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Zakat In Malaysian Rural Development: Issues And Potentials

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Abstract

The earning power for sustenance and non-sustenance of the rural poorest and poor has been ignored in existing programmes for alleviating rural poverty because the funding used is oriented to the capitalist ideology. *Zakat* is a different system based on existing funding to provide sustenance and non-sustenance to the poorest, who are eligible to receive *zakat* as long as they are classified as *faqir* or *miskin*. In Malaysia, the federal government has been unable to use *zakat* for poverty alleviation at the national level because the administration of this tax is the responsibility of individual states. Although efforts have been made to centralize the administration of *zakat* for the benefit of poor states, the idea has been rejected by most states. One of those most resistant to centralization has been Kedah. Kedah is one of the poor states in Malaysia, where the majority are Malays (Muslim) and whose occupations are mostly in poor sectors of the economy, particularly *padi* and rubber. The effectiveness of poverty alleviation also depends on a sufficient amount of *zakat* collected. The centralization of *zakat* collection to the Kedah Department of Zakat (KDoZ) headquarters, however, has been of benefit to the poor districts.

Keywords: zakat; distribution, rural, poverty, Muslims

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1. Problems in alleviating poverty: The importance of *zakat*

The LDC governments have relied on economic growth as a means to alleviate poverty, which stated that development would be achieved only when the Gross National Product (GNP) of the LDCs reached 5–10 per cent. By that stage, the benefits of the GNP would trickle down to the poor. Therefore, the programmes of rural poverty were aimed at maximizing agricultural production. This policy was implemented according to the theory of modernization, which emphasized that poverty could be reduced only by deploying modern technology, supplying a good infrastructure and modernizing the traditional way of life (Webster, 1990). Western donors such as Rockefeller, the Ford Foundation and the World Bank have played an active role in the technology-based, rural economic programmes. The Community Development Programme (CDP), the Green Revolution (GR) and Integrated Rural Development (IRD) are among the major programmes implemented. These rural development programmes, which, it had been hoped, would benefit the extremely poor, have not been successful. The benefits go to only the large-scale farmers, not to the smallholders and landless rural people (Cernea, 1991; Bryant, 1983). Some development programmes have even increased the powerlessness and vulnerability of the poorest poor (Khan & Khan, 1992; Potter et al., 1999). This shows that the development approach introduced by Eurocentric thinking, which places greater emphasis on economic development, has been unable to help the poorest effectively. According to Rahmena and Bawtree (1997): “Development was indeed a poisonous gift to populations it set out to help” (p. 381). The Endogenous ecological economic growth was introduced by a school of thought known as “Another Development, initiated in the early 1970s owing to the shortcomings of the modernization theory of alleviating poverty (Burkey, 1993, p. 31; Hettne, 1990, p. 177). This contrasts with the previous strategies based on Eurocentric economic growth, which were rural development programmes formulated in Western countries and transferred to LDCs. Since many of these programmes have failed to help the rural poor, the NGOs have played their roles using a “grassroots” approach. Among the programme is micro-credit. The NGOs believe although the poor already have the skills, they lack the capital to utilize them to generate income for their families. At the same time, they do not have access to the existing banks, whose services are designed for the rich. To reduce the risk of bad debts, the NGOs have proposed a model for credit delivery that emphasizes awareness-building, consciousness-raising and leadership development to all the participants. Among positive impacts of micro credit schemes such as the Grameen Bank programme are the increase of income among participants which came to 28 % higher than non-participants (Holcombe, 1995).

Some negative impacts have also been discovered in the implementation of micro credit programmes, which could affect their efficacy in alleviating poverty. These problems include inaccurate information on the use of funds, high operational costs associated with monitoring a large group of borrowers, the difficulties in determining interest rates based on the economic base of different countries and focus on short term profit with higher interest rates to cover the costs of administration Hassan (2010). Non-conformation of conservative Muslim communities is also an issue as *riba* (usury) is prohibited in Islam. Lastly, the problems previously outlined will ultimately lead to credit rationing among credit suppliers, in which only projects with a higher probability of success will be selected. The NGO programmes focus on only the physically fit participants, while the physically disabled are screened out. The poorest feel that they cannot compete for loans with the more able-bodied, or, if they are offered a loan, they do not have enough resources to generate the income to repay it (Hasyemi, 1997). These situations arise because the NGO activities are funded by capitalist institutions, that is, either the government or foreign donors. Capitalist thinking emphasizes economic programme activity as the best method of alleviating poverty. The NGOs function only as vehicles for promoting the ideology of capitalist institutions in rural development programmes. As Woost (1997) pointed out: “[We] are still riding in a top-down vehicle of development whose wheels are greased with a vocabulary of bottom-up discourse” (p. 233).

In other words, the poorest rural people LDCs continue to be discriminated against in poverty alleviation programmes conducted by governments and other agencies if sources of funding are influenced by capitalist thinking. To prevent this, LDCs must find other sources that are managed under a different system. For Muslim countries, *zakat* is a funding mechanism that can be used to alleviate poverty.

2. Administration, Expenditure of *Zakat* in Peninsular Malaysia

Generally, the *zakat al-mal* and *zakat fitrah* are Islamic matters controlled by the ruler of the state. The Federal Constitution of Malaysia (1957), which consists of 15 sections, covers the states, religion, federal law, the distribution of power, nationality, Parliament, financial matters, elections, public services, and emergency services. The federal constitution proclaims Islam to be the religion of the federation. However, the power of administration lies with the state ruler. The ruler of each state as the head of Islamic matters is advised by a *Majlis Agama Islam Negeri* (State Council of Islam), henceforth referred to as the *Majlis Agama*. The *Majlis Agama* formulates policies on Islamic matters in each state, whereas the *Jabatan Agama Islam Negeri* (State Department of Islamic Religious Affairs) is the state government body that implements policy. The operation of State Islamic Religious Council was partly supported by the State Treasury. However, financial support by the State Treasury is not sufficient for most MAINs.

The *Majlis Agama* used *zakat* for more than poverty alleviation because it is shared among many beneficiaries. In Selangor, Terengganu, Negeri Sembilan and Wilayah Persekutuan, *zakat* is distributed to all beneficiaries. In other states, *zakat* is distributed to seven beneficiaries, except *ar-riqab*. In these states, *ar-riqab* is defined as a slave who has a contract with his master that upon paying an agreed amount, he regains his freedom. In contrast, in the other four states, *ar-riqab* is defined more broadly and is not confined to the slave system. *Zakat* for *ar-riqab* frees a Muslim from physical and mental oppression and humiliation by certain individuals (JWZH, n.d.).

Latif (2001, pp. 45-50), formally the Director of the PPZWP, asserts that the state cannot play an effective role in using *zakat* for poverty alleviation owing to the small amount of *zakat* allocated for that purpose. The government spends nearly M\$20 billion per year on socio-economic programmes that largely benefit the Muslims. In this case, the main source of revenue for alleviating poverty should come from government expenditures. However, he also suggests that *zakat* can be more effectively managed by a supervisory body at the centre. He agrees with the proposal by the *Lembaga Urusan Zakat Malaysia* or *Zakat* Management Board of Malaysia (LUZAM). The LUZAM manages *zakat* for poverty alleviation amongst Muslims in co-ordination with state governments, MAINs, and NGOs, such as AIM and the *Yayasan Basmil Kemiskinan* (Poverty Eradication Foundation – YBK) (Nasir, 1999).

The LUZAM was proposed during the period when the *zakat* collected increased considerably in all states. Statistics show that *zakat* collection in four states – Kedah, Perak, Negeri Sembilan, and Selangor – increased from M\$15.9 million in 1990 to M\$101.35 million in 2001, or by 537 per cent (Karim, Zaidi, & Wahid, 2002). The Minister of Prime Minister's Department, Datuk Dr. Abdul Hamid Othman, announced that under the proposed LUZAM, a 2.5 per cent *zakat* tax on employment income would generate revenues of at least M\$250 million (Nasir, 1999, p. 323). The suggestion of using *zakat* as another means of alleviating poverty under a centralized system was not surprising and it received a blessing in the 1993 budget presented by Anwar Ibrahim, Minister of Finance.

The proposal of LUZAM, however, was not supported by the State Islamic Affairs Councils'. As mentioned earlier, the federal government has no jurisdiction over religious matters in Peninsular Malaysia except in the Wilayah Persekutuan (Kuala Lumpur, Labuan and Putrajaya), Penang, and Melaka, which do not have hereditary Malay rulers.

3. Zakat collection and distribution in Kedah

Kedah is among the seven states in Malaysia classified as a less-developed state, or, in other words, a poor state. The other six states are Kelantan, Pahang, Perlis, Sabah, Sarawak and Terengganu (Hassan, 2004).

To date, the sources of *zakat* collection are of three types: *zakat* on paddy, *zakat fitrah* and *zakat al-mal*. The *zakat* on paddy is paid by the paddy planters at the rate of 10 % of their paddy produce if it exceeds the *nisab* of 1,300 kg. Since most paddy planters practise double cropping, they have to pay *zakat* twice a year if the produce of each paddy harvest exceeds the above *nisab*. The paddy farmers have to pay via an appointed *amil*, of whom there is only one for every settlement producing paddy.

The *zakat fitrah* is paid by every individual Muslim during the month of Ramadan in the Islamic calendar. The amount of *zakat* is based on the price of one *gantang* of rice. In contrast with the *zakat* on paddy, there is no *amil* to collect the *zakat fitrah*. Currently, Muslims pay the *zakat fitrah* at the KDoZ office or at the payment counters opened by the KDoZ at shopping complexes, government offices and so on.

The *zakat al-mal* is collected from salaries and allowances, savings, trade, shares and gold. The *nisab* for the *zakat al-mal* is 85 grams of gold, which means that those who earn an income exceeding the value of gold are encouraged to pay *zakat* to the KDoZ. In 2004, a large proportion of the *zakat al-mal* collected came from the salaries and allowances paid to Muslims working in the public and private sectors. These employees paid *zakat* if their total annual income exceeded a value of 85 grams of gold or M\$3,060.00 (£624.50). Collections from trading activity came in second largest, followed by savings. Other collections came from Muslims who paid *zakat* on shares, savings and gold.

Before 1982, the *zakat* collected was distributed to all beneficiaries; however, not every beneficiary received an equal amount. Priority was given to the *fisabilillah* and *firriqab*, which were used for the development of the SAR and mosques as been decided through Zakat Committee Council meeting. In addition, the KDoZ allocated 1/16 of the *zakat* to create a reserve fund, as allowed by the Zakat Enactment of Kedah, 1374 (1955). The enactment states the following:

The committee, with the approval of His Highness the Sultan, may create a reserve fund out of the proceeds from the collection and sale of *zakat* property and may use the fund at any time for any purpose permissible under Muslim Law (s. 7).

The regulation defines a *firriqab* as a slave who is required to pay a certain amount to his master to obtain his freedom (see Table 3.5). As mentioned earlier, before the new regulation, the *zakat* from *firriqab* was used for the development of the SAR, as well as for mosques and *suraus* (small mosques). However, based on this regulation, the KDoZ considered *firriqab* non-existent and transferred this portion to other *asnafs*. The KDoZ also considered that *asnaf al-gharimin* did not require a large amount of *zakat* and, therefore, some of it could be transferred to other beneficiaries (Jabatan Zakat Kedah, 2005, pp. 24-25).

The mechanism divides the *zakat* proceeds equally among eight beneficiaries. Of the amount allocated to the *firriqab*, 50% is transferred to *faqir*, *miskin*, *amil*, and *fisabilillah*; 25% to *faqir* and *miskin*; and another 25% to taxes and printing costs. Of the amount allocated to *al-gharimin*, about 75% is transferred to other *asnafs*; 50% to *faqir*, *miskin*, *amil* and *fisabilillah*; and the remaining 25% is exclusively for the *faqir* and *miskin*. The balance of 25% is used for those who are classified as *al-gharimin* recipients, such as overseas students who cannot afford the fare home, the salary of a teacher of Islam, those who have borrowed money to pay for the funeral of a family member, and those who are in debt for those products and services allowed by Islamic law.

Based on this formula, four beneficiaries were receiving more of the *zakat* proceeds: *faqir*, *miskin*, *amil* and *fisabilillah*. In addition to the allocation to seven beneficiaries, under this new formula, the *zakat* is also distributed to another category known as the *lain-lain kategori* (other category). The *zakat* for this category is used to pay taxes, maintain buildings, and settle bills.

4. Zakat assistance for capable poor

The KDoZ offers economic assistance to Muslims in Kedah who are willing to increase their income but require tools. This *zakat* assistance is provided in a programme known as *bantuan jaya diri* (BJD) or self-help support, available under *asnaf fisabilillah*. The *fisabilillah* is defined as any effort that is acceptable in Islam for the benefit of Muslims (Jabatan Zakat Kedah, 1992). Based on this definition, the BJD is not necessarily given only to poor people, for the non-poor are also eligible. However, the poor do have priority. The non-poor among the *muallaf* (Muslim converts), however, have the opportunity to apply for the BJD as a means of encouragement to them. Muslims who need this assistance may apply in writing to the head office of the KDoZ. The Secretary will then ask the District *Zakat* Officer to prepare a report on the applicant's background. Among the factors considered is the applicant's relevant experience. The KDoZ places no limit on the amount of assistance given. Although officially the KDoZ does not limit the amount of SHS, in practice, however, the limit is M\$6,000.00 (£1224.50). This is evident from the fact that between 2000 and 2004, no recipient of SHS was given more than M\$6,000.00 (Jabatan *zakat* Kedah, 2003, p. 22).

The number of *zakat* programmes was further increased after 2003. This expansion was influenced by the System Television Malaysia Berhad, known as TV3, which broadcast a programme called *Bersamamu* TV3, or *Together with You* TV3 in 2003. *Bersamamu* TV3 depicted the plight of those living in poverty and suffering from ill health. The programme provoked the public into questioning the effectiveness of the assistance given by government agencies including the *zakat* from the *Majlis Agama Islam Negeri*. NGO agencies such as the *Majlis Kanser Negara* (National Cancer Council – MAKNA) and the private sector also contributed to the assistance instead of the states' *baitumals*.

In response, the KDoZ introduced new programmes that were more oriented to helping those *faqir* and *miskin* people suffering from ill health. Before 2003, the KDOZ had a haemodialysis machine in the General Hospital in Alor Setar for the benefit of the public and especially for the *faqir* and *miskin*. After 2003, KDoZ offered two more programmes for those in need of medical treatment. The orthopaedics equipment assistance, for example, is offered to those patients whose application is approved by the KDOZ. The KDOZ will buy the equipment as recommended by a doctor. Today, the KDOZ will pay sickness benefit of up to M\$300 per month to patients in need.

Following the provision of finance and medical equipment, in 2003, the KDOZ introduced monthly food assistance for the *faqir* and *miskin* heads of households in poor health. In Padang Terap, the *Zakat* Officer gives priority to those over 40 years old. In this programme, a food package worth M\$100.00 is given every month to the sick head of the household. The difference between the *faqir* and *miskin* is that the *miskin's* monthly income is lower than M\$350 compared with the *faqir's* M\$250.

The development of new *zakat* programmes clearly shows that it was linked to the increase in the *zakat* collected. However, the impetus to introduce new programmes came from the public from either comments made by *zakat* payers or the media. Although there is a wide range of programmes available, their focus is on those who cannot work because they are elderly, physically ill or widowed.

In 1960, the *Zakat* Committee used a reserve fund to buy a Muslim's paddy field, which was auctioned because of the farmer's inability to repay a loan from Chinese shopkeepers and an Indian money lender. To prevent the land from going to non-*bumiputera*, the KDoZ Kedah bought it and rented it to the previous owner or other farmers (Hamid Ahmad, persoannal communication, January 7, 2006). Currently, the KDoZ owns about 600 *relong* (172 hectares) of paddy field in Kota Setar, Kubang Pasu, Yan and Kuala Muda. At present, tenants have to pay between M\$280.00 and M\$300.00 per *relong* per month to the KDoZ. Proceeds are used to pay land tax to the Land Office.

During the 1960s, the KDoZ used the reserve fund not only to buy paddy fields but also other types of properties, particularly vacant land and buildings, including this site. By the end of 1970, the total assets owned by the KDoZ was M\$352, 743.53 (£71,988.48), which was

about 4% of the total *zakat* collected between 1960 and 1970. Since the KDoZ invested in various properties, in 1968 a committee was established by *Jabatan* to investigate this use of *zakat*. The committee was called the *sekolah agama, bangunan zakat dan beli harta* (Small Committee for Mosque Construction, Religious Schools, *Zakat* Buildings, and the Purchase of Property) (*Jabatan zakat* Kedah, 1971).

In 1987, the KDoZ construct a building consisting 11 floors; whereby 3 of them is used as Head Quarters. The remaining office space is rented to the Department of Employees Provident Funds, the Department of Housing, Department of Environment, Department of Evaluation, and Ministry of Education. Other facilities include a conference room and a banqueting hall, which are also rented to the public. Statistics show that the total income from renting space and facilities from 1992 to 2004 was about 9% of the total *zakat* collected. Between 1992 and 1999, however, it had contributed about 13%. The reduced percentage was due to an increased collection of *zakat al-mal*. In 2004, the total income from this type of investment contributed about 5% of the total *zakat* collected. Although the percentage is decreasing, it is still bigger than the rents collected from the tenants of paddy fields, which contribute about one percent (*Jabatan Zakat* Kedah, 2005, p. 11). Based on the experience of the *Menara Zakat* development the KDoZ started to buy property, particularly business units, in every district. Some of the business units became district KDoZ offices and the rest were rented to other agencies. In 2004, the rents collected from the tenants of these buildings was about one percent, which is the same as the rents collected from the tenant farmers of paddy fields.

Besides investment in physical property, the KDoZ invested in share and fixed savings accounts. In 1961, the KDoZ placed M\$100,000.00 (£20,408.16) in fixed deposit accounts in the United Malayan Bank, and by 1968, about it had increased to M\$1,884,000.00 or £384489.80 (*Jabatan zakat* Kedah, 1963; *Jabatan zakat* Kedah, 1970). After the riots of 13 May 1969, the KDoZ annually invested around M\$300,000 (£61224.50) between 1971 and 1975 in the Amanah Saham MARA (MARA Unit Trust) to support the federal government's effort to reduce economic inequality between the Malays and the Chinese. However, in 2005, the KDoZ revised its investment policy. The KDoZ would not invest in any shareholdings because of the loss of its investment in Amanah Saham Kedah (Kedah Share Trust) (Ghazali Yaacob, personal communication, January 24, 2006).

5. Challenges to the rural poverty alleviation program

a) No cooperation: Due to the fear of failure, there has not been any obligation for the KDoZ to cooperate with other agencies. Cooperation with other agencies is needed in order to embark on knowledge-sharing in terms of technical skills, training and education. However, in the case of the KDoZ, cooperation is deemed as unnecessary because of the lack of economic assistance projects for the poor. The respondents at the committee level have also explained that agencies do not need to work together to solve the problems of recurring recipients of financial assistance. This is due to the understanding that the aim of the *zakat* assistance is to provide financial aid to the recipients. This finding shows that the phenomenon of non-existent cooperation between agencies is caused by the *zakat* distribution policy, of which capital assistance and economic projects for the poor are discouraged. In addition, the problem of recurring recipients is not one of the main concerns of the KDoZ and thus, explains the reasons behind the lack of cooperation between the KDoZ and other agencies as highlighted by P. Ibrahim (2008).

b) There is no SHS programme for the capable working poor: The failure factor also results in a lack of distribution of the SHS programme to the recipients of AMA, who are capable of working. In distributing the AMA assistance, the KDoZ committee determines the total number of recipients in each district. In addition, the *zakat* district officers find eligible the recipients. Referring to the SHS programme, the committee is not interested determines the total number of recipients in each district because it involves large amounts of money. The SHS programme involves the distribution of M\$ 2000 to 3000 per applicant. If the applicant fails to continue their economic project, the *zakat* fund will experience losses.

c) The current distribution of *zakat* in the form of the SHS programme and the implementation of an economic programme based on local *zakat* collection have not benefitted the poor living in the rural agriculture areas who have less opportunities in receiving the *zakat*. This can be seen to the findings which indicate; 1) a lack of awareness on the SHS programme in districts with low *zakat* collection; 2) less effort to find potential recipients for the SHS programme in districts or areas with low *zakat* collection.

d) The KDoZ, states that funds for the management of *zakat* depend entirely on the *asnaf amil*. The entire management of the KDoZ uses up to one eighth of the *zakat* collection each year. However, in other states, the management of *zakat* is executed through financial support from the state government (Nasir, 1999). The constraint on its budget has restricted the KDoZ in employing new staff. The lack of manpower has influenced, 1) efforts to promote the SHS programme; 2) the lack of diversity in economic programmes

6. Conclusion

Rural poverty in the state of Kedah is often associated with the Muslim Malay population. The majority of the population is involved in the agricultural sector, mostly based in paddy farming and rubber plantations. Poverty among landowners occurs because of the uneconomic of size of land and low yields. On the other hand, the poor, who do not own land in this area, work as rubber tappers, paddy farmers, and others. Most of the income in this group are below the poverty line. Efforts to increase the income of the poor through economic programmes are difficult to carry out due to the terms and conditions established by the coordinator of the programme, be it government bodies or NGOs. Policies for financial assistance distribution are influenced by capitalist thinking whereby the economic achievement is given top priority. For poor Muslims, *zakat* assistance is one of the sources of capital. This is because the nature of *zakat* distribution according to the *syariah* differs greatly from the policies of the assistance given by contemporary agencies.

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