) called this scheme as "income smoothing". In this context, Spicker (1995) explains that social security essentially is the financial support given to children who would pay when they are grown; given to the sick who would pay when healthy; or given to the pensioners who would have paid when they were working. In addition, there are several techniques of redistribution of income, as follows:

- a. Cash transfer

Cash transfers are divided into several approaches as follows:

- Negative Income Tax or a guaranteed annual income
- Cash transfer is given to families that are entitled, with the transfer amount depending

on the amount of income and family size. The more poor the family, the more is the financial aid received from the government.

- Demogrant is a form of cash transfer in which all demographic groups receive the same amount. The amount transfer will not decrease with increasing growth rates.
- Wage Rate Subsidies (WRS)
WRS is a government-initiated transfer that increases the level of net labor wage. The higher the market wage rate, the lower the WRS subsidy would be, but the workforces who earn high wages also continue to acquire this WRS.

b. Transfer of Money and Goods

In reality, the cash transfer can also be given partly in the form of goods. This form is intended to minimize misuse of funds. In fact, the assistance provided by the government is not usually received immediately by the public due to the inaccuracy of targeting. Therefore, the government should be more selective in distributing assistance, so that the government targets will be achieved. It can be done by:

- Direct progressive income tax, which means that the rich are required to pay taxes at a greater rate compared to the poor, so that the poor will be helped.
- Granting or direct provision of individual consumption goods and services for the needy. Examples are provision of community health centers in rural and sub-urban areas, improvement of nutritional programs, water supply, and rural electrification. This assistance is very effective and helpful.

c. Public Employment Program

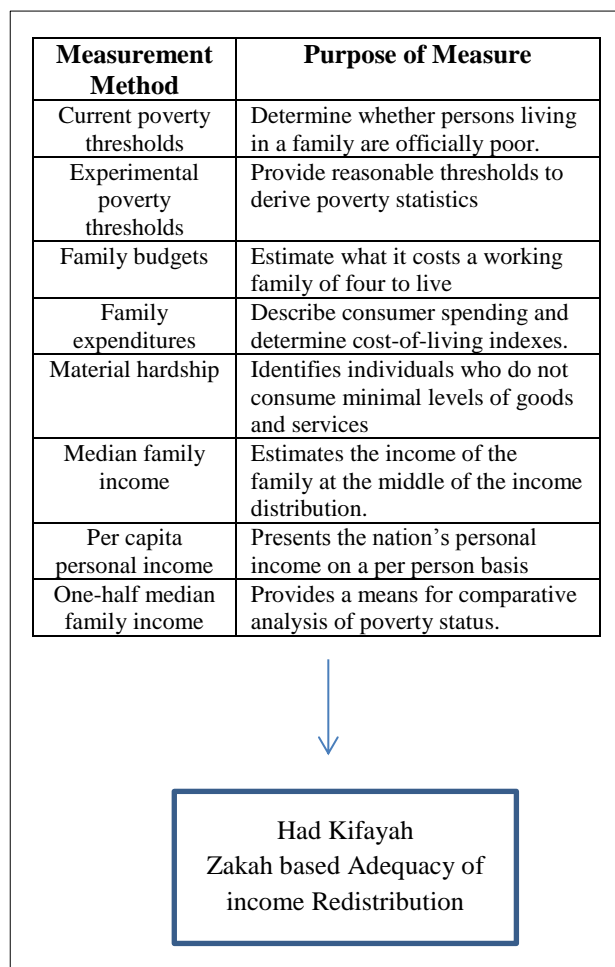
This comprises a government welfare program in the form of employment opportunities in the public sector combined with "cash or in-kind transfer" program.

When planning a pilot project of zakat-based adequacy scheme, the government or zakat institution should consider the following key points:

- Identify the priority social security needs of the community, based on the income level in the target areas;
- Develop a flexible programme for the poor that could allow a mix of options to accommodate individual and household needs and capacity to pay premiums;
- Develop the administrative infrastructure for establishment of the fund, collection of contributions and process of claims;
- Develop a model of linking the micro-insurance schemes with the national social security schemes
- Determine the role of the key stakeholders in national and local governments, NGOs and the service delivery agency;
- The potential for subsidies to be provided to the contributors to assist in the promotion of the schemes and to support their short-term sustainability
- Establish appropriate options for pooling of funds, re-insurance and guarantees against unanticipated situations;
- Improve knowledge and capabilities of local resources in implementing the social security system;

- The duration of the trial run and the future of the scheme after the trial period. The pilot scheme could assess the suitability and effectiveness of the scheme
- Programmes and schemes for informal economy segments such as urban, rural and occupational groupings;
- Administrative processes and costs;
- Group dynamics such as group building, management and sustainability;
- Training of group leaders and group facilitators;
- Providers of services, local government, social security organisations, NGOs and private companies;
- Financial impact of fully self-funded and subsidised schemes; and
- Most appropriate models for extension to other areas.

To determine a fair standard of living, we can use some measurement of poverty such as the as *had kifayah* Zakah based approach to adequacy of income. This scheme can be a useful mechanism to provide social security to the needy.



Source: Author (2016)

Figure 1. Summary of the Measurement

CONCLUSION

Zakat is one medium that can help individual Muslims who are facing problems in their economic life. Zakat institutions are very important in the system of zakat. It is an intermediary between the payer and the recipients (*asnaf*). His responsibility is very great which is to ensure the collection and the distribution of zakat to the needy with efficient and effective. If the institution is fails to function properly, then the zakat system will not be successfully implemented. Zakat institutions need to show the high values of Islam, such as trust and fairness in the management of zakat.

Nowadays, zakat management also require the managers with other sciences

background such as management, entrepreneurship, technology and so on. This ultimately will increase the level of professionalism of the zakat management, increase zakat payer's confidence and will enhance the zakat funds in the Islamic financial system which ultimately will increase the distribution to the recipients. Thus, hopefully alleviate the poverty Islamic community and strengthen the social security in Muslim community. It is desirable to ensure that at least the quality of life of asnaf (recipients) is better than the other communities in Malaysia, even their income is below the poverty level. In managing the distribution of income more fairly, the government can do these programs such as follows:

- The government should create the programs such as granting soft community loan, running various development programs of labor-intensive and business development (small-scale industries), provide the guaranteed access to the basic needs for the poor as well as cooperating with local and foreign private company to run the program of corporate social responsibility (CSR).
- The social security programs are realized through the provision of rice (Raskin), direct cash transfers (BLT), BOS, JPSBK, soft community loan (Kredit Usaha Rakyat), PNPM Mandiri program and others.

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Preparedness Response of Indonesian Tax Offices Concerning the *Zakat* as a Taxable-Income Deduction

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ABSTRACT

This paper aims to analyze the preparedness response of tax offices on the issue of the zakat as a taxable-income deduction. Act No. 17/2000, at the top level, and Government regulation No. 60/2010 supports this policy in detail. However, many people do not claim restitution regarding this policy. This paper uses primary data gathered from phone interviews. Seven tax offices, including service centers, were interviewed in March 2012. The paper provides evidence that each tax office had different responses, provided less information, and acted unsupportive on the issue. In addition, the process of restitution for tax claims is difficult and unfavorable from the zakat payer's perspective. New tax regulations must be supported by clear information socialization and efficient tax restitution process from the office. Otherwise, it would not be effective as the benefits may be smaller than the effort.

Keywords: Zakat, tax office, response, Indonesia, preparedness

INTRODUCTION

In Indonesia, the growth of the *zakat* fund is an issue because it is the country with the most Muslims but lacking in *zakat* fundraising. A *zakat*, or tithe, is obligatory to Muslims who meet specific requirements. It is a part of the obligatory worship of the creator and indicates a Muslim's compliance level in conducting worship.

In 2011, the *zakat* fund collected was only Rp 1.2 trillion, while its true potential reached Rp 217 trillion.¹ This gap indicated that Muslims in Indonesia were reluctant to pay the *zakat* even though it is one of the five pillars of Islam. This situation is unfortunate because if a *zakat* fund were collected optimally, problems in poverty might be eradicated. To enhance *zakat* payments, incentives were given to

zakat payers in the form of a deduction in the taxable income. This regulation has been issued in the Act No. 38/1999 on *zakat* management and supported by the Act No. 17/2000 (replaced by the Act No. 36/2008) on taxable income. Moreover, referring to the Act No. 36/2008, this proposal has just been regulated through Government Regulation No. 60/2010, which will take time to be fully implemented. Nevertheless, few Muslims utilize this regulation as the basis with which to use a *zakat* as a deduction of their taxable income or claim over their *zakat* payments (restitutions).

This paper investigates the preparedness response of tax offices on the issue of the *zakat* as a taxable-income deduction. We start with a supporting theory that explains how the regulation on *zakat* as tax income deductible was issued and previous studies on tax regulation and tax office support. Then, we examine research methodology, how and when the research was conducted, and topics to be

¹<http://www.hidayatullah.com/read/18116/21/07/2011/potensi-zakat-indonesia-tahun-2011-mencapai-rp.-217-triliun.html>

analyzed. Next, we analyze interview results as the main part of the research. Finally, we conclude the research in general.

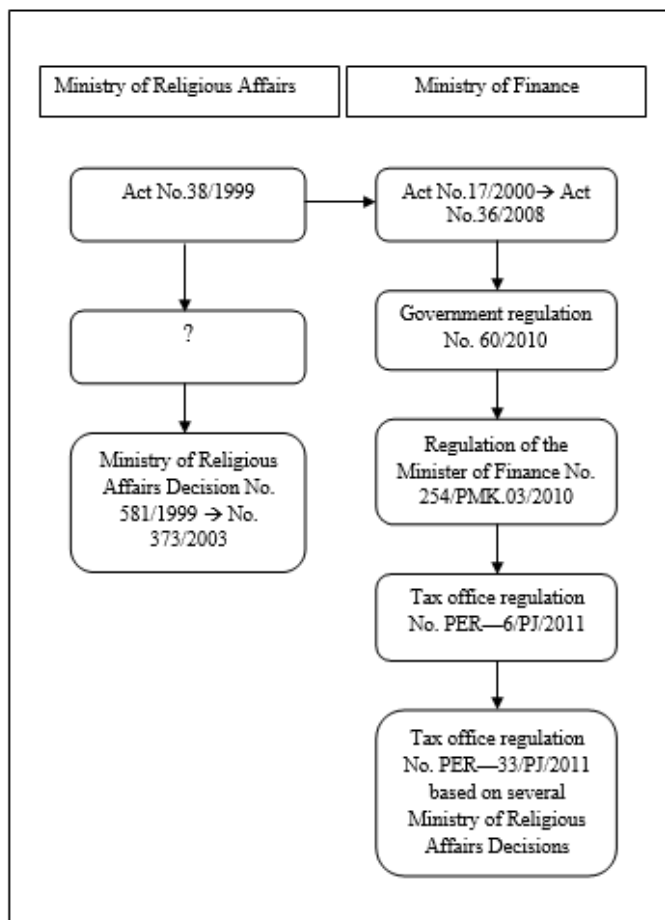
THEORETICAL BACKGROUND

As one of the five pillars in Islam, a *zakat* must be paid by Muslims who have met the requirement. The *zakat* and the income tax are different systems. A *zakat* is based on wealth, while tax is based on income. In Indonesia, a *zakat* can be deducted from taxable income, while in other countries, such as Malaysia, it can be deducted from the tax paid. Most likely, the impact of a *zakat* as a tax deduction is bigger than a *zakat* as a taxable income deduction.

Based on the Act No. 38/1999 on *zakat* management, the *zakat* has been a deduction of taxable income in Indonesia since 1999. Moreover, the Ministry of Religious Affairs Decision No. 581/1999 (replaced by the Ministry of Religious Affairs Decision No. 373/2003) and the Act No. 17/2000 on taxable income issued by the Ministry of Finance (replaced by the Act No. 36/2008) which supported it.

Then, the *zakat* issue was modified under Government Regulation No. 60/2010 on *zakat* and religious charity and described in detail by the Regulation of the Minister of Finance No. 254/PMK.03/2010. This issue was also delimited under tax office regulation No. PER—6/PJ/2011 on payment practices and No. PER—33/PJ/2011 on registered institutions for *zakat* receivers (see Figure 1). The government approves only 19 institutions to process the *zakat* as a deduction of taxable income. Approval of a *zakat* as a deduction of taxable income takes a considerable amount of time to process. In fact, the implementation of this policy is often difficult due to internal factors such as the comprehension and awareness of the tax office and of the policy itself.

Research on preparedness of the tax office in responding to new regulations is scarce. Most research discusses the effectiveness of the new tax policy, tax avoidance, and differences in tax calculation issues. No research has been conducted as to how tax payers make restitutions for overpaid taxes.



Source: Related regulation

Figure 1. Regulation Hierarchy of *Zakat* in Indonesia (as a Deduction of Taxable Income)

Several researchers have conducted research on tax office services. Rani and Arora (2011) showed that the implementation of the tax policy is related to tax administration and that a successful implementation of the tax policy must be supported by an efficient tax administration. Ashby *et al* (2009) argued that taxpayers would be more cooperative if they thought the tax regulations were clearly stated. Similarly, Dijke and Verboon (2010) found that to make taxpayers comply with regulations, tax authorities need to ensure the fairness of tax payment procedures. Furthermore, Cokelc and Oplotnik (2012) argued that good regulations can improve tax services and affect economic growth due to multiple effects. To enhance the performance of tax offices, budget

allocations, and incentives to the tax offices should be increased. However, problems may arise in gray areas of the issue.

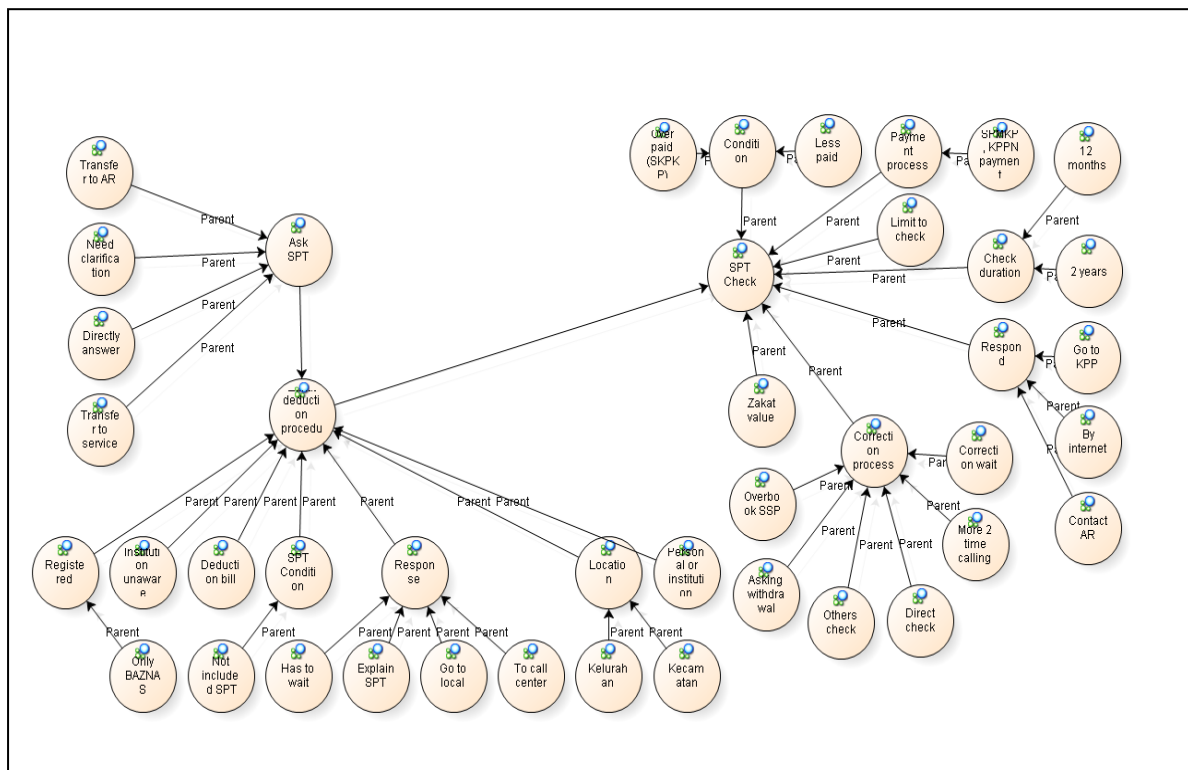
The tax office's efficiency is also an interesting issue. Katharaki and Tsakas (2010) stated that factors affecting the efficiency of the tax office were scaled to the size of the structure of the regional economy of the tax office. In other words, efficiency of the tax office depends on its size and economic condition.

RESEARCH METHODOLOGY

The research conducted about the *zakat* and tax offices employed phone interviews as the primary data-collection method. The period of data collection was from March 2012 to June 2012. Samples were taken

from seven objects/offices comprising customer service centers, with two different periods of interviews and five different tax office locations in the city and urban areas (region). These seven customer service centers were asked about issues concerning restitution (tax claims) based on related regulations. The main topics included using the *zakat* as a taxable income deduction and the procedures involved.

Mapping of the interview can be seen in Figure 2. It consists of three parts: (a) first response, (b) the *zakat* taxable income deduction process, and (c) the payment process of restitution (tax claim). The interview was based on those three parts and then varied depending on tax officers' responses. We map those different responses by using nodes and mapping them into a main category.



Source: Primary data (2012)

Figure 2. Interview Group Topic

ANALYSIS

Analysis of the research started by coding the interview script in nodes (see Table 1). The interview was based on the related issues of topics and preparedness of the tax office concerning the *zakat* as deductible income. The classification was based on determined characteristics to create cross-tab analysis, such as interview length, gender, and city type. Interview length comprised three types: (a) long was above

8 minutes, (b) medium was between 5 and 8 minutes, and (c) quick was below 5 minutes. The gender was determined by whether the tax officer was male or female. City type was categorized by whether the city was located in a large urban area that included a call center and a region with an urban tax office. Word occurrence was also detected, but little of the information could be analyzed (see Appendix 1).

Table 1. Classification of Respondents

No	Name	Duration	Sex type	City type
1	KP1	Long	Male	City
2	KP	Quick	Female	City
3	PBU	Medium	Male	Region
4	PPJ	Long	Male	City
5	PPS	Long	Male	Region
6	SPG	Medium	Female	Region
7	WPP	Long	Female	City

Source: Primary data (2012)

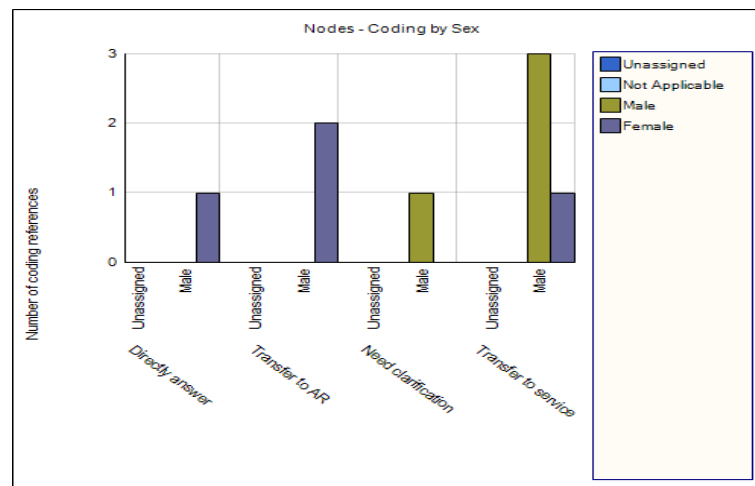
The analysis consisted of three parts: (a) the introductory, or the first response on the *zakat* as taxable income deduction, (b) *zakat* process, or the process of the *zakat* as taxable income deduction, and (c) tax correction, or the process of tax restitution if a taxpayer claimed the overpaid tax payment.

Introductory Response

NVIVO produced “unassigned” and “not applicable” values, which could be ignored in the analysis. At the first response, most male tax officers suggested that the client contact customer services. Only one

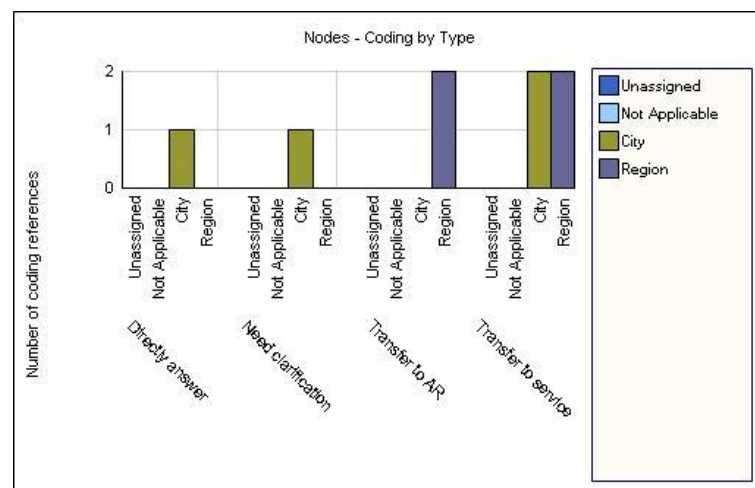
female tax officer answered the question directly. Others suggested contacting the account representatives in the related tax office branch. Each taxpayer had an account representative who was responsible for handling his or her tax problems (see Figure 3).

If we classify by city type, only one tax officer answered the issue directly. Whether the tax office was located in a city or region determined its customer service. Two tax offices recommended transferring to account representatives (see Figure 4).



Source: Primary data (2012)

Figure 3. Cross-Tabulation Response and Sex Type



Source: Primary data (2012)

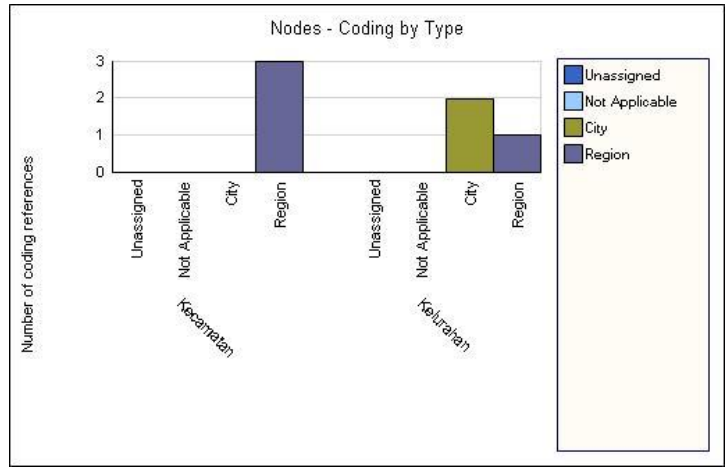
Figure 4. Cross-Tabulation First Response and Type

From both Figures 3 and 4, we can see that there was only one tax officer who could directly respond to the issue of *zakat* as a taxable income deduction. Others responded differently (for example, they transferred clients to account representatives and customer service). From this early respond, it seems that tax office is not ready to respond this issue.

The Zakat Process

The second phase of the interview focused on how the *zakat* could deduct the taxable income. It was a simple mechanism, but it

could be difficult to be implemented as there were no clear practices (for example, no other implicit regulations, such as physically checking for restitution). Tax officers asked the taxpayers their addresses, down to the smallest district or village, and above it or the subdistrict. Then, they referred them to the related account representatives. The clients in the subdistrict was asked by the regional tax officer, whereas the clients in the smallest district or village was asked only by the city tax officers (see Figure 5).



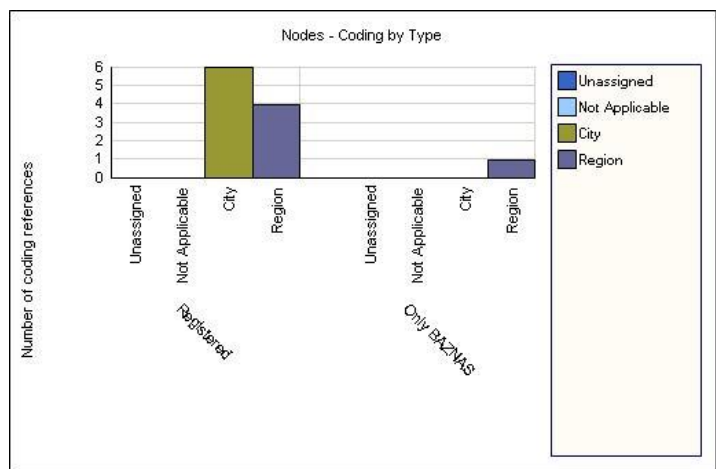
Source: Primary data (2012)

Figure 5. Cross-Tabulation Regional Information and Type

Tax offices gave information about the registered *zakat* institutions that could deduct taxable income differently. Based on regulations, the *zakat* could be deducted from taxable income if the taxpayer paid it to a registered tax office (see Figure 6). However, there was one tax office that permitted only the taxpayer to make payments to BAZNAS (National Board of Zakat) in order to get the *zakat* as a taxable income deduction. Problems occurred when the *zakat* payer location was isolated or far away from the registered tax office. Taxpayers could not get a deduction of taxable income for these cases. On the other hand, the process to be a registered

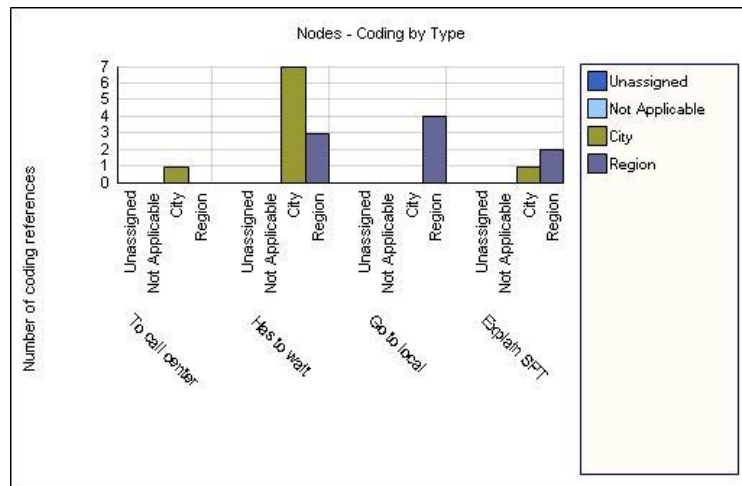
zakat institution was suspended. Zakat can be deducted if taxpayer pay zakat only to this registered *zakat* institutions.

Tax offices gave different responses when they had to explain how to get a taxable income deduction in detail. Most tax officers asked the taxpayers to wait to get that information (at city type). Another tax officer referred the client to a local tax office to get the detailed information. Yet another tax officer suggested that the taxpayer contact the call center. Only a small number of tax officers explained how to get the taxable income deduction (see Figure 7).



Source: Primary data (2012)

Figure 6. Cross-Tabulation *Zakat* Institution and Type

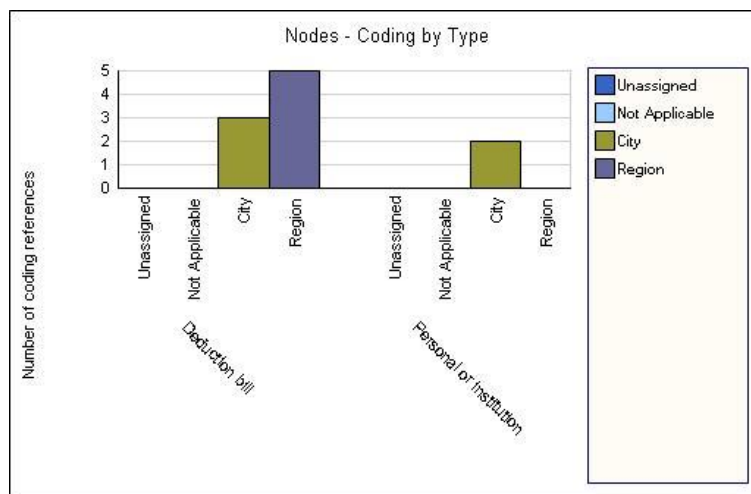


Source: Primary data (2012)

Figure 7. Cross-Tabulation Information Response and Type

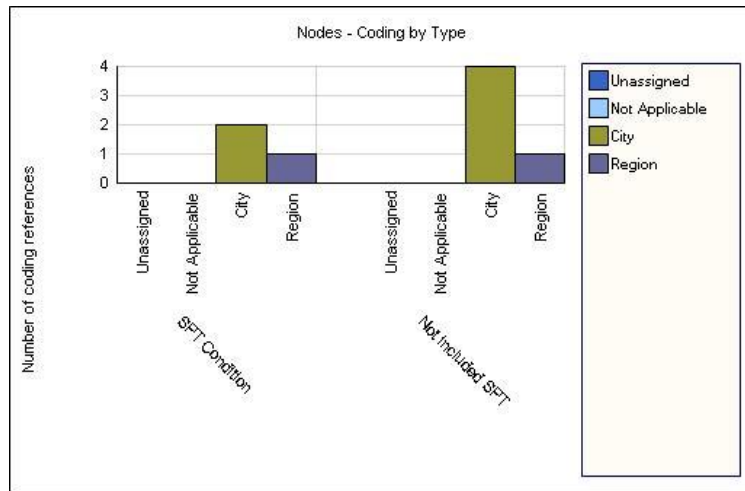
Most tax officers said that the deduction bills from registered tax offices were needed to take the taxable income deduction. Interestingly, only one tax office asked whether the *zakat* payer was from an institution (see figure 8). This is

unique because the taxable income deduction applies only to individuals, not institutions.



Source: Primary data (2012)

Figure 8. Cross-Tabulation *Zakat* Information and Type



Source: Primary data (2012)

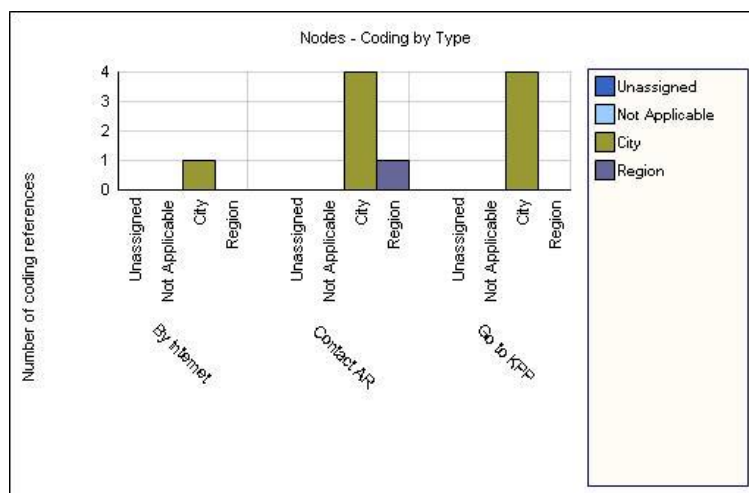
Figure 9. Cross-Tabulation Zakat Condition and Type

Some tax officers asked about the SPT (tax receipt payment report) condition. For taxable income deduction, a blank form must be filled out. Others did not mention anything about the SPT for taxable income deductions (see Figure 9).

Tax Correction

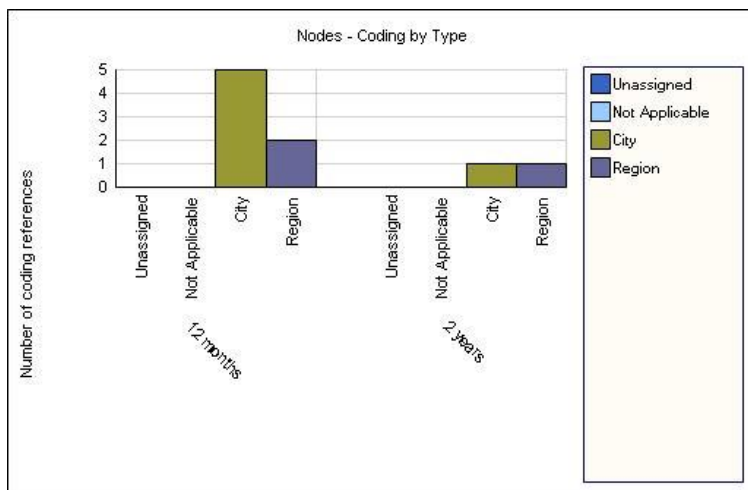
To get a tax restitution, a tax correction was needed because taxes were paid monthly, whereas the zakat was paid yearly. This caused overpayment of taxes. The zakat for taxable income deduction was not included in the calculation. Responses on tax correction varied. Tax

offices suggested that clients reference the Internet or contact account representatives by directly visiting tax offices to get detailed information on this issue (see Figure 10). The process of restitution included tax recalculation, including the zakat amount. Restitution amounts could be retrieved from the gap between with and without involving zakat amount paid in tax calculation. Tax offices gave different periods of time for tax restitution claims, from 1 to 2 years (see Figure 11). Ideally, restitutions could be conducted in one year.



Source: Primary data (2012)

Figure 10. Cross-Tabulation Tax Correction Response and Type

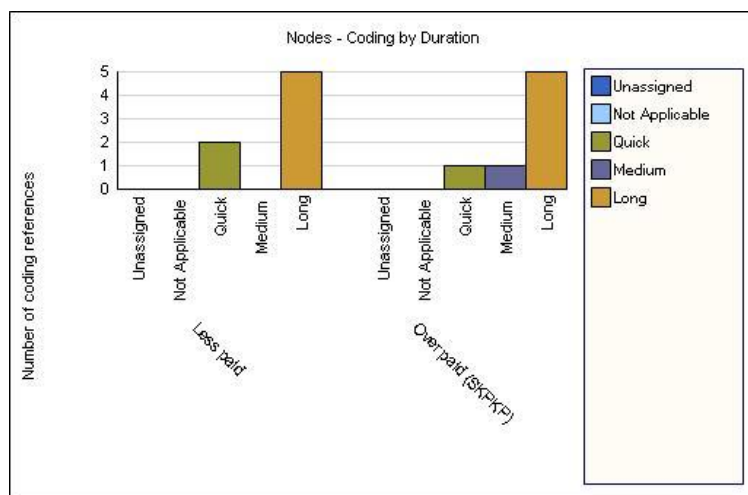


Source: Primary data (2012)

Figure 11. Cross-Tabulation Claim Period and Type

The length of an interview determined the thoroughness with which the tax officer explained the issue. During long interviews, officers could give detailed information regarding the *zakat* as a taxable income deduction. Quick

interviews provided better information than medium-length interviews, which did not discuss the less-paid tax issue (see Figure 12).

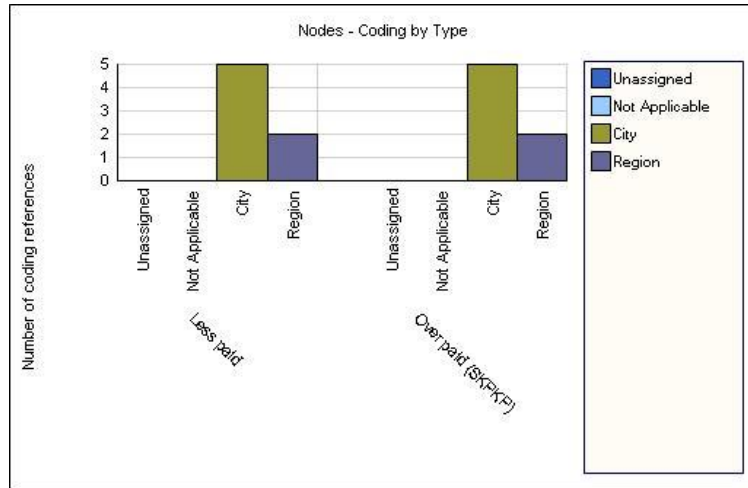


Source: Primary data (2012)

Figure 12. Cross-Tabulation Payment Tax Condition and Interview Length

Furthermore, the tax office’s city type determined the quality of information given rather than the region type, even though the number of the tax office “city” is bigger than the “region” (4 compared to

3). The amount of information given doubled between city and region type (see Figure 13). The city type consisted of a call center for tax information and was better prepared to respond to tax issues.

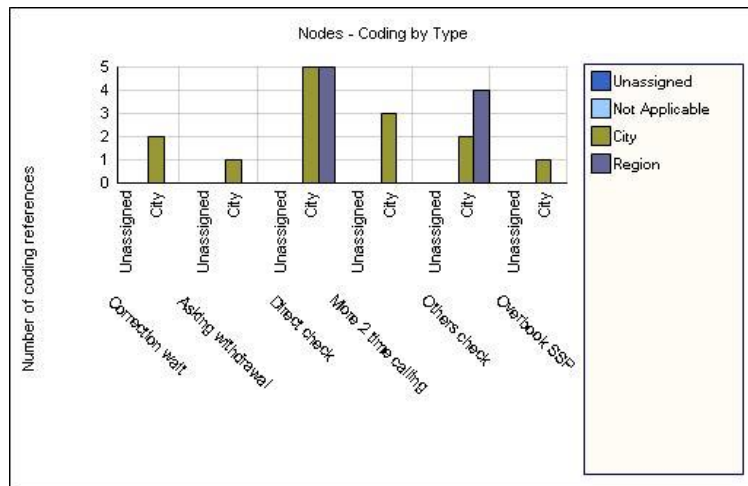


Source: Primary data (2012)

Figure 13. Cross-Tabulation Payment Tax Condition and Type

Tax solutions given by each tax office were different. The city type gave complete solutions, but one proposed to withdraw the restitution because it was complicated and complex. This proposal was not a good solution because restitution is the right of taxpayer. Other solutions offered by the city were (a) correction

wait, or a period of waiting; (b) two-time calling, when a taxpayer would be called by a tax office; and (c) overbook SSP, which means a tax is overpaid. While the city and region types both had an equal number for direct checks and other checks, city types were larger (see Figure 14).

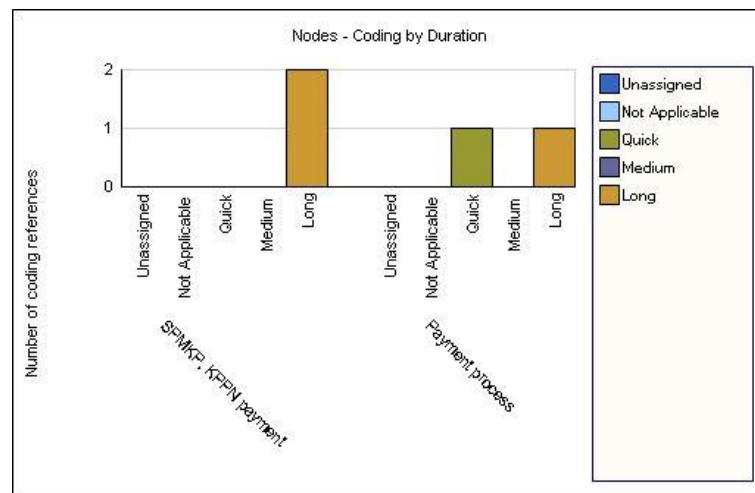


Source: Primary data (2012)

Figure 14. Cross-Tabulation Tax Solution and Type

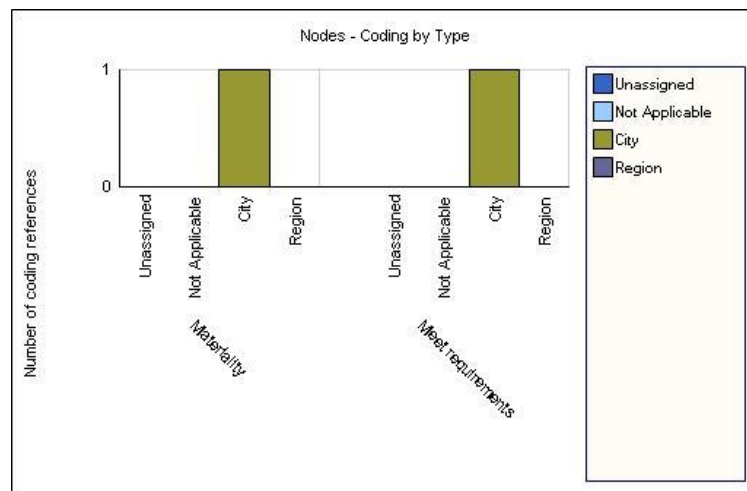
Regarding the restitution payment mechanism, long interviews gave complete information, but the other lengths did not. The restitution payment was conducted by KPPN (State Treasury Service Office) by

issuing an SPMKP (instruction letter to pay). The payment process was explained only during quick and long interviews (see Figure 15).



Source: Primary data (2012)

Figure 15. Cross-Tabulation Restitution Payment and Interview Length



Source: Primary data (2012)

Figure 16. Cross-Tabulation Tax Issue and Type

City tax offices gave other explanations that regional offices did not, such as materiality issues and meeting requirements. Materiality means a tax-claim amount should be bigger than the efforts; otherwise, it is useless. Taxpayers should be aware of requirements that must be fulfilled in order to have restitution (see figure 16). This can be difficult, as the process is quite complicated.

CONCLUSION

The *zakat* as a taxable income deduction in Indonesia has been regulated, but some supporting factors may not be conducive. The preparedness of tax offices in responding to the issue of the *zakat* as a taxable income deduction indicated that they are not prepared. This was seen in the analysis given in the previous section. Tax offices gave varying, improper, and incomplete responses. The more-prepared responses regarding tax issues came from city tax offices or call centers.

To respond to questions about and to process the *zakat* as a taxable income deduction, tax officers should know the updated regulations and issues. Circular information can be given daily to upgrade their knowledge and skills.

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This paper was funded by the Directorate of Research and Social Service, Universitas Indonesia.

APPENDIX

Appendix 1

Table 2. Most Word Occurrences (in Indonesian)

Word	Length	Count	Percentage (%)
ya	2	195	3.61
itu	3	165	3.06
saya	4	151	2.80
ibu	3	116	2.15
iya	3	107	1.98
spt	3	106	1.96
kalau	5	102	1.89
yang	4	101	1.87
begitu	6	100	1.85
nanti	5	98	1.82
ada	3	84	1.56
ke	2	84	1.56
mba	3	81	1.50
o	1	77	1.43
tidak	5	77	1.43
bisa	4	75	1.39
nya	3	75	1.39
ini	3	62	1.15
jadi	4	60	1.11
bayar	5	58	1.07

Philanthropy in Practice: Role of *Zakat* in the Realization of Justice and Economic Growth

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ABSTRACT

The entire economic scheme developed under the guiding principles of Shari'ah (Islamic Law) envisages an internally balanced system of economy that neither accepts capitalism nor communism in totality. According to the laws, the realization of justice (a'dl) and wellbeing (falah), i.e., the means to seek blessings of God (fadhl al-Allah), determines its principal objectives (maqasid). Nevertheless, the economic structures adopted by the contemporary Muslim societies, in general, are incoherent with the economic philosophy of Islam. They are practically disconnected from the mechanics and efficiency of Islam's equity instruments and philanthropic institutions. Consequently, as per Marx's class conflict theory, economic inequality has spread its roots and traumatized the dynamics of participatory economics, distributive justice, and social equality. Factors such as non-inclusive economics, exploitation as a market principle, and concentration of wealth in few pockets have completely transformed Muslim economies into "capitalist" ones. After conducting critical researches vis-à-vis this paradigm shift in the Muslim world, highbrow Muslim intellectuals have reached to this point that alongside with interest-based means of financial intermediation, non-functionality of philanthropic institutions such as zakat and baitulmal has practically divided the society into privileged and deprived classes. The economic advantage of "privileged class" over "deprived class" has become one of the major stumbling blocks in the way of achieving welfare and social justice. Under such vulnerable conditions, it is being argued that "reinstitutionalization" of zakat, both at civil society and state level, is the means to provide socio-economic insurance to those who are otherwise neglected. By facilitating the "constructive channelization" of wealth from "privileged class" to "deprived class", institution of zakat has the potentiality to overcome the problems like relative deprivation, poverty, illiteracy, unemployment, and so on. In this context, giving of zakat must not be seen merely as a religious obligation; on the contrary, it must be examined in relation to its socio-economic effects. The present research is an attempt to answer the question regarding how reinstitutionalization of zakat can help in the minimization of poverty rate and promotion of socio-economic justice in contemporary "unbalanced" Muslim societies.

Keywords: Islamic Economics, Zakat, Social Justice, Poverty, Economic Growth

INTRODUCTION

Social justice and economic growth are correlative terms. The material development of any human society is impossible until it has a strong and sustainable economy that, in turn, is strongly rooted in the concept of social justice. It is generally observed that poor and destitute people fall easy prey to social

evils that, in turn, leads to the reduction of gross productivity and decline in overall economic development. Some of the major social malfunctions resulting from an unstable economic structure, devoid of inclusive participation, equity distribution, and social justice have been identified: illiteracy, moral bankruptcy, increase in crime rate, violence, and weak health

profile (Abdullah & Suhaib 2011; Hasan 2007; Dhar 2013).

The religion of Islam, being an “all-encompassing” system of values and codifications, has addressed the issue of economic instability and its adverse consequences by placing considerable emphasis on the rich to spend their wealth, out of love (*‘ala hubihee*), for the cause of the collective wellbeing of society. To realize this objective, Islam promotes the philosophy of cooperation, sharing, and distributive justice. The fundamental principle laid down in the *Quran* in this direction is that, *‘wealth should not circulate only among the rich’* (59:7). Since the day of its inception, Islam has unequivocally nullified all humanly produced inequalities in the distribution scheme of material resources. However, it does not fully affirm Marx’s philosophy of communism that entails the undue distribution of wealth based on theory of equality rather than equity (Mawdudi, 1975; Muslehuddin 2009). The key underpinnings of Islam vis-à-vis minimizing inequalities, and not necessarily eliminating them, are fundamentally anticipated to promote the culture of “social cohesion” and “creative cooperation” whereby all members of the society enjoy rights, justice, and avenues of entrepreneurship. Thus, Islam advocates the “philanthropy of practice” and amplifies the meaning and scope of justice, growth, and sustainable development while keeping the honor, value, and centrality of human life in view.¹

Islam has established different financial institutions such as *baitulmal*, *ushur*, *sadaqah*, and *zakah* to ensure the circulation of wealth across all social stratifications, irrespective of caste, colour,

or religious affiliation. Thus, right from the Prophetic period, the institution of *zakat* has been instrumental in the economic transformation of Muslim *ummah*; however, it is unfortunate that for almost one century, when most of Muslim lands were enslaved under colonial establishments, the collection and distribution of *zakat* funds remained abandoned from its institutionalized framework. Since then, the entire administration of *zakat* got decentralized and its dues become mere voluntary depending upon the piety of an individual, who give or not give. The malfunctioning of *zakat* institutions brought negative implications such as poverty, illiteracy, economic injustice and under development throughout the Muslim world. Given the nature of economic vulnerability in contemporary Muslim societies, it becomes imperative to revive the institutionalization of *zakat* in order to create a supportive environment for the realization of social justice, economic growth, and minimization of poverty ratio.

LITERATURE REVIEW

The quantum of literature that has been produced to date on the historical development, juristic requirements, and multi-dimensional applicability of *zakat* can be broadly classified under two categories. Literature that falls under the first category deals with the specific juristic issues pertaining to *zakat* called as *fiqh ul-zakat*. Such literature is mostly contributed by classical *fuqaha* (Islamic Jurists) and also some contemporary Muslim economists. This literature primarily pertains to the meaning, philosophy, rulings, and juristic management of *zakat*. Among the contemporary scholars, Qaradawi (1999) has academically summarized most of the contemporary issues related to *zakat* rulings in his magnum opus *Fiqh al-zakat*. Kahf (1997), a prominent theoretical economist, has extensively covered issues on *zakat* management using cross-country

¹ To my understanding, the honour and value of human life is central to philosophy of creation in Islam. It can be understood through God’s claim of calling man *ahsani taqweem* (best of all creations) and also through the philosophy of *takreem*. The philosophy of *takreem* is rooted in the *Quranic* verse which mentions that God has honoured sons of Adam (*la qad karrumna bani adam*) irrespective of their religious belongings.

data from Saudi Arabia, Malaysia, Libya, Pakistan, and Sudan. The second category of literature deals with the economics and financial effectiveness of *zakat*. According to Kahf (1997), this literature is mostly comprised of works covering the impact of *zakat* on economic aggregates namely consumption, investment, and supply; the relationship between *zakat* and macroeconomic models; socio-economic role of *zakat* and finally the similarities and dissimilarities between *zakat* and taxation or other conventional social security systems. Without going into detailed descriptions vis-à-vis categorization of *zakat* literature, I will directly come to the point about how contemporary literature has evaluated the significance and applicability of *zakat* institutions, while examining different cases studies.

The practice of *zakat* is basically a monetary devotion. According to Siddiqi (1996), *zakat* is based on the concept that all material things belong to *Allah* (God), and wealth, therefore, is positioned at the disposal of mankind as an *amaanh* (trust). The obligation of *zakat* is mandatory on every Muslim who possesses the minimum *nisaab* (exemption limit or criterion of zakatability) of wealth that enjoys growth or is a result of a growth process (Qaradawi, 1999). The reason for mandating *nisaab* is to ensure that none is forced to give *zakat* out of what he or she does not have and that no wealth goes without *zakat* (Kahf, 1989; Ashaari & Mohamed, 1989; Ausaf & Azeem, 2011; Muslehuddin, 2009). The modern approach to the *zakat* institution emphasizes that it is an economic and social instrument that could bring economic stability and security at large (Dhar, 2013; Yusoff, 2008; Ibrahim, 2015). The payment of *zakat* not only establishes a direct link between the well-off and economically marginalized but also provides a practical mechanism in contributing towards lessening the borders of inequality (Bremer, 2013; Desumite & Yousuf, 2010; Rahim, 2003; Yusoff,

2008). The Islamic concept of social justice and economic development would not be meaningful unless accompanied by economic justice so that everyone gets his/her due for his/her contribution to society and that there is no exploitation of one individual by another. Therefore, Islam demands that all the resources at the disposal of human beings must be utilized efficiently and equitably to fulfill the needs of all and to bring about an equitable distribution of income and wealth (Ansari, 2011; Siddiqi, 1996; Muslehuddin, 2009).

On the basis of different case studies conducted by Abdullahi (1991) in Indonesia, Khan (1993) in Pakistan, Faridi (1995) in India, Ajeel (1995) in Kuwait, Abdul Wahab (1995) in Malaysia, Azharuddin (1988) in Bangladesh, Balogun (1999) in Nigeria, Dogarawa (2009) in Ghana, and many others, it has been proposed that the institution of *zakat* serves as a unique philanthropic mechanism that promotes participatory economic development. Ibrahim (2015), while examining the role of *zakat* in contemporary Muslim societies, concludes that *zakat* should be institutionalized under state patronage in the case of mainstream Muslim geographies and by civil society organizations and religious communities in the case of minority situations. Bremer (2013) takes the case of Egypt and suggests that *zakat* is evolving as a long-term development program that advocates engaging the poor as partners rather than a static charity model. He underlines the need to initiate more systematic efforts regarding the application of *zakat* while taking into consideration the rapidly changing global economics. In their joint study, Desumite and Yusoff (2013) highlighted the role of systematic management of *zakat* collection and distribution and, eventually, its contribution towards improving the well-being of the people in the Federal Territory of Malaysia. Kusuma and Sukmana (2010), in their joint work, suggested that role of *zakat* in tackling poverty, especially in the Muslim world, is very relevant and

of contemporary importance, provided the means to collect and disburse funds are effectively developed. They also highlighted the role of the state in making the institution of *zakat* as an element of economic growth and social justice. Hoque, Khan, and Mohammad (2015) investigated the cause of poverty in Muslim countries, the effectiveness of *zakat* management institutions, the mode of *zakat* distribution, and the necessity for an entrepreneurial framework. In their concluding remarks, they maintain that poverty is not due to lack of resources only, rather in most cases it is due to lack of participation and entrepreneurship. Therefore, introducing entrepreneurship development programs through institution of *zakat* could be used as means to promote economic growth. Mohsin (2013) studied role of *zakat* in eradicating the *riba* (interest) and poverty while making a case study of Salary Deduction Scheme of Malaysia. He observes that the current practice of the collection of *zakat* from monthly salary in Malaysia provides evidences that *zakat* has huge impact on the reduction of total poverty. Dhar (2013) takes the case of *zakat* from an accountant's viewpoint and proposes that *zakat* is a measure of social justice in Islamic finance. Most of the literature that has been consulted and reviewed for the preparation of this paper almost unanimously suggest that until the institution of *zakat* is revived, the fundamental objectives of *Shari'ah* such as justice (*a'dl*) and wellbeing (*falah*) cannot be realized in the absolute sense.

ZAKAT²: GENESIS AND CONTEMPORARY ATTITUDE

² In Arabic linguistics, *zakat* is the infinite of the verb *zakaa*, meaning, "to grow, to purify and to increase". In the Islamic law, the word *zakat* refers to the determined share of wealth prescribed by *Allah* to be distributed among the categories of those entitled to receive it. It is a compulsory payment by the wealthy to the economically underprivileged (Mathews and Tlemsani, 2003).

In the formative years of Islam, *zakat* was just a moral obligation for any legal verdict had not come yet. However, after the Prophet's migration to Madinah and development of Islam as a state religion, *zakat* was declared a compulsory religious obligation. Eventually, *zakat* developed as a systematic socio-economic program to meet the basic needs of local Muslims (Denny, 2005, p. 115; Benthall, 1999; Hamidullah, 1993, p. 234). The legal requirement for giving *zakat* is that the sum, above the minimum expenditure, remaining for a whole year with the owner becomes liable to a charge of two and half per cent (2.5 percent). This small percentage will go towards meeting the social welfare needs, as stated in the key *Quranic* verse about *zakat*:

"The zakat is only for the poor and needy, those who work to collect them, those whose hearts are to be won, the ransoming of slaves, debtors, in Allah's way [for good works like scholarship, missionary projects, charitable, cultural, and educational institutions] and the wayfarer." (Quran 9:60)

Maintaining the obligatory nature of *zakat*, the *Quran* at other place orders the Prophet:

"Of their goods (wealth), take alms, that so thou mightiest purify and sanctify them; and pray on their behalf. Verily thy prayers are a source of security for them: And Allah is One Who hear and know." (Quran 9:103)

While responding to authoritative injunctions of *Quran* vis-à-vis *zakat*, the Prophet during his glorious tenure (*khair al-kuroon*) appointed *zakat* workers (*a'ameleen*) to collect *zakat* and assigned

to them some income from *zakat* proceeds. It was the first initiative to institutionalize *zakat* funds that has happened under the supervision of the Prophet himself. It is reported that once a person questioned the Prophet (peace be upon him) about the legality of *zakat* that whether it is to be paid through a *zakat* collector or not. To this, the Prophet replied as follows:

“Yes, if you give it to my messenger, you are freed from that obligation as far as Allah and His Messenger are concerned. You deserve its reward, and if it is tampered with later, the sin is on whoever changes it.”
(Musnad Ahmad bin Hanbal, *Kitab al-zakat*)

During the Prophet's time, these *zakat* officials were required to approach potential *zakat* payers, and after having properly calculated their assets, collect the due amounts. The application of this method was evident regarding collection of *zakat* on visible wealth, that is, livestock and agriculture. For other *zakatable* properties, different rates were set for the calculation of the *zakat* due. For example, money, gold, and silver were taxed at the rate of two and half percent per annum and the agricultural produce was taxed at the rate of ten percent. It is worth mentioning that at agricultural produce the rate of *zakat* is not uniform since it varies according to the nature of irrigation used (Qaradawi, 1999; Denny, 2005; Hamidullah, 1993). The categories of properties liable for *zakat* are as follows:

- Cash, gold and silver;
- Merchandise used in trade (but not personal possessions used in ordinary living, like automobiles, clothing, house and jewelry);
- Mineral extracted from the ground;
- Ancient treasure;
- Cattle;
- Crops from tilled land.

After the Prophet's death, Abu Bakr, first caliph of Islam continued the Prophetic legacy. He retained most of the *zakat* collectors who were appointed during the time of the Prophet. The importance of giving *zakat* in the early Islamic society could be understood from the famous statement of Abu Bakr made against those who refused to give *zakat*. He equated refusal of *zakat* with disbelief (*kufur*). The historical words of Abu Bakr are as follows:

“If they withhold giving (as zakat) even a (little) rein of a camel or a small baby sheep (that is due on them) I will fight them for it. Zakat is the due obligation on properties. By God I will fight whoever discriminate between prayers and zakat”
(Ibn Kathir 1997, V, 9, pp. 437-39)

Abu Bakr ruled for a short period of two years; therefore, he was not able to introduce any kind of reformation in general. However, Umar, the second caliph of Islam, introduced the mechanism of *al'ashir* for collecting *zakat* on merchandise, especially from Muslim traders who were returning from other countries at check points on major highways. This tradition of collecting *zakat* and distributing it within the *Shari'ah* requirements under the supervision of state continued till the fall of the Ottoman Empire in 1924 (Kahf, 1989; Qaradawi, 1999; Ahmad, 2004; Mohsin, 2013; Dhar, 2015).

However, the Muslim world had lost its intellectual, academic, and political glory long before 1924 and its decline had begun right from the days of the fall of Baghdad in 1258. However, after the breakdown of nominal unity on the name of Ottoman Empire (*Khilafati Uthmania*) at the hands of Kemal Atatürk, most of the mainstream Muslim lands fell under the direct influence of colonial powers. Consequently, these colonized Muslims

started to imbibe the cultural traits of the dominant culture. Secular elites such as Jammal Abdul Nassir (Egypt), Kamal Kemal (Turkey), and Reza Shah Pahlavi (Iran) drastically replaced the “older” values of society with “new” imported structures. As a result, Islam remained merely a “ritualistic” tendency rather than a source of practical guidance (Hourani, 2005, p. 345-6). The introduction of liberal and secular values, replacing the traditional ethos, largely abjured the Islamic way of life, and the institution of *zakat* met with the same fate. (Al-Sheikh, 1995; Benthall, 1999; Hamidullah, 1993; Bremer, 2004; Ahmed, 2004). The following are the words of Qaradawi:

“were it not for the concern of some Muslim individuals and institutions, zakat would have been completely eradicated from Muslim life” (Al Sheikh 1995, p. 368).

After the end of colonial era, serious concerns about such forcibly imposed cultural transformations began to arise within the Muslim societies. While responding to “new” structures such as modernization, secularization, and Westernization, Muslim intellectuals got actively engaged in strengthening their religion as a mark of their cultural identity. Dekmejian writes:

“In the opinion of revivalist intellectuals, the very integrity of the Islamic culture and way of life is threatened by non-Islamic forces of secularism and modernity, encouraged by Muslim governments.” (Dekmejian 1988, p. 10-11).

Today, as a result of that parallel process, many mainstream Muslim countries such as Pakistan, Sudan, Malaysia, Saudi Arabia, Kuwait, Libya,

Jordan and Iran have established centralized *zakat* collection departments approved by the their respective governments. Countries such as Pakistan and Saudi Arabia have also developed innovative techniques concerning the coverage and rates of *zakat* (Ahmed, 2004; Azzam, Iqbal & Tayyab, 2014; Kuran, 2004). For example, they have extended the obligation of *zakat* to working companies on the basis that companies are juristic persons and have also imposed a flat *zakat* levy on certain types of deposits. In the case of Saudi Arabia, the rates of *zakat* levy imposed on imports vary from commodity to commodity, and in Pakistan, the rates of *zakat* levied on all farm outputs is at the rate of 5 percent, irrespective of the mode of irrigation applied (Ahmed, 2004; Azzam, Iqbal & Tayyab, 2014).

SOCIO-ECONOMIC RELEVANCE OF ZAKAT

Islam explicitly explains the principles of justice, concept of *halal* (legal) and *haram* (illegal), role of individual and state regarding utilization and allocation of resources. It seeks to protect both individual and society from all odds of man’s exploitative behavior. In this context, *zakat* is a religiously motivated economic instrument through which the surplus wealth of society is taken out to satisfy the essential needs and encourage entrepreneurial behavior among those who are not fortunate enough to have wealth of their own. Unlike other philanthropic associations, the *Quran* declares *zakat* as due right of “have not’s” by saying, “*wa fi amwalikum haqqus saa’ileena wal mahroom,*” which means that in your wealth there is right of those who ask and those who do not have wealth at all. Thus, the *Quran* makes a fundamental difference between “charity for the sake of charity” and “charity for the sake of duty”. It recognizes *zakat* as an institution that has the inbuilt capacity to directly or indirectly influence economic activity and its effects

on different social variables and also determines the direction along which the overall economy should move. It performs some of the major functions of modern public finance that deals with social security entitlements, social assistance grants for childcare, food subsidy, education, health care, housing, and public transportation in a welfare state. Similarly, it mitigates social inequalities incurred as result of exploitative economic behavior of man and covers the areas of social justice and social security (Shehata, 1989; Qaradawi, 1999; Yusoff, 2008; Mohsin, 2013). In the next section, I will outline how *zakat* as a practical philanthropic act can be applied to address some major socio-economic problems such as poverty alleviation, unequal distribution, weak economic growth, and beggary.

POVERTY ALLEVIATION

The theories and definitions regarding poverty explain that it is a condition to prompt injustice, social disequilibrium, and deprivation of wellbeing. Today, the Muslim population is rising from 1.6 billion in 2010 and is expected to reach 2.2 billion by the end of 2030 (Pew Research Centre, 2014). Despite holding 70 percent of the world energy resources, 40 percent of natural resources (Laghari, 2013), with strategic geographical location (Hoque et al. 2013), Muslim societies are still the world's poorest nations. At present, out of 1.7 billion world's poor, 44 percent (The Nation 2011) or 35 percent (World Bank 2010) are residing in Muslim countries. Nevertheless, developmental economists have produced different models such as Harrod-Domar Growth Model, Lewis Structural Change Model, and Rostow's Model to uplift poor nations on the path of economic development; however, unfortunately, most of these theories failed to achieve the expected results. According to economic pundits, under such vulnerable conditions "pro-poor growth" mechanism, entailing the poor's access to financial services and other developmental

and management activities is the only possible solution to reduce the level of poverty. In this regard, international agencies such as the World Bank and International Monetary Fund (IMF) have been found to be engaged with different levels of developmental projects throughout the world, especially in developing countries of Africa and Asia.

To make this world a "poverty-free" place to live, alongside with purely financial agencies, religious associations are also found actively engaged with their philanthropic projects. Muslim nations, who cannot remain uninvolved, are also seen busy in the fight against the menace of poverty. Muslim economists and scholars are of the opinion that *zakat* is the best "pro-poor growth" model that would have the maximum effect on poverty, provided it is allocated on the basis of the poverty rate and the quality of economic policy (Hairunnizam & Radiah, 2010; Mikami and Inoguchi, 2008; Riaz, 2007; Yusoff, 2008; Bello, 2009; Hassan, 2010; Fuadah et al., 2013). In both situations, Muslims living in independent countries and those Muslims living under democratic and secular constitutions such as India, *zakat* institutions and *zakat* development funds could be established to overcome the problem of poverty. It is quite fascinating that different research findings show that 15 out of 37 Muslim economies (OIC member countries) require only a small amount of resources for poverty alleviation and that is easily possible through the revival of *zakat* institutions (Shirazi & Amin, 2006). I propose, that if *Shari'ah* experts, scholars and economists would collectively develop a framework, applicable throughout Islamic world such as Islamic Development Bank (IDB), for constructive utilization of *zakat* proceeds, then it would be not be too late to experience "poverty-free" Muslim zones. This framework must include providing education to beneficiaries, vocational training, necessary industrial and agricultural tools, simple fixed assets for small utility and

trade projects working capital to craftsmen, and low-cost housing and medical facilities (Shehata, 1989; Dogarawa, 2008).

REDISTRIBUTION OF WEALTH

The failure of the “Trickle Down” economic model in contemporary economics has put the development economists on toes as wealth remained stuck to its original investor, which otherwise was expected to flow to bottom line of the society.

Researchers have assessed that when the richest, 20 percent of the society, increase their income by 1 percentage point, the annual rate of growth shrinks by nearly 0.1 percent within five years (IMF, 2015). From this, Marks’s “class conflict” theory is justified as this theory is primarily rooted in the dissatisfaction of individuals with the scheme of distribution where one gets heavily benefited and other heavily exploited. As mentioned earlier, Islam does not acknowledge undue inequalities in the distribution of material resources. Therefore, it has introduced *zakat* as “pro-poor” instruments to reduce these inequalities up to the mark of socio-economic stability, if not to eliminate them in totality. The institution of *zakat* promotes “growth oriented” circulation of wealth. It seeks redistribution of wealth from the “point of concentration” to “point of scarcity”. Thus, in an Islamic economic system, the institution of *zakat* incorporates proper balance between the extremes of capitalism and communism (Hairunnizam & Radiah, 2010; Benthall 1999; Mawdudi 1975). This is supported by the following *Quranic* verse, which says the following:

“This (wealth) may not circulate solely among the rich from among you” (Quran 59:7)

In her research, Patmawati (2006), admits this fact and maintains that “*zakat* is the most effective redistribution of

wealth, which does not only ensure social justice in the society but also mobilizes and makes resources available for the poor”. By facilitating growth avenues to deprived class of the society, *zakat* actually improves the capacity of collective production of the Muslim community and facilitates “class harmony” by inculcating a sense of belongingness among all members of the society (Muhammad et. al 2013).

PROMOTION OF ECONOMIC JUSTICE

The main concern of economic justice (*adl al-ma’ash*), according to Islam, is to ensure socio-economic stability and establish a welfare society wherein the principle of ‘No-Injury’ (*la dhar*) could flourish up to its maximum (Siddiqi, 1996; Chapra, 2008; Khudduri, 1984). The principle of ‘No-Injury’, bound to its nature, cannot be materialized unless the entire structure of production, consumption, distribution, and exchange of wealth follow the scheme of justice envisaged under Islamic law (*Shari’ah*). In this regard, *zakat* has been identified as a core component of Islamic economic philosophy that would enable it to establish social justice, which broadly involves economic justice and maintenance of social cohesion (Patmawati, 2006; Hassan, 2007; Bello, 2009; Suhaili and Nur Azzah, 2009). This assertion is established in the following *Quranic* verse:

“The believers, men and women, are protectors one of another: they enjoin what is just, and forbid what is evil: they observe regular prayers, pay zakat, and obey Allah and His Messenger. On them will Allah pour His mercy: for Allah is Exalted in power, Wise”. (Quran 9:71)

From the above *Quranic* verse, it is evident that *zakat* is a “building-up” process. It functions like “economic glue” that has the ability to stick together different classes of the society with sense of love, care, and honor. Thus, its long-run implications are not to be seen in the context of faith alone but also in social, political, and economic context. The obligation of *zakat* implies that if a Muslim society has 100 percent regular prayer attendance in the Mosque (*masjid*), but the financial needs and expertise of the “have not’s” is neglected, the case would be treated as matter of deliberate injustice. Since Islam guarantees economic opportunity to every citizen, irrespective of his/her personal financial capacity, any maltreatment in this regard would tantamount to violation of his/her due rights. According to Al-Mawardi, to promote justice by helping the weak is one of the fundamental responsibilities of the ruler (state in modern terminology). He writes:

“To dispense justice and dispose of all litigation in accordance with the Shari’ah. He should restrain the strong from exploiting the weak and help the weak in getting due from the strong.”(Mawardi 1375, p.11)

As mentioned above, Islam takes the moderate path between the economic doctrines of “Bourgeois Capitalism and Bolshevik Communism”, therefore, on one hand, it promotes distribution on the basis of equity and, on other hand, it commands the “rich” to give some portion of their wealth in the form of *zakat* for those who are in need so that the whole system remains internally balanced (Muslehuddin 2009; Ausaf & Azeem 2011).

DISCOURAGING BEGGARY

Beggary has become a menace in many societies. Even in many Muslim states, beggary is the most visible practice in the markets, streets, motor parks, filling stations, and outside religious places like *masjids* and shrines. In my personal observation, a person will generally beg only if he/she met one of the criteria: physical inability due to old age, sickness, or disability or inability to find a job due to economic factors or non-economic factors. Whatever the reason, in Islam, begging is a discouraged and unwanted attitude. In this connection, the Prophet is reported to have said:

“Whoever begs from people so as to accumulate riches, he is asking for live coal (fire) from Hell, so let him ask for a lot or a little” (Ibn-e-Majah, Muhammad Bin Yazid (2011) Al-Sunan, Farid Book Stall, Lahore, V.1, P.478)

The practical cure for the problem of begging is two-fold. The first step is providing suitable jobs for all those who can work. This is one of the responsibilities of the Islamic state towards its citizens. The second part of Islam’s cure for begging is social insurance for those who have no income. This needs equal support from both the state as well as the civil society, including philanthropic associations. Such persons should be guaranteed a minimum standard of living or an income above the poverty line, as per the modern concept, suitable to a given Islamic society. Such an approach is clearly evident from the Prophetic period. It is reported that once a person came to Prophet and asked for financial help, Prophet asked him to bring a cup (that he had) to sell in the public for two *dirham*—one to buy food for the family and another one to buy an axe-head as an instrument (or capital) to get wood and sell it. Next, the Prophet did not want to see the man for

ten days. After ten days the same person came back with ten *dirham* in his hand as his earning. On seeing such a major transformation in the economic behavior of that poor man, from “taker” to “giver”, as result of meaningful and productive charity, the Prophet said:

"This is better for you than the begging that comes as a scar on your face on the Day of Rising. Therefore, begging is not permissible except to one of three. A destitute poor person, or a person with overwhelming debts, or a person who has to pay ransom or to buy the freedom for an accidental homicide"

The methodology adopted by the Prophet in this case, implies that a Muslim must not ask for begging if he/she is able to earn, and such taking is not permissible except as a last resort. Moreover, it outlines that “charity” should not be given to sustain this trend, but rather to transform the society from “taking side” to “giving side”. It also implies that through *zakat* funds, the unemployed labor could be provided with necessary tools, machinery, and capital for starting productive work (Abdullah & Abdulquddos, 2013; Yusoff, 2008).

WHAT ZAKAT HAS ACHIEVED

After critically examining the literature, both theoretical and empirical, regarding *zakat* and its philanthropic role in promoting social justice and economic growth, the results almost appear negligible, except in few cases. It means, theoretically *zakat* has potential to do everything, but practically, it has not been able to do what it is expected to and reasons, obviously, are many.³ The

evidence from countries for which data are available highlights the fact that distribution of *zakat* in different countries is devoid of a uniform pattern. For example, in Turkey the most common category of *zakat* recipients are “needy” but who are in acquaintance with or relative to the distributing agency (Carkoglu, 2004). Indonesians gave *zakat* mainly to *zakat*-based charity organizations or directly to individuals who presumably are known to the *zakat* giver (Center for Languages and Cultures 2004, p. 8). In countries such as Malaysia, Saudi Arabia, and Pakistan, the overall structure of *zakat* is managed by the state. Thus, these countries stand as a reference point while examining the practical benefits of *zakat* proceeds. In all these three countries, there are evidences of widespread mismanagement, malfunction, and corruption as far as collection and distribution of *zakat* is concerned.

For example, in Malaysia, restrictive coverage and substantial evasion constrain the yield. Furthermore, the burden of *zakat* almost exclusively falls on rice growers, while most of them lie below the country’s poverty line. Thus, *zakat* does not necessarily transfer resources to the poor in Malaysia, rather it may be transferring resources away from them (Kuran, 2004, p. 21-22). A detailed study of *zakat* collection of a village in the Malaysian state of Kedah suggests that the rate of compliance between 1977 and 1979 was only 15 percent, which means that majority of the farmers avoided their *zakat* obligation. Then, it resulted in disguising or under-declaring cultivated acreage and handing over spoiled or adulterated grain

religiosity among the people is comparatively good. The irony is, in this small piece of land, we see near about 100 religious organizations and all claiming ‘major affiliation’. These organizations collect huge amounts of *zakat* at the end of every fiscal year but due to lack of management, efficiency, and transparency their progress is unknown. Even, today, hundreds of people including women, and young children are found begging outside busy public places like *Masjids*, Hospitals, markets and shrines.

³ The researcher being a ‘participant observer’ studied this problem in Kashmir. Kashmir is a Muslim majority state of India. The level of

to the *zakat* collectors (Scott 1987; Ibrahim 2015).

In the case of Pakistan, there is widespread *zakat* evasion because a large chunk of the population does not trust the government's *zakat* collection and distribution policies. For example, the total amount donated to charity in Pakistan in 2000 was estimated to be Rs 70 billion (Aga Khan Development Network 2000) per annum whereas the total *zakat* collection amounted to only 4 billion, which signifies the low credibility attached to the government-run *zakat* system by the people of Pakistan. The *zakat* system in Pakistan has about one million beneficiaries, which indicates that only 10 percent of the total population is situated below the official poverty line. The government's own reports suggest that the state-administered system has had little impact on the reduction of inequality. The corruption, evasion, and mal-administration of *zakat* in Pakistan is causing people to lose faith in the system (Kusuma & Sukmana, 2010; Ibrahim, 2015; Abdullah & Suhaib, 2011; Bello, 2009).

Although, many researchers have critically analyzed the system of *zakat* collection, but the analysis by Kuran, a Turkish scholar, is comparatively the most authentic one as far as the nature, approach, and methodology of his work are concerned. Kuran (2004), after examining the official records from different countries, concluded that decentralized voluntary *zakat* collection tends to be biased against poor people without proper connections and has little or no effect on poverty alleviation. He also examined the centralized systems, for example, in the case of Pakistan and Malaysia, and reported the same flaws. According to Kuran's analysis, the essential difference between the two modes lies neither in fairness nor in ability to reduce poverty. He writes

"It lies, rather, in the connections to which they

confer value. Decentralized zakat confers value to economic connections, especially ones based on employment; state administered zakat confers value to political connections, particularly ones touching on religion. Thus, under Malaysia's old decentralized system the surest way to obtain regular zakat payment was to work loyally for a wealthy landlord; under the current centralized system it is to enroll in a religious school or work for the zakat office" (Kuran 2004 p. 26)

The critical evaluations made by Kuran (2004), Wahid et al. (2009), Rahman et al. (2012), Ramli et al. (2011), Ahmed et al. (2006) and many others lead us to conclude that *zakat*, as a practical philanthropic act, has not made a significant change in reducing the Muslim poverty graph and inequality gap till date.

CONCLUSION

The prevailing reality of the entire Muslim world, except for a few oil economies, is really miserable. Conditions such as poverty, illiteracy, malnutrition, lack of social justice, and class divisions are some of its prominent manifestations. The cause behind this "ugly composition" is not its social and economic conceptualization, but the failure of public authorities, NGO's, and religious organizations to prove its strength and applicability. In this backdrop, the paramount duty of Muslim intellectuals, politicians, economists, and policy makers is to transform the institution of *zakat* into a practical philanthropic movement that would promote the culture of cooperation and social justice. Consequently, it will enhance the process of economic growth and prosperity in the entire Muslim world.

Muslim governments must establish advanced philanthropic organizations and give them whatever support they need. In a Muslim society, the practice of evasion of *zakat* does tantamount to promote corruption and under-development. Therefore, the efficient management of *zakat*, from collection to distribution level, under such a situation becomes a primary responsibility of the governments, civil societies, and every individual Muslim to contribute the due share so that the “weaker section” of society is strengthened and uplifted. I propose a dynamic philanthropic movement to transform the institution of *zakat* into a powerful symbolic unity within the Muslim world.

This symbolic unity, in return, will express Islam as strong, just, fair, and ethical community of believers—the *Ummah*. The philanthropic meaning of *zakat* is that it contributes to the creation of such a “model” community. Therefore, Muslims, as active philanthropists, have to raise upto to the challenges of the day and establish an organized system of economy from regional to global level.

In the case of personal administration of *zakat*, individual payers should consider members of their family first in discharging this important duty. That way, the role of *zakat* would be more profound and its impact will be experienced everywhere. The entire society will enjoy its blessings and every single individual will be free from crime and insanity. Allah says, "... whatever is paid as *zakat* for the sake of *Allah* shall be rewarded in manifolds".

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The Variables that Affect Compliance of Muslim Merchants for Zakat Maal in the District of Cianjur

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ABSTRACT

The purpose of this study is to determine the variables that affect the level of compliance among Muslim merchants in the implementation of zakat maal. The quantitative method was used for the investigation and the results were compiled by multiple linear regression analysis. The total population enrolled in this study comprised 100 Muslim merchants. A non-probability sampling technique with this type of sampling was considered suitable for the purpose of this research that the sample collection purpose adapted to the purpose of research. Based on the results of multiple linear regression testing, it can be concluded that compliance zakat maal is affected by the variable level of education, level of income, commitment to Islamic rule, perceptions Zakat justice and transparency of zakat institution.

Keywords: Compliance; welfare; Muslim merchants; zakat institution; zakat maal

INTRODUCTION

Zakat in Islam falls into one of the rules of worship, and the laws of zakat are obligatory for every Muslim. Therefore, problems associated with charity, for example problems regarding collection, management, and distribution of zakat will always be a concern for Muslims. In Islam, there are two types of zakat: zakat *maal* and zakat *fitrah*. Zakat *maal* is imposed on all property owned a *muzakki* (obligatory charity), whereas zakat *fitrah* is for the self (soul) and is paid by Muslims during Ramadan.

According to Wahab and Rahman (2011), one type of zakat *maal* is zakat of income. Zakat of income is zakat imposed on acquisitions that includes free salary

income and all income. Nurhayati and Nurwasilah (2009) argued that zakat of income using zakat levels are analogous to gold (85 grams gold) and is 2.5 percent of the salary or income earned. Zakat of income may also be paid each time earning.

According to Ali (2006), the obligation of zakat in Islam has a fundamental significance. In addition to closely related to aspects of divinity, it is also concerned with economic and social issues. In the aspect of social justice (*al-'adalah al-ijtima'iyah*), zakat command can be understood as an integrated system that is integral to the achievement of socio-economic prosperity and social. Herfita and Haroni (2015) concluded that zakat is expected to minimize the income gap between the rich and the poor. In addition,

the zakat is also expected to increase or help grow the economy, both at the individual level and at the level of social.

Ibrahim (2008) argued that zakat is likely to be an alternative government program as a source of funds to address poverty. While Muchlis and Beik (2013) concluded that zakat is a means of legalized by the Islamic religion in the formation of capital. Capital formation is not solely on the utilization and development of natural resources, but also from the compulsory contributions of the rich. Zakat is also instrumental in improving the quality of human resources and the provision of production facilities and infrastructure.

Zakat not only aids the generation of capital, but also helps overcome the problem of accumulation of wealth in certain circles in the society, which in turn reduces the income gap between groups in society. This notion was supported by Salleh *et al* (2008), who conducted studies on the effect of zakat on income distribution and found that the charity had a positive effect in reducing the imbalance of income. Beik (2009) found that the zakat program for productive enterprises targeted at *mustahik* poor, helped reduce poverty by 7.5 percent in Jakarta. Further, the depth and severity of *mustahik* poverty can also be reduced. As for programs, free hospital-based zakat can reduce poverty by 10 percent.

Data from the National Board of Zakat (BAZNAS) which refers to the results of the study of the Asian Development Bank (ADB) showed that the potential zakat in Indonesia could reach 100 trillion per year. Recent research from BAZNAS estimated that the national zakat in 2011 would be 217 trillion. Zakat from households amounted to 82.7 trillion, that from the private industry amounted to 114.89, that from BUMN was 2.4 trillion, and that from potential savings was 17 trillion. The amount of zakat may be compiled by BAZNAS of the entire Unit Zakat Management (UPZ) across the entire territory of Indonesia, although steadily

increasing yearly, still remains small in number, amounting to 450 billion in 2007, increasing to 920 billion in 2008 and 1.2 trillion in 2009; then, according to estimates in 2010 amounted to 1.5 trillion. The amount of zakat collected by BAZNAS is approximately 1 percent per year, which is a very small number compared to its potential.

According to BPS Cianjur (2015), the same condition also occurs in the district of Cianjur. Nearly 98 percent of the population in Cianjur is Muslim, with a total population of 2.335 million people. Among these, 182,356 inhabitants work as traders (Muslim merchants). Meanwhile, the poverty rates in Cianjur reached 13.18 percent or 292,219 inhabitants. Although the amount of zakat *maal* in Cianjur has the potential of reaching 60 billion per year, the value has reached only 4.347 billion per year to date. The participation rate in the Muslim merchants who pay zakat *maal* is very low considering the total number of Muslim merchants (182,356), i.e., only 8,096 or 4.44 percent of people pay zakat *maal* regularly. Thus, the annual zakat target of BAZNAS Cianjur in terms of zakat *maal* remains unfulfilled.

If every Muslim merchant was aware of the obligation to zakat *maal* and appreciated the various kinds of benefits to be gained by zakat *maal*, then the potential zakat *maal* should be achieved. Further, even more important than the funds collected through zakat *maal* being optimal in amount is that the collected amount be distributed fairly among recipients. This would help to further augment the benefits of zakat. Therefore, the researchers intend to conduct a study to determine the variables that affect the level of compliance in the Muslim merchants pay zakat *maal*.

LITERATURE REVIEW

According to Qardawi (1993), in terms of language, the word zakat comes from the root word (*masdar*) *zaka*, which means blessing, grow, clean, and well. Al-Zuhayly

(1995) argued that as for zakat, according to the *syara*, means the statutory rights (excluded from) a treasure. Zakat refers to a part of certain assets that are required by Allah to be given to poor people. Zakat is called charity for measures that would show the truth (*sidq*) of a servant in worship and showing obedience to Allah SWT.

In general, zakat is classified into two types, namely zakat soul (*nafs*) or zakat *fitriah* and zakat *maal*. Zakat *fitriah* is a zakat that works to restore the Muslim man to nature, to purify their soul from impurities (sins) caused by the influence of human relationships and so forth so that it deviates from nature. Zakat *maal* is imposed on assets owned by a person or institution according to the terms and conditions that have been set (Sari, 2006).

Sartika (2008) concluded that zakat can be used as one form of capital for small business, if zakat management is managed well. Thus, zakat has enormous influence in many ways to the lives of people, among them is the effect on the economy. The other effect of zakat is the equitable sharing of revenue among the Islamic society. While Muhammad and Mas'ud (2005) argued that in other words, the management of zakat in a professional and productive society can contribute to the weak economy and assist the government in improving the economy of the country, namely *ummat* economic in accordance with its missions. Among the missions are the following:

- a) Economic development and business based on the economic and business rules are common and universal;
- b) Execution of business ethics and legal procedures;
- c) Build economic strength to Islam, so that it becomes a source of funds supporting the propagation of Islam.

Attamimi (2008) concluded that public awareness of the zakat is also closely related to the public understanding. This understanding includes knowledge of the law and the benefits of zakat towards

economic justice for Muslims. If the long-term benefits of this zakat can be understood by people, then the level of compliance of the payment may be expected to increase. A person's decision to pay zakat *maal* is often influenced by his financial condition. Several studies suggest that the financial condition of a person and his family obligations may moderate the relationship of commitment and performance of one's. Most people assume that zakat *maal* applies only to high-income people, which is the reason for the non-compliance in paying zakat. This assumption causes delays or even reluctance to pay zakat *maal*. If every Muslim has a high level of compliance to the zakat, the zakat potential should be achieved. Then, the collected zakat can be distributed optimally to the welfare of society.

METHODOLOGY

This research seeks to investigate compliance to pay zakat *maal* by using questionnaires sent to participants. The data used in this study are primary data in the form of results of a questionnaire distributed to the Muslim merchants in the district of Cianjur. The number of respondents was 100. According to Wulan and Husaeni (2015) that the nonprobability sampling technique was applied, in particular accidental sampling, which means sampling by coincidence, i.e., anyone who by chance met and elected will be the respondent. Data analysis techniques used in this study is as follows:

1. Likert Scale

According to Sudarmanto (2005), RS Likert developed a grading system that represents a bipolar continuum. At the left end are lower grades indicating a negative answer, while at the right end are greater numbers that indicate a positive answer. The Likert format is designed to allow customers responded in varying degrees on each item that describes services or products. The benefit of using the Likert-

type format over a check list format that only provides “yes” or “no” responses is that the former accounts for the diversity of the responses for an item, ranging from 1 to 5. This allows the consideration of various dimensions of perception and attitude regarding a given issue, allowing respondents to express their opinion about it.

2. Validity Analysis

According to Sudjana (2001), validity indicates the level or degree of data being used as evidence to support the conclusions drawn from the value derived from the size or scale used to measure the degree to which something is supposed to be measured. The data is said to be valid when the value corrected item greater than the value of r table with $df = n - 2$.

3. Reliability Analysis

According to Sugiono (2008), reliability is defined as the extent of measurement that is free of variance error. To estimate the reliability of the variables studied, we used Cronbach’s alpha. The coefficient is generally determined with SPSS software, which is designed to be able to calculate the estimate of reliability. A variable is said to be reliable if the value of Cronbach’s alpha is > 0.6 .

4. Correlation Analysis

According to Sudjana (2001), correlation analysis is useful to assess the

strength, significance, and direction of the relationship between the two variables. The direction of the relationship tested in the correlation analysis can indicate three patterns of relationships. The first pattern is a positive relationship or relationship in a unidirectional pattern; the second pattern is a negative correlation or relationship patterned in the opposite direction; and the last is where there is no pattern in the relationship. In measuring the degree of correlation, Pearson’s correlation method was used and the analysis was completed through the SPSS software.

5. Regression Analysis

According to Sudarmanto (2005), regression analysis is a type of parametric analysis that can serve as a basis for predicting and analyzing the variants. Some of the objectives of regression analysis, among others, are to determine the regression line equation based on the value of the constants and the resulting regression coefficients, which indicate correlations between independent variables with the dependent variable, and to test the significance of independent variables on the dependent variable through F . Regression analysis is used to test for correlations partially between independent variables with the dependent variable and examine the significance of independent variables on the dependent variable through the t test.

RESULT AND DISCUSSION

1. Validity and Reliability

The validity and reliability tests were conducted to determine how many questions are valid and reliable, on the basis of a survey of 100 respondents. The results

of tests on the validity and reliability of the questionnaire items are presented in Table 1. The variables mentioned in Table 1 are the level of education, level of income, commitment to Islamic rule, perception to zakat justice, transparency to zakat institution and Muslim merchants compliance.

Table 1.
Operationalization of Variables

Variable	Items	Correlated Items	Cronbach's Alpha
Level of Education	LE1	0.414	0.668
	LE2	0.535	
	LE3	0.532	
	LE4	0.544	
	LE5	0.528	
Level of Income	LI1	0.595	0.738
	LI2	0.657	
	LI3	0.590	
	LI4	0.674	
Commitment to Islamic Rule	CIR1	0.410	0.655
	CIR2	0.565	
	CIR3	0.494	
	CIR4	0.418	
	CIR5	0.585	
Perception to Zakat Justice	PZJ1	0.547	0.722
	PZJ2	0.682	
	PZJ3	0.469	
	PZJ4	0.639	
	PZJ5	0.518	
	PZJ6	0.543	
Transparency to Zakat Institution	TZI1	0.561	0.666
	TZI2	0.571	
	TZI3	0.512	
	TZI4	0.318	
	TZI5	0.572	
Muslim Merchants Compliance	MMC1	0.564	0.706
	MMC2	0.576	
	MMC3	0.688	
	MMC4	0.272	
	MMC5	0.689	

Source: Author (2016)

As shown in Table 1, all items pertaining to the considered variables were valid because the value of Cronbach's alpha was positive (+) and greater than 0.1966 (r table) with $df = n - 2$ or $df = 98$. The value of Cronbach's alpha for each variable was greater than 0.6, ranging from 0.655 to 0.738, which shows that the four variables were reliable.

2. Correlation Analysis

Results of correlation analysis for the variables such as level of education, level of income, commitment to Islamic rule, perception to zakat justice, transparency to zakat institution and Muslim merchants compliance were assessed using Pearson's correlation coefficient. The following are the results of

the evaluation of the relationship between the level of education and Muslim merchants compliance.

A close relationship was noted between the level of education and Muslim merchants compliance, and the value of R was 0.339. This indicated a strong correlation between the variables of the level of education and Muslim merchants compliance. The positive (+) sign of the value indicates that level of education and the Muslim merchants compliance have a unidirectional relationship, indicating that the higher the value of level of education, the higher the value of Muslims merchants compliance. The model summary of the level of education and Muslim merchants compliance is described in Table 2.

Table 2.
Model Summary of the Level of Education and Muslim Merchants Compliance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.339 ^a	.115	.106	1.912

Source: Author (2016)

A close relationship was also noted between the level of income and Muslim merchants compliance, with the value of R being 0.661. This indicates that there was a strong enough correlation between the variables of the level of income and Muslim merchants compliance. Since the value of R

is positive (+), indicating that the level of income and Muslim merchants compliance have a unidirectional relationship, meaning that the higher the value of level of income, the higher the value of Muslim merchants compliance. This result is showed in Table 3.

Table 3.
Model Summary of the Level of Income and Muslim Merchants Compliance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.661 ^a	.436	.431	1.526

Source: Author (2016)

A close relationship was noted between commitment to Islamic rule and Muslims merchant compliance, with the value of R being 0.510; this indicates a strong correlation between the variables of the commitment to Islamic rule and Muslim merchants compliance. The positive (+) value of R indicates that commitment to

Islamic rule and the Muslim merchants compliance have a unidirectional relationship, which implies that the higher the value of commitment to Islamic rule, the higher the value of Muslim merchants compliance. This result is illustrated in Table 4.

Table 4.
Model Summary of the Commitment to Islamic Rule and Muslim Merchants Compliance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.510 ^a	.260	.252	1.749

Source: Author (2016)

A close relationship was noted between perception to zakat justice and Muslim merchants compliance, with the value of R being 0.640; this indicates a strong correlation between the variables of the perception to zakat justice and Muslim merchants compliance. The positive (+)

value of R indicates that perception to zakat justice and the Muslim merchants compliance have a unidirectional relationship, which implies that the higher the value of perception to zakat justice, the higher the value of Muslim merchants compliance. The result of this relationship is presented in Table 5.

Table 5.
Model Summary of the Perception to Zakat Justice and
Muslim Merchants Compliance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.640 ^a	.410	.404	1.562

Source: Author (2016)

A close relationship was noted between transparency to zakat institution and Muslim merchants compliance, with the value of R being 0.859; this indicated a strong correlation between the variables of the transparency to zakat institution and Muslims merchant compliance. The positive sign (+) of the value indicates that

transparency to the zakat institution and the Muslim merchants compliance have a unidirectional relationship, implying that the higher the value of transparency to zakat institution, the higher is the value of Muslim merchant compliance. This result is showed in Table 6.

Table. 6
Model Summary of the Transparency to Zakat Institution
and Muslim Merchants Compliance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859 ^a	.738	.735	1.041

Source: Author (2016)

3. Regression Analysis

Correlation analysis of all five independent variables on the dependent variable was followed by regression analysis to determine the influence of independent variables on the dependent variable. The results of the regression

analysis are expressed as the following regression equation:

$$Y = 0.514 - 0.270X_1 + 0.040X_2 + 0.221X_3 + 0.118X_4 + 0.841X_5 + e$$

The coefficients are presented in Table 7.

Table 7.
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.514	1.334		.386	.701
	x1	-.270	.085	-.237	-3.173	.002
	x2	.040	.177	.036	.224	.823
	x3	.221	.065	.195	3.424	.001
	x4	.118	.113	.140	1.038	.302
	x5	.841	.109	.774	7.688	.000

Source: Author (2016)

In multiple regression analysis, a significant influence simultaneously or

together was noted between the dependent variables and independent variables. This is

evidenced by the results of the F test, which had a significance level of 0.000, a value that was lower than $\alpha = 0.05$. This is also supported by the results of the analysis of determination coefficient that is showed in Table 8, which indicated that the

independent variables in this study were related to zakat compliance among Muslim merchants in 79.6 percent of the cases, while variables other than those included in this study accounted for the remaining 20.4 percent.

Table 8.
Model Summary of Multiple Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892 ^a	.796	.785	.937

Source: Author (2016)

CONCLUSION

From the results of this study, we concluded some important points. First, the correlation analysis revealed that all independent variables (level of education, level of income, commitment to Islamic rule, perception to zakat justice, transparency to zakat institution) have a strong enough relationship to dependent variable (Muslim merchants compliance). Whereas the correlation of the variable transparency in the zakat institution with the variable compliance among Muslim merchants was 0.859.

Second, the multiple regression analysis revealed a significant influence simultaneously or together between the independent variables and dependent variables included in this study, amounting to 79.6 percent, while the remaining 20.4 percent can be affected by other variables not included in this study.

In the light of these results, the researchers want to provide the following inputs towards the BAZNAS in Cianjur district: (1) improve knowledge in the field of technology and management, since this may increase the degree of professionalism among zakat administrators in the management of zakat funds, as well as the actualization of information systems and transparency regarding distribution of zakat funds to the society, (2) BAZNAS should increase their level of cooperation with

DKM (Prosperity Council of Mosques), leaders of society, and the chaplain to absorb funds from the public zakat *maal*, (3) to improve the understanding of zakat, BAZNAS, government, and the Islamic scholars should take more intensive steps towards imparting religious education and creating a social awareness regarding zakat, (4) the zakat system may be optimized by a pick-up service and an online payment system, to facilitate the payment of zakat by *muzakki*.

ACKNOWLEDGEMENTS

The first author wishes to thank State Islamic University of Sunan Gunung Djati Bandung for supporting in this research. The second author wishes to thank LPDP, Graduate School State Islamic University of Syarif Hidayatullah Jakarta, and the Faculty of Economic and Business Suryakencana University for supporting this research. The third and fourth authors wish to thank Faculty of Economic and Business Suryakencana University for moral supporting in this research.

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Zakat as a Sustainable and Effective Strategy for Poverty Alleviation: from the Perspective of a Multi-Dimensional Analysis

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ABSTRACT

Zakat is believed to be an alternative solution to overcome the problems of socioeconomic inequality and particularly poverty. Zakat has been widely practiced in the Islamic world for centuries; however, in order to measure the effectiveness of the system we need support of the empirical facts. This study aims to determine the effectiveness of poverty alleviation patterns based on zakat compared with the pattern of poverty alleviation efforts run by the government and the pattern of Corporate Social Responsibility (CSR), as well as the key determinant factors. Measurement of effectiveness is based on 30 attributes that include the dimensions of input, process and output. The study uses a multi-criteria decision analysis approach that is supported by the software Rappoverty. The findings show that the pattern of zakat-based poverty alleviation program performs better on all attributes compared to the pattern of other programs. The sensitive leverage factors that determine performance status consist of: the suitability of the program to the needs of the target communities, socialization and education, inter-agency coordination, consistency in the implementation of the rules, the existence of public institutions to carry out and support the program, improvement of welfare recipients, as well as an increase in the number of beneficiaries. The findings of this study indicate that the pattern of poverty reduction programs based on zakat can be a useful model for policy makers in developing effective poverty alleviation programs.

Keywords: zakat, performance status, leverage factors

INTRODUCTION

Poverty is a persistent and multi-dimensional problem. Not only is it difficult to be solved, but it has also become an extreme challenge that attracts mankind's attention all over the world (Blanden and Gibbonss, 2006). Various measures have been adopted and plans implemented to eradicate this social disaster at the local, national, and global levels. Quest for an effective poverty alleviation program pattern have been an intense topic of discussion among the intelligentsia from both academic and governmental environment all over the world.

According to the World Bank, the population that live under the poverty line

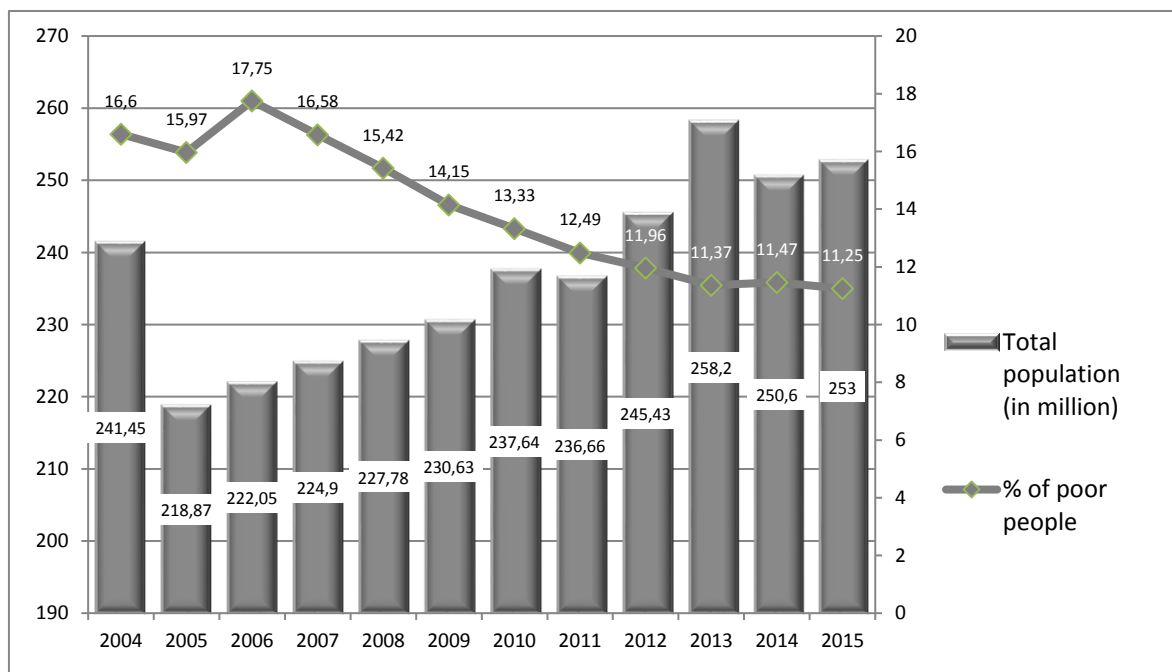
(\$1.9/day/person) in 2015 is 702 million (9.6 percent of the total world population) and half of them live in absolute poverty, a condition where they could not fulfill the barest essential needs. Dasgupta (2007) pointed out how difficult it is to overcome the poverty problem by comparing poverty to a muddy, downward spiral. Once an individual or a family gets into the spiral, it is difficult for them to get out; in fact, they even tend to be pulled to the bottom level.

Poverty not only reflects inability and helplessness, but also represents a complicated process that influences the society as well as the policy of a country. Poverty is bound to ensnare the next generation if it is left to become worse. Therefore, a comprehensive policy

supported by effective programs is needed in order to solve this long-term, cross-generation problem.

In Indonesia, the government has attempted to implement various programs in order to reduce poverty. Unfortunately, the government keeps changing the programs and each tends to be a short-term unsustainable program. Such programs will not be able to guarantee successful eradication of poverty. Figure 1 shows the condition of poverty and the changes in the last ten years in Indonesia. Although there is a decrease in the number of poor people, the chart, indicative of the rate of progress

of poverty eradication programs, tends to decline and slow down. The average decrease in the number of poor people during this period is only 0.56 percent per year. In 2015, the number of poor people was 11.22 percent of the total population or 28.59 million people. The number was deduced using the definition of poverty line of less than US\$ 1 earned per day. If deduced using the World Bank standard implemented nowadays, which is US\$1.9 per day, the number of those below poverty line will reach 42 percent or almost 60 million people.



Source: Badan Pusat Statistik (2015)

Figure 1. The Number of People below Poverty Line, the Proportion of Poor People and Targeted Poor Inhabitants in 2004-2015.

In facing the poverty problem that has been gaining momentum day by day, the government has tried one after the other ideas adopted from the western countries as well as movements to oppose the market mechanism that widens the socio-economic gap. In this context, we may examine an inspiring movement to fight against poverty known as the ‘gift economy’. This concept

states that the essence of economic activity is not the exchange that takes place through the market mechanism, where those who do not have any resources are unable to participate, but the individual relationships manifested in attention, acceptance, appreciation, friendship, kinship, and friendliness (Bell, 1991). For those who support this concept, such factors will

become the source of welfare for both the individual and the society at large. The spirit of the gift economy concept can be a breakthrough to solve the poverty problem through dealing with the diminished sense of solidarity and care for others in the present era of intense competition.

The gift economy concept is in line with the concept of zakat in Islam, which is a mechanism of distributing the wealth from the rich to the poor in a spirit of sincerity, attention, appreciation, and kinship. The basic concept of zakat is giving to another sincerely without expecting a reciprocate gift or favor, as decreed by the word of Allah SWT: Those who doeth good deed as atom's weight, they will see it (QS. Al Zalzalah: 1-8). This motivates people to payzakat.

Zakat is not only a means to improve the welfare of the poor, but it has also evolved as a sustainable practical mechanism to manage the socio-economic gap in any society. The obligation of a Muslim to pay zakat never ends; although the recipients' financial condition has improved, the obligation of paying zakat still remains. Under the circumstances, zakat will become an essential part of a Muslim's life, to be observed through one's lifetime, and an eternal mechanism to balance the society they belong to (Ariyani, *et al* 2016).

As the country with the largest Muslim community, the potential zakat funds volume in Indonesia is quite high. According to BAZNAS, the fund amounts to Rp 217 trillion per year. Unfortunately, this resource has not been fully used in the country's poverty alleviation program. Although they have the same objective in

reducing poverty, the government and many zakat institutions pursue their own programs. This can be understood in terms of certain reasons, such as the target of the poverty alleviation programs. Zakat based poverty alleviation programs are followed by only a specific community and managed by the rules of religion. Moreover, the period set aside to raise zakat funds is less flexible, especially zakat *fitriah* that concludes by Idul Fitri day.

This research was intended to shed light on the effectiveness of zakat patterns in overcoming poverty using various dimensions and criteria. Research on the correlation between zakat and the economy level, welfare, and socio-economy equality of the society is not a new topic and has been carried out by many people. Unfortunately, most of them are based on a single criterion and only focus on a certain program in a certain area. Since a comprehensive poverty alleviation program involves many dimensions and criteria, use of a single measurement parameter will hamper the effectiveness of the program itself. Therefore, this research has been designed to overcome such limitations by using comprehensive attributes including the dimension of input, process, and output altogether. By comparing the performance of the zakat based poverty alleviation programs to the government programs and CSR i.e. programs implemented by private institutions, the findings and the leverage factors of this research will serve as a significant reference towards proposing zakat as an effective alternative in reducing poverty.

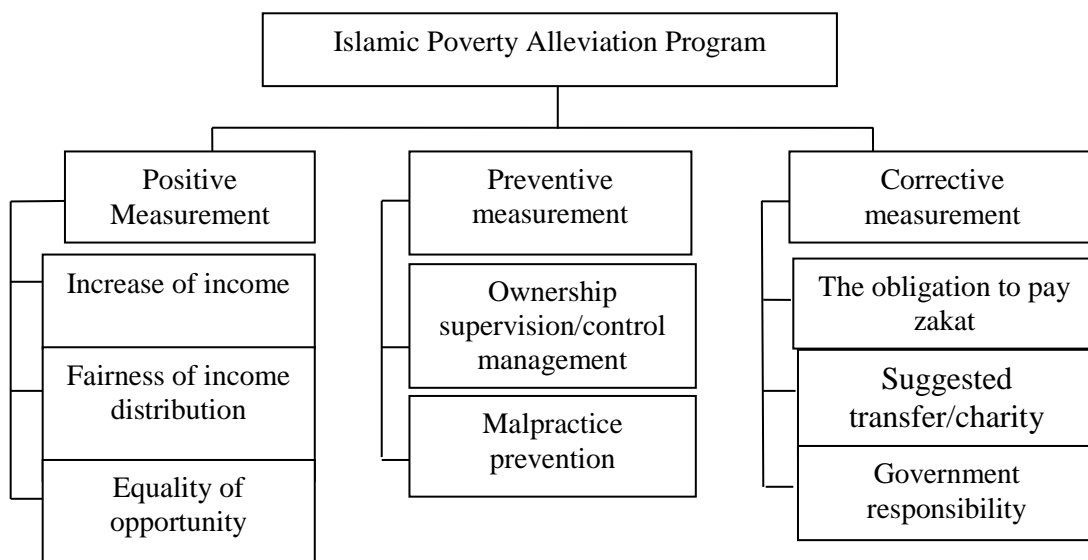
LITERATURE REVIEW

Zakat is a mechanism of distributing wealth from the rich to the poor supported by religion rules (Ali, 2010). As an obligation, zakat is not only a means to improve the welfare of the poor, but also serves as a sustainable practical mechanism to manage the socio-economic gap in the society that practices it. The obligation of a Muslim to pay zakat never ends; although the recipients' economy has improved, the obligation of engaging in zakat continues. Under the circumstances, zakat will become an essential part of a Muslim's life, to be observed through one's lifetime, and an eternal asset in the fight against poverty.

Zakat is one of the Islamic approaches that aim to reduce poverty. There are several Islamic approaches to reducing poverty, such as: (a) increasing income, (b) increasing the fairness of income distribution, and (c) providing

equal opportunity for all social segments (Hassan, 2010). The scheme of this comprehensive strategy involves three different sets and tactics (Sadeq, 1995), as described in Figure 2.

According to Bremer (2013), the structure of zakat explicitly pursues equality and social justice from both ends of the income spectrum. At the top end, charity works to prevent over-concentration and excessive accumulation of wealth that exceeds the needs of the family, while at the bottom tip, charity determines the category of people in need who should receive the assistance. In our current economic system, zakat provides a value system that has a significant part in overcoming the problem of income distribution beside tax and transfer. Zakat is also an economy propulsion system that will assist people to manage their resources in order to achieve a better life (Marthon, 2007).



Source: Sadeq (1995)

Figure 2. Islamic Poverty Alleviation Scheme

Al-Qardawi in Ali (2010) stated that zakat is not only an obligation but also a system that addresses the rights of the poor. Zakat paid by an individual indirectly returns to be goodness for the payer, and brings bountiful rewards from Allah SWT. Andreoni (1990) wrote that a deed of

generosity will return some benefits to the person (a private utility pay off). One of the benefits derived in helping people is the happy feeling known as the warm glow. Beside the warm glow, a person that pays zakat will nurture good character traits such as unselfishness and care for others. As we

know, these traits have started to fade under the influence of the capitalist era.

There are two types of zakat. They are zakat *fitriah* that should be paid by a Muslim during Ramadhan, and zakat *maal* that should be paid by a Muslim based on the minimum wealth level owned over a certain period of time. Zakat has been developed as a complete system to fight against poverty. In addition to the rules regarding time and the amount of payment, from the target point of view, zakat also determines eight categories of recipients: they are indigent people, poor people, zakat committee, people converted to Islam, slaves, *gharemeen*, *fi sabilillah*, and *ibnusabil*. It does not mean that zakat must be distributed to all categories even when the fund is limited. Zakat can be given to only one particular category considering the conditions and circumstances (Marthon, 2007).

According to Beik (2013), there are two approaches to determining the recipients. The first is to use the government's official standard of poverty line and the second is based on the approach of *had al-kifayah* standard that considers the minimum needs that should be fulfilled. By *had al-kifayah* standard, the poverty level is determined by the ability of a person to fulfill his primary needs, including food, clothing, housing, health, and education. Zakat institutions in Indonesia usually use one or the other of these two parameters to consider the zakat recipients.

Some studies about zakat found that in addition to giving benefits to the payer, zakat also has positive effects on the economy of society as a whole. Research conducted by Ali (2010) revealed that zakat can increase the aggregate demand and capital stock that will lead to economic growth. The findings were supported by two arguments: they are (1) the transfer of wealth from the rich to the poor will increase the poor people's marginal propensity to consume, which in turn will increase the aggregate demand; (2) the

zakat payer will increase the savings ratio in order to prevent depletion of wealth through various meanings including zakat. In support of this postulate, Marthon (2007) demonstrated that zakat has a domino effect on the improvement in social welfare through two main aspects namely the creation of vacancy and the decrease of social gap.

The increase of aggregate demand by the recipient of charity will boost the demand for products and therefore increase production and investment, which in turn will have an impact on increasing the demand for manpower (unemployment decreases). Simultaneously, the transfer of wealth from the rich to the poor will prevent the accumulation of wealth such that it reduces the economic gap. Ali (2010) asserted, in the context of zakat, that macro charity can regulate capital accumulation through improved capital ratio of labor and enhanced economic potency and social development of the recipients of charity. For these efforts to transform charity from the duties and limited values of religion to become an instrument of economic development, the concept of zakat must be adapted in order to achieve prosperity for the whole community.

The success of zakat as an instrument for balancing wealth has been proven since the era of Prophet Muhammad SAW and the leaders of Islam before the middle ages. With proper management, zakat works as a highly effective method to reduce poverty. This is in line with the study done by Ahmed (2004) that concluded that zakat can have a great impact on poverty reduction if it is supported by good governance, which meets the following criteria: (1) compliance with the law and rules that are supported by the guarantee of legality and a strong institutional support system, (2) management performance, (3) financial performance, (4) performance of the administrative agency, and (5) degree of social legitimacy (Indonesia Zakat & Development Report, 2010). These criteria

indicate that the management of zakat funds must be accompanied by good planning, implementation and control.

In addition to the aspects of managing zakat, facing a multi-dimensional problem such as poverty needs a multidimensional program too. Therefore, the performance of poverty alleviation programs cannot be evaluated based on a single criterion (for example, to evaluate the program only from the aspect of the amount of funds only). Such an approach can impede the effectiveness of the evaluation activities itself. To overcome this drawback in assessing the effectiveness of the zakat program, this research used a multidimensional approach, addressing both the upstream and downstream aspects. The performance of the program is measured through a multidimensional scale approach (Multi-Dimensional Scaling or MDS).

The multidimensional scale approach has been designed to assist in the transformation of the multidimensional into

METHODOLOGY

This research used a multi-criteria approach decision analysis using the analysis appliance called Rappoverty (Rapid Appraisal for Poverty Evaluation). Rappoverty is an evaluation method to determine the performance status of the object and leverage factors that determine the status. The performance status of poverty alleviation programs is assessed against considerations such as the ability to survive over a long period of time, preserve their effectiveness and grow and develop strength through a set of specific attributes that ensure the sustainability of the benefits produced (Ariyani, 2016).

The final mark of the effectiveness of a poverty alleviation program is the ability to uplift the poor from their conditions while the leverage factors are sensitive factors that determine the performance status of the program. Rappoverty analysis will produce a clear and comprehensive description of the

multiple, simpler dimensions. The use of MDS will also help in reducing the data so that it can be managed more easily. Groenen et al (2004), stated that the multi-variant analysis techniques used in MDS can help to determine the performance position of an object on a geometric map based on the common aspects or other irregularities. Jaworska (2009) stated that MDS is a data analysis technique in the form of a geometric figure that describes the similarities based on Euclidean distance. According to Fauzi and Anna (2005), MDS is an explorative data analysis technique that works through the condensation a large amount of data to a spatial map. This makes it relatively simple to describe the significant relationships between the variables in the most economical way. MDS has the following advantages compared with other multi criteria techniques: able to handle nominal or ordinal data; does not require normal multivariate, and provides stable results.

performance of the program based on the attributes analyzed. Based on predefined policies, Rappoverty can be used to design follow up measures in response to the feedback and results of the evaluation in a timely manner. This way, the results of this research will be useful in determining the effectiveness of the poverty alleviation policy.

Rappoverty method is a modification of Rappfish (Rapid Appraisal for Fisheries) that was developed by the Fisheries Center at the University of British Columbia, Canada (Pitcher and Preikshot, 2001; Kavanagh and Pitcher (2004). In processing the data, Rappoverty uses some of the following principles: (1) a quick rapid assessment method based on a number of attributes that are easily scored, (2) the attributes can be redefined or replaced according to the available information, (3) the method of decision making is based on a multi-dimensional

scale and (4) uses ordination method to determine a decision.

Ordination method is a technique to simulate the best and worst status of an object by placing the object in a sequence of measurement from a reference point based on arating scale ranging from the best

outcome (100 percent) to the worst (0 percent). Thus the result of Rappoverty is a performance index. As the basis for decision making, the results are converted to five large-scale performance status categories from 0 to 100 percent as described in the Table 1 below.

Table 1. The Value of the Index Categories

Index	Category
0-20	Very bad
21-40	Bad
41-60	Average
61-80	Good
81-100	Excellent

Source: Author (2016)

To evaluate and determine the performance status of the patterns of poverty alleviation programs based on zakat, the government's program pattern, and CSR program pattern, 30 attributes that include various dimensions of the process input and output are used. The attributes were derived from the results of focus

group discussion (FGD) by the world cafe method involving 24 participants from various circles, namely: managers of the zakat institutions, managers of the government's program, managers of the CSR program, academicians, and graduate students. The thirty attributes are as in Table 2.

Table 2. Performance Evaluation Attributes of Poverty Alleviation Programs

Input Dimensions	Process Dimensions	Output Dimensions
Recipient criteria	Planning program approach	Appropriate distribution
Recipient requirements	Involvement level of the community in determining the target	Achievement of program targets
Fund raising	Fixing target mechanism	Increase in the number of the recipients
Availability of the fund	Characteristics of the program	Establishment of social institutions
Recipients' data	Coordination among institutions	Sustainability of the program
The program's suitability to the needs of the targeted society	Socialization and education by the supervisor	Improvement of recipients' welfare
The variety of programs	The board components	
Program completion	Operational expenses	
The stability of regulations	The punctuality of program distribution	
Capability of the operators and supervisors	Evaluation and monitoring	
The recipients' understanding on the program	Implementation of good governance	

Source: World Cafe-FGD (2015)

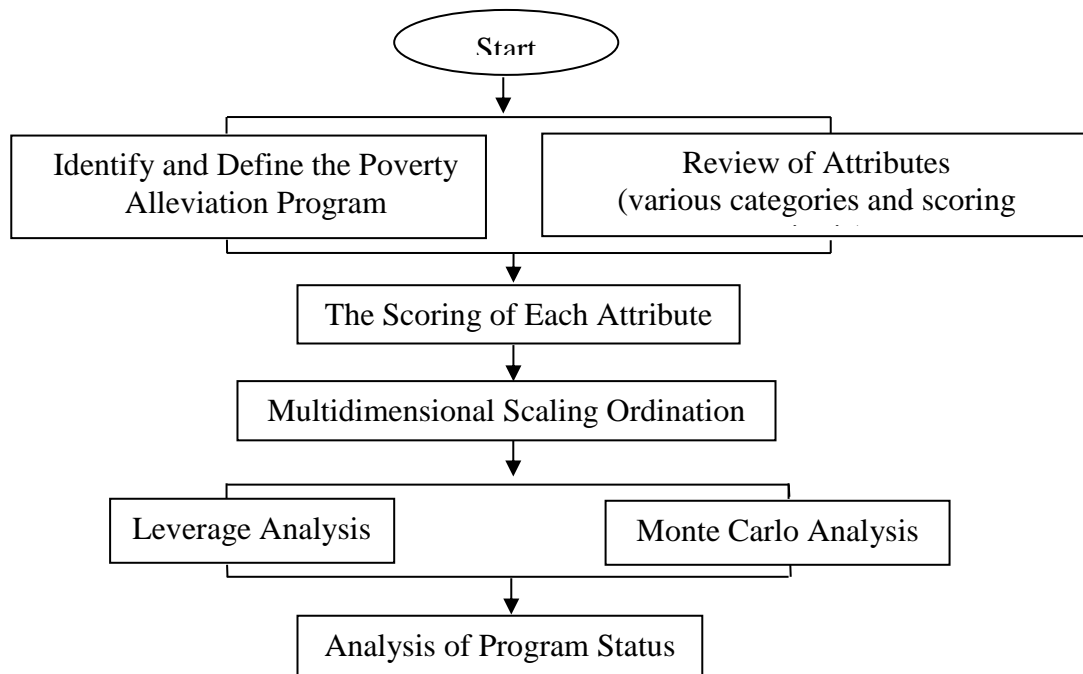
The object of this research consisted of 11 government programs representing the pattern of the government program, 3 zakat program patterns and 2 patterns of

CSR program. The government programs were grouped into categories of social assistance and community empowerment programs. The social assistance programs

consisted of: Hoping Family Program (PKH), Rice Program for the Poor (Raskin), Community Health Warranty Program (Jamkesmas), Poor Students Assistance Program (BSM), the School Operational Assistance Program (BOS). The community empowerment programs consisted of the Rural National Program for Community Empowerment (PNPM), Urban PNPM, Tourism PNPM, Generation PNPM, Rural Agribusiness Business Development (PUAP), and the development of Social Infrastructure Economic Region (PISEW). The zakat programs consisted of: zakat program from

BAZNAS, LAZ Dompot Dhuafa and MAZ Baitussalam, while the studied CSR program patterns consisted of the CSR program of PT Antam and CSR program of PT Pertamina.

The research was carried out in the areas of Bogor, Jakarta and Tangerang. The data was obtained through questionnaires filled by 24 participants of FGD-World Cafe. The data derived from the results of the questionnaire was then inserted into the Rappoverty software to determine the ordination. The overall process to analyze the performance status of the program is presented in Figure 3.



Source: Fauzi and Anna; adapted from the Chart Rappfish (2005)

Figure 3. The Chart of Analysis Process to Assess the Performance Status of Poverty Alleviation Programs

RESEARCH FINDINGS AND DISCUSSION

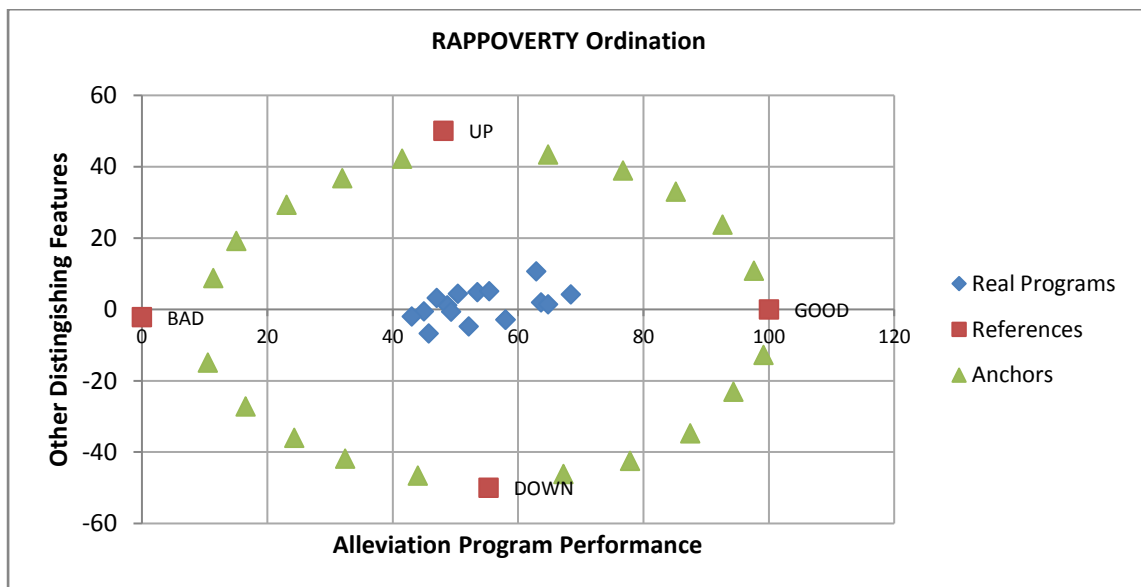
Figures 4 to 6 present the results of the ordination analysis on each dimension of the entire objects analyzed. The horizontal axis describes the differences in the performance status of the program on each of the attributes in the ordination of bad score until good score, while the vertical axis describes a mixture of those scores. The status of the object's performance can be seen by looking at the position of the analyzed object on the ordination region.

Figure 4 represents the ordination of the performance status of the analysis objects on the input dimension. Based on 12 attributes of the input dimension, the zakat program pattern is in the ordination of good score with an index above 60. It can be concluded that the whole zakat programs analyzed have performed well in terms of the input dimension. The performance index of the whole program can be seen in Table 3.

Analysis of the government program shows the whole program in the

ordination region between bad score and good score i.e 43 and 57. Governmental programs empowered are relatively have better performance compared with programs based on social support. The overall performance status of the government program lends to a pattern of average classification. The performance of the Rural and the Urban PNPM are as exceeds that of the other empowerment programs. On the other hand, Generation PNPM has yielded the worst performance compared with other programs.

Analysis of CSR programs shows the two analyzed programs are located in the ordination of bad score and good score with different performances. The CSR program pattern of Pertamina has a good performance status, while the CSR program Antam is average.



Source: Author (2016)

Figure 4. Ordination of the Input Dimension

Figure 5 illustrates the position of the ordination of the research object on the process dimensions. The results of the analysis on this dimension show better

performance variables with relatively the same pattern of ordination on the input dimension. These programs are located in the region of good score. If seen from the

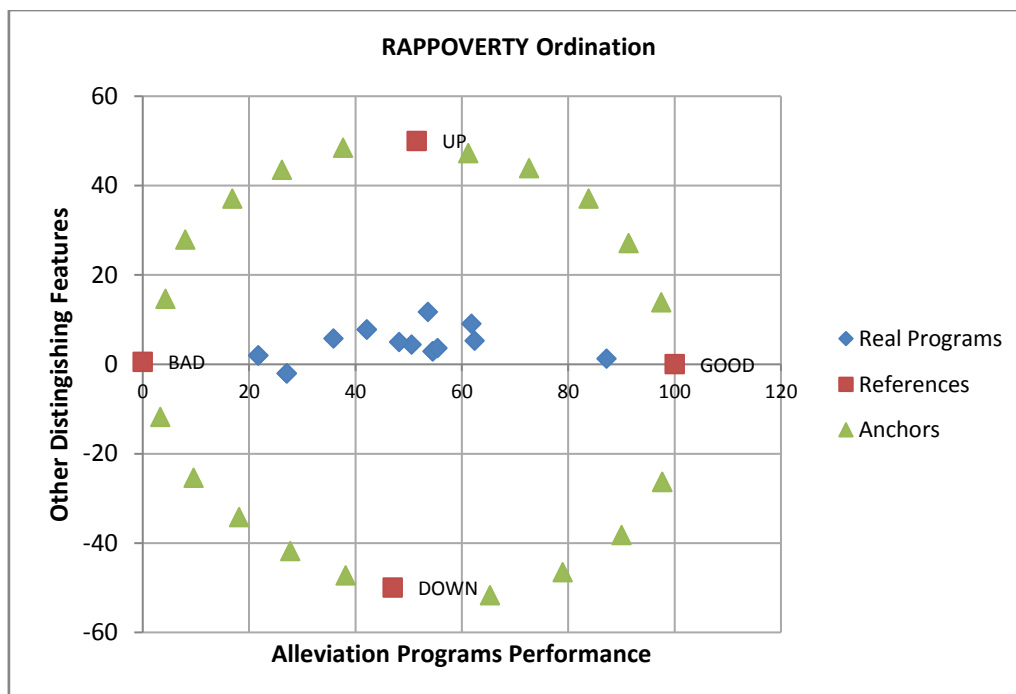
status of performance, the Dompot Dhuafa program has the highest performance status at 87, which means that it is classified in the category of very good performance, leading others that are good.

The analysis of the government program in terms of the process of the whole program is located in the ordination region among bad score and good score, with different performance classifications for the social assistance programs and the empowerment programs. If seen from the scale of the performance index, the social assistance program performs poorly in its entire parts while the empowerment program yields an average performance. Rural PNPM and Urban PNPM have higher performance indices compared with other programs. Family is the program with the worst status.

Figure 6 shows the performance status of the program on the output dimensions. The analysis on this dimension produces various performance indices but still it follows the same pattern as the previous two dimensions. All zakat

programs are in the area of good performance with the LAZ Dompot Dhuafa program yielding the highest score at 80,00. The zakat programs of MAZ Baitussalam and BAZNAS also have good performance 55,47 for the MAZ Baitussalam program and 51,77 for the BAZNAS program.

Analysis of the government programs on the dimension of the output shows different performances for the social assistance program and the community empowerment program. This is similar to the dimensions of the process but with different performance classifications. The ordination position of the whole program is in between of bad and good scores. If seen from the scale of the performance index, the social assistance program is classified in a poor performance category while the empowerment program has a good performance. The Raskin program has the lowest performance index, while the Rural PNPM and Urban PNPM programs get the highest scores.

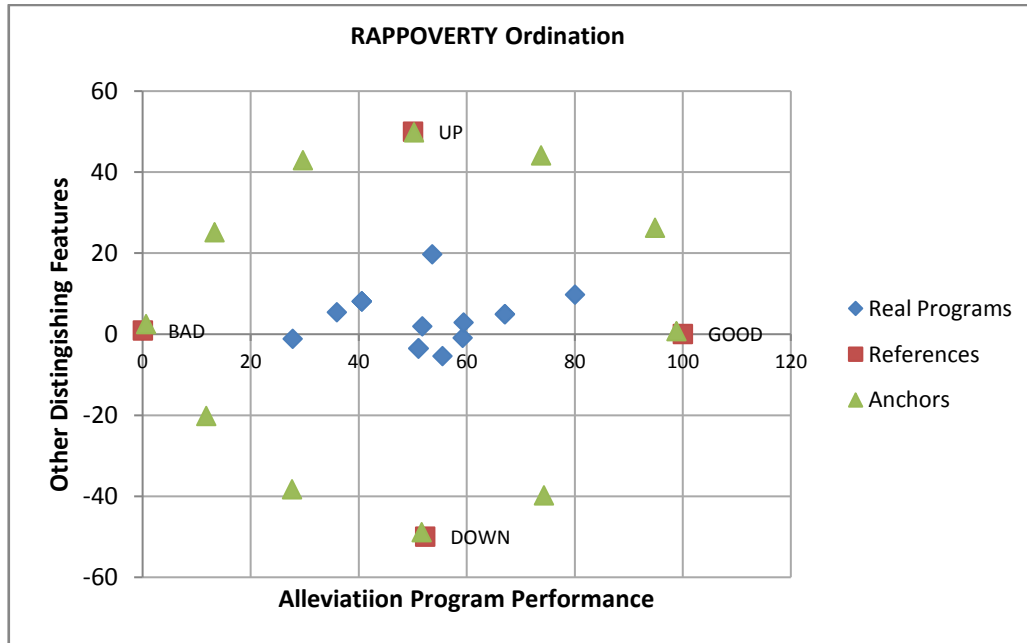


Source: Author (2016)

Figure 5. Ordination of the Process Dimension

Analysis of the CSR program pattern shows that the two analyzed programs are located in an ordination position between good and bad scores. Unlike the previous dimensions, on the dimension of output,

both the analyzed programs have the same status are average scores. The performance indices of the two programs are 59,39 for the CSR program of Antam and 53,60 for the CSR program of Pertamina.



Source: Author (2016)

Figure 6. Ordination of the Output Dimension

The overall results of the ordination analysis outlined previously indicates that the performance status of poverty alleviation programs varies significantly between the government programs, zakat programs and CSR programs, but the pattern is still consistent enough. The zakat programs tend to have higher performance indices on all dimensions compared with the CSR program pattern or the pattern of the government programs. These results provide adequate evidence that poverty alleviation programs based on zakat are far more effective compared with other program patterns.

The results of the Rappoverty analysis described show that the pattern of the zakat program performs better on all

dimensions compared with the government programs and the CSR programs. This is most likely due to the fact that the zakat based programs score positively on all sensitive attributes and contribute significantly enough to determine the performance of the program. The results of the leverage analysis of the performance of poverty alleviation programs are shown in Figure 7. The factors that have the longest lines are the most sensitive factors that affect the performance of the program (called leverage factors). Once these leverage factors are identified, the program policy should give fully attention to those factors so that the poverty alleviation program will be more effective.

Table 3. The Performance Category of Poverty Alleviation Programs Based on Ordination

Output Dimension	Dimension
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	Input		Process		Output	
	Index	Status	Index	Status	Index	Status
Hoping Family Program	44,97	Bad	21,71	Bad	35,94	Bad
Community Health Warrant	48,69	Average	27,14	Bad	40,55	Bad
School Operational Assistance	53,50	Average	35,82	Bad	40,55	Bad
Poor Student Assistance	50,37	Average	27,14	Bad	40,55	Bad
Rice for the Poor	45,76	Average	21,70	Bad	27,77	Bad
Urban PNPM	57,98	Good	54,65	Average	67,05	Good
Rural PNPM	57,98	Good	54,65	Average	67,05	Good
PISEW	49,31	Bad	50,65	Average	59,23	Good
PUAP	47,01	Average	48,25	Average	51,04	Good
Generation PNPM	43,03	Bad	42,23	Average	51,04	Good
Tourism PNPM	52,11	Average	42,23	Average	51,04	Good
Zakat Program of BAZNAS	63,66	Good	53,75	Average	51,04	Good
Zakat Program of Dompot Dhuafa	64,80	Good	87,37	Excellent	80,00	Excellent
Zakat Program of MAZ Baitussalam	68,41	Good	61,81	Good	55,47	Average
CSR Program of Antam	55,38	Average	62,44	Good	59,39	Average
CSR Program of Pertamina	62,88	Good	47,42	Average	53,60	Average

Source: Rappoverty Analysis (2016)

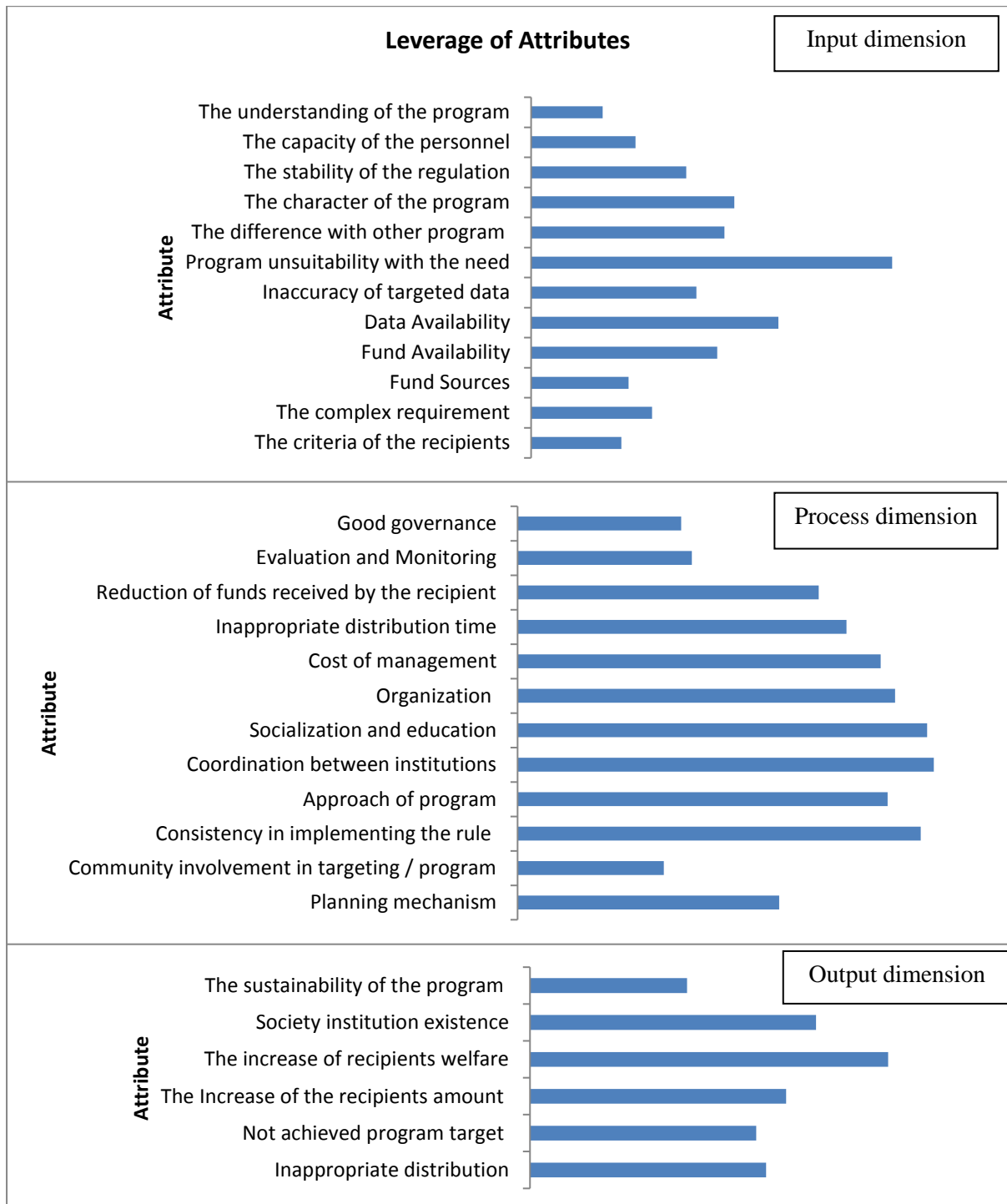
On the input dimension, the compliance of the program with the needs of the target communities is a key leverage factor of poverty alleviation programs. The performance of the program in this attribute will be better if the public or potential recipients of the program are involved seriously since the planning phase. This can help to avoid issues such as biases that may result in a program inappropriate for the needs of the community, an undifferentiated program for the whole community and not achieving the target.

The zakat programs as a rule anticipate this issue. Programs based on zakat are designed based on the recognition of their candidate beneficiaries. Zakat also employ a differentiated planning model that does not always apply the concept of bottom up which is often ineffective in addressing the problem of poverty alleviation. Based on this condition, zakat institutions apply an approach combining the bottom up and top down methods. The managers develop program by paying attention to and listening to the aspirations of the potential recipient. This approach anticipates the issues caused by government-adopted programs that mimic the pattern of programs from other countries, which may not be suitable and in

accordance with the needs of the recipient community. (Dolles, 2010).

To determine the program recipient, zakat uses the nearest neighbor as a source of information. This is a part from using statistical population data issued officially by the government to support the accuracy of the determination of target. Some zakat institutions have drawn a *mustahik* map which is very useful for this purpose.

On the dimensions of the process, the following attributes serve as the leverage factors of the program: socialization and education, coordination between institutions and consistency in the implementation of the rules. Socialization and education will determine the level of understanding of the recipient of the program. The success of socialization and education improves the involvement of beneficiaries in the implementation of the program. Institutional coordination is necessary to avoid overlapping programs where the same program is carried by various institutions, leading to inefficiencies in the utilization of natural resources. Consistency in the implementation of the rules is crucial to guarantee the implementation of the program as planned in terms of funds, time, and the program distribution target.



Source: Author (2016)

Figure 7. Leverage Factors of Poverty Alleviation Programs

The superior performance of zakat programs on the dimensions of this process can be explained as follows. An intensive mentoring process is conducted by personnel who are physically living in the location of the poor. This creates a very good impact on the process of socialization and education. The same environment, culture and habits contribute to the success of socialization and education through a proper communication pattern.

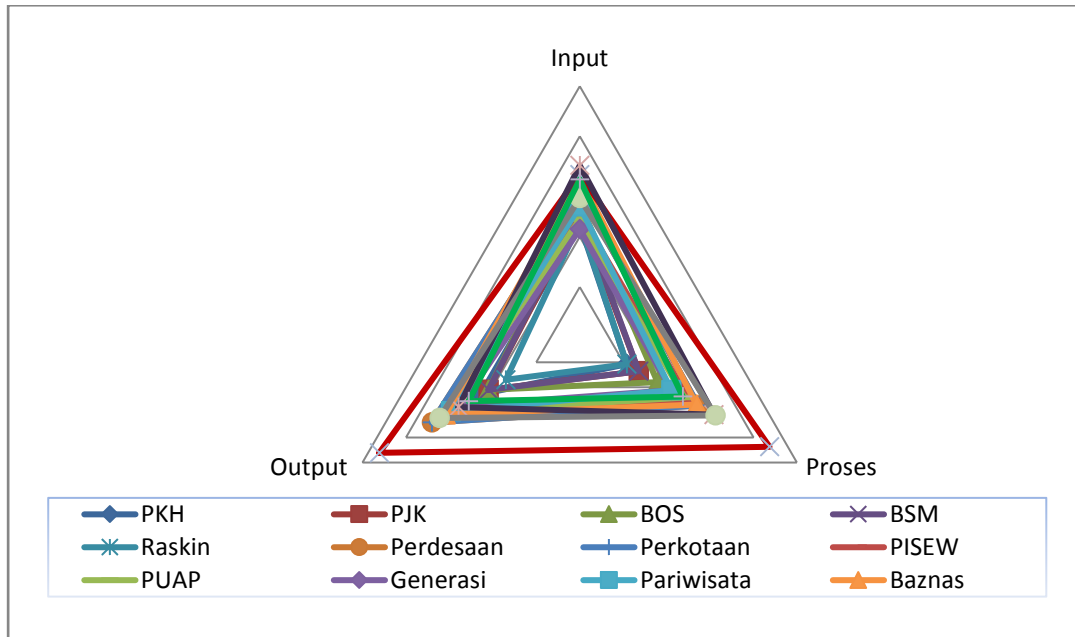
The level of understanding of the facilitators and the trust of the poor towards the mentor, known to them as a neighbor, motivate program recipients to participate in the implementation of the program. Furthermore as a rule, excellent consistency between the plan and the implementation is achieved by the zakat institutions through regular, on going evaluation and monitoring efforts.

On the dimension of output, the existence of public institutions, improved welfare of the recipients and increasing numbers of beneficiaries are the attributes that significantly affect the performance of poverty alleviation programs.

The existence of public institutions is a manifestation of the independence of the community in solving the problem by itself in accordance with certain norms and rules developed by the community. In the context of poverty alleviation, the most preferred method is the development of the capabilities of the poor such that they can resolve their problems without depending on other parties. Therefore, improved welfare of the recipient becomes an important parameter for measuring success of poverty alleviation efforts. The increase in the number of program beneficiaries can be an indication that the program successfully reaches a wider cross-section of the targets.

For the factors mentioned, the zakat institutions have established social infrastructure as demonstrated by Dompot Dhuafa. The focus of Dompot Dhuafa in the formation of public agencies is a significant factor that has contributed to the success of the program in supporting the poor people on their way to financial independence. With the existence of public institutions, the program recipients can interact intensively so that mutual learning among them will be nurtured. Further, the zakat institution improves the welfare of the recipients by training them to become entrepreneurs in accordance with their ability. With the intensive mentoring that comes with the revolving fund program, the business pursued by the recipients is able to improve their welfare (Dompot Dhuafa, 2014). In terms of increasing the number of recipients of the program, the institution of charity typically attempts to expand the scope of the program areas as the manifestation of a wide spread social responsibility.

The performance status of various program patterns on multiple dimensions can also be seen on the kite diagram in Figure 8. The kite diagram indicates the program's performance status through the position of the program on the diagram. A program located on the outside of the diagram shows good performance index while one located within the diagram shows a relatively poor performance index. As Figure 8 shows, the zakat program of Dompot Dhuafa is located on the outer line of the diagram, followed by BAZNAS program and the program of MAZ Baitussalam. Figure 8 reinforces the ordination analysis results that have been described previously.

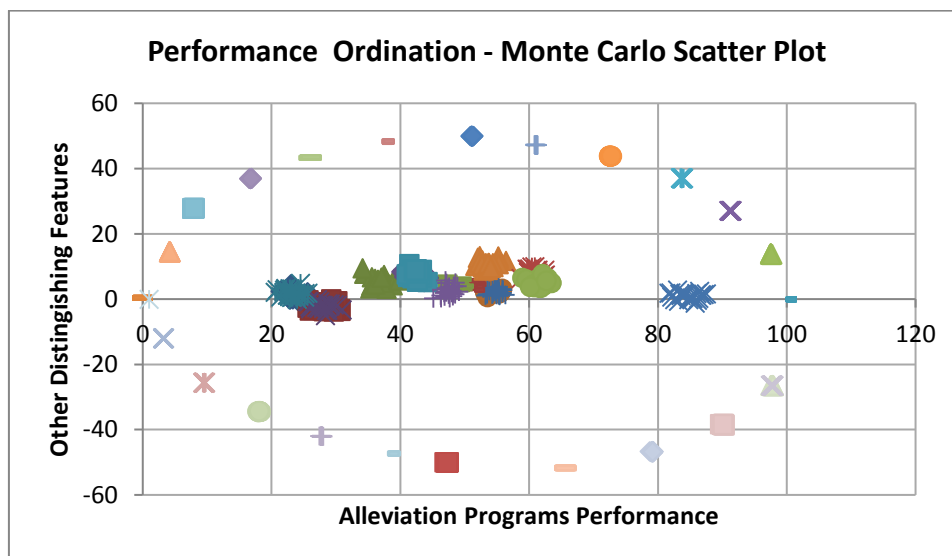


Source: Author (2016)

Figure 8. The KiteDiagram of the Performance of Government Pattern, Zakat and CSR

The reliability of the results of the ordination analysis has been tested using Monte Carlo analysis methods. This analysis is useful to evaluate the possibility of random errors (i.e. error in the scoring due to lack of information), variation in the scoring due to the difference between the

assessment and an error in the input data. In this research, Monte Carlo analysis was carried out using "scatter plots". The results of the Monte Carlo analysis, repeated as many as 25 times, show that the results of the ordination has not changed as indicated in Figure 9 on the input dimension.



Source: Author (2016)

Figure 9. Monte Carlo Analysis Results on the Process Dimension

The feasibility of the model (good of fit) of this research has also been studied

to determine whether each of the attributes considered in this study is significant

enough to be added to the model, and to test the accuracy of the model compared with the actual situation. The results of the feasibility analysis, determined by the values of stress (S) and determination coefficient (R^2), are as follows: on the input dimension the value of S is 0,18 and the value of R^2 is 0,89; on the dimension of the process the value S is 0,16 and the value of R^2 is 0,92; and on the dimensions of the output the value of S is 0,22 and the value of R^2 is 0,88. In accordance with the rules of feasibility analysis model developed by Kavanagh & Pitcher (2004), a good model is obtained when the value of S is smaller than 0.25 and the drag coefficient R^2 close to 1. Therefore, it can be stated that the model examined in this research is a good fit. Thus, it can be concluded that it is not necessary to add an attribute to the model to bring it closer to the actual situation.

CONCLUSION

Compared with the pattern of poverty alleviation programs of the government and CSR, zakat programs developed by the government (BAZNAS), community (MAS Baitussalam) and private sector institutions (Dompet Dhuafa), overall show a good performance on the dimensions of input, process and output. Even in terms of some of the attributes, the zakat program pattern has a very good performance exceeding the pattern of other programs. This finding provides adequate evidence that a well-managed zakat program pattern can be an effective alternative approach to reducing poverty.

The results of the leverage analysis indicates some sensitive factors toward the performance of poverty alleviation programs that the zakat institutions have responded well to in their design and development of the program. Zakat institutions systematically involve the recipients of the program in program planning so that the program is customized

to the needs of the recipient. Socialization and education are conducted intensively by the officers through the process of mentoring. Zakat institutions also work in coordination with related institutions to determine program objectives. Consistency in the implementation of the rules is characteristic of zakat institutions, making them consistent and reliable. The establishment of community institutions, improvement of recipients' welfare, and increase in the number of recipients, have all been achieved by zakat institutions.

The results of this study have important implications for determining the poverty alleviation policy in the following matters. It is important to consider the pattern of zakat as a raw model for the development of poverty alleviation programs. In designing poverty alleviation programs, it is necessary to develop a complete and comprehensive system comprising both ex-ante and ex-post indicators as illustrated by the dimensions of input, process, and output in this research. Considering that poverty is a multidimensional/multifaceted challenge, conducting proper assessments and leveraging future programs based on the output of the assessment are very important as the basis for designing effective programs. This study can be a significant instrument in ensuring feedback and feed forward for future poverty alleviation programs.

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