

Zakat

AND
ITS POVERTY ALLEVIATION GOAL



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CHAPTER NINE

ZAKAT AS A SOURCE FOR MICROFINANCING

*Norma Md Saad
Jarita Duasa*

INTRODUCTION

Islam establishes *zakat* as a compulsory charity tool that can be used for eight categories of the poor as prescribed in the Holy Qur'an. Among them, five are meant for poverty eradication such as the poor, the needy, the debtors, the slaves (to free them from captivity), and the travelers in need. Other categories are the administrative cost of *zakat*, 'those whose hearts are made inclined' (to Islam), and in the way of Allah. Although eight heads are entitled to *zakat* revenue as earlier mentioned but there is general agreement that the first priority in the use of *zakat* funds has to be accorded to the alleviation of poverty through assistance to the poor and the needy (Kabir Hassan, 2006).

Zakat, can in fact, be used as one of the policy tools of a long-term strategy for poverty alleviation. According to Malik and Ahmed bin Hanbal, the amount of *zakat* paid must be enough for one year's requirement of the concerned. Imam Shafi treats this in a life term perspective and maintains that the poor should be given *zakat* enough for their lifelong requirements of a normal life span (cited in Kabir Hassan, 2006, p. 16). A Fatwa issued by the International Shari'ah Board on Zakat (ISBOZ) explains that *zakat* funds might be used in undertaking development projects, educational services, and health care services as long as the beneficiaries of such projects fulfill the criteria to be recipients of *zakat* (Monzer Kahf, 2006).

Financing of microenterprises, on the other hand, is recently considered as a "new paradigm" for bringing about development and eradicating absolute poverty in most developing countries (for an extensive study on microfinance, see (Hulme and Mosley 1996a & 1996b; Kimenyi et al., 1998; Otero and Rhyne 1994; and Schneider 1997). Most of the microfinance institutions (MFIs), however, have non-Islamic characteristics. Furthermore, apart from the delivery of finance to the poor, many MFIs have social development programmes that are mostly secular in nature. Diversion of micro-credit for the purpose of consumption by the borrowers is one of the reasons for credit default in conventional microfinance institutions. Besides, charging of a generalised interest and at a higher rate for that matter has also hindered poverty alleviation through credit rationing and adverse selection problems.

These basic challenges of conventional microfinance could be resolved if an Islamic MFI is designed in an integrated manner. This model of Islamic MFI was suggested by a few scholars. Among them, Kabir Hassan (2010), for example, suggests