ResearchGate

See discussions, stats, and author profiles for this publication at: https://www.researchgate.net/publication/303698257

Islamic finance in Australia: the potential problems and prospects

Conference Paper · January 2010

CITATIONS
5

READS
13,044

1 author:



Abu Umar Faruq Ahmad Phd
King Abdulaziz University
130 PUBLICATIONS **749** CITATIONS

SEE PROFILE

Some of the authors of this publication are also working on these related projects:

Role of Zakah in Redistributing Economic Justice View project

BRUNEI ISLAMIC BANKING AND FINANCE FORUM (BIBF2018): '25 Years of Islamic Banking and Finance in Brunei' View project

All content following this page was uploaded by Abu Umar Faruq Ahmad Phd on 16 November 2018.

The user has requested enhancement of the downloaded file.



Proceedings

of

SEVENTH INTERNATIONAL CONFERENCE

THE TAWHIDI EPISTEMOLOGY: ZAKAT AND WAQF ECONOMY

6 – 7 January 2010

Editors

Abdul Ghafar Ismail

Mohd Ezani Mat Hassan

Norazman Ismail

Shahida Shahimi



ORGANIZED BY

INSTITUT ISLAM HADHARI
UNIVERSITI KEBANGSAAN MALAYSIA

INSTITUT LATIHAN ISLAM MALAYSIA
JABATAN KEMAJUAN ISLAM MALAYSIA

JABATAN WAKAF, ZAKAT DAN HAJI
JABATAN PERDANA MENTERI

Bangi • 2010

Proceedings

of

SEVENTH INTERNATIONAL CONFERENCE

THE TAWHIDI EPISTEMOLOGY: ZAKAT AND WAQF ECONOMY

6 – 7 January 2010

Editors

Abdul Ghafar Ismail

Mohd Ezani Mat Hassan

Norazman Ismail

Shahida Shahimi

Copyright Statement

All rights reserved. The copyright of each paper in the Proceedings belongs to the author(s). No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical including photocopy, recording or any information storage and retrieval system by anyone, with the exception of the author(s), without permission in writing from Institut Islam Hadhari, Universiti Kebangsaan Malaysia.

Published in Malaysia by
Institut Islam Hadhari
Universiti Kebangsaan Malaysia
43600 UKM BANGI, MALAYSIA

ISBN: 978-983-44351-2-7



Forward

Alhamdulillah, Praise be to Allah and with His Merciful, we are able to organize the 7th International Conference on Islamic Economics and Finance. The theme of this conference is the Tawhidi Epistemology: Zakat and Waqf Economy. It is very timely to organize this conference mainly due to two main reasons: First, the growing economic malaise of the late 1960s gave way to crises that have gripped many countries though much of the 1970s, 1980s, 1990s and 2000s. As a result, the Keynesian consensus that existed to a considerable extent during the 1950s and 1960s was shattered and this has contributed to the current situation where several alternative theories compete for our critical attention.

Against this background, it is not surprising that many economists have turned to methodology for assistance. Because, if economists obtain the 'right' methodology then economics is more likely to arrive at results that are less ambiguous and therefore a new consensus could emerge. This hope is unlikely to be fulfilled from studying one methodology. It will become apparent that no one methodology will rescue us from all economic problems.

Second, the social system that utilizes zakat and waqf, is totally different from ILO-based labour relation (i.e., fully funded or pay as you go). Hence, a new institutional economics will come up from this system.

The importance of those reasons has attracted scholars from Oman, Iran, Nigeria, South Africa, United States, United Kingdom, India, Pakistan, Bangladesh, Brunei, Indonesia and Malaysia in contributing their papers.

We are also benefited from our collaboration with our partners Jabatan Kemajuan Islam Malaysia, Jabatan Wakaf, Haji dan Zakat and also Islamic Economics and Islamic Economics and Finance Research Group (EKONIS).

We hope the papers and disussion from this conference will lead us to explore new economic model which is based on tawhidi epistemology. The Oneness of Allah would create agree to be disagree. InshaAllah.

Prof Abdul Ghafar Ismail
Chief Editor and Chairman
Of the Conference,
Institut Islam Hadhari

Contents

Forward	*iii*
Contents	*iv*
Programme	*vi*
Paper Presentation Sessions	*viii*
Tawhid, Zakah and Waqf in a General-System Framework Masudul Alam Choudhury	*1*
The Interrelationship between Islamic Epistemological Considerations and Resolution of Actual Economic Problems Yadollah Dadgar	*21*
Between the Desire for Change and the Need for Permanency: A Study on the Investment of Zakat for the Prevention of Poverty, Based on the Earliest Sources Sheikh Muhammad Faaik Gamieldien	*43*
Tauhid Epistemology in Increasing the Number of Zakat of Wealth Payers and Its Contribution toward the Development of Malaysia Economy Azman Ab Rahman & Syed Mohd Najib Syed Omar	*53*
Waqf: An Islamic Instrument of Poverty Alleviation- Bangladesh Perspective Foyasal Khan	*65*
The Role of Cash-Waqf in Financing Micro and Medium-Sized Enterprises Ahcene Lahsasna	*97*
Analysis on Cash-Waqf Return Fund Allocation in Indonesia Case Study: Indonesian Waqf Deposit Ahmad Affandi & Diah Nurhayati Nufus	*119*
Waqf and Financing for Education Syed Mohd Ghazali Wafa Syed Adwam Wafa	*137*
Accountability of Waqf Management: Insights from Praxis of NGO Ahmad Zamri Osman	*153*
Interest, Monetary Manipulation and Misunderstanding are Stifling Emergence of Just and Efficient Islamic Alternatives Hifzur Rab	*177*
Fiscal Structure and Social Welfare Program in The Former State of Swat (Pakistan): A Case Study with Implications for Muslim Countries Nasim Shah Shirazi & Hafiz M. Yasin	*197*

Islamic Finance in Australia: The Potential Problems and Prospects 219
Abu Umar Faruq Ahmad, Noor Mohamad Osmani & Mohd Fazlul Karim

Poverty Alleviation: The Islamic Way 243
Sayuti Hasibuan

An Integrated Poverty Alleviation Model Combining Zakat, Awqaf And Micro-Finance 261
M. Kabir Hassan & Ali Ashraf

Scholars, Merchants and Civil Society: Imperative for Waqf-Based Participatory Poverty Alleviation Initiatives in Kano, Nigeria 283
Muhammad Ibrahim Nureddeen

Management and Development of the Awqaf Assets 309
Abul Hassan & Abdus Shahid

Waqf estates in Bangladesh – analyzing socio-economic profile and exploring potential but unexplored expenditure options 329
Muhammad Fazlul Karim

Management of Zakat: Centralised vs Decentralised Approach 351
Ataina Hudayati & Achmad Tohrin

Zakat Management in Brunei Darussalam: A Case Study 375
Rose Abdullah

The Power of Zakah in Poverty Alleviation 409
Dimas Bagus Wiranata Kusuma & Raditya Sukmana

Some Influence Factors of Zakah-Infaq-Shadaqah Collecting: A Case in Surakarta, Central Java, Indonesia 435
Mujiyati, Bagus Rudhiyoko & Muhammad Sholahuddin

Pengukuran Keberkesanan Agihan Zakat: Perspektif Maqasid al-Syariah 447
Rosbi Abd Rahman & Sanep Ahmad

Localization of Malaysian Zakat Distribution: Perceptions of Amil and Zakat Recipients 461
Hairunnizam Wahid & Radiah Abdul Kader

The Cash Waqf for Empowering the Small Businesses 485
Achmad Tohirin

Model Gelagat Pematuhan dan Pengekalan Zakat: Suatu Tinjauan Teori 501
Sanep Ahmad & Zulkifli

PROGRAMME

6th January 2010 (Wednesday)

Time		Programme
8.00 am	-	Registration of Participants
8.30 am	-	Arrival of Guests and VVIP
9.00 am	-	Opening Ceremony
10.00 am	-	Refreshment
11.00 am	-	**Distinguished Lecture on the Theme of the Conference:** *Tawhid, Zakah and Waqf in a General-System Framework* By Prof. Dr. Masudul Alam Choudhury (Department of Economics and Finance, College of Commerce and Economics, Sultan Qaboos University, Muscat Sultanate of Oman)
11.30 am	-	Session I
1.00 pm	-	Lunch & Solat Zuhr
2.15 pm	-	Session II
4.45 pm	-	Tea
6.30 pm	-	Dinner
8.00 pm	-	Trip to Putrajaya

7th January 2010 (Thursday)

Time		Programme
8.30 am	-	Session III
10.30 am	-	Morning Tea Break
11.00 am	-	Session IV
1.00 pm	-	Lunch & Solat Zuhr
2.15 pm	-	Session V
4.30 pm	-	Tea
5.00 pm	-	Free activity
6.30 pm	-	Dinner

OPENING CEREMONY

6th January 2010 (Wednesday)
Auditorium, Institut Latihan Islam Malaysia (ILIM)

Time		Programme
8.30 am	-	Arrival of Honourable Guests
8.45 am	-	Arrival of YBhg. VC of Universiti Kebangsaan Malaysia (UKM)
8.50 am	-	Arrival of YABhg. Tun Haji Abdullah Haji Ahmad Badawi
9.00 am	-	Doa Recitation
	-	Welcoming Remark by YBhg. Prof. Dr. Abdul Ghafar Ismail *Chairman of 7th International Conference, Tawhidi Epistemology: Zakat and Waqf Economy*
	-	Welcoming Remark by YBhg. Prof. Tan Sri Dato' Dr. Sharifah Hapsah Syed Hasan Shahabudin *Vice Chancellor of UKM*
	-	Officiating Speech by YABhg. Tun Haji Abdullah Haji Ahmad Badawi
	-	Book Launching by YABhg. Tun Haji Abdullah Haji Ahmad Badawi
	-	Souvenir Presentation
10.00 am	-	Refreshment
10.30 am	-	Press Conference

PAPER PRESENTATION SESSIONS

6th January 2010 (Wednesday 11.00 am – 5.00 pm)

TIME	PROGRAMME
11.00 – 11.30 am	**Presentation 1: Distinguished Lecture on the Theme of the Conference:** *Tawhid, Zakah and Waqf in a General-System Framework* **Chairman**: Prof. Dato' Dr. Mohd Yusof Othman (Director, Institute of Islam Hadhari, UKM) **Speaker:** Prof. Dr. Masudul Alam Choudhury (Department of Economics and Finance, College of Commerce and Economics, Sultan Qaboos University, Muscat Sultanate of Oman)
SESSION I	
11.30 – 1.00 pm	**Chairman:** Assoc. Prof. Syed Mohd Ghazali Wafa Syed Adwam Wafa (Director, Chancellor's Foundation, UKM) **Presentation 2:** Yadollah Dadgar (Institute of Economic Research, Tarbiat Modares University, Tehran, Islamic Republic of Iran) *The Interrelationship between Islamic Epistemological Considerations and Resolution of Actual Economic Problems* **Presentation 3:** Sheikh Muhammad Faaik Gamieldien (University of the Western Cape and Advocate of the High Court of South Africa) *Between the Desire for Change and the Need for Permanency: A Study on the Investment of Zakat for the Prevention of Poverty, Based on the Earliest Sources* **Presentation 4:** Azman Ab Rahman & Syed Mohd Najib Syed Omar (Faculty of Syariah and Law, Islamic Science University of Malaysia) *Tauhid Epistemology in Increasing the Number of Zakat of Wealth Payers and Its Contribution toward the Development of Malaysia Economy*
1.00 – 2.15 pm	Lunch & Solat Zuhr

SESSION II	
2.15 – 4.45 p.m	**Chairman:** Associate Prof. Dr. Sanep Ahmad (Head of Econometric/Islamic Economic Programme, School of Economy, UKM) **Presentation 5:** Foyasal Khan (Department of Economics, University of Dhaka, Bangladesh) *Waqf: An Islamic Instrument of Poverty Alleviation- Bangladesh Perspective* **Presentation 6:** Ahcene Lahsasna (INCEIF University, Kuala Lumpur, Malaysia) *The Role of Cash-Waqf in Financing Micro and Medium-Sized Enterprises* **Presentation 7:** Ahmad Affandi (Tazkia Islamic Business School, Jakarta, Indonesia) & Diah Nurhayati Nufus (Tazkia Research and Community Empowerment, Indonesia) *Analysis on Cash-Waqf Return Fund Allocation in Indonesia Case Study: Indonesian Waqf Deposit* **Presentation 8:** Syed Mohd Ghazali Wafa Syed Adwam Wafa (Graduate School of Business and Institute of Islam Hadhari, Universiti Kebangsaan Malaysia) *Waqf and Financing for Education* **Presentation 9:** Ahmad Zamri Osman (School of Management, Royal Holloway University of London, UK) *Accountability of Waqf Management: Insights from Praxis of NGO*
4.45 – 5.00 pm	Tea break & end of Day 1

7th January 2010 (Thursday 8.30 a.m – 5.00 p.m)

SESSION III	
TIME	**PROGRAMME**
8.30 – 10.30 a.m	**Chairman:** Prof. Dr. Mansor Jusoh (Professor, School of Economics, UKM) **Presentation 10:** Sofyan Syafri Harahap (Trisakti University, Jakarta, Indonesia) *Islamic Economics and Finance in the Midst of Conventional Political Economy* **Presentation 11:** Hifzur Rab (Al-Hamd Charitable Trust, Rahmat Nagar, Jhapia Bamrauli, Allahabad, India) *Interest, Monetary Manipulation and Misunderstanding are Stifling Emergence of Just and Efficient Islamic Alternatives* **Presentation 12:** Nasim Shah Shirazi (International Islamic University Malaysia) & Hafiz M. Yasin (International Islamic University Pakistan, Islamabad) *Fiscal Structure and Social Welfare Program in The Former State of Swat (Pakistan): A Case Study with Implications for Muslim Countries* **Presentation 13:** Abu Umar Faruq Ahmad (Sule College, Australia), Noor Mohamad Osmani (Department of Qur'an and Sunnah Studies, International Islamic University Malaysia) & Mohd Fazlul Karim (Law Unit, Faculty of Management, Multimedia University, Cyberjaya, Malaysia) *Islamic Finance in Australia: The Potential Problems and Prospects* **Presentation 14:** Sayuti Hasibuan (Al-Azhar University Indonesia and Muhammadiyah University Solo, Indonesia) *Poverty Alleviation: The Islamic Way* **Presentation 15:** M. Kabir Hassan (University of New Orleans, USA) & Ali Ashraf (Bangladesh Bank and University of New Orleans) *An Integrated Poverty Alleviation Model Combining Zakat, Awqaf And Micro-Finance*
10.30 – 11.00 a.m	Morning tea break

SESSION IV	
11.00 – 1.00 p.m	**Chairman:** Dr. Norazman Ismail (Director, Research and Coordination Unit, JAWHAR) **Presentation 16:** Muhammad Ibrahim Nureddeen (Department of Accountancy, School of Management Studies, Kano State Polytechnic, Kano-Nigeria) *Scholars, Merchants and Civil Society: Imperative for Waqf-Based Participatory Poverty Alleviation Initiatives in Kano, Nigeria* **Presentation 17:** Tito Murbaintoro (Deputy Director, Financing Section, Ministry of Housing, Jakarta, Indonesia) *Islamic Finance Instruments and Waqf for Public Housing* **Presentation 18:** Abul Hassan, The Islamic Foundation, Leicester, UK Mohammad Abdus Shahid, Independent Consultant, loughborough, Leicestershire, UK *Management and Development of the Awqaf Assets* **Presentation 19:** Muhammad Fazlul Karim Ahmad Ibrahim Kuliyyah of Laws, International Islamic University Malaysia *Waqf estates in Bangladesh – analyzing socio-economic profile and exploring potential but unexplored expenditure options* **Presentation 20:** Ataina Hudayati & Achmad Tohrin (Centre for Islamic Economics Development and Studies, Universitas Islam Indonesia, Yogyakarta, Indonesia) *Management of Zakat: Centralised vs Decentralised Approach*
1.00 – 2.15 p.m	Lunch & Solat Zuhr

SESSION V	
2.15 – 4.30 p.m	**Chairman:** Prof. Dr. M.Kabir Hassan (University of New Orleans, USA) **Presentation 21:** Rose Abdullah (Institute Technology of Brunei) *Zakat Management in Brunei Darussalam: A Case Study* **Presentation 22:** Dimas Bagus Wiranata Kusuma & Raditya Sukmana (Shariah Economics Departmen, Airlangga University, Surabaya Indonesia) *The Power of Zakah in Poverty Alleviation* **Presentation 23:** Mujiyati, Bagus Rudhiyoko & Muhammad Sholahuddin (Faculty of Economics, Muhammadiyah University of Surakarta (UMS)) *Some Influence Factors of Zakah-Infaq-Shadaqah Collecting (Case in Surakarta-Central-Java-Indonesia)*
4.00 – 4.30 p.m	**RESOLUTION SESSION** Discussion & Resolution of the Conference Theme Session led by: Prof. Dr. Masudul Alam Choudhury Prof. Dr. Abdul Ghafar Ismail
4.30 – 4.45 p.m	Tea & end of conference.

ON THE THEME OF TAWHID, ZAKAH AND WAQF IN A META-EPISTEMOLOGICAL GENERAL-SYSTEM MODEL

A CRITIQUE OF ECONOMIC THEORY AND MODELING

Professor Masudul Alam Choudhury
Department of Economics & Finance
College of Commerce and Economics
Sultan Qaboos University
Muscat 123, Sultanate of Oman
&
International Chair
Postgraduate Program in Islamic Economics and Finance
Trisakti University, Jakarta, Indonesia
masudc@squ.edu.om

ON THE THEME OF TAWHID, ZAKAH AND WAQF IN A META-EPISTEMOLOGICAL GENERAL-SYSTEM MODEL

A CRITIQUE OF ECONOMIC THEORY AND MODELING

Masudul Alam Choudhury

Objective

The objective of this paper is to examine the conceptual and applicative nature of a broad category of theories and models that we will caption as general-system models. Note here from the start the usage of the term general-system model as opposed to a general equilibrium model that we are usually accustomed to in the economic literature.[1] While the difference between these concepts will emanate from the paper, it is important now to point out the distinctive meaning of our idea of theory, model and modeling apart from that usually accepted in the economic and scientific literature. Thus having differentiated these contrasting ideas in depth the rest of the paper goes on to delineate the substantive features of our explanation of the general-system model and theory in the light of a meta-epistemological context of unity of knowledge and the consequential unified world-system.

In this thematic choice of theory and model we will study the complementary nature of Zakat and Waqf in light of the foundational premise of unity of knowledge in an Islamic general-system socioeconomic model and examine the logical formalism of model building in this regard.

In conclusion, the paper will prove that a general-system model by its very singular axiom of unity of knowledge establishes the organic unity between the variables and their logical relations that are selected in reference to the meta-epistemological core. Inferences arise in a natural way to explain the two stages of the state of the world according to the theory and model. First, the prevalent state of the particular study (positive) is estimated by the use of the circular causation relations between the given variables. Secondly, the general-system model is revised by changes in variables and their estimable relations to yield the nature of the system as it ought to be (socially reconstructed normative) in the light of the episteme of unity of knowledge. This two-phased comprehensive approach further carried over evolutionary processes of learning will be shown to constitute the universal, unique and logical formalism and analysis of the general-system model emanating from the meta-epistemological foundation of unity of knowledge and the specific or general issues and problems.

[1] Henderson & Quandt

Terminologies

Theory and model: the role of falsification and testability

In received literature, the technical meaning of model is that of an abstraction of ideas to explain and analyze a problem under study in order to derive some real-world results. Such results may be theoretical, and thus normative, or they are positivistic, and accordingly applicative. A model is therefore a representation of theory and concepts that the analyst or a given school of thought manifests as a scientific cognitive expression of the inherent theory.

According to Lawrence Boland (1991), while theory is a body of thought that is logically developed in a consistent way, a model is the explanation and specific testability of the background theory to specific problems and issues. But Boland also writes on the topic of universality of model, and thereby of theory (op cit, p. 57): "... the demand for universality and precision can be reduced to the demand, or rule, that preference should be given to those theories which can be most severely tested." The underlying argument here arises from Popper's (1965) conjecture, falsification and testability hypotheses to gain universality of theory and its model. Thus a model is more universal if its extension to increasing number of themes and domain of investigation stands the test of falsification. The intensity of falsification increases along with the expansion of theory and model into higher levels of their universality.

The conclusion we derive here is that in the context of falsification no theory and model can be extracted to explain scientific reality in reference to a perfect epistemological origin. We refer to such a foundational origin as the meta-epistemological core of knowledge. Consequently, although knowledge is never complete in the human domain, Popper's methodology implies that there is no source of abstraction that frames the meta-epistemology of the theory. Consequently the worldview underlying theory and model in the absence of such an over-encompassing epistemology cannot be complete, absolute and perfect. The end-result is that human inquiry that colors the meaning of theory and model rests within its own bounds and materiality. The quest for knowledge in this regard remains open-ended and differentiated in respect of searching for some*thing*.

The inferences on theory and model building that we derive from the received scientific doctrinaire, referred to in Popper, Popper-Samuelson (1963), and explained by Boland, are that theory and its cognitive power in theory, model and modeling perception are all piecewise understanding of reality. Nothing is truly real in this concept of reality. This inference is true of both, the derivation of theory and modeling from the rationalistic epistemological roots, and the interpretation of the concept or empirical results emanating from the use of the theory and model to explain the holism of the problems and issues within a universal concept involving the world-system. We take the world-system as the mind-matter congeries of ideas, issues and problems, applications and inferences.

Predictability

The school of falsification and testability associates higher degree of predictability with these. Thus in the sense of universality of a theory and its model the claim made is that universality involves higher and more intensive tests of falsification. Hence, predictability of theory and model is claimed to be associated with universality vis-à-

vis falsification. Milton Friedman (.) claimed that the role of economic theory and models is to increase the positivistic nature of economic prediction.

This picture on predictability is questionable. Especially in 'learning' models of evolutionary equilibrium with optimization being replaced by continuous simulation across knowledge, time and space dimensions, as we will argue below, predictability is impossible. At best a simulated level of estimation, hence forecasting, can be gained by treating the positivistic and normative social construction of the model.

The views of Ernst Mach (Stanford Encyclopedia of Philosophy, May 21, 2008) on the matter of predictability of scientific theory and model are well-known on denying the possibility of predictability in scientific models. So is also the problem of predictability cast in Heisenberg's Uncertainty Principle (translated Anshen, 1958).

Self-referencing in scientific theory and model building

Carrying the above argument a little further into economic sociology reveals that while the above-mentioned context of theory and modeling implies non-convergence into a self-referenced domain of scientific truth (Godel, ; Smullyan,), there remains perpetual conflict between a plethora of such theories and models. Contemporary intellectual evolution of scientific theorizing is marked by this incessant proliferation of conflicts that becomes the hallmark of mainstream economic thought, political economies, cultures and civilizations (Huntington,).

The profound example in this regard is the epistemology based on over-determination according to Marx (Wolfe,) The resulting intellectual cleavage between Liberalism and Marxism grew into geo-political clashes in the world-system (Taking sides).

Neither the abstract nor the empirical and applicative nature of theory and modeling based on the falsification and testability hypothesis of Popper's open-universe conjecture, further carried on by others, is a fair representation of reality. They are simply enforcements of certain kind of civilization and intellectual hegemony by conflicts. Such kinds of enforced convergence is seen in the Hegelian dialectics used by Fukuyama leading to the theme of End of Civilization and the Last Man (Fukuyama,).

The deepest problem of inadequacy of such theories and modeling is found in their inability to incorporate and integrate within the received theories and models the dynamics of the divine law for explaining worldly matters. In economics, the challenge is to embed the divine laws into worldly rules, issues and problems taken in specific, particular and general contexts; and then to extract the practical inferences, impulses and changes from the overarching universality of theory and model. One such example is of Islamic economics and finance as an academic pursuit.

Overarching universality of theory and model, a meta-epistemological paradigm

In the divine imputation of the real world, socio-scientific intellection, narrowed down here to economics, acquires a meta-epistemology and its specific universal theory and model, implications and applications.. Examples from economics are the new epistemological revisions that can be formally and logically conveyed to consumer preference functions. This would explain how divinely intervened and guided choices and decisions color the economic behavior, goods, and market exchange, leading to specific measurements in regard to these behavioral changes.

Likewise, how do such ethically-induced consumer preferences dynamically aggregate by complex methods into social choices and decisions, and thus establish an objective criterion of social choice (Hammond,)? Arrow (.) called such a social choice criterion as the Social Welfare Function, but we must necessarily rename and explain it differently in the case of the divinely moral induction of aggregate ethical behavior and choices. In other areas of economics also, there appear the epistemologically induced and analyzed nature of production menus, the resulting pricing mechanism, and the nature of market-sharing of resources and output and ownership that come about (Choudhury, 1998). The macroeconomic aggregation of the microeconomic preferences, menus and choices, is done by the complex aggregation of ethical values. The latter are necessarily microeconomic realities at their inception. They then aggregate into institutional and social scales. This kind of aggregation is a deeply scientific theme (Choudhury, 2000).

Critique of falsification and testability of scientific theory and model building

Let us now examine yet another failing element of the epistemology underlining theory and model in received scientific doctrinaire. The conflict-ridden intellection and the consequential world-system in Popper's falsification and Marx's over-determination problem are bereft of unity of knowledge and this latter's consequential world-system constructs. Instead, the assumed depiction of extensive disequilibrium by competition for scarce resources, power and ownership occurring intertemporally result in hegemonic forms. These are caused by pervasiveness of rationalism, self-interest and individualism (Holton,). In this regard we note the applauding reaction of Hayek to the intellectual constructs of Comte and Hegel, both of which influence our problematic understanding of social reality in rationalistic thought. Hayek (1979, pp. 388-89) writes about Comte: “Everything appears to him as in this sense justified in its time, slavery and cruelty, superstition and intolerance, because …. There are no moral rules which we must accept as transcending our individual reason, nothing which is a given and unconscious presupposition of all our thought, and by which we must judge moral values”. It is implied in this kind of intellection that the divine law, thus the meta-epistemology of oneness is not necessary for the construction of the wider and universal field of social valuations. Likewise Hegel wrote on the kingdom of rationalism over the meta-epistemological invoking of human reason: “There is nothing good and nothing bad, absolutely speaking; everything is relative, this is the only absolute statement.” In the mind of meta-epistemology such is a hegemonic statement of rationalist *problematique* that runs through the entire culture of falsification principle of socio-scientific theory and model.

Buchanan on economic methodology

James Buchanan (1999, p. 391) writes in regard to this kind of divide between the opposite views of understanding reality, thereby making methodological individualism as the basis of liberal economic theory and model: “Concomitant with methodological individualism as a component of the hard core is the postulate of rational choice, a postulate that is shared over all research programs in economics.”

On the nature of constitutional economics Buchanan (op cit, p. 390) writes.

> For constitutional economics, the foundational position is summarized in methodological individualism. Unless those who would be participants in the scientific dialogue are willing to locate the exercise in the choice calculus of individuals, *qua* individuals, there can be no departure from the starting gate. The autonomous individual is a *sine qua non* for any initiation of serious inquiry in the research program.

Buchanan sounds the end to any possible scientific dialogue between the opponents of methodological individualism and the school of liberalism in the occidental purview. Individualism of the liberal order remains neutral to the so-called rational choice between alternatives by ignoring whether these are morally 'good' or 'bad'. On this matter Buchanan (op cit p. 391) writes, "The test for individual rationality in choice does require, however, the minimal step of classifying alternatives into *goods* and *bads*."

The inadequacy and failure of the liberal order in addressing matters of ethics, morality, culture and values is sounded in Buchanan's (op cit, p. 394-95) words: "The domain (constitutional economics), as such, cannot be extended to include inquiry by those who choose to perceive social interaction differently. There is simply no common basis for scientific argument, and ultimately agreement with those who choose to perceive social interaction either in purely conflictual or purely idealistic visions."

Immanuel Wallerstein on social bifurcations in neo-liberal genre of scientific theory

Immanuel Wallerstein (.) presents a social model of neo-liberalism. In this he characterizes the nature of the world-system as a pervasively and continuously evolutionary form driven by competition as a manifestation of systemic bifurcations caused by contesting relations between entities. Such bifurcations Wallerstein claims give rise to capitalist innovation. Wallerstein (op cit, p. 57) writes in this regard: "For the "orders" that are represented by these rules constantly yield place to periods and loci of "chaos" out of which new "orders" are constantly regenerated. This is precisely the concept of structural TimeSpace with cyclo-ideological TimeSpace located within it, coming to moments of transformational TimeSpace." But nonetheless, Wallerstein rings the bell of a future search and discovery of what he refers to as "a unified epistemology for the world of knowledge".

A very questionable nature of the relationship between technology and socioeconomic change is derived from Wallerstein bifurcated world-system under the liberal worldview. There is an endogenous, regenerated axiom of competition, scarcity of resources, dominance, methodological individualism, and their continuity in space-time that color Wallerstein's world-system. Consequently, in the pursuit of a universalizing hegemonic theory and model of liberalism governing the world-system, any other normative worldview of the moral possibility of cooperative and participative development is abandoned. Falsification and testability and their use in universalizing the hegemonic model are pronounced characters of Wallerstein's world-system theory. The substantively endogenous nature of interrelationship between ethics and the world-system is abandoned. In fact, the meta-epistemology of unity of knowledge is non-existent. The concept of the world-system as an overarching 'learning' entity with its particularities and generality in the framework of the complete premise of knowledge is ignored in Wallerstein's theory and model.

A critique of mathematization of economic theory and model

In economic modeling, the chief objections put on the mathematization of economics are as follows (Beed & Kane, 1991): Firstly, the axiomatic foundation of mathematical economics does not reflect economic reality. Secondly, the mathematical use in economics limits the number of testable hypotheses. Thirdly, economics addresses non-quantitative problems. Hence, mathematical models as straightjacket abstraction are not part of economic reality. Fourth, the linguistic translation of mathematical models is impossible. Fifth, no obvious gains are obtained by the mathematization of economics over the non-mathematical approaches. Sixth, a multitude of mathematical techniques could be used for the mathematization of the same problem. Seventh, the combination of the above-mentioned criticism makes mathematics an unnecessary tool of economic analysis.

What is involved in the instrumental use of science, including the mathematization of economics is the de-linking of the discipline from its epistemological, purposive understanding and application. Instrumentalism has emerged by insularity of the discipline from its epistemological roots and by failing to maintain the development of science in close touch with its roots. The momentum toward this meaningless mathematization of the economic discipline has managed to sever it from foundational values, such as the moral and social worth and to relegate analysis to empirical, quantitative and observable dimensions without normative content. This is true of all the sciences where a meta-epistemological reference is absent, be they of the natural sciences or the social sciences.

Yet it is not mathematical thought and philosophy and their use in whatever degree that is delimited in the comprehension and application of the meta-epistemological worldview. What is most central here is the purposive use of all such methods towards discovering and reinforcing the universality and uniqueness of the intrinsic theory and model. The analysis of Tawhidi world-system, for instance, deconstructs fashionable instrumentalism, technocracy and procedure into a circular causation model of unified reality. In non-Tawhidi sciences it is impossible to construct fusion between the meta-epistemological core and its procedural role in unified world-system. That is because of the separation of *all* such ethicized methodology by the individuated epistemic directions. This is also the idea of over-determination of socio-scientific theory in Popper's falsification and Marxism.

A new definition of theory and model in the light of the meta-episteme of unity of knowledge

By rejecting the piecewise meaning of reality in theory and model according to Popper's doctrinaire guiding scientific study in the limited world of sensate cognition, and expanding the epistemology out of a conflictual description of socio-scientific reality, we discover a new meaning of theory and model. Consequently, the so-called claimed scientific premise of falsification and testability for gaining universality of theory and model is shown to be untenable. Instead, we replace the scientific premise of falsification and testability by the principle of self-referencing.

We search for a meta-epistemological origin by which it is possible to derive both the world of organic unity of knowledge and cognitive forms, and the world of differentiated methodological individualism. This latter foundation encompasses both

the epistemologies of conflict, scarcity and competition by self-interest and methodological individualism, and over-determination; and that of unity of knowledge and its constructed world-system under the guidance of knowledge-flows arising from the meta-epistemological core.

It is not difficult to find that such a search for an epistemological combining ethics and economics has prevailed in the minds of the great contemporaries. Amartya Sen (1988) links ethics with economics along deontological lines to evaluate the consequential effect of an ethical act. He refers to this kind of ethico-economic treatment of social valuation in his words (op cit, p. 75): "To get an overall assessment of the ethical standing of an activity it is necessary not only to its own intrinsic value (if any), but also at its instrumental role and its consequences on other things, i.e. to examine the various intrinsically valuable or disvaluable consequences that this activity may have." Thus the search for meta-epistemological based on moral and ethical grounding continues on.

The universal nature of theory and model according to the meta-epistemology of unity of knowledge

The universal nature of theory is its adequacy and capability to explain the broadest range of issues within the holistic expanse of total human experience. The latter domain is unified by the epistemology of unity of knowledge. Thereby, the divine law and the worldly law are unified into an explanatory holism to explain total reality. The nature, depiction and constructions of the world-system and all its particularities and generality are deduced from the meta-epistemology of unity of knowledge. Furthermore, such a theory explains *simultaneously* the law and the world-system of both Truth and Falsehood (Choudhury, M.A. & Mufeedh Choudhury, 2009 communicated). Lastly, the extent of 'learning' dynamics in this meaning of meta-epistemological scientific theory extends from the Beginning to the End; (Qur'an,); and from the End to the Beginning (Qur'an,) of human experience. Such is the implication of universality of the theory and its model derived from the meta-epistemological core that we propound in this paper.

Model and modeling enterprise according to meta-epistemological foundation

By model and the modeling enterprise in the context of the above-mentioned definition of theory in reference to the meta-epistemology of unity of knowledge we mean the logical formalism arising there from. Its universality is proven by the automatic response it has from 'everything' in experience that bring together and unify the divine law with the world-system and give the mind the temporal freedom to discourse possibilities within this worldview.

The idea of falsification is replaced by self-referencing at the meta-epistemological origin by virtue of its irreducible and non-deconstructive nature (Choudhury & Zaman, 2009).[2] Falsification fails along the 'learning' path of the evolutionary system of unity of knowledge emanating from the meta-epistemological core. That is because the prevalent unstable and unethical disturbances of the world-system are interpreted as the result of differentiated and de-linked relationships between the good things of life. Economically speaking, the possibilities determined by the meta-epistemological reference are the consumption and productive

[2] Qur'an

possibilities that complement pervasively between these good things. Pervasive complementarities are the measured sign of systemic unity of knowledge-flows arising from the meta-epistemology. They simulate social wellbeing increasingly along the evolutionary 'learning' path of systemic unification.

Consequently, there cannot be a meaning of falsification and testability of a model to gratify the real world of depraved sociality by the positive capability of the theory and model to reinforce these facts as ineluctable reality. Rather, the pursuit of modeling is to reconstruct the social disturbances that arise from the differentiated states of knowledge and entity relations into a simulated form of wellbeing relating to the meta-epistemological continuation of unity of knowledge and its causality in the world-system. The inferences of such differentiation and unification are measured by the extent of marginalism (marginal rate of substitution, opportunity cost in economics) and complementarities (participation in cybernetic systems), respectively.

Self-referencing versus falsification as the scientific methodology in the episteme of unity of knowledge

It is socially demeaning to gratify the scientific degree of testability and falsification of a model to prove its universality of the false path of economic change and human worth. Contrarily, what a model ought to do is bring out the normative path of social reconstruction out of the fallen path of a prevailing world-system in differentiated and alienating order. Self-referencing, instead of falsification in this case, means social reconstruction by use of the meta-epistemology of unity of knowledge and actualization of the unified world-system repeatedly and continuously along the 'learning' path of knowledge-formation. Thus the world-system converges into its foundational unity by social reconstruction of the differentiated and contested state of resources, ownership and distribution. Institutions along with markets become important agents of social change in the normative social reconstruction.

Yet in received ideas of theory and model the idea of self-referencing is non-existent. The concept is equated with tautology. Indeed, this would be true if the meta-epistemological core of scientific theory and modeling would be empty of social meaning and of its underlying character of discourse, quantification, application and logical formalism. But none of these debilities characterize the new meta-epistemological phenomenology of theory and model. Rather, it is to the contrary. The simulation of wellbeing by unity of knowledge in relation to the world-system, in specific and particular cases, becomes a massive discursive and quantitative exercise with normative and positivistic implications for institutional change and socioeconomic policing.

The nature of simulation of the social wellbeing criterion is first in terms of the prevalent situation of the world 'as is'. Thereafter, the resulting positivistic estimation by reconstructed circular causal relations between the variables of the wellbeing criterion leads to re-estimation (simulation) in the light of the desired social reconstruction. What this means is that while the unity of knowledge reconstructs the particularities of the world-system by circular causation, so also there exists reinforcing entropy caused by competition, de-linking and methodological individualism. These are found to be the consequences of the postulate of economic rationality. Self-referencing in both of these categories of social reality is to either reinforce Truth by unity of knowledge, or Falsehood by the differentiated systemic behavior and conception, respectively. The meta-epistemology *simultaneously*

determines, as if by mathematical 'complementation' of opposites, both Truth and Falsehood, conceptually and empirically.

The role of human consciousness in theory and model building under unity of knowledge

One last point of importance needs to be noted in the model-building enterprise of the meta-epistemological genre. The endogenous embedding of the divine law of unity of knowledge in the world-system is realized by circular causation relations discursively and by quantitative simulation. Such an integrative approach, signifying unity of knowledge and its relation with the world-system, is realized through the combined actions and responses between individual (micro-level) and social and institutional (complex aggregation of the micro-level choices and preferences) (Maurer, 1999). In this way, a pervasive knowledge and its 'learning' behavior are endogenized in the system of circular causal relations. The aggregation from the micro-level to the macro-level implies a great deal of moral consciousness in the dynamics of theory and modeling, combining the individual preferences and menus (production) with the institutional and social levels of these. Thereby, this evolutionary epistemological dynamics as perpetual 'learning' across knowledge, time and space dimensions is regenerated (Choudhury, 2009).

The general ('learning') system

The perpetually discursive and interactive nature of the evolutionary 'learning' path in simulating the wellbeing criterion of the problem under study causes the agents of change to be consciously aware and active in formulating the new (evolutionary) phases of knowledge and 'learning' processes. But all such processes arise from the evaluation of the previous ones. Every 'learning' process is therefore evaluated for the existence of pervasive complementarities between the selected variables and the knowledge-evolution out of the social reconstructions in the previous 'learning' processes of social change.

The resulting interactive (participative), integrative (unity), and evolutionary (**IIE**) path of the total 'learning' process of simulative experience defines the complex model of the general-system. In it, 'everything' is guided by the **IIE**-'learning' processes to arise from and continuously recall the meta-epistemology of unity of knowledge, and apply and reinforce it in the world-system in respect of particular and general categories of issues and problems. The particular cases are simply building blocs of the general system. Thereby, the evolutionary theory and model represents a simulative general-system. In it, theory and model are reinforced by self-referencing of unity of knowledge along with the simulations done by circular causation between the variables of the particular and general cases within the evolving world-system. Falsification is abandoned. Testability exists only to establish self-referencing out of the prevalent state and its social reconstruction. 'Everything' in this general-system perspective generates an advancing form of simulated **IIE**-process model of the 'learning' type reflected in the pervasive complementarities or participation between entities and variables signifying unity of the world-system under the continuous (recalling in each evolutionary process) impact of the meta-epistemological foundation.

The automaticity of the **IIE**-process and its inherent theory and model is proven by the fact that there exists only one axiom, that of unity of knowledge. The

world-system according to the meta-epistemology of unity of knowledge adapts a natural and logical way relational organic unification dynamics. In the choice of such unifying variables, entities and their relations by way of socio-scientific variables, institutional strategies, instruments and polices, only those abide that emanate distinctly from the meta-epistemological core. Such relations as analytical expressions of logical formalism combined with social discourse represent the relational functional ontology of the simulative general system model (Gruber, ; Maxwell,).

The general-system **IIE**-'learning' model does not exogenously exact upon any particular variable and entity for social action and response. This is built endogenously into the general-system model of **IIE**-'learning' processes. Only the meta-epistemology of unity of knowledge and its resulting knowledge-induced rules, instruments, preferences (e.g. consumer preferences), menus (e.g. production functions), pertinent institutional strategies (e.g. social choices), and policies (endogenous policies) arising from the simulative evaluation of social wellbeing function in each process abide. The knowledge-forming processes thus carry onwards the evolutionary 'learning' path of the general system (Shakun,).

Formalizing the nature of scientific theory and model along the IIE-'learning processes

Very briefly, the theory and model of the meta-epistemological genre is depicted by expression (1). Expression (1) is the phenomenological idea arising from the meta-epistemology, because from it is derived the justification for Truth as unity of the world-system in terms of pervasive complementarities between the variables, hence between their representative agents and relations as entities. Also the same episteme (Foucault,) applies to the domain of Falsehood to yield the prevalent state of differentiation, requiring social reconstruction.

Indeed, the differentiated states, as of the rationalistic and Darwinian socio-scientific orders, mark the endogenously differentiated evolutionary equilibriums in the realm of Falsehood. The nodes of differentiation, which are pervasive in this domain, also mark the continuous paths of discontinuity of knowledge. Hence the domain of Falsehood is pervasively differentiated and devoid of knowledge at the static equilibrium points of the nodes. Contrarily, the pervasiveness of knowledge marks the continuity of unity of knowledge and its relationship with the unified world-system throughout the 'learning' processes of the corresponding socio-scientific world-system. The equilibrium points are continuously evolutionary by virtue of 'learning'.

$[\Omega \rightarrow_S] \{\theta\} \rightarrow \mathbf{x}(\theta) \rightarrow \{$sets of circular relations between $\{\theta, \mathbf{x}(\theta)\}$ $\rightarrow$ social evaluation Simulate $W(\theta, \mathbf{x}(\theta))$ with circular causation relations between $\{\theta, \mathbf{x}(\theta)\}$-tuples $\rightarrow$ recall $[\Omega \rightarrow_S]$ $\rightarrow$ continue (1)

↓	↓	↓	↓ ↓
<u>Meta-epistemology</u>	<u>world-system</u>	<u>social evaluation</u>	<u>evolutionary processes</u>
As the extension of Laws combining The divine law with Worldly law in terms Of unity of knowledge And as actualized by Rules, instruments, Policies and strategies All denoted by $\{\theta\}$. $\{\theta\}$ is generated and Re-generated by Discourse combined With quantitative Logical formalism	Phase of knowledge-induced world-system formation in reference to $[\Omega \rightarrow_S] \{\theta\}$ The relations Of $\{\theta, \mathbf{x}(\theta)\}$ form the circular causation by means of which a social wellbeing function is simulated.	The social wellbeing function is evaluated by means of the system of circular causation relations	a new processes evolves post-evaluation by way of recalling the stage, $[\Omega \rightarrow_S] \{\theta\}$, and continuing in co-evolution of the same kind.

The impossibility of predictability as opposed to estimation/forecasting by the 'learning' model of unity of knowledge

A range of possibilities in a random field surrounding any point on the constructed economic surfaces exists in the 'learning' model of unity of knowledge. According to these fields two kinds of probability limits, say of relative prices exist, and they are never convergent to the core equilibrium. To formalize, let $q_{ij}(\theta)$ denote (j,k)-price-relatives, for $j \neq k = 1,2,\ldots$ goods. Probability limit, $\text{plim}\{q_{ij}(\theta)\} = q_{ij}(\theta)^{\bullet}$, denotes the penultimate learning convergence. But this is unattainable, because of the incompleteness of 'learning' in the face of perfection of intrinsic consciousness of the hidden reality. Therefore, only a temporary probability limit $q_{ij}(\theta)^*$ exists; but this is subsequently evolved to different planes of learning. Finally, $\text{plim}\,[q_{ij}(\theta) - q_{ij}(\theta)^{\bullet}] = \text{plim}\,[\{q_{ij}(\theta) - q_{ij}(\theta)^*\} + \{q_{ij}(\theta)^* - q_{ij}(\theta)^{\bullet}\}] \neq 0$, because of the permanent non-zero nature of $\text{plim}\,[\{q_{ij}(\theta)^* - q_{ij}(\theta)^{\bullet}\}]$.. The evolution of θ-values continuously makes the convergence impossible.

Almost every known economic and financial model in the literature is bereft of predictability despite adopting the axioms of falsification and testability. Take two examples.

The Modigliani and Miller (M-M) model of debt financing (Business Economics) cannot predict the fact that debit-financing is contrary to economic development in the presence of interest rates. Thus, alternative forms of capital formation theory and model in the absence of interest rates replaced by productivity rates (profit-sharing rate, profit-rate, rate of return) or debt-swapping (Corden,), that truly enhance economic growth and development, are unknown in the M-M model. Reality is thus sacrificed for nicety in the M-M model of debt-financing. Falsification and testability lead to an accentuation of the mis-specified relationship between debt-

financing and economic development and growth in the presence of interest rates and the absence of participatory instruments of yields on capital..

Gerard Debreu's general equilibrium model of a theory of value deals with the steady-state equilibrium found in the economic core (Debreu,). It does not investigate the real world of complex relations existing around the economic core. Consequently, the Debreu model of a theory of value (Debreu,) treats a benign nicety and cannot predict substantive reality (Choudhury,). The general equilibrium model of a theory of value is a nice scientific model; but it cannot predict reality.

Macroeconomic monetary theory is almost everywhere based on a theory of interest, money and output (.). Monetary policies of every kind are intrinsically related with the central bank's changes in the rate of interest. There is a close relationship, surmised to be inversely related, between the real interest rate and the real exchange rate for an open economy. Yet no monetary theory in contemporary times explains the endogenous theory of money relating to resource mobilization and the quantity of money in the real economy. That is because the endogenous theory of money and the real economy treats this relationship in respect of a regime of interest rate replacement by resource mobilizing instruments, such as, rate of return, profit-sharing rate, profit-rate and participative financial instruments for resource sharing and development (Mufeedh Choudhury,).

Hence, the macroeconomic goal of economic growth and price stabilization cannot be predicted for deriving sound policies in the existing portfolio of monetary models of fractional reserve requirement with the rate of interest as the principal financial instruments affecting all other financial instruments. This is the problem of uncertain and inaccurate monetary transmission from which the European Union monetary policy is today suffering (Trichet, ; Choudhury, Davos)..

Logical formalism of the meta-epistemological 'learning' model

The evaluative stage of the problem under investigation in terms of simulating the social wellbeing function, W(.), subject to the system of circular causation relations in expression (1) is formalized in system (2) as follows:

Simulate $W(\mathbf{x}(\theta))$, (2)
say $\mathbf{x}(\theta) = \{x_1(\theta), x_2(\theta), \ldots, x_n(\theta)\}$
and $\theta \in (\Omega, S)$ as a topological mapping[3] of the interior of Ω onto the domain of $\{\theta\}$ as shown in expression (1)
subject to the circular causation relations:
$x_i(\theta) = f_i(\mathbf{x}_j(\theta))$; f_i being the relational forms; $(i,j) = 1,2,\ldots n$; $i \neq j$.
$\theta = F(\mathbf{x}(\theta))$.

Note that θ as so estimated yields a positive monotonic transformation of $W(\mathbf{x}(\theta))$. Therefore, although $W(\mathbf{x}(\theta))$ as stated in system (2) conveys a conceptual meaning of social wellbeing as the criterion of estimating the degree of unity realized in the world-system according to the meta-epistemological core, it is nonetheless sufficient only to estimate the relation $\theta = F(\mathbf{x}(\theta))$ as a monotonic representation of the wellbeing function.

[3] Maddox, I.J. (1972)

According to the universality property of meta-epistemology, the entire system (2) is used first to estimate the relations between the variables to study the degree of complementarities between the variables in the prevalent state of the specific problem. This kind of estimation yields the state of the problem 'as is'. The same estimable circular causation system is next simulated by changes in the variables and their relations to yield the normative results of constructed complementarities between the variables. The selected rules, instruments, preferences (consumer), menus (production), policies and strategies as determined at the original level of θ-determination in expression (1) out of (Ω,S). The evolutionary 'learning' processes for the same problem under study progressively unravel the increasing levels of complementarities that are possible between the whole system of circularly related endogenous variables, including the financial instruments and policy and strategic variables.

While the method of structural regression analysis can be done at the first process to yield the two sets of results – first, the prevalent one, and then the normatively reconstructed one, yet the subsequent processes can be studied by applying those methods that enable estimation of complementarities. Here the method of Spatial Domain Analysis of the Geographical Information System has proven well to yield multiple results of simulated wellbeing under changed scenarios of the SDA estimation results. This method has been adopted to study development planning for the Sultanate of Oman (Choudhury & Hossain, 2006). It is being used in an on-going research project (Choudhury, 2009).

It is noted in the simulation system, expression (2), that every variables is recursively generated by its relationship with the rest of the variables to study the complementary reconstruction on the basis of the meta-epistemology. Thereby, our simulation model frees itself from restrictions based on falsifications and selectivity. The general-system model in our case allows for all possible relations to be recursively regenerated by the positive to normative reconstructed scenarios using the circular causation method of complementary behavior.

Special model cases

We will select the usual application of macroeconomic model to study the relationship of Zakat, Islamic mandatory tithe of 2.5 per cent on wealth; and Waqf, Islamic endowment, in the national expenditure accounting identity. Next we will apply the simulation model of expression (2) in the light of the unique and universal episteme in expression (1) to bring about the differences in the two approaches. Our objective here is to examine whether the epistemic complementarities between Zakat and Waqf as conveyed by expression (1) is possible in the received macroeconomic modeling approach; or is it distinctly a possibility in the second approach (expression (2)).

.

Implications in a macroeconomic model of Zakat and Waqf

Consider the following macroeconomic model of the Zakat and Waqf economy:

Y: GDP; C: consumption expenditure; I: investment expenditure; G: Government ecpenditure; Z: Zakat expenditure (thereby also collection); Waqf expenditure.

$$Y = C + I + G + Z + W \qquad (3)$$
$$C = a_0 + a_1.Y + a_2.G + a_3.Z.$$

The common belief among Islamic economists and Fuqaha, legal scholars, is that W does not directly affect consumption expenditure
$I = b_0 + b_1.Y + b_2.G + b_3.Z + b_4.W$
$G = G^0$ is autonomous Government expenditure
$Z = c_0 + c_1.Y.$
The common belief among Islamic economists and Fuqaha is that Waqf does not affect Zakat expenditure (also collection) and the two are independently treated in the Islamic economy as charitable resources
$W = d_0 + d_1.Y + d_2.I.$
The same implications hold between the variables as explained above.

The structural equations of system (3) are fed into the national expenditure accounting equation to yield the IS-equation in the reduced form,

$$Y = A_0 + A_1.I + A_2.Z + A_3.W \qquad (4)$$

The coefficients of expression (4) can be readily written down in terms of the coefficients of system (3). A_0 is autonomous linear combination of Government expenditure. Since I, Z and W are shown to be related endogenously to Y, the multiplier shift in the IS-equation (4) is caused by the autonomous Government expenditure, G^0. Now I, Z, W must be determined by their independently assigned relationship with a common price or rate variable. In Islamic economics, the rate chosen is the rate of return on I; the social rate of return on Z; and the social rate of return on W. Such rates are then averaged into a weighted rate.

The macroeconomic result then is this: A multiplier shift of the IS-equation would involve a negative relationship between the weighted average rate and the level of Y. This is a contradiction to the expected result of I, Z, W on Y. On the other hand, a positive sloped IS-equation (positively related with rate) would imply perpetual disequilibrium in the macroeconomic system; again a contradiction (Veneris,).

In the end we note that neither the endogenous role of I, Z and W can be studied nor the meaningful implication of multiplier effects can be read out of the macroeconomic modeling of the (Z,W)-economy. Besides, we also note that in the absence of endogenous interrelations, Z and W remain independent charity resources in the Islamic economy. Consequently, there is no relevance of the meta-epistemology of unity of knowledge that should reinforce the complementary relationship between Z and W, forming the new perspective of the complemented and participative (Z,W)-economy.

Yet this is how Islamic economic theory and modeling continues to be done today by economists and the Islamic legal scholars (Fuqaha) in the absence of their invoking the centerpiece of Islamic intellection. This is the unity of divine knowledge, called Tawhid. Tawhid must be the active meta-epistemological evocation in the formulation, analysis and inferences of 'everything' studied in the Islamic light. This is the kind of theory and model of 'everything' in the midst of unity of knowledge and the world-system that the Islamic socio-scientific worldview of Tawhid offers. For an alternative but similar theory of 'everything' in the scientific literature see Barrow (1992, p).

The Tawhidi model contra macroeconomic modeling of the Islamic economy

The objective criterion of the Islamic economy is not economic growth and production of GDP, as otherwise expressed in expression (3). Rather, the objective criterion is to simulate levels of social wellbeing under conditions of developing the social economy by a vast and ever-expanding nexus of complementary (participatory) linkages. The principle of pervasive complementarities is the functional ontological sign of unity of knowledge as derived from the law, rules, preferences, menus (production), instruments, policies and strategies established by the Tawhidi meta-epistemology. The formalism is then applied to the particular and general study of the unified world-system (see expression (1)) (Choudhury,).

Marmaduke Pickthall (2005 reprinted, p.22) writes in this regard: "… Islam is a worldly religion which considers first the worldly affairs of humanity, then the Hereafter that is an eternal continuation of the worldly life. It is difficult to believe that man can be saved in the Hereafter without being saved in this world."

Now to formalize, the objective criterion system of the Islamic economy is given in expression (5). This is a reproduction of the general-system model (2).

$$\text{Simulate SWF}(Y, C, I, Z, W, G)[\theta]. \tag{5}$$

The variables are commonly induced by $\theta \in (\Omega, S)$ as the derived and discoursed rules, instruments, policies, preferences, menus (production) and strategies under unity of knowledge, that is Tawhid derived from the Qur'an (Ω) and the Sunnah, meaning the Prophetic guidance (S).

The simulation over the knowledge-flows (θ) and its induced variables are subject to circular causation relations:

$$\begin{aligned} Y(\theta) &= f_1(C, I, Z, W, G)[\theta] \\ C(\theta) &= f_2(Y, I, Z, W, G)[\theta] \\ I(\theta) &= f_3(Y, C, Z, W, G)[\theta] \\ Z(\theta) &= f_4(Y, C, I, W, G)[\theta] \\ W(\theta) &= f_5(Y, C, I, Z, G)[\theta] \\ G(\theta) &= f_6(Y, C, I, Z, W)[\theta] \end{aligned} \tag{6}$$

$\theta = f_7(Y, C, I, Z, W, G)[\theta]$. As a positive monotone this is a proxy of SWF.

Each of the circular causation relation is 'structurally' estimated. No 'reduced' form exists. This avoids the econometric problem of multicollinearity in estimating the structural system (6). The system (6) is estimated first for the prevalent positive nature of socioeconomic relations between the variables. This determines the extent of departure of the system from complementarities between the variables, and thus the interpretation of the estimated coefficients in this regard. Secondly, the same system is simulated by changes in the variables, relational expressions and their coefficients. The implication here involves changes in rules, variables, policies, strategies and knowledge inputs to move the system normatively towards a unified general-system.

The second-stage denoting normative simulation towards gaining systemic complementarities between variables in system (6) implies principal methodological, institutional and policy changes in the Islamic economy. The goal then is to realize progressive transformation towards attaining a participatory social economy with the recommended changes in rules, variables, policies, preferences, menus and strategies.

Such a configuration can be read out in an input-output table shown in expression (7) (Choudhury Managerial Finance).

	Y	C	I	Z	W	G	θ	RESIDUAL (7)
Y	$A_{YY}.Y$	$A_{YC}.C$	$A_{YI}.I$	$A_{YZ}.Z$	$A_{YW}.W$	$A_{YG}.G$	$A_{Y\theta}.\theta$	$(Y- \Sigma_J A_{Yj}.X_j) \geq 0$
C	$A_{CY}.Y$	$A_{CC}.C$	$A_{CI}.I$	$A_{CZ}.Z$	$A_{CW}.W$	$A_{CG}.G$	$A_{C\theta}.\theta$	$(C- \Sigma_J A_{Cj}.X_j) \geq 0$
I	$A_{IY}.Y$	$A_{IC}.C$	$A_{II}.I$	$A_{IZ}.Z$	$A_{IW}.W$	$A_{IG}.G$	$A_{I\theta}.\theta$	$(I - \Sigma_J AIj.Xj) \geq 0$
Z	$A_{ZY}.Y$	$A_{ZC}.C$	$A_{ZI}.I$	$A_{ZZ}.Z$	$A_{ZW}.W$	$A_{ZG}.G$	$A_{Z\theta}.\theta$	$(Z - \Sigma_J A_{Zj}.X_j) \geq 0$
W	$A_{WY}.Y$	$A_{WC}.C$	$A_{WI}.I$	$A_{WZ}.Z$	$A_{WW}.W$	$A_{WG}.G$	$A_{W\theta}.\theta$	$(W - \Sigma_J A_{Wj}.X_j) \geq 0$
G	$A_{GY}.Y$	$A_{GC}.C$	$A_{GI}.I$	$A_{GZ}.Z$	$A_{GW}.W$	$A_{GG}.G$	$A_{G\theta}.\theta$	$(G - \Sigma_J A_{Gj}.Xj) \geq 0$

$X = \{Y, C, I, Z, W, G, \theta\}$. Each of the variables is θ-induced

The mathematical properties of 'learning' equilibrium of the system underlying input-output table, that is system (6), can be studied in terms of the positive-definite properties of the I-O coefficient matrix of 'learning' A's (Hicks,). These 'learning' coefficients (θ-induced) are non-zero in the reconstructed scenario of inter-variable complementarities.[4] The 'residuals' in their non-negative normative forms of complementarities between variables imply increasing returns to scale in the system of circular causation relations leading to simulation of social wellbeing. The economic postulates of marginalism, diminishing returns, scarcity, and all the relations that support these postulates, such as competition for resources and economic rationality, are annulled completely, while the system 'learns' and continuously reproduces it's increasing returns to scale. Selected ones of these implications are also found in the endogenous growth theory and model (Romer,).

Two important results follow by combining the conjoint model of the general-systems (6) and (7). Firstly, the determination of the forms for the f-functions in system (6) if taken in the log-linear form helps in identifying the coefficients of system (6) as elasticity of the dependent variables in terms of the respective independent variables in the circular causation equations. The I-O coefficients of expression (7) can then be derived as a representation of the estimated elasticity coefficients of system (6).[5] From such elasticity coefficients the implication of complementarities (positive sign), and of marginal rate of substitution (negative sign) can be read out.

Secondly, the estimated approximations in the I-O coefficients imply that the Islamic social economy as a progressively transformed participatory one in terms of inter-variable complementarities require institutional changes to allow for this transformation to take place. In a specific case, consider the subset of (Z,W,θ) complementary linkages. This was absent in the macroeconomic modeling of system (3). Thereby, in much of Islamic economics and Fiqhi methods (Islamic legal interpretation) the interdependence between Z and W as a pooled fund of specific type

[4] $A_{lk} = Q_{lk}/X_k$; thus, $Q_{lk} = A_{lk}.X_k > 0$, for each l,k = (Y,C,I,Z,W,G,θ) as 'learning' variables. Qlk denotes intermediate flows of resources between the sectors for (l,k), respectively.

[5] We approximate Qlk by the elasticity coefficients of the log-linear forms of system (6). For instance, consider $a_{zw} = (W.dZ)/(Z.dW)$ = total change in Z caused by all of W, per unit of total change in W caused by all of Z. Now in this sense of input-output contribution to total changes between interdependent variables, we express approximately, $a_{ZW} \approx A_{ZW}$. The rest of the I-O entries as shown can now be readily approximated.

of development instruments is unknown. In the Tawhidi meta-epistemological worldview Zakat Fund can be combined with W-fund (assets) with interflows between these funds in order to lead to an increase in wellbeing of the poor recipients of either of these Islamic charities. Besides, the institution of knowledge formation in this direction of social change is essential for creating and sustaining the (Z,W)-consciousness within the general-system model of unity of knowledge. The Qur'an calls such an institution as the Shura. It is the conscious institution for discoursing unity (complementarities) of the world-system in the light of Tawhid.

In the end, the impact of the Tawhidi unitary worldview will change much of traditional Fiqh into new and challenging rules. But this change must be consistent with the meta-epistemology of Tawhid and its functional ontology of formal causal relations involving particular and general problems of the world-system.

Conclusion

Theory and model and the art of modeling socio-scientific abstraction play distinct roles in intellection. Intellection at the end shapes the world as we experience it. Thus, because of the heavy burden of responsibility that theory and modeling entail in guiding policies and institutions and our menus and preferences in the small and large scales, these pursuits need to be injected by moral consciousness and ethical responsibility. According to this moral and ethical calling, theory and modeling being conscious intellectual endeavors, they must see the world-system in its widest perspective of moral and ethical change. When so understood, much of the socio-scientific theory and models that we have inherited in our intellectual heritage can be questioned as being flawed by substantive incompleteness. Hence an incorrect projection has been given to the shape of things prevalent and to come in the future of human experience.

This paper has brought out this point by examining various theoretical and modeling endeavors pursued by the greatest of minds. The paper has then given the alternative for theory and model building under the perspective of the large scale universe of pervasive participatory relations. This conceptual argumentation was accomplished in this paper by formulating a general-system model that is driven by the meta-epistemology of oneness. This is the episteme of unity of knowledge in relation to the world-system, which is then socially reconstructed progressively into a unified (complementary and participatory) world-system.

The specific case study we have studied is regarding Tawhid, the Islamic meta-epistemology of divine oneness acting and unifying the mind-matter dichotomy elsewhere. Within this purview we invoked the example of the Tawhidi way of treating the complementarities of Zakat and Waqf in the social economy. This is an approach that does not agree with the received macroeconomic theory and models of Zakat and Waqf, on which Islamic economists and the Fuqaha have rested. Instead, the Tawhidi model of pervasive complementarities and participatory social economy was presented. The richly socio-scientific analytical nature of such a model and its universality in 'everything' was pointed out.

The principal difference between general-system model and general-equilibrium model

In the end, we note that the general equilibrium models of received economic theory and the general-system model of the Islamic meta-epistemological worldview are

distinctly different. General equilibrium analysis is based on the optimality and steady-state equilibriums of the economic system. Consequently, the role of knowledge as the dynamics of 'learning' behavior is non-existent. Exogenous treatment of such ethical values enters the straightjacket mathematical analysis that follows. General-system theory and model is a 'learning' worldview that comprises pervasive simulation as opposed to optimality in resource allocation and regeneration. Innovation is never-ending in the 'learning' type general-system theory and model. Hence all inter-variables and inter-entity relations in such a general-system theory and model are endogenous in nature. The meta-epistemology is thus capable of addressing both the Truth and False perspectives of the economy and the prevalent to social reconstruction of the differentiated socio-scientific system, transforming them into progressively more unified, embedded and endogenous ones.

In Islamic economics today, as long as it has remained entrapped in mainstream economic reasoning and remains devoid of the singular Islamic centerpiece of the Tawhidi meta-epistemological core, the performance of Zakat and Waqf has remained pitiful. The Organization of Islamic Conferences has recently handed over its global Islamic charitable funds of $3billion for management by the BMB Fund under the asset management theory and model of Rayo Withanage ((internet,). But consider the percentage of this Zakat Fund: of $3billion out of the total of $700billion value of Islamic capital market assets, further expected to grow to 4 trillion dollars in the next few years. This value is between 0 and 0.42 percent. So what kind of awareness towards the much-bloated social objectives of Islamic banking and finance can be upheld in the face of such poor showing? Besides, OIC's feeling is that the BMB Fund as custodian of the OIC global charitable funds will "(position) itself as an institution that marries western and eastern capabilities". This is exactly the problem of perpetuating the kind of theory, model and modeling that we have critiqued in this paper.

Islamic banks have shied away from publishing data on its Zakat and Waqf funds, not to speak of charitable funds as a whole. Consequently, reliable empirical data that could be used to evaluate the model we have proposed in this paper remain unavailable. Yet Islamic banks and financiers and the Islamic economists and Fuqaha praise their high returns in paving the way to a fair and just future. The limited empirical information available and the programs undertaken in the direction of Zakat and Waqf development are not convincing in the least. A promising end to the social malaise by Zakat and Waqf by the Islamic financing world is not nigh.

References

Beed, C. & O. Kane, "What is the critique of the mathematization of economics?" *Kyklos*, Vol. 44, No. 4, 1991.

THE INTERRELATIONSHIP BETWEEN ISLAMIC EPISTEMOLOGICAL CONSIDERATIONS AND AND RESOLUTION OF ACTUAL ECONOMIC PROBLEMS[1]

Yadollah Dadgar
Institute of Economic Research,
Tarbiat Modares University, Tehran
Islamic Republic of Iran

[1] -For Seventh International Conference, Tawhidi Epistemology, University Kebangsaan Malaysia, Jan 6-7, 2010.

THE INTERRELATIONSHIP BETWEEN ISLAMIC EPISTEMOLOGICAL CONSIDERATIONS AND AND RESOLUTION OF ACTUAL ECONOMIC PROBLEMS[1]

Yadollah Dadgar[2]

ABSTRACT

One basic debate in both economics and economy, especially after appearance of current economic crisis (2007-2010), is the relationship between the capability of economic theories and economic models in resolution of actual economic bottlenecks. Returning to the epistemological considerations of economic theories is the first step to combat with the difficulties in question. One basic challenge in the second decade of 21 century (2010- 2020), I think, would be regarding the basic shortcomings of epistemology of the orthodox neoclassic paradigm, ONP. Those shortcomings are partly responsible in emerging the current economic crisis (2007-2010).[3] Hitherto, explanation of the epistemological characteristics of Islamic economy, EIE, and its link with resolution of actual economic problems, does have both scientific and policy making value. Even testifying the efficiency of Waqf and Zakat, disregarding the above considerations could be meaningless. This paper in an analytic-descriptive manner and by employing Islamic teachings and economic theories is developing a scientific framework of EIE and its connection with real economic problems. Implicitly, we are going to compare EIE with the epistemological considerations of ONP as well.

Keywords: *epistemological considerations of Islamic economy "EIE, actual economic problems, orthodox epistemology, economic crisis, resolving actual economic problems.*

1-INTRODUCTION AND METHODOLOGY

Occurrence of recent financial and economic crisis (2007-2010), I think, is going to provide some sufficient grounds for positing some scientific debates regarding epistemological considerations of Islamic economics, IE, and mainstream economics as well. For the economic crisis in question, although we can enumerate some distinguished actual factors, scientific problems, however, are responsible as well. In other word, we are now encountering with both economic crisis in behavior of economic variables and related policies at one hand, and the appearance of scientific crisis in economic theories on the other. Rapid reduction in GDP(6% in US,6.5% Europe,15% in Japan, typically), increasing unemployment rate(9.2% Europe ,9.5% US), diminishing trend of purchasing power of households, declining business

[1] -For seventh international conference, tawhidi epistemology, university of kebangsaan, Malaysia, Jan 6-7, 2010.

[2]- Associate Professor of economics, economic law department, Beheshty University, Tehran, Iran.

[3]- I argue that there is a significant relationship between recent actual crisis (2007-2010) and the epistemological considerations of ONP, which is dominant on conventional economics.

activities of economic enterprises (40-60% reduction in exchange markets),and so on and so forth, are among other serious signaling factors which are in charge of the current crisis. Basic causes of the crisis in questions can be mentioned as: the dominance of huge speculation, in both financial markets and commodity markets, extreme liberalization in financial markets, extravagant increase in debt oriented activities, extensive injustice in distribution of income and a vector of unethical and mischief activities in both private and public sectors. Nevertheless, complete relying on self correcting market mechanism and its other complements, including perfect competition, general equilibrium, almost unlimited freedom in economic activities, dominance of laissez fair ideology of government activities, individual self interest maximization, and insisting on value free economics are among hard core of mainstream economic paradigm, ONP. These are in turn foundations of prevailing scientific theory. According to ONP, we have to reduce the economics to a Newtonian physics of 19th century. That is, as if the processes of economic inquiry and actual behavior of economic agents are structured in mechanical, linear and atomistic arrangements, which could be described by some plain mathematical formulas. When we go around in real world, we can easily realize the contradiction of some of the above arrangements with actual economies. Further, contradictions as such, will be much clearer, when we characterize the effective aspects of 21 century.

We are living in 21 century which is an especial world with many characteristic dimensions. Thus, it is necessary to employ a specific art, to organize the basic projects and the main processes in these circumstances. In other word, we are encountering in a situation full of specialties, considering, of which would have significant impact on our actual performance. I enumerate some basic characteristics of 21 century as follows: **Diversification** of ideas and policies, **rapid change**, significance of **dynamic** and systematic relations, and the role of a package of institutional subsystems are major elements in this regard. Relying on common ethical dimensions, cultural tolerance, social solidarity, political and economical cooperation (based on multidimensional benefits of all participating parties) are some constituents of above package. I argue that Islam does have sufficient capabilities for producing required subsystems in direction of the above processes. The role of religious thinkers and religious centers is crucial in this regard. Using the modern and efficient findings of 21 century along with preserving hard core and fundamental doctrines of religion could be construed as "long run strategy of religious thinkers and religious centers". This is although a reasonable and key slogan; it is a serious and difficult task as well. The literature in question hopefully is going to be much more elaborated; even some writers offer a post-modernist outlook on epistemological investigations (Choudhury 2008). In this paper, and based on a specific framework, which I prefer to call it "moderate Islamic teachings", MIT, I am going to design an elementary framework regarding the epistemological considerations of Islamic economy "EIE, which might be in direction of achieving some dimensions of the slogan in question. By epistemological considerations of Islamic economics, EIE, we mean firstly, description of interrelationship between epistemology, ontology and methodology of Islamic economics, IE, and secondly, the bridge between the above connections and actual performance of economic systems in Muslim countries ,MCs. Epistemology of IE, deals with nature, scope, extent, sources, credibility, relevance or legitimacy of IE.

Two other philosophical branches of IE are ontology and methodology of that discipline. Ontology of Islamic economics, deals with the nature of being of this discipline and not nature of its knowledge. For instance in description of epistemology of Islamic economics, IE, one asks: what is IE? What are the sources of IE, etc? But regarding the ontology of IE, a basic question is: is there a discipline as Islamic economics, IE, in principle? Is it real and workable? Methodology of IE is the third and complementary foundations of this discipline. This is analyzing the principles of methods of IE, evaluating the assumption, and axioms of the discipline in question. In methodological debates regarding IE, for example, one asks: why do we use mathematical models in explaining IE, or, how do we know that empirical method is more or less efficient than logical method in investigating IE? Thus in methodology we neither involve in nature of IE, nor the being of this discipline. As we see in following sections, there is a close relationship between these three philosophical pillars of economics in Islamic perspective.

As there are diversified standpoints regarding the philosophical foundations of economics generally and Islamic economics, IE, particularly, explaining such terms like pluralism, is probably helpful. We try to describe this term in a positive framework that is we posit it as a reality in scientific texts and discourses. At the same time there are different viewpoints regarding relevance of pluralism itself, so that some agree with it totally, others reject it completely and there are considerable numbers who think more or less moderately and between those two extremes. Pluralism, generally speaking is used to denote the different standpoint regarding a specific subject in any field, whether religion, science, philosophy, etc. Also it could be related to both inter-subject and intra-subjects as well. For example in case of inter-religious pluralism, one can talk about Islam, Christianity, Judaism, Buddhism, etc. Regarding intra-religious pluralism, there would be a chain of sub-branches among one specific religion. For instance in Christianity one can differentiate between classical Christian views, modern ones, catholic, orthodox, protestant and the like. Regarding Islam, potentially speaking we can distinguish between the idea of majority of sunny Muslims and that of minority of shia Muslims, also moderate Muslims, fundamentalists, and the like. By scientific pluralism, we simply mean that some phenomena which are observed in scientific frameworks require multiple explanations. Accepting this idea in turn requires the denial of universal scientific method. Distinguishing between two categories of religious pluralism might be helpful, unlimited and bounded. According to Hick's pluralistic hypothesis: a)-people are inherently religious; b)-there is substantial diversity in religious belief and religious efforts; c)-religious belief does affect on the followers; d)-there is no religious absolutism(Hick 1985).So, by rejecting absolutism, Hick, believes in a universalistic pluralism, for he stresses that each should realize itself as one among many. This view point obviously would be extremely relativistic, reductionist, or one can say, unlimited pluralistic. We although agree with diversification of ideas, but at the same time do not believe in reductionist stand point in this regard. I maintain on second category of pluralism, bounded or limited pluralism. According to MIT, we try to base on bounded pluralism which we prefer to call it "reasonable pluralism". Meanwhile, there are so many other pluralistic sub-branches and, we referred the above cases typically (Esther-Miriam 2003, Kellert 2006, Beneke 2006, Sierra 1995). Although some can debate the relevance, and other dimensions of pluralism, but its

general focus, that is the diversity of ideas, paradigms, approaches, etc is inevitable. I believe in diversifying nature of conventional economics, CE, and Islamic economics, IE, is one of its paradigms. Of course, right now, the mainstream paradigm of CE, is orthodox neoclassic, ONP.

To illustrate, in the early 1960s, the scientific confidence of ONP, seemed solid, at the same time some wondered its realistic aspects. Although, the efforts of great economists like Solow and Samuelsson in designing neoclassical-Keynesian synthesis can be accounted as reforming step to decline the orthodoxy of ONP, but this synthesis could not confirm the majority of realist economists. The confidence as such, eroded, specially after 1970s and came under attack even by some economists inside neoclassic, including new classic economists (notice that new classic is a macroeconomic school which was formed in beginning of 1970s, and argues to base its theory on microeconomics. It was in turn a response to inefficiency in neoclassical-Keynesian synthesis. Neoclassic, however, dates base from 1870s and has been dominant theory till now).In addition, a considerable numbers outside the neoclassic, including institutionalist, Austrian, neo-Marxian, post-Keynesian and others have been critics of ONP as well. Also postmodernist approach and some other related ones (like rhetoric) emerged as other responses to the ONP crisis in 1970s.One can describe ONP as an amalgam of: a)-logical positivism, b)-behaviorism), c)-Opperationalism, and d)-hypothetico-deductive model of science. Some argue that the chief intellectual virtue of ONP is methodological uniformity, to produce, so called, knowledge by enforcing a single method of analysis, be it mathematical formalism, micro foundations, statistical significance, Austrian subjectivism, or some other special codes. That is ONP economists (like experts in rhetoric) try to persuade their audients by any possible ways. They stress that the key point in the direction of improving economics, is scientific discourse (Mccloski 1994, Backhouse1997).Postmodernist ideas criticize the poverty of humanism in ONP and maintain that, we need economics for human being and not for godlike mathematicians. One basic debate in comparing ONP with its economic alternatives is the debate of scientific crisis. If we agree with the argument of scientific crisis in economics, we should logically accept that the crisis in question is exclusively related to ONP and not other paradigms. However some economic writers attribute such scientific crisis to whole economic science and not ONP per se. The equations of equilibrium in ONP economics arise from models borrowed from physics. Thus, not surprisingly the general equilibrium in markets resemblances to the thermal equilibrium of an ideal gas and the late 19^{th} founders of ONP were impressed 19^{th} equilibrium thermodynamics. In 1970s some economists voiced a profound dissatisfaction with the state and methods of research and also teachings in [ONP] economic theory. In 1980s so much more essays proclaimed the crisis and recommended some remedies for that (Phelps Brown 1972, and Bell and Kristol 1981). Unpleasantness regarding ONP was continuing during 1990s and the first decade of 21 century. In France, in 2000, a group of economic students published a petition and protested against some shortcomings in their current academic period. It included the lack of realism in economic teaching; un-controlled use of mathematics as an end in itself; and the dogmatic teaching style in economics which leaves no place for critical thought. This kind of criticism then continued by United Kingdom,

Australia, Scandinavia and then by American students (starting at Harvard University). These movements are against some key elements which in turn are hard core of ONP.

2-THE SIGNIFICANCE OF EPISTEMOLOGICAL CONSIDERATIONS

In order to figure out the relative impact of EIE in actual economic performance, it is necessary to explain the relationship between its epistemology, to its other two basic philosophical foundations, that is, its ontology and its methodology. We remember that epistemology deals with the nature of science, and how is it acquired? The debate here covers distinction between experience and aperiori knowledge. Aperiori knowledge is non-empirical, whereas a posteriori knowledge is known by experience. Generally speaking there are some well known theories for knowledge acquisition, which include empiricism, rationalism, constructivism etc. Empiricism emphasizes the role of experiment in producing economic knowledge and believes that knowledge is empirical, however mathematics and, logic are exception. According to rationalism knowledge is acquired by aperiori processes. Some other related theoretical process is "intuition" which belongs to activities of part of human mind. Based on constructivism, knowledge is made on convention, human perception, and social experiences. The majority of constructivists emphasize on inter-subjectivity instead of classical objectivity. Another subject which is both related to epistemology and ontology is the problem of skepticism. It argues that the belief in some thing does not necessarily justify an assertion of the knowledge of it. But fundamentalism argues that there has to be some basic belief which is justified without reference to others. Skepticism is related to fallibalism, according to which knowing some thing does not entail certainty regarding it. Charles Sanders Pierce and specially Karl Popper have had a significant role in developing fallibalism (Popper 1959, Benjour 2002, Nelson 2007, Hay 2008). One basic subject here is the world view of scientists and researchers regarding science and knowledge. As the epistemology of science is concerned, one can construe science as a set of approaches and methods, and nothing else. Some extremists, however, consider science as a sacred phenomenon. The world view of logical positivists is based on the latter, but that of MIT, on the former. Because, based on MIT, scientific method refers to a body of techniques and conceptions for investigating a subject in question .In the positivistic approach, however, every thing which is not science, is not meaningful as well .Of course if some thing is scientific it should be welcomed, but it does not mean that non-scientific subjects are inferior. The significance of this debate, in turn, depends on the relation between epistemology and ontology of economics.

Although the ontology of economics is dealing with the being of economics, one can not dichotomize it from epistemology and methodology. Some correctly stresses that the questions of ontology are reducible to questions of epistemology (Bhaskar 1997, 2002).We should be careful that for any theory that we have about "what economics is", we must have a presupposition about "what the world is like". That is we must assume that the world exists in such a way that it makes our theory of economics possible, and this is the place of ontology in economics. If your economic theory, epistemologically speaking, is responsive but its ontology has not been figured out, it

does not have solid foundation. This is in turn, one dimension of epistemological considerations we already emphasized. As Roy Bhaskar stresses the statements about being can be transposed into statements about our knowledge of being. This is, in turn a key problem we encounter regarding ONP. For science is influenced and dependent upon society, culture and history, ONP, however maintains on economics as a districted object from society, history and other institutional frameworks, and bases its reasoning as if it is a natural science (like physics and even pure science like mathematics).It is based on "atomistic nature of humanity", the correctness of which should be demonstrated first. For the first set of ontological questions in this regard are: does atom exist? What is existence? Which entities are fundamental? What features are essential, etc? Of course there are different approaches in ontology too. Realism maintains on discovering the facts, empiricism on factual observations, positivism attentive more to claims about facts and postmodernism holds that facts are fluid. Obviously the shortcomings in realization of relationship between epistemology and ontology, affects on its methodology as well. For economic methodology might explain the ontology and epistemology of economic researchers as well. In other word, methodology is more than a simple set of methods, rather it refers the rationale and the fundamental assumptions underlie those methods (Creswell 2003, Machlup 1978, Blaug 1980). In 1960s, arguably after publishing the Kuhn's book (the structure in scientific revolution), the story of methodology of economics became much more serious. ONP, insisted on logical positivist methods and empirical verification of theories, and methodologist rejected them. By the 1980s methodologists became equipped with some competing methodologies, like that of Popper, Lakatos, Feyerabend, rhetoric and discourse analysis, sociology of scientific knowledge, etc. Latter, constructivism was added to methodological debates, this was a kind of social construction of scientific knowledge. This new approach investigated the determination of scientists' beliefs and led to many new ideas including pragmatism, hermeneutics, postmodernism, feminism, and the like.

In continuation of this evolutionary trend, rhetoric, based on open conversation, became a contestable methodology along with other traditional economic methodologies (logical positivism, behaviorism, operationalism, and hypothetico-deductive model of explanation) (Backhouse 1997, Barker 2003, Mcclosky 1985).A more crucial case is ONP's methodological individualism. This simply means that social phenomena are reduced to individual ones .Further, behind which, there is a strong ontological belief that only individual exists and society itself does not exist. But this is itself a big debate requiring reasonable proof. Some studies indicate that social world is structured and open .By structured they mean that social world comprises not only the actual events and states of affairs, but also of an underlying and often unobservable reality of capacities, and mechanisms which govern those events .They mean by open that the observable and actual world is always at the subject of changing. So the methodology of economics has to be consistent with these ontological considerations and sufficiently flexible, and away from dogmatism and atomism. It is interesting that some members of radical subjectivist Austrian economists rejected the atomistic conception of ONP and emphasized instead the virtues of portraying people as social beings. Inte-rsubjectivist economists base their analysis on a kind of rationality which is appropriate to explaining individual

interaction in social groups. The guiding idea on the Inte-rsubjectivist approach is that human consciousnesses are interdependent, thus human subjects form and reform themselves under the influence of other human subjects and institutions. Some economists even indicate that production of money is related to a social framework and hitherto contains its own epistemo-ontological considerations (Fullbrook 1997, Davis et al, 2004, Lawson 2003).

In the last decades of 20th and first decade of 21st centuries we see a remarkable attention in the role of philosophy in economics. This of course should not be surprising, for as Joan Robinson, correctly tells us: this is the nature of economic problem to relate to philosophy (Robinson 1962, Dadgar 2007).New development is trying, I think, to return back the role of political economy to its original and meaningful one. In the time of emerging political economy it was taken to refer to the use of some economic tools and concepts to understand the conditions of social order and to set some guidelines for policy making. This was a plain definition of economic science as well. Defining this science to mathematical political science (Rosenberg 1992), and the like, is metaphoric and in response of extremist trend of development of political economy (especially in 1870-1960 period). So actual separation of economics from philosophy in ONP, I think, is much more an artificial trend in this regard. Societies need institutions that allow people to participate in the discussion of shared beliefs, individual actions and institutions bear on each other in a reciprocal way, and so on and so forth (Marciano2000). Consequently, if we want to have economic paradigms which are consistent with real life we should reform and correct the extreme cases like ONP. Not surprisingly, because the original and theoretic structure of ONP is such extreme, there is a deep deviation between it and its applied version. For instance, original ONP insists on positive and value free discipline of economics, perfect equilibrium competitive markets, complete rational agents , laissez faire, complete information with zero cost, hedonistic oriented agents, atomistic, deterministic and omniscience homo economus. Actual ONP, however, have been marked by models in which economic actors are imperfectly informed, even they are sometimes irrational. This is itself a paradoxical attitude of ONP (Arnsperger 2005, Dasgupta 2002 Bowles 1998). ONP also proclaims enthusiastically for abstract equilibrium. Obviously, an automatic self-regulating laissez faire system as such should have a final coordinated pay off which is equilibrium, ONP could not be otherwise. Of course, equilibrium from its emergence, by Cournot in 1938, up to now, 2010, has evolved and developed considerably. Also: 1- complexity theorists challenge the entire individualistic approach of ONP; 2- evolutionary game theorists show how evolutionary norms develop and affect on behavior; 3- new institutionalists operate out of a framework at odds with methodological individualism; 4- social economic theorists, feminist economists and ethical economic theorists are questioning value free dimensions of ONP and finally; 5- remarkable number of studies are willing to consider multiple- equilibria and questioning ONP general equilibrium (Wilber 1986, Colander 2007).

In addition: 1-Economists have ever recognized the significances of un-priced negative externalities, which, in the case of pollution and environmental question, has been ubiquitous. However, ONP ultimately insists on employing of abstract theories to resolve the environmental problems. There is a reasonable consensus that: even if all other assumptions of the competitive model are satisfied, market outcomes are not

optimal, unless all externalities are completely which cannot be done based on the mere logic of free market (ONP type of solution). 2-I believe in this specific finding of some philosophers of science that: in facing a crisis in a science we should investigate and seek the roots of the crisis in foundation of the very science (Kuhn 1970, emphasis added). When we return to the basic and original propositions of ONP we realize some aspects of above finding. We ultimately recognize that, in contrast with ONP, the real science: a) - is not dogmatic in nature; b) - is pluralistic; and c) - provides the basic ground for dialectic processes. 3- In 1992 a group of economists issued a plea for a pluralistic and rigorous economics in an advertisement in the American economic review. The announcement had been signed by 44 illustrious economists among which were Nobel laureates, Franco Modigliani, Paul Samuelson, Herbert Simon and Jan Tinbergen. In 1993 the international confederations for pluralism in economics (ICAPE) was founded. In 1997 it contained 30 associations, 32 journals, 11 publishers, 16 departments, 16 centers and 9 special projects. The consortium's statement of purpose suggests: there is a need for greater diversity in theory and method in economic science (Hands 2001, Dow 2002, lee 2009). 4- According to ONP, the essential condition of any science is the existences of regularities which can be analyzed and forecasted, however, even econometricians who do have closest relationship with physicists reject the above argument, and maintain that social event regularities of the requisite sort are hard to come by and regularities are not essential to science. Rather awareness of the social and institutional setting in which a problem is being analyzed and the strong theoretical foundations are often much more essential in this regard. 5-Economics in contrary with ONP is not a body of natural laws or of universal and immutable truth but an assemblage of speculations and doctrines, some of which are the result of particular history. And as North correctly stipulates: we have paid a big price for the uncritical acceptance of neoclassical [ONP] theory (North 1990). Instead of the characteristic features of a given socio- economic system, ONP is an ahistorical, abstract and individualistic entity. Mark Blaug correctly states that: "modern [ONP] economics is sick, it has increasingly become an intellectual game player for its own safe and not for its practical consequences for understanding the economic world. [Orthodox] economists have converted the subject into a sort of social mathematics in which analytical rigor is everything and practical relevance is nothing" (Blaug 1997, 3). Not surprisingly the origins of ONP go back to Newton; accordingly its economic models are in image of Newtonian mechanics in which consumers and firms were treated as if particles obeying mechanical laws. We are positing the EIE as one reforming processes in resolution the above difficulties).

3-EIE ALONG WITH A PROTOTYPE MODEL

In this section, we describe the epistemological considerations of Islamic economics, EIE, and indicate the capabilities of a sample paradigm in a comparative analysis. Our basic presupposition is that: although Islamic teachings contain basic and general doctrines, potentially speaking, it is a spectrum of ideas, from orthodox conservatism to radical and liberal oriented ones. Some studies indicate that there is more than one Islamic economic school as well (Sadr 1980). Accordingly, there could be moderate

and non-moderate paradigms in a broad and general sense. We rely on a moderate paradigm, and will try to figure out its characteristic dimensions. Meanwhile, our justification to insist on MIT, are some verses of Quran. In some verses of Quran, which are among the most famous sources for Islamic reasoning, God, addressing to the Muslim societies, stipulates that: we have created you, and you are supposed to be, moderate ones, and the prophet be a witness and a role model for you (Quran 2/143, 33/21). The consistent verses of Quran, the tradition of prophet (Sunnah), along with coherent and relevant economic theories include our reasoning system in this regard. Of course in traditional literature of Islamic reasoning there is a forth category, called "consensus of scientists," which sometimes works as well. The basic characteristics of MIT are as follows: a)-it is a systematic arrangement in nature)-it is dynamic in principle)-it is substantively ethical oriented, and d)-within which, other things being equal, there is a peaceful relationship between findings of faith and findings reason(including science and non-instrumental rationality) ,which will be described briefly.

Systematic nature: both theoretical and empirical studies indicate that Islamic teachings do have sufficient capabilities for organizing systematic frameworks, that is, to establish workable structures whose constituents are significantly interrelated, in a coherent body of principles. A verse of Quran emphasizes on a coherent and systemic framework of religious teachings and rejects dichotomizing them. Quran stipulates that: those who are saying we believe in some parts of Islam and reject some of its other parts, are indeed disbeliever (4/150).Also grand Muslim scientists believe that if it is supposed that some thing is Islamic, it should contain the whole system entirely. Applying systematic models does have its own theological foundations. Systematic theology is a sub- discipline of religious teaching that attempts to formulate an orderly, rational, and coherent account of the religious faith and beliefs. This kind of theology draws on the foundations of the religious texts and also looks to the development of doctrine over the course of history, philosophy, science, and ethics. Not surprisingly, there is a positive relationship between the scientific performance of Muslim scholars and the degree of their commitment to systematic understanding the Islamic teachings .For instance, one distinguished aspect of Ibn Khaldun's personality is his intellectual power to systematize some dimensions of Islamic teachings. He often criticized "idle superstition and uncritical acceptance of historical data." As a result, he introduced his own method of scientific studies. His historical works also laid the groundwork for the observation of the role of state, society and systematic bias in history. Lack of sufficient systematic works in Islamic economics is now ,I think, a basic shortcoming, so Ibn Khaldun's approach would be very helpful(Ibn Khaldun 2005, Dadgar 2008,Berkhof 1996). I stress on a complementary point in this stage and that is, the systematic trend in MIT, is both internal and external ,or one can say, it is intensive and extensive or it contains both vertical and horizontal aspects of the case in question .Accordingly, there is significant relationship between all elements in economic system from one hand and between economic system and other sub-systems of whole society. To illustrate we focus on some examples. In MIT framework, there is specific relationship between property rights and prohibition of Riba, also between real economy and monetary economy. For that reason the pure speculation activities is illegal in Islamic perspective. For in IE, every activity has to be productive and this is accounted as one reason behind the illegality of Riba and

usury based transactions. Also when there is an inconsistency between economic sub-system and political, social or cultural ones, we would encounter with declining efficiency in economic system. In-transparent behavior , telling lie in transaction , doing transaction in ambiguity(gharar in Islamic terminology),corruption in public sector and the like are ethical questions ,they ,however, have meaningful relationship with economic performances (Ibn Hindi 1985,Sadr 1980,Mawdudi 1975,Askari 2008).I believe that one basic reason of current difficulties in economy of Muslim countries ,MCs, is disregarding the systematic nature of IE. One can simply see the dichotomy among the main constituents of MCs's economic system and their other sub-systems. From one hand we claim that Islamic finance has been much more resistance in front of current financial crisis (2007-2010), from other hand the majority of MCs are accounted among less developed or developing countries. For instance the ranking of human development indexes of all OECD countries is less than 25, whereas those of 80 percent of top MCs are above 70(Berkeley 2009, UNDP 2009).

Dynamic framework: Another basic aspect of MIT is its flexibility and dynamic process. This feature is prevailing in all of its systems and sub-systems. Surprisingly, even, one of the western scholars in a seminal research stresses that: Islamic law is by no means static but rather that enormous changes in their legal teachings have been effected (Anderson1959).But we know that Islamic law, relative to other Islamic sub-systems, does have the least dynamic structure. According to MIT, we should maintain on a special methodological technique, called Ijtihad, (that is an independent judgment system), which stresses on the role of time and place on religious teachings. This methodology can reinforce the flexibility and dynamic framework of IE. In other word, Ijtihad actually describes the process of developing economic theories, by interpretation of the valid sources. Since the Islamic precepts are capable of varying interpretations to meet the particular need of time and place, the technology of Ijtihad would be efficient in finalizing the process in question. Of course, fundamentalists maintain that religious theories are unchangeable and would remain static. However, in the modern approach including MIT, while the basic doctrines are constant, Islamic theories and policies are adjusted and shaped by the need of changing society. Thus, applying this technology would give a dynamic structure to IE (Hallaq 1984, Bahrol Olum 1977, Ramadan 2008), which obviously is a crucial characteristic.

Ethical orientation: One basic doctrine of MIT is its ethical orientation. Ethics does have a special place among 3 Islamic pillars (faith and belief, jurisprudence and ethics).Ethics in MIT, can not be discussed in a trade off framework. That is any sub-system which does have capability to include ethics, can not replace it with any thing else. Not surprisingly, prophet stipulates that he has been chosen to establish and improve the ethical foundations, hitherto, God at one hand, suggests that people choose prophet as their role model, and at the other hand, he mentions the ethical aspect of prophet's personality as a distinguished one (Ibn-Hindi 1985, Quran 33/21,68/4).Thus,economic perspective based on MIT, is both technical and ethical in nature. Ethical aspect of IE does have a meaningful consistency with conventional economics, CE, as well. For as Sen correctly indicates, economics has had two origins, ethics and engineering, nevertheless, the importance of the ethical approach

has weakened, as modern economics[ONP] has evolved. The methodology of extreme positive economics has not only shunned normal analysis in economics, it has also had the effect of ignoring a variety of complex ethical considerations, which affect actual human behavior (Sen 2005). In IE framework there is an inextricable relationship between ethical and factual dimension(Sadr, 1987, 288, Khurshid Ahmad2006).So, in this perspective, IE, contradicts with ONP ,which maintains that: relationship between ethics and economics is ultimately informal type and it is not substantive (Robbins 1935, 148, Hausman 2008). Another crucial element regarding ethical dimension of MIT is sacredness of human being which has been strictly posited in Quran (17/70). Thus, human being is one element of hard core of IE.

Reason compliance: The other characteristic feature of MIT is that, other things being equal, there is a significant and peaceful interrelation between this Islamic paradigm and the findings of reason, science and rationality. Some extremist ideas construe the findings of reason, science and rationality, either as inferior ones (relative to religious findings), or unacceptable in principle. In MIT, however, faith and reason are compromising elements and the findings of religion, science, reason and rationality are complementing each other. We can arrange the above relationship in direction with the following lines:

1-If we disregard the relation of reason to the faith, actually, the relation between philosophy and religion will be cut.

2-Following some thinkers in Islam, reason is a truth as faith is, so truth cannot struggle with truth (Asyrow 2006, Averroes 1961,).Reason is, generally speaking, the ability to discover truth and is a specific faculty of human being. Revelation is the disclosure of truth by God and the faith believes of something as true based on the testimony of witnesses. So we can say that reason is essential in discovering truth but it is insufficient alone. Hitherto reason and faith can significantly, support each other. For example, reason can possibly demonstrate that God exists, but it might not be able to convince an unbeliever to believe in God .

3-The most two important Islamic sources of reasoning are Quran and Sunnah. However, we would face with some situations, which there are neither a verse of Quran nor a statement of Sunnah. Some Muslim scientist, maintains that: Muslim policy makers and Muslim scientists are free In this situation to judge, decide and operate according to their intellectual capabilities and their wisdom (Sadr 1980).

4-at least theoretically, there is some kind of consensus around relying on reason among almost all of famous schools of Islamic Shariah(Sherbini 1988, ,Sadoogh 1996).Some scholar emphasizes that no one can see any two contradicting propositions; one based on certain reason(Aql) and the other on certain transportation(Naql)[1].This statement is very effective in Islamic reasoning. Of course the actual dominance of hadith oriented reasoning of some jurists have marginalized

[1] -"Naql" or ttransportation refers to statements within original sources (Quran and Sunnah); faithfully transmitted once their authenticity has been ascertained. It is often posed in contrast with Aql (reason), which arrives through logic, experiment, or other rational or scientific methods.

the role of reason in analyzing Islamic subjects(as dominance of the logical positivism has marginalized the role of ethics in economics).Further, there is positive correlation between any advanced performance in Islamic sub-systems in 21st century , and consistent employing the scientific findings thereof.

4-**POTENTIALITIES OF EIE AND ACTUAL PROBLEM SOLVING**

In this section, indeed, by noticing our basic presupposition and emphasizing on our characteristic features of MIT (prototype model), we are investigating the workability of EIE, in resolution of actual economic problems. In order to much more clarification, we would try to proceed the case in a comparative analysis framework. This section at the same time would be accounted as a critical analysis regarding the huge gap and significant interval between potentialities of Islamic perspective and actual performance of economics in MCs. By raising the question in a broad sense :

1- science in Islamic perspective is accounted as helpful instrument for attaining real wellbeing of human kind, science is investigated in category of methods and approaches and it is not an end in itself.

2- Islam attempts to synthesize reason and revelation, knowledge and values in its approach and knowledge acquired through rational human efforts and through the special Islamic sources(Quran and Sunnah) are seen as complementary to understand the nature (Davidson 1992).

3- the dominance of materialistic and mechanistic paradigm of science, was in direction of weakening of the above synthesis. The epistemological considerations of mechanistic physics of Newton, hypothetico-deductive of Descartes, and objective-empiric method of Bacon, influenced on almost all fields of human life, including science.

4-It was after establishing this idea that Freud talked on psyche defense mechanism, Darwin on evolution mechanism and Smith on market mechanism. The above epistemological trend led to the ontology of materialism, mechanism, atomism, humanism and individualism.

5-in Islamic perspective; however, the science is not confined to the acquisition of knowledge but also embraces socio-political and moral aspects. At the same time and not surprisingly, both main opponent schools, Mutazilah and Asharite agreed on the rational study of nature. Some famous Muslim philosopher synthesized several approaches and methodologies in the harmonious way ,which are consistent with a multidimensional epistemology (Nasr and Leaman 1996).

6- based on our MIT model :a)-there is a solid interrelation between the realistic ontology of Islamic economics ,its epistemology and its methodology; b)-there is a systematic relationship between ontological doctrines, its coherent epistemology and

methodology; c)-other things being equal, there is a peaceful relationship between findings of faith, science ,reason and rationality; d)-efficiency and other ,technical improvements are compatible with ethical contents of Islamic economics; and e)-technology of Ijtihad can rearrange the epistemological and methodological theories and resolve the possible difficulties thereof.

7- Consequently ,Islamic economics potentially ,is real, efficient and ethical, so why do MCs have so many inefficiencies in their economies? ONP, as underlying theory for economic systems of non Muslim countries, NMCs suffers from considerable shortcomings, whereas the actual conditions of MCs is considerably worse than that of NMCs.

8-I argue that there is a remarkable gap between IE and actual performance of MCs. when we compare the actual circumstances of MCs and NMCs, we will observe that in almost all important indicators the economic statues of MCs lags behind that of NMCs. MCs embrace about 60 countries which is about 30% of united nations members ,they contain 23-25% of world's population, they have a considerable value of human capital and great potentiality to produce social capital, they possess nearly 40% of world's energy recourses and so on and so forth. However, we see that: a) -there is a considerable gap between the HDI of MCs and that of OECD countries. The HDI rank of almost all OECD countries is less than 25 whereas that of 80 percent of top MCs is above 70. b)-The total exports of the OIC Member States is 10% of the world exports. c)-55% of main product exported by Member States is the mineral fuels)- OIC countries accounted for only 6.1 percent of the world's total output. The overall economic growth and performance of the OIC countries as a group is still highly dominated by the performance of a few members (only 10 major countries account for more than 60% of the total OIC output and exports).e)-the rank of above 75% of MCs in GDP per capita is above 80(IMF 2009).In addition there is relatively tough situation in MCs regarding economic corruption, slum growth, distribution of income, trade balance, inflation rate, unemployment rate and the like. f)-double think, non-systematic ideas and actions, relying on static analysis, lack of consistent democratic environment, construing rational findings as non-Islamic, and surprisingly, disregarding the ethical contents of Islamic economics, are amongst other factors which affect on underdevelopment of MCs.[1]

CONCLUDING REMARKS

1- attending to epistemological considerations of economics ,based on MIT,can resolve some kinds of actual economic problems.For according to which, the tasks of

[1] -Suppose we can estimate the "islamicity degree" of MCs. We can do that by choosing two samples in MCs and NMCs(by any affordable and consistent indicators thereof).One may account transparent behavior, telling truth in business activities, fulfilling the contracts ,and obeying the established social norms as possible indexes, all of which have been emphasized in Islamic teachings(Qazali 2008,Toosi 1994).By observing the remarkable deviance between potential Islamic teachings and actual performance of MCs, relative to developed NMCs, and by a rule of thumb, one can argue that a considerable numbers of MCs will fail in this examination and will lag behind that of NMCs.

economics as a science, include explanation the economic facts, probable prediction the behavior of variables, problem solving ,and prescription economic policy .In contrast to ONP,IE in MIT framework, does not insist exclusively on a specific role of economic theories and contains both positive and normative statements.Some insist on prediction as the only credible role of economic theory,other on explanation,some other on prescription and others have suggested that science may be more appropriately described in terms of problem solving(Kuhn 1970,Toulmin 1972,Laudan 1977, Dadgar 2007).

2-the dominant epistemology is based on positivism which exclusively scrutinizes the beliefs through empirical testing.This epistemology asserts that:a)-there is only experience and others have to be rejected(logic and mathematic are exception),b)-abstractions are mere linguistic phenomena, c)- insists on seperation of facts and values(science is value free) , d)-the unity of the scientific method,and e)-searching on human causal relationships.Accordingly the undertaking of science has no relationship to political,social or cultural beliefs,and logic and mathematics provide the foundation of science , a universal language, and a formal basis for quantitative analysis.

3-positivism also contains an special ontological standpoint,assuming that the universe is a collection of given and immutable empirical entities.However other alternatives like relativism or instrumentalism hold that reality is a subjective construction of the mind .

4-the evoloutionary trend of positivism is intresting.The major area of intellectual activity from beginning of 3rd to the end of the 15th century was either theology or compromising religious belief with Aristotle's ideas(scholastic). Copernicus(1473 – 1543) in 16th century challenged the aristotlian world view.Galileo(1564 – 1642) maintained that the whole nature could be described by mathematics. Bacon(1561 – 1626) replaced the aristotle's method with inductive-experimental one. According to Descartes(1596 –1650) mind was separated from physical substances and all material objects could be reduced to mathematical form. Hobbes(1588 –1679) stated that humans could be studied using the physical scientific methods. Newton(1643 –1727) stressed the need for experimental confirmation of theories. Hitherto these idea affected the economic thinking of Hume (1711-1776), Smith (1723-1790) and other founding fathers of economics. Comte(1798-1857) said that the study of human phenomenon should reflects methods used in physical science and the above trend laid the foundation of traditional positivism.

5-Of course some other evoloutions were completing the above trend.One is ,the theory of evoloution of Darwin (1809 – 1882). Herbert Spencer(1820-19030), based on Darwin's theory,developed a biological analogy for sociology.Spencer viewed sociology as a self regulating system which could be studied by examination. We obviously see the impact of this spencer's special views on a considerable amounts of economic findings. The efforts of John Stuart Mill(1806-1873) in this regard both historically and methodologically is significant too.For his system of logic provided an empirical ground for knowledge.Not surpisingly ,however , he stipulates that

although the study of human nature should aspire to be like the exact sciences, they never would be(Brown ,et al1981).

6-the role of Ernst Mach(1838-1873) and Avenarius(1843-1896) among phiosophers,Jevons(1835-1882),Walras(1834-1910) and Menger(1840-1921) among economists,and Durkheim(1858-1917) under the above environment is conciderable.Advocation of Mach was that knowledge should be limited to sensations,according to Avenarius,metaphysical ingredients had to br eliminated. Like Spencer and Comte ,Durkheim borrowed his methodology from natural sciences.Walras was trying to indicate a pure economic theory similar to mathematics,Jevons resembled economics to statistics and Menger insisted on an abstract theory of economics as if it was pure logic.Of course Menger,Walras and Jevons,produced the marginal theory in economics,jointly, which itself is accounted as a kind of revoloution in economic theory.This in turn led to development of neoclassical schools generally and ONP particularly.

7-non realistic features of the positivism was encountered by some basic critiques.For instance, Dilthey(1833-1911), suggested that individuals do not exist in isolation and they need to be understood in the context of their cultural and social life,and life can not be understood as a machine as Hobbs suggested,and according to the laws of nature.Heinrich Rickert(1863-1936) emphasized that values provide the meaning and they are universal.For Husrel(1859-1938), knowledge was a sort of social institution rather than hard facts For Weber(1864-1920) and also Mead(1880-1940) meaning is derived from social interaction.

8-In the 1920s,however logical positivism (or neo positivism) emerged.One of its problematic ideas was "theory free observation" which was rejected in several studies(Hesse 1980).Second,they dismissed the inductive reasoning and relied exclusively on deductive one,however science as a human activity takes place in a historical context.Third is their claim of value free aspect of the processes of scientific inquiry.So many studies prove that values play a significant role in developing theories ,specially in social sciences.The unity of scientific method is another challenge of logical positivism,for there are special differences between natural and social sciences.Some studies criticize them from hermeneutic point of view.Gadamer for instance criticizes the ontology of logical positivism and maintains that language is not a mere system of sounds and symbols,but it becomes the expression of being.Habermas further,uses the elements of hermenutics to bridge the political structure of discourse.New paradigms assert that there is no unique method of science but scientific process,specially in social science is multimethodic in principle(Morgan 1980).

9-we obviously find out that attending EIE,in MIT,framework is potencially speeking in direction with the new and most advanced paradigms and critics of ONP.For it embrases both technical and ehical aspects of an effective economic paradigm for 21century. The former president of Federal Reserve related the financial crisis in some period to unjust, non-ethical and non-reasonable wealth formation via mere speculation ,unproductive activities of financial brokers, dealers and bankers .Not surprisingly, he, emphasized on his previous findings regarding the impact of ethics

on economic crisis, during the current crisis (2007-2010) as well (Greenspan 1998, Andrews 2008). In IE, ethics does have central role in such a way that its two other basic complements, belief and jurisprudential principles are operating as its logistic and backing factor respectively (Naqavi 1978, Quran 5/152, 7/81, 8/2-4, 17/16, 57/7).

10- The ONP maintains on economic growth as the basic indicator of wellbeing and happiness of the society however, so many studies show that: nations don't get happier over time as they get richer, in GDP scale indicators (John and Ormerod 2008).Maintaining IE on both material and spiritual of happiness is crucial factor in this regard.Ralph Fouts correctly maintains that: orthodox economic theorists have not adopted logical methods for investigating the economic world but instead have assumed an imaginary world that submits to the logical methods they want to use. Economic experts have always been in thinking and studying to reform ONP or finding alternative for that.

11- posing alternative approach goes back to 1930s, where American institutionalist economists criticized some dimension of ONP .In 1987, alternatives included some of Keynesian and Marxist economics as well . By the 1990, Austrian economics, feminist economics, evolutionary economics, Sraffian economics and social economics were added to the above list. In 1998 some associations were established and some journals published in this regard. This trend has had some much more development in the first decade of 21 century (lee 2009) and is going to be much more serious after current crisis (2007-2010).

12- According to IE economics is a social science with enormous potential for making different impact, on policy debates. The definition of economic man as an autonomous rational maximize is too narrow and does not provide the sufficient grounds for the role of other determinants such as social, historical and cultural factors. These, in turn, shape and guide human behavior which affects on economic behavior.

13-apearance of current economic crisis could be accounted as falilure of ONP which necessitates suplementing,if not suplanting. In the current economic crisis: there was about $ 60 trillion waste of money throughout the world which is equivalent to GDP of so many countries, Around 60% of value of stock market vanished. It was as if American business in May 2009 were suddenly worth $8.3 trillion than they had in May 2008..Economic reality is dynamic and realistic, economic inquiry should focus on processes rather than mere projects (as ONP does). Also positive- normative distinction or fact-value dichotomy is a problematic case in economics.

14-however MCs,while having such qualified cultural background do not employ it optimally,so NMCs by employing a negligible part of ethics are remarkably ahead of MCs.Some studies indicates that making wealth requires people to do what they say(Cooter 2008),not surprizingly,Quran stipulates that:O,belivers,why do you profess what you don't practice,it is very hateful in God's sight that you profess what you do not do(61/2-3).In sum ,non-muslims do have weaker potencialities but do what they say, muslim people , posses much more qualified potencialities,but do not obey

the rules of the games and lag behind.Finally noticing to the discourse of hellish and the heavenly people might be informative and instructive in this connection.In resuruction day,some supposedly bad people,who were in heaven,surprisingly,see some good ones in hell.They asked them: "you guided us and based on your speech we entered the heaven,why are you in hell?".Hellish people answered: "we just were saying good things and we never performed those good things in our actual practices.

REFERENCES

Anderson, J, N, 1959, Islamic Law in the Modern World, New York, New York University Press.

Andrews E, L, 2008, Greenspan concedes error on regulation, New York Times, October 23.

Arnsperger, C, and Varoufakis, 2005, a model peculiar failure, erkenntnis, 59, 157-188.

Askari, H.2008, Islamic finance and economics, john wily and sons.

Asyrow, T., 2006, translation of Faslul Maqal, Ashgabat Press.

Averroes, A., 1961, On the Harmony of Religion and Philosophy, (G. Hourany translation), London, Luzac & Company.

Backhouse, R.E, 1997, Truth and progress in economic knowledge, Cheltenham, Edward Elgar.

Bahrol Olum, M, 1977, Ijtihad, Beirut, Daro Zahra.

Barker, D.K, 2003, emancipatory for whom? Feminist economics (1), 103-108.

Bell, D, and Kristol, L, 1981, the crisis in economic theory, New York, basic book.

Beneke, C, 2006, beyond toleration, New York, oxford university press.

Berkeley 2009, symposium in Shariah law and Islamic finance, Berkeley University, Boalt hall department, February.

Berkhof, L, 1996, *Systematic Theology*. Grand Rapids: Wm. B. Erdmann Publishing Co.

Bhaskar, R, 1979, the possibility of naturalism, Hemel Hempstead, harvester press.

Bhaskar, R.A., 1997 , "A Realist Theory of Science," London: Version

Bhaskar, R.A., 2002, *Reflections on Meta-Reality: A Philosophy for the Present*, New Delhi: Sage.

Blaug, M, 1980, the methodology of economics, Cambridge, Cambridge university press.

Blaug, M, 1997, ugly currents in modern economics, optimal politiques, 18(17), 3-8.

Bonjour, L, 2002, epistemology, lanham -roman and Littlefield.

Bowles, S, 1998, endogenous preferences, journal of economic literature, 36, 75-110.

Brown S. et al, 1981, concepts of inquiry, Open University press.

Choudhury M. A, 2008, the universal paradigm of Islamic world systems, world scientific publishing company.

Colander, D, 2007, the making of an economist Redux, Princeton, Princeton university press.

Cooter, R, 2008, doing what you say, Alabama law review, 59(4), 1107-1133.

Creswell, J, 2003, research design, thousand Oaks, sage publications.

Dadgar, Y, 2008, the role of a synthesis of faith and reason in enhancing the efficiency of economy, Washington D.C. conference paper, March 24, CUA.

_____2007, an introduction to economic methodology, nay publishers.

Dasgupta, P, 2002, modern economics and its crisis, in U. Maki, fact and fiction in economics, Cambridge, Cambridge University press.

Davidson, H.A, 1992, Farabi, Avicenna, and Averroes, on intellect, oxford university press.

Davis, J.B, et al, 2004, the Elgar companion to economics and philosophy, Cheltenham, Edward Elgar.

Dow, S, 2002, pluralism in economics, conference papers, association of institutional and political economics, November 29.

Esther-Miriam, S. 2003, pleases for pluralism, post-autistic economic review, 18(5), 2, February.

Fullbrook, 1997, post modernizing humo-economicus, in S.Earnshaw, just postmodernism, Amsterdam, and rodopi.

Greenspan, A, 1998, the globalization of finance, the Cato journal 17 (3).

Hallaq W, 1984, was the Gate of Ijtihad Closed, International journal of Middle East Studies, 16 (1), 3-41.

Hands, D.W, 2001, reflection, without rules, economic methodology and contemporary science theory, Cambridge, Cambridge University press.

Harvard law school, 2008, Islamic finance forum, conference papers, Islamic law publishing center.

Hasse, M, 1980, theory and observation in revolution and reconstructions in the philosophy of science, Indiana University press.

Hausman, D, 2008, The Philosophy of economics, New York, Cambridge university press.

Hay, C 2008, the theory of knowledge, Cambridge, the Butterworth press.

Hick, J, 1985, problems of religious pluralism, New York, St.Martin's press.

___, 1997, the possibility of religious pluralism, religious studies, 33,161-166.

Ibn Hindi, H, 1985, Kanzol omal, Beirut, Resalah publications.

Ibn Khaldun, 2005, an introduction to history, Princeton university press.

IMF, 2009, world economic outlook, Washington D.C, IMF.

Kellert, S.H.et al, 2006, scientific pluralism, university of Minnesota press.

Kuhn, T, 1970, the structure of scientific revolutions, Chicago, university of Chicago press.

Lawson, T, 2003, reclaiming reality, NY, Rutledge.

Laudan, L, 1977, progress and its problems, London Rutledge.

Lawson, T, 1997, economics and reality London Rutledge.

Lee, F, 2009, challenging the mainstream, London, Rutledge.

Machlup, F, 1978, methodology of economics and other social sciences NY, academic press.

Marciano, A, Maud, P, 2000, Altruistic preferences and social cooperation, mimeo.

Maududi, A.A, 1975 ,the economic problem, and its Islamic solution, Lahore, Islamic publications

Mcclosky, D, 1985, the rhetoric of economics, university of Wisconsin press.

____, 1994, knowledge and persuasion in economics, Cambridge university press.

Morgan, G, 1980, paradigms, metaphors and puzzle solving in organization theory, administrative science, quarterly, December.

Naqavi S. N. 1978, ethical foundations of Islamic economics, Islamic studies, journal of Islamic research Islamabad.

Nasr, H, Leaman, O, 1996, history of Islamic philosophy, London, Rutledge.

Nelson, Q, 2007, the slightest philosophy, India polis, dog ear publishing.

North, D.C.C, 1990, institutions, institutional change and economic performance, Cambridge, Cambridge university press.

Phelps Brown, S, 1972, the underdevelopment of economics economic journal 82.

Popper K, 1959, the logic of scientific discovery, New York, Harper.

Qazali, Imam, 2008, return to purity in creed, lamp post productions.

Quran, 1996, translated by M. Taqiodin, Riyadh, and Darussalam Publishers.

Ramadan, T, 2008, radical reform, oxford university press.

Robbins, L, 1935, an essay on the nature and significance of economic science, London, Macmillan.

Robinson, J, 1962, economic philosophy, London, watts.

Rosenberg, A, 1992, economic theory as political philosophy, social science journal, 36(4), 575-78.

Sadoogh, A, 1996, origins of Shariah, Najaf, haider publications.

Sadr, M.B, 1985, Eghtesadona, Beirut, resale publishers.

Sen, A, 2005, on ethics and economics, Delhi, oxford university press.

Shatibi Imam, 2006, theory of the higher objectives and interests of the Islamic law, international institute of Islamic thought.

Sherbini, K, 1988, Moghnel mohtaj, Cairo, Halabi press.

Sierra, M.T, 1995, Indian rights and customary law in Mexico, law and society review, 29(2),227-254.

Toosi, K.N, 1994, Naseri's morality, Kharazmi publications.

Toulmin, S, 1972, human understanding, Princeton university press.

UNDP, 2009, human development on the move, New York, human development report office.

Wilber, K and Hoksbergen, R, 1986, ethical value and economic theory, religious studies review, 12(3), 211-212.

BETWEEN THE DESIRE FOR CHANGE AND THE NEED FOR PERMANENCY

A study on the investment of Zakãh for the prevention of poverty, based on the earliest sources.

Sheikh Muhammad Faaik Gamieldien
Advocate

BETWEEN THE DESIRE FOR CHANGE AND THE NEED FOR PERMANENCY

A study on the investment of Zakãh for the prevention of poverty, based on the earliest sources.

Sheikh Muhammad Faaik Gamieldien

See you not how Allah sets forth a parable? – A goodly word as goodly tree, whose roots are firmly fixed, and its branches reach to the sky. Giving us fruit at all times, by the leave of its Lord. And Allah sets forth parables for mankind in order that they may be reminded. [Al-Quran 14/24]

INTRODUCTION

We live at a time when the world is facing unprecedented economic challenges occasioned, in part, by the global economic meltdown. I say in part, because problems of material deprivation and poverty have always been part of the social landscape of the third world. It is now a phenomenon that arrogantly stares even first-world countries in the face.

We live in a culture of aid and hand-outs. We live in a culture in which those who are better off subscribe – both mentally and physically – to the notion that giving charity to the poor is the right thing to do. In the past fifty years, over US $1 trillion in development-related aid has been transferred from rich countries to Africa.

But has more than US$1 trillion in development assistance made African people better off? No. In fact, across the globe the recipients of this aid are worse off; much worse off. Aid has helped make the poor poorer, and growth slower. Yet aid remains a centre-piece of today's poverty alleviation strategies and one of the biggest ideas of our time. Deep in every liberal sensibility is a profound sense that in a world of moral uncertainty one idea is sacred, one belief cannot be compromised: the rich should help the poor, and the form of this help should be financial aid. As for the administrators of all this aid, their motivation is simple: that's where the money is!

In the light of the above, models to assist individuals and communities have to be carefully planned to incentivize individuals and communities to set their own goals, generate their own developmental requirements in order to achieve their goals. We have to learn how to tap into the human spirit, where aspirations are housed, in order to maintain sustainability. We have learnt, historically that no amount of material input or incentive can maintain sustainability. Without harnessing the strength of the human spirit and its inherent desire to be successful and self-sufficient we will remain ineffectual in our efforts to create a better world for all.

Our assistance programmes must aim to demonstrably achieve two objectives however minimally achieved in its inception, namely, poverty alleviation and economic growth in order to realize our ultimate objective of poverty eradication.

All of the above will depend on good governance by which I mean that more rands must be ploughed into projects rather than into the pockets of employees and incidental expenses. I believe we have not made enough effort to find the voluntary human capital that is required to achieve this goal.
This demands of us a new level of consciousness, a greater degree of innovation, and a generous dose of honesty about what works and what does not as far as poverty alleviation and social development is concerned. As Muslims we need to re-assess the institutions of Islam in which ultimately lies the solution and the salvation of Mankind. This paper will aim to place Zakah (which means growth and development) at the center-stage of sustainable economic growth.

Fiqh: between the desire for permanency and the need for change

Notwithstanding the classical and linguistic meaning of ***fiqh, fiqh*** may be defined as "the complete understanding of the ***Dīn***." (***Al-fahm al-kāmil lid-dīn***). The completeness of ***fiqh*** lies in its responsibility to address contemporary human issues within the context and ethos of the Qur'ān and the normative pattern of behaviour of the Prophet[1] (Peace and blessings of Allāh be upon him) and his Companions[2] (May Allāh be pleased with them all.)

Fiqh, which is the human edifice erected upon the bedrock of the ***Sharī'ah***, is unique and has no parallel amongst legal and religious doctrines. ***Fiqh*** has always been an expression of the spiritual and has never been an aspiritual discipline, as is the case with man-made law in general. This natural synergy between the legal and the spiritual has always been a hallmark of Islam. The historical tensions between the church and the state that characterized Christianity never afflicted the Islamic body politic. These tensions, which culminated in the Reformation, resulted in the wholesale secularization of the entire Christian intellectual system. Secularism triumphed and became part and parcel of the Western psyche. Historically, this is perhaps one reason Westerners become paranoid at the mere mention of the word ***Sharī'ah***.

The ***'aqīdah*** of a Muslim enjoins upon him the belief that both the service of the state and the service in the mosque are acts of worship. After all the Prophet (pbuh) declared the whole world to be a mosque. This means that wherever a Muslim finds himself and wherever he does good, he is performing an 'ibadah in the global mosque!
For Muslims there can be no solutions outside the realm of the ***Qur'ān*** and ***Sunnah***. Despite the fact that the Qur'ān is less than a quarter of the Bible, and can be placed in one's pocket, it has to provide answers to all the exigencies of life. Of the approximately 6 600 verses only two to three hundred deal with express legal issues or ***ahkām***. Even if all the verses of the ***Qur'ān*** dealt with legal issues it could never regulate all human activity. Even with regard to the ***ahādīth***, of the largest collection of approximately 50 000 only about 3 000 deal with legal issues. We have to admit that it requires profound insight, a profundity of wisdom, and a deep appreciation of the divine and prophetic texts to be able to extract answers for every conceivable human activity from such an apparently limited source. I believe that Allāh[2a] (SWT) has presented this unique intellectual challenge to all of us to exercise our capacities

to the utmost in order to foster and preserve the ***Sharî'ah*** as a vibrant tool of stability, and progress. In other systems of law, the law either applies to a situation or, if not, then that situation is deemed to fall outside the law. In Islam this is never the case. All human activity must fall within the ambit of revelation. This is the ***essence*** of ***fiqh.*** People translate ***fiqh*** as "Islamic Law", but in reality it is much wider and much more comprehensive. Fiqh is the ***corpus juris*** of Islam.

In the past people used to read into revelation things that were not there, whereas Muslim jurists jealously guarded the interpretation of the ***Qur'ān*** and ***Sunnah***. Every new opinion had to have legitimacy. This scrupulous adherence to legal and historical precedent provided for the law an iron-chain genealogy. ***Imam Abū Hanīfah***, for example, had about 120 disciples who collectively contributed to the development of the corpus of Islamic law. More than ninety thousand of their rulings have come down to us, reduced to writing by ***Muhammad al-Shaybānī***, in the second century of the ***hijrah.*** These texts were summarized in the work ***Al-Kãfi fi Furū' al Hanafiyyah***, which work in turn was summarized in a shorter text called ***Bidãyatul Mubtadi*** on which a commentary was written by ***Burhãnuddīn al-Marghinãni***, known as the ***Hidãyah.*** This chain of legitimacy and validity is not known in any other system of law.

Furthermore, all previous ideologies failed or lost their relevance through lack of balance between change and permanency. Some legal systems were over-enthusiastic about change and lost their past heritage. Other legal systems such as Hinduism stuck to the past and lost touch with reality. For the Islamic system to succeed, Muslims have a religious duty to balance the desire for permanency and the need for change.

2. ZAKĀH: FROM DEFINITION TO OBJECTIVES

Lane defines the verb ***zakā/yazkû***, in its primary sense, as that which denotes purity and that, which increased, or that [3]which was augmented or that which received increase and blessing from Allah. In a tradition attributed to ***'Ali (RA***), he is reported to have said:

Al-mālu tanqusuhu al-nafaqatu wal 'ilmu yazku 'alal infāq.

Spending reduces wealth, whereas knowledge increases with dissemination.

There is no doubt that zakãh means development, growth and increase. ***Hãfiz ibn Qayyim*** describes the philosophy and objective of zakãh in the following words: "Therefore Allah in His wisdom imposed an obligation on wealth which may not be (too much of) a burden on (the wealthy) but should be adequate for the needy so that they do not have to turn to any other direction."[4] How is it possible for any poor person today to live only on the proceeds of zakãh?

Ibn Hazm, the famous commentator on hadīth, writes as follows: "It is the duty of the wealthy in every community to assume responsibility for the satisfaction of the needs of the poor and the indigent and if the income from zakãh is not enough to meet their needs the ruler can force the wealthy to satisfy them. The requirements of their living will call for the provision of food according to their needs, clothes suitable for summer and winter and living accommodation that may protect them from rain, heat, the sun and the inflow of water.[5]

We note that both ***Ibn Qayyim*** and ***Ibn Hazm***, great luminaries in the sphere of law, express the sharī'ah requirements of our responsibility towards the poor. For them there are no half-measures. Half-measures and handouts only serve to exacerbate the trauma of need and create a whole community of dependents.

Shihab al-Dīn Ahmad al-Ramli, commenting on ***Ibn Hazm's*** view, says: "Besides…those things ... others are included which may be equally necessary, for example, the payment of physicians, the price of medicine, and an attendant for the one who cannot perform his personal functions."[6]
If today education is included among the equally necessary things, then from where must the requisite resources be mobilized to meet these needs now and in the future?
It is self-evident from the definition of the term zakāh that it is meant to be a source of growth and development. But how do we make sense of this meaning of zakāh when it is totally non-existent in the manner in which zakāh is presently being administered? Growth and development can only be realized if capital is employed gainfully, in trade for example, or directly invested in real estate, etc.
If we argue that by growth and development the Sharī'ah means the growth and development of the faith of the giver, then we say: is this not the reward offered to all manner 'ibādah, whether it be the fulfillment of contracts or the performance of hajj?
If we argue that the investment of zakāh is *ultra vires* the Qur'ān and Sunnah, and that "other funds" must be used for this purpose, then we deny two fundamental ingredients of our faith; firstly, we are insinuating that the Islamic system is not all-embracing and does not provide its own internal solutions, and secondly, that the institution of zakāh is deficient in providing for the present and future economic needs of Islam's adherents.

There is no injunction in the Qur'ān or in the Sunnah, which **prohibits zakāh from being gainfully employed in order for it to grow.** If there is no such prohibition and the urge and reality of the age demands both, then why does orthodoxy oppose it? In fact there is indisputable evidence that **māl-ullāh**, or the wealth of Allāh, which includes zakāh, was invested in a commercial venture and capital and part of the profits paid to the ***Beitul Māl***. You will note that this use of zakah was purely for profit-making and not because the recipients were needy, and furthermore, they involved two of the most noble and highest authorities on the Sharī'ah, namely ***'Umar*** and his son ***'Abdullāh ibn 'Umar***. The incident is reported in the following tradition:
Mālik related from ***Zayd ibn Aslam*** that his father said: ***"Abdullāh*** and ***'Ubaydullāh***, the sons of '***Umar ibn al-Khattab***, left with the army for Iraq. On the way home, they passed by ***Abu Musa al-'Ash'ari***, the Amīr of Basra. He greeted them and made them welcome and inquired from them whether there was anything he could do to help them. Then he said: "There is some of the property of Allāh (***mãl lullah)*** which I want to send to the Amīr al-Mu'minīn[7] (***'Umar ibn al-Khattãb)*** so I will lend it to you and you can buy goods from Iraq and sell them in Madinah. Return the capital amount to the Amīr al-Mu'minīn and you keep the profit." They responded positively, and so he gave them the money and wrote to ***'Umar ibn-Al-Khattāb*** to receive the money from them. They traded the goods in Madinah and made a handsome profit. When they paid the principal to 'Umar he asked: "Did he lend anyone in the army the like of what he lent to you?" They said: "No." '***Umar ibn al-Khattāb*** said: "He made you the loan because you are the sons of the Amīr al-Mu'minīn, so pay the principal and the

profit." 'Abdullāh remained silent. 'Ubaydullāh repeated what he had said. 'Abdullāh continued to remain silent. A man who was sitting with 'Umar said: "Amīr al-Mu'minīn better that you make it a qirad partnership. 'Umar said: "I have made it a qirad[8]." 'Umar then took the principal and half the profit and 'Abdullāh and 'Ubaydullāh the sons of 'Umar ibn al-Khattāb took half the profit."[9]

It is manifest that in the above example zakãh was in fact utilized as trade capital and the capital zakaah amount and half the profit was returned to the ***beitul mãl.*** This is a model that we can certainly emulate in growing the resources of SANZAF.

We must also note that a number of major sources of revenue for distribution to the poor do not exist anymore, such as ***kharãj*** (a tax levied on land owned by non-Muslims), ***jizya*** (a tax paid by non-Muslims living under the protection of Muslims) and ***Mãlul fay*** (everything which accrues to Muslims of the wealth of non-Muslims without war).

I believe that the question of the investment of Zakāh, to provide long-term solutions for the prevention of poverty has either not been considered as a Sharī'ah option (except for the Sudan) or has been summarily dismissed as against the 'rules'. The argument that Zakāh is not a tax but an ***'ibādah*** and therefore no change in its sources, rate and application can be permitted. To evaluate this argument we should answer the question whether any action in the life of a Muslim is outside the realm of ***'ibādah***. Are earning a livelihood, rearing children, sleeping and waking, paying one's obligations not 'ibādah? Now if, for example, the journey to this conference be an 'ibādah, can the mode of travel, the destination and the path be declared to be eternally unchangeable? Will any changes essential to the journey become prohibited in Islam? Such an assertion, by anyone, would be patently absurd.

There are others who will assert that zakāh may not remain undistributed for more than one year. First of all this is neither a Qur'ānic nor a prophetic restriction but the question arose in the cabinet (***shūrah***) of ***'Umar (RA). 'Ali (R)*** suggested that the Baitul Māl should distribute all its assets within a lunar year. There is no evidence that the Companions unanimously agreed (***ijmā'***) to this view.

Let us take a closer look at what is fundamental in the law of zakāh and what belongs to its ***furû'*** or details/branches. It must be born in mind that the fundamentals of zakāh are inextricable linked to its objectives. What are the objectives of zakāh? We read in ***Surah Tawbah (9:1-129)*** of those who are entitled to zakāh. The question is whether Allah meant for these recipients to be recipients their whole lives. Is it to keep the poor trapped in a roller–coaster ride of periodical and seasonal handouts? Ask any zakāh worker and he will deny that this is the aim of the zakāh fund. He will justifiably argue that the reason for this state of affairs is simply that there are too many poor people and too little zakāh resources. And he will add that the situation is not getting better but deteriorating by the day.

What again I ask is the objective of zakāh? To answer this question truthfully, it behoves us to look at the ideal Islamic state as it existed in the time of 'Umar bin al-Khattāb. 'Omar was a true "man of the people" and succeeded in creating a society free of want in what may be termed as the first true "welfare state". He was acutely aware that poverty not only breeds unbelief, as taught by the Holy Prophet, but that in an impoverished society individuals cannot be persuaded to work for high ideals of morality, equality, social justice and fear of Allāh. We find that in the manner in which 'Umar applied the resources of the ***beitul māl***, he saw the objective of zakāh

not as the eradication or elimination of want and poverty, but its **PREVENTION**. To this end 'Umar gave a stipend to every man, woman and child: "The inhabitants of Madinah were given 25 dinars each. The people of Yaman, Syria and Iraq were given allowances varying from 200 to 300 dihams annually … women were also awarded allowances according to their preferences in embracing Islam, relationship to the Prophet, etc. Major children of those who participated in the battle of Badr were awarded 2 000 dirhams each. Every other major child received 300 dirhams. Infants were given 100 dirhams from the day they were born … Orphans were treated in line with other children. They received an allowance of 100 dirhams which increased as in ordinary cases. Guardians of such children were given separate pay and allowance. Clothing, shelter and education of such children was a state duty.[10] 'Umar used to say: "The poor Arab, when he gets his allowance, should buy goats and when he receives it again he should add cattle to his herd, because I fear that after me people who will be your amīrs will not give you allowances, and if some one of you is alive at that time he should have enough capital to spend his life easily."[11]

It is evident that 'Umar saw his mission as providing proactively for all the citizens of Madina from the ***beitul māl***. Why is it that we are not even thinking about emulating this noble example? Have we failed, or is it a failure of understanding. Has the institution of zakāh failed, or have we failed in adapting it in accordance with the Sharī'ah? The law must be adapted to changing circumstances as expressed in the maxim:

Taghyirul ahkãm bi taghyiril azmãn
Changing circumstances necessitates adaptation of the law.

During the time of the Prophet and ***Abū Bakr*** (RA) the imposition of import-duties were non-existent. It is well-known that this duty was imposed by 'Umar when he learnt that this was the accepted practice in both the Byzantine and Persian empires. Not only did 'Umar impose this duty but he regarded the revenue derived as forming part of the revenue of the ***beitul māl***.[12] There can be no gainsaying of the fact that all this was done for the greater public good (***al-maslahatul mursala***). If 'Umar attuned the law to international practices, is it not incumbent upon us to do the same? Everybody speaks of investment in real estate, offshore, etc. But who will do it on behalf of the ummah and for the benefit of the ummah?

Secondly 'Umar imposed zakāh on stock in trade and on horses which the Prophet had not done.[13] Conventional fiqh and the major schools accept this extension as part of zakāh. Again, when Arabia was struck by severe drought and famine, he suspended the collection of zakāh from the rich and exempted the poor wholly from it in that particular period.[14] We can safely conclude that 'Umar was guided as much by the sacred sources as by the condition prevailing at the time.

Each one of us has made some provision for the future. The Qur'ān has made this our Islamic duty when it declares: ***O ye who believe! Fear Allāh and keep your duty to Him. And let every person look to what he has sent forth for the morrow, ..***[59:18]. Yet collectively we have done little to secure the economic future of the poor.

3. CONCLUSION

When ***'Umar bin 'Abdul-'Azīz*** became Caliph, he literally wept with the consciousness of the heavy burden of social obligations under Islam. His wife Fātimah said: 'I went to him and found him on the prayer mat, his beard wet with tears. I enquired whether something new had happened.' He replied: 'I have taken upon myself the responsibility of the entire ummah and am worried regarding the hungry, the sick, the mujahids, the aged and those with large families and limited means. I am also worried about similar other people in diverse regions. I feel that Allāh will take me to task for all those people on the day of judgement and the Holy Prophet will plead their case against me. I fear that I shall not be able to answer his cross-examination and out of pity for myself, I wept.'[15]

The Holy Prophet (SAW) has said; "If anyone gets up in the morning after having remained hungry the previous night, then this absolves Allāh from the duty of giving protection to that community."[16]

In our country millions sleep either unfed or inadequately. I believe that the institution of zakāh, correctly interpreted and applied, must provide the solution for the ultimate prevention and eradication of poverty.

There is an African proverb that says: the best time to plant a tree is twenty years ago. The second- best time is now.

AND IN ALLĀH LIES OUR SUCCESS.

---

[1] Whenever the Prophet Muhammad is mentioned, the salutation "Peace and blessings of Allāh be upon him" is understood.

[2] Whenever a companion or family member of Prophet Muhammad (Peace and blessings of Allāh be upon him) is mentioned, the salutation "May Allāh be pleased with him (or her or them) is understood.

[2a] Whenever Allāh's name is mentioned, the phrase "Most High" is understood.

[3] [Refer to Lane's dictionary].

[4] Hafiz Ibn Qayyim. *Zad-ul-Ma'ad*, 358.

[5] Ibn Hazm. *Al-Muhalla*, vol. 6, 156.

[6] Shihab al-Din Ahmad al-Ramli, *Nihayat-al-Muhtaj ila Sharh-al-Minhaj*, vol. 6, 194.

[7] Al-Zuhaili, Wahba. *Al-Fiqh al-Islami wa* adillatuhu, vol. 4, 838. [Imam Shafi' quotes this hadith directly from Imam Malik in his Musnad.

[8] Qirad is a commercial loan where the profit is shared between the capital-provider and the entrepreneur.

---

[9] **Translation taken from *al-Muwatta of Imam Malik ibn Anas* by Aisha Abdurrahman Bewley. 280.**

[10] **Ra'ana, Irfan Mahmud. *Economic system under Umar the* Great. 129-130.**

[11] **Ibid., 133**

[12] **Ibid.**

[13] **Abu Yusuf. *Kitab Kharāj*, 404.**

[14] **Ibid., 65**

[15] **Ibn Athir. *Tarikh-al-Kamil*, vol.5, 24.**

[16] **Ahmad Ibn Hanbal. *Musnad*.**

TAUHID EPISTEMOLOGY IN INCREASING THE NUMBER OF ZAKAT-OF-WEALTH PAYERS AND ITS CONTRIBUTION TOWARD THE DEVELOPMENT OF MALAYSIA ECONOMY

Azman Ab Rahman & Syed Mohd Najib Bin Syed Omar
Lecturer Faculty Syariah and Law
Islamic Science University of Malaysia
(USIM)

TAUHID EPISTEMOLOGY IN INCREASING THE NUMBER OF ZAKAT-OF-WEALTH PAYERS AND ITS CONTRIBUTION TOWARD THE DEVELOPMENT OF MALAYSIA ECONOMY

Azman Ab Rahman
Syed Mohd Najib Bin Syed Omar

ABSTRACT

Epistemology is a branch of philosophy which study on the theory of knowledge, its value and limitations including the level of knowledge perse. Whereas, Tauhid Epistemology is a theoretical approach with the belief that "There is no God except Allah" as its basis. This sacred proclamation should be permanently accompanied by tangible action as a proof of obedience to Allah SWT in every aspect of life. This kind of approach may also be associated with zakat particularly to increase the number of zakat-of-wealth payers in Malaysia. State Zakat Collection Center (hereinafter called the centers) and Baitulmals have been planning various activities to encourage people to pay zakat-of-wealth. Many kind of promotions and publicities have been conducted via mass media and electronics as well as one-day-briefing on the importance of the payment of zakat-of-wealth in public and private sectors. Unfortunately, according to a research, the number of zakat payers of this type is still far from satisfactory. Therefore, this paper attempts to explain how Tauhid Epistemology approach may raise awareness among Muslim community to pay zakat-of-wealth. The writer also would look into its contributions toward the development of Malaysian economy owing to zakat is one of the essential instrument in developing and boosting the economy of the nation. A part from that, the writer would give a few suggestions based on a pilot study in Selangor, to improve the number of zakat-of-wealth payers in Malaysia. It is hope that this paper would be able to give a clear picture on how Epistemology Tauhid approach creates awareness among Muslims and increase the number of zakat-of-wealth payer especially in Malaysia.

Introduction

All types of strategy have been carried out by the centers to motivate and encourage Muslims to pay *zakat*. It ranges from promotions to campaigns just to enlarge the zakat-of-wealth payers' community. Most of the time, the centers launch their annual campaigns in December and each *zakat* payment would qualify them to get tax rebate from in-land revenue department. Moreover, some centers run their promotions by displaying advertisements on public transportations, and setting up buntings in public area. They also organize forums, seminars and even workshops to give explanation on zakat-of-wealth to the public. This proves that the centers and *baitulmals* are taking the matter of zakat-of-wealth seriously. While the number of people paying *zakat fitrah* is increasing but the number zakat-of-wealth payers is far from satisfactory compare to the population of Muslim people in each states of Malaysia. This is where Epistemology *Tauhid* approach takes it role in raising awareness among Muslim to pay *zakat* especially zakat-of-wealth and increasing the number of *zakat* payers in Malaysia.

The Concept of Epistemology Tauhid

The Concept of Epistemology

Epistemology is a branch of philosophy that discusses the theory of knowledge, its value and limitation. Epistemology is also considered as an attempt to explain the fundamental question in distinguishing between the fact and fiction. (Mohd Radhi Ibrahim: 2006)

In fact, the term of epistemology is a unique knowledge that has been founded in the west since three centuries ago which is known as the theory of knowledge. In Arabic and Islamic world the term is known as "*Nazariyyah* al-*Ma'rifah*. Islamic Jurists do not distinguishably discuss epistemology but usually it is accompanied together with other field such as *mantiq*, *ilmu kalam* and philosophy. This proves that Islamic Jurists acknowledge the importance of this field in building up and developing human civilization (Sami 'Afifi Hijazi: 1991).

The Concept of *Tauhid*

The philosophy of *Tauhid* is based on the rudimentary belief that "There is no God except Allah" that has to be substantiated with tangible act. A person who admits this sacred proclamation is indirectly accepts that "Muhammad is the Messenger of Allah". The allegiance to Allah would not be accomplished except through allegiance to the Messenger of Allah and everything said by Him is definitely come from Allah the Almighty. Therefore, a Muslim must show his/her allegiance to the Messenger of Allah by performing all His teachings and commands.

As far as Islam is concerned, the teachings brought by Muhammad SAW could be categorized into three fundamental branches; *Aqidah*, *Syariah* and *Akhlak*. *Aqidah* is related to creed or belief of a person which is hidden from others and become a connection between Allah and His faithful servant. After a person understands and accepts the truth of Islam, then he/she must tender prove in the form of faithful behaviour toward Allah the Almighty. Such acts would differentiate between loyalty and disloyalty. Based on this notion, Allah has prescribed certain commissions as well as prohibitions, to be obeyed by Muslims who has confidently believed the oneness of Allah that is known as "*Syariah*". Through this kind of ritual acts Allah the Almighty teaches human beings how to become a good servant. The performance of the acts does not only depict the allegiance toward Allah but also plays a vital role in establishing the relationship between human beings. This is where Epistemology *Tauhid* takes into effect in encouraging Muslims to perform their monetary obligation and fulfill Islamic pillars with one accord that is *zakat*. (Mohd Radhi Ibrahim: 2006)

Tauhid Epistemology in *Zakat*

The application of *Tauhid* Epistemology approach could be seen in several matters. Muslim community need to be explained in all these matters in order to encourage them to pay *zakat* particularly zakat-of-wealth as it is the main contribution to help *zakat* beneficiaries (*asnaf*). Among the matters that should be emphasized by the centers and *baitulmals* are as follow:

First: Zakat Acts as an Acknowledgement of Islam

Zakat is a religious obligation and the third of five Islamic pillars. Through zakat, the monetary responsibility and *ibadah* could be performed for the sake of society. Thus, Allah SWT has indicated in Quranic verse that the payment of *zakat* is an acknowledgement to an individual that he/she is a true Muslim. Allah said in *surah* al-*Taubah* verse 11

فَإِنْ تَابُوا وَأَقَامُوا الصَّلاةَ وَآتَوُا الزَّكَاةَ فَإِخْوَانُكُمْ فِي الدِّينِ وَنُفَصِّلُ الآيَاتِ لِقَوْمٍ يَعْلَمُونَ (١١)

"But (even so), if they repent, establish regular prayers, and practise regular charity,- they are your brethren in Faith: (thus) do We explain the Signs in detail, for those who understand."

The above verse has clearly elucidated that the performance of *zakat* is one of the condition to become a faithful servant and a recognition as a true Muslim other than uttering *kalimah syahadah* and performing *solat*. The reason is preserving relationship between human beings is an obligatory act as ordained by Allah for the peace of mind and blissful life. In other words, by paying zakat, it could bring people together and the refusal to do so might bring people apart.

It is evident that the payment of *zakat* is undeniably crucial not only to help the needy one but a fundamental deed to recognize a Muslim as a real follower. The Islamic related authority should inculcate and explain this notion and employ the *Tauhid* Epistemology approach in raising awareness among Muslims to pay *zakat*. The writer is really convince that if all Muslims deeply understand the significance of paying *zakat* and its wisdom, the issue of many Muslim fails to pay *zakat* would be over.

Second: *Zakat* is A *Syariah* requirement and it preserves *Aqidah*

The payment of *zakat* either *zakat fitrah* or zakat-of-wealth is an obligatory act (*faridhah*) under Syariah and related to the act of upholding aqidah. The failure of performing it is a sinful violation of Allah's Right as prescribed by *al-Quran* and *Sunnah*. In surah *al-Taubah* verse 60, Allah SWT explained that:

إِنَّمَا الصَّدَقَاتُ لِلْفُقَرَاءِ وَالْمَسَاكِينِ وَالْعَامِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغَارِمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ السَّبِيلِ فَرِيضَةً مِنَ اللَّهِ وَاللَّهُ عَلِيمٌ حَكِيمٌ (٦٠)

"Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the cause of Allah. and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom."

The above verse clearly states that performing *zakat* is *faridhah* i.e compulsory and obligatory in nature that every Muslims must obey which require the full strength of *iman* and *aqidah*. True Muslims who continuously defend their *iman* would do all it takes to fulfill the obligation.

Third: The Wisdom of *Zakat* to its payer

The capability to pay *zakat* sincerely and wholeheartedly to Allah SWT is only a form of test to the people who has been granted with worldly wealth. Therefore, by paying *zakat* it may substantiate the belief that all things in heaven and earth are belong to Allah SWT. Human being is only a vicegerent (*khalifah*) that is responsible to administer the wealth and property for the purpose of jihad and welfare of Muslim as a whole. Allah said in *surah al-Taubah* verse 24:

قُلْ إِنْ كَانَ آبَاؤُكُمْ وَأَبْنَاؤُكُمْ وَإِخْوَانُكُمْ وَأَزْوَاجُكُمْ وَعَشِيرَتُكُمْ وَأَمْوَالٌ اقْتَرَفْتُمُوهَا وَتِجَارَةٌ تَخْشَوْنَ كَسَادَهَا وَمَسَاكِنُ تَرْضَوْنَهَا أَحَبَّ إِلَيْكُمْ مِنَ اللَّهِ وَرَسُولِهِ وَجِهَادٍ فِي سَبِيلِهِ فَتَرَبَّصُوا حَتَّى يَأْتِيَ اللَّهُ بِأَمْرِهِ وَاللَّهُ لا يَهْدِي الْقَوْمَ الْفَاسِقِينَ (٢٤)

" Say: If it be that your fathers, your sons, your brothers, your mates, or your kindred; the wealth that ye have gained; the commerce in which ye fear a decline: or the dwellings in which ye delight - are dearer to you than Allah, or His Messenger, or the striving in His cause;- then wait until Allah brings about His decision: and Allah guides not the rebellious."

The above verse could be impliedly understood that the comprehensive understanding and the strength of *Tauhid* would make them a loyal servant and they believe that the property they owned is only temporarily borrowed and Allah is the sole and absolute Proprietor.

There are many important matters related to Tauhid Epistemology approach but these three are the most comprehensive features as mentioned above that need to be focused by the centers and baitulmals in encouraging Muslims to fulfill their monetary obligation under *Syariah*. The writer strongly believes that if the Muslim community deeply understands the *Tauhid* Epistemology approach and its connection with *zakat*, they would be automatically driven to pay zakat particularly zakat-of-wealth, without being told to do so.

CONTRIBUTIONS OF ZAKAT-OF-WEALTH TO MALAYSIAN ECONOMY

Zakat-of-wealth could be used to help people in need and the national income could be properly utilized for other purpose. As we already know, zakat is one of the essential components in developing the economy of a country because the money owned by people would be thoroughly circulated regardless the status of a person. The circulation would prevent the polarization of wealth on certain group normally rich people. By zakat, the government may reduce the allocation for the poor and spend it to provide more jobs opportunity including trainings for unskilled workers. Eventually, all walks of life would be equally given not only financial support from the government but also the opportunity to improve their life. In sum, the role of zakat is to assist the government to help the poor especially to escape themselves from the clutch of poverty.

Zakat could act as a source of social securities in Islam that will guarantee the needs for those in need, also to guarantee the needs for the people who are weak. Based on

the practice of institution zakat in the past, has proven that zakat could really solve the problems of poverty. History has proven that during the reign of Caliph Umar Abdul Aziz, he has ordered his officer to collect the zakat in Africa. Then the officer did as what he was ordered by the caliph; surprisingly during the time where the zakat were supposed to be distributed, they could not found anyone that eligible enough to receive it. Clearly, it is an evidence that zakat once has solved all the nation problems especially poverty, ignorance and diseases. Our country also felt the impact on what happening outside, there is still poor people, famine, diseases that need to be help especially the assistance from zakat institution. It is not impossible that we could bring back the zakat gloriousness as what happened during the times of Caliph Umar Abdul Aziz if the public are aware about their obligation to perform zakat. The writer also believes that if all the Malaysian totally perform their obligation from now, our country will be freed from poverty and other diseases by the Vision 2020 (Muhamad Ramzi Omar: 2004)

Zakat encourages people to invest their money for the benefit of themselves and others. Every people save a proportion of their income for certain purposes. Sometimes, they keep their money for several years without using it. That means they are obligatorily to pay zakat. If they still refuse to use their money they would keep paying zakat annually and their saving would gradually reduce until the minimum requirement to pay zakat. Does that means paying zakat would reduce the wealth of the people? Of course not, it encourages people to invest their saving whether in the financial institutions or in other profitable areas. Therefore, the money would not remain dormant and even it increases the wealth of the people.

Zakat is a solution in problems such as poverty crisis, famine and so on. If zakat is compare with modern economic system in such sophisticated era, zakat is seen as not being able to play its role and have a significant impact for the national economic development. If seen from the zakat rate of 2.5% implied, it is hard to believe that it could bring a strength into the nation economic growth compared to the taxes rate. Eventhough a nation can not depend totally on zakat collections for the purpose of economic growth, but at least it could help to reduce government liabilities in facing this kind of situation and society are not just relying on the government to help them out.

Zakat may built the strength of Malaysian Economy. Zakat-of-wealth is imposed on every qualified Muslims regardless of their status of life. Normally the collection of zakat is distributed to the poor but that is not the reason why zakat is an obligatory. The obligatory nature of zakat remains although the poor is not exist. Thus, the collection of zakat could be benefited by channeling it to economic activities which its benefit would go back to Zakat beneficiaries by the reason of *fi sabilillah*.

Systematic and organized management of zakat will ensure social justice at all level of societies especially for those that are really in need also in contributing to the national economic growth. If public aware of the obligation to perform zakat and did not evade to do so; the country surely will have enough financial budget for development of the nation. The centers or authorized people in managing and distributing zakat should play a main role in explaining the importance and the obligation to perform zakat especially on properties zakat or income that come in a new form; mustaghallat properties for instance. If seen from current perspective, a

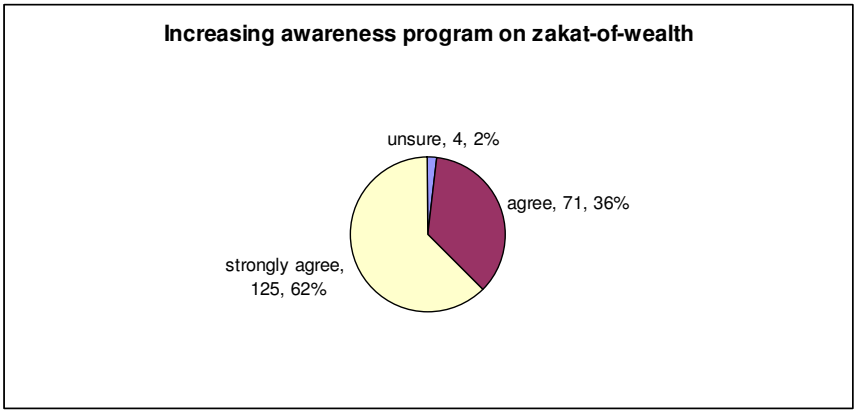
part of sources in income among Malaysians citizens comes in a from of mustaghallat and mustafad properties. The writer also believes that if mustaghallat properties could be managed systematically and parties involved also play a role on obligating zakat on it; it will give a significant impact to the national economic growth.

As a matter of fact, zakat is a system for development and advancement of economic and personal growth. Since zakat on wealth has a large potential to improve the collection of zakat; all the detail explanations and understanding are needed to and from Muslims public. All the hard works and efforts from the related authority in giving explanation indirectly will encourage not only to certain individual, companies and even large organization to perform zakat; at the same will accomplish the function and role played by the zakat institutions as an economic and social justice guarantee body.

Suggestion to Increase The Number of Zakat Payers

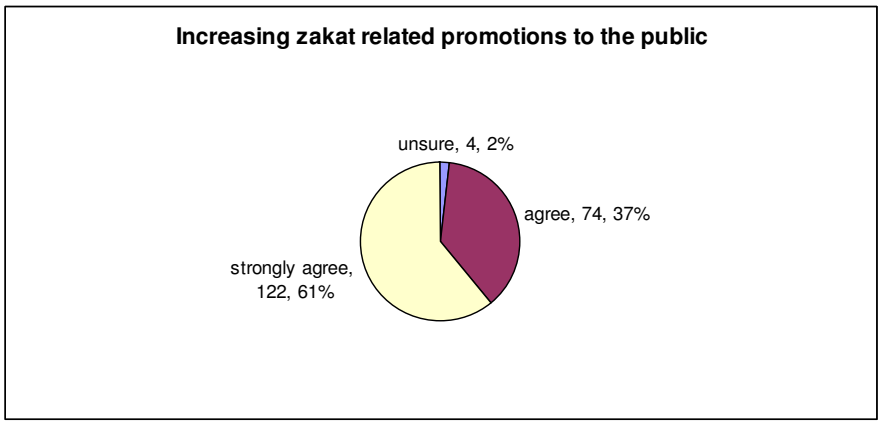
The writer undertook a pilot study in 2008 to obtain people's opinions in increasing the number of zakat-of-wealth payers. It was done in Selangor and 200 respondents involved in this study comprised 100 civil servants and 100 private sector's workers. The pie charts below explain their response to the writer's suggestions.

Pie Chart (1)



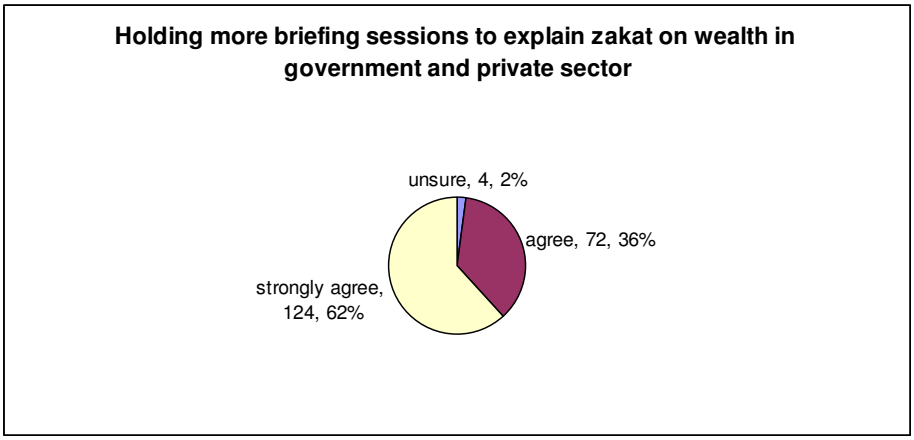
The above pie chart (1) clearly shows that 125 respondents (62%) strongly agreed that organizing more special programs for zakat-of-wealth to enhance awareness in paying *zakat* may increase the number of zakat-of-wealth payers and another 71 respondents (36%) agree to the suggestion. While, 4 respondents are not sure whether it would works or not.

Pie Charts (2)



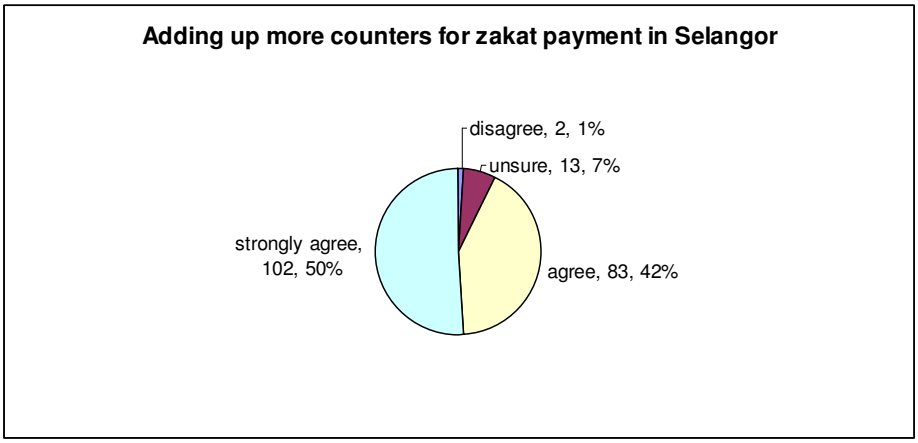
According to pie chart (2) 122 respondents (61%) strongly agree to the above suggestion. Meanwhile, 74 respondents (37%) agree that the idea may increase zakat-of-wealth payers and 4 respondents remain doubtful over this idea.

Pie Chart (3)



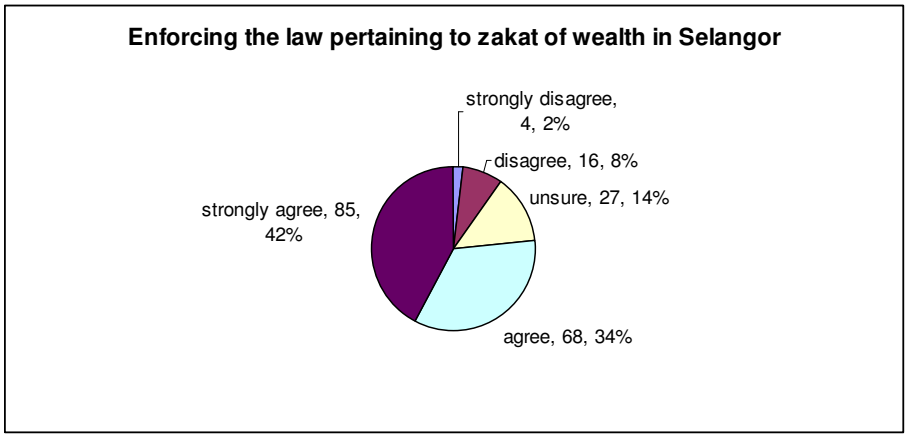
Based on pie chart (3), only 4 respondents are uncertain that holding more briefings in public and private sectors may raise the zakat-of-wealth-payers. 124 respondents strongly agree and 72 respondents agree to the above mentioned suggestion.

Pie Chart (4)



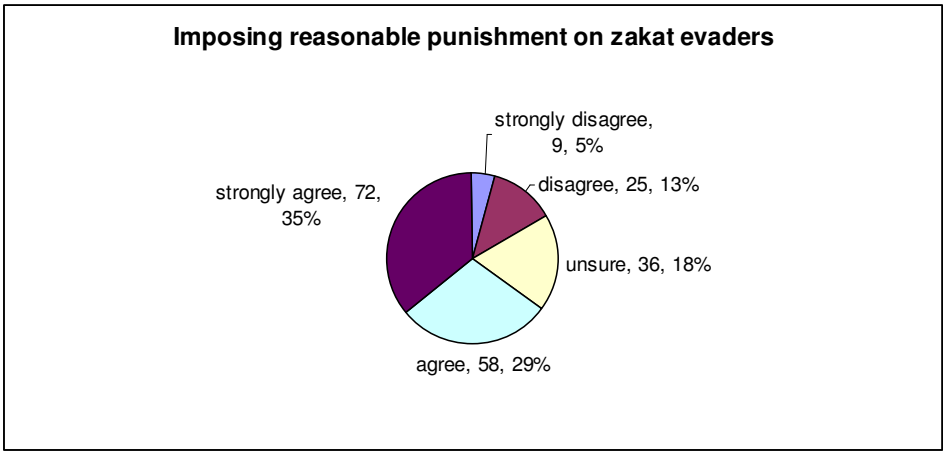
The suggestion on Pie Chart (4) has been strongly agreed by 102 respondents. Whereas, 83 respondents feel that it would works and 2 respondents quite skeptical to the idea.

Pie Chart (5)



Pie Chart (5) shows that 85 respondents strongly agreed by increasing more counter may encourage people to pay zakat especially zakat-of-wealth. 68 of the respondents are also agree and 27 respondent are not sure. In contrast, 16 respondents do not agree to the idea and 4 respondents are strongly disagree.

Pie Chart (6)



Pie chart (6) clearly shows that 72 respondents strongly agreed to the above mentioned suggestion and 58 respondents still agree to the idea. 36 respondents are not certain to the effectiveness of the suggestion. In contrast, 25 respondents does not agree and 9 respondents strongly disagree that imposing punishment on *zakat* evaders would solve the issue.

As a conclusion, the writer finds that most of the respondents agree to the stated suggestion. The first suggestion i.e enhancing awareness program on zakat-of-wealth receives the highest support which 196 respondents out of 200 agree to the idea.

Conclusion

Tauhid Epistemology is a foreign terminology in Malaysia or at least to the laymen. It is about an approach to attract and persuade the public, particularly Muslims to fulfill their accord to Allah SWT by the time they declare that "There is no God except Allah and Muhammad is the Messenger of Allah". This is known as *aqidah* ,but every words must be proven by actions prescribed by Allah SWT namely *Syariah*. This type of approach using philosophical methodology attempt to remind Muslims that paying zakat is a sign of allegiance to Allah, The God and The Creator of all beings in the universe. Moreover, it is an obligation that may not be decline as it would render a person to become *fasiq* or worst a *kafir*. Despite of all efforts made by the state zakat collection centers and baitulmals, there are still a lot of Muslims do not aware the necessity to pay zakat out of their monthly income. The writer belief by incorporating this approach, the number of people to pay zakat-of-wealth would considerably increase from time to time, InsyaAllah.

REFERENCES

Al-Qu'ran al-Karim.

Mohd Radhi Ibrahim. 2006. Akidah dan Pembangunan Tamadun. Negeri Sembilan: Universiti Sains Islam Malaysia.

Muhamad Ramzi Umar. 2004. *Zakat Menurut Empat Mazhab*. Selangor: Pustaka Ilmi

Sami 'Afifi Hijazi: 1991. *Al-Madkhal Li Dirasah al-Falsafah al-Islamiyah*. Al-Kaherah: Dar al-Taba'ah al-Muhammadiyyah.

WAQF: AN ISLAMIC INSTRUMENT OF POVERTY ALLEVIATION - BANGLADESH PERSPECTIVE

Foyasal Khan

Affiliation
MSS (Final Year), Session: 2008-09, Department of Economics, University of Dhaka, Bangladesh. Website: http://www.econdu.ac.bd/
Address
C/O, Abdus Sattar Khan, Postal Printing Press, 80/A, BSCIC Industrial Area, Post Office: Monnu Nagar-1710, Tongi, Gazipur, Dhaka, Bangladesh.
E-mail
foyasal_khan@yahoo.com
foyasal_khan@econdu.ac.bd

WAQF: AN ISLAMIC INSTRUMENT OF POVERTY ALLEVIATION - BANGLADESH PERSPECTIVE

Foyasal Khan

ABSTRACT

Poverty alleviation has become a buzzword in Bangladesh over the last three decades. Bangladesh has so far implemented five Five-Year Plans and one Two-Year Plan and a Three-Year PRSP Rolling Plan to accelerate economic growth and poverty reduction. Although the intensity of poverty lessened, its depth and severity still persists. Instruments such as Micro credit and Safety Net Program have been contributing to poverty alleviation, but it is proven around the globe that these two instruments are not successful in reducing Income Inequality. This urges a new strategy which can reduce poverty and income inequality. In this case, Waqf can be one of the vital alternatives alongside Zakah because early history indicates free education, scholarship, orphanage, free treatment, and inn for nomad was provided by Waqf based institutions. In fact, Zakah and Waqf played the key role in reducing poverty in Islam. At present Waqf based institutions are not growing at a considerable level. But if we really want to do something for the needy and poor, we have to revive this much needed institutions. Therefore, starting a worldwide Waqf movement is indispensable. In this paper I will try to assess the role of Waqf in reducing poverty in the context of Bangladesh and finally will try to present an insight how to revive it.

Key Words: ***Bangladesh, Poverty Alleviation, Islam, Waqf***

1. Introduction

Bangladesh, the largest delta and the 3rd largest Muslim country in the world, is located on the Tropic of Cancer in South Asia. Three sides (North, East and West) of Bangladesh are surrounded by India and in south, Bay of Bengal is sited. Bangladesh, has an area of 147570 square kilometers (56,177 square miles), is the most densely populated country in the world, with 144.2 million people. Population growth rate is 1.26 percent and 977 people live in per square kilometer. It is also one of the poorest and least developed countries in Asia, with a 2009 per capita GNP of only $690, a life expectancy of 66.7 years.

Bangladesh experienced about 190 years of long British colonial rule that ended up in 1947 with the partition of Indian subcontinent and birth of two independent states viz. India and Pakistan. Bangladesh became a province of Pakistan named East Pakistan. Later in 1971, Bangladesh gained independence from Pakistan and emerged as a free and sovereign nation in the world. Soon after Bangladesh became a member of the Common Wealth, IMF, OIC and the United Nation. The country is run under parliamentary system. Its population consists of Muslim 88.35%, Hindus 10.5%, Buddhists 0.6%, Christian 0.3% and other 0.3%.

To accelerate economic growth and poverty reduction, Bangladesh has so far implemented five Five-Year Plans and one Two-Year Plan and a Three- year PRSP Rolling Plan. Keeping the MDGs in vision, the government approved the Poverty Reduction Strategy Paper (PRSP) and Bangladesh is now on the way to finalize the 2nd PRSP for attracting funds from IMF and the World Bank for poverty reduction. To address the challenge of poverty reduction, the government has adopted a fundamental strategy of seeking collaboration from NGOs and private sector, especially by providing necessary support to the activities of NGOs.

As an outcome of these development activities, Bangladesh has made commendable progress in terms of reduction of income and human poverty. Bangladesh has received universal appreciation for attaining success in reduction of human poverty in education, health and nutrition. Bangladesh has already achieved three targets of Millennium Development Goals (MDGs) such as (1) removing gender disparity in primary and secondary education; (2) ensuring almost universal access to primary education; and (3) ensuring access to safe drinking water. For the last five consecutive years (2003-2007), Bangladesh attained the HDI rank of "Medium Human Development," according to the UNDP Human Development Reports. The report on Household Income and Expenditure Survey (HIES) 2005 published by the Bangladesh Bureau of Statistics (BBS) shows downward trend in income poverty. The incidence of poverty at the national level declined from 48.9 percent in 2000 to 40.0 percent in 2005. By using lower poverty line, poverty declined to 25.1 percent in 2005 from 34.3 percent in 2000. [1]

Despite these successes, poverty is the great enemy of Bangladesh because still 81.3 % and 49.6% people live below income poverty line $2 and $1.25 a day in 2000-2007 respectively. National Poverty Line is 40% in 2000-2006. Therefore recently prime minister of Bangladesh Sheikh Hasina has deemed poverty as the worst enemy of Bangladesh in her anti-poverty speech and determined to reduce poverty.

Every year numbers of safety net programs are being undertaken to reduce income uncertainty and variability, maintain a minimum standard of living and redistribute income from the rich to the poor. During the last two decades, the government of Bangladesh has been pursuing a number of social safety net programs such as cash transfer programs, food transfer programs, and micro-credit programs for self employment and so on. But these programs is failed to achieve its goal. Recently reckoning the existing social safety net programs to be inadequate for sustainable poverty alleviation, leading Development practitioners of Bangladesh have called for introduction of social protection to help the extreme poor graduate to an improved status in society.[2]
More than 50 per cent of the hardcore poor, who are 25 per cent of the entire population, are yet to be covered by the official safety net programs.[3] So, Time has come to think about full-fledged social security system which is now confined to

[1] Chapter 13, Economic Review of Bangladesh 2007
[2] Consensus of a seminar titled 'Extreme Poverty and Graduation Dynamics', jointly organized by Power and Participation Research Centre (PPRC) and BRAC Development Institute held on October 4, 2009 at the LGED auditorium
[3] Mohammad Abdur Razzak, the food and disaster management minister, GOB

government officials only. Through protection social measures, we have to work out a strategy to fight poverty in future.[4]
On the other hand, historically we know that besides public sector and private sector in Muslim countries and Muslim communities, a third sector played a key role for taking care of less privileged members of the society and could improve their socio-economic status. Zakah and Awqaf as the two faith based third sector institutions led from the front in fighting poverty and bringing social development in the lowest income strata of population. If we properly utilize Zakah and Awqaf, they can still be fruitful in alleviating poverty. Therefore, Islamic Economist Dr. Fahim Khan urges to include zakah and Awqaf in PRSP. In this paper we will try to prove how Awqaf can be emerged as an effective tool of poverty alleviation.

The paper is divided in eight sections. Following introduction, Section 2 briefly discusses the methodology used in this paper. Section 3 define poverty and depicts poverty scenario and section 4 reviews the poverty alleviation strategies and their impact in Bangladesh. Section 5 highlights the poverty alleviation in Islam and section 6 portrays the role of waqf in poverty alleviation. Finally recommendations and conclusion is drawn in section 7 and 8 respectively.

2. **Methodology:**

The paper has been developed reviewing some current literatures, journals, reports, and UNDP publications. In this sense, it is a survey article. In addition, to express the salient features of Waqf census 1986, the first ever district wise complete census of Waqf States conducting throughout Bangladesh by the Bangladesh Bureau of Statistics at the request of the ministry of Religious Affairs, I have compiled the census data as division wise which may be an another benchmark data on Waqf Estates in the country. It has also incorporated enormous statistics and has related them as supporting arguments.

3. Defining Poverty and Poverty Scenario:

3.1 Definition and Concept of Poverty:

According to Merriam- Webster's Collegiate Dictionary, poverty is "the state of one who lacks a usual or socially acceptable amount of money or material possession." This definition contains two important ideas. First, the definition of poverty will be different in different times and different societies: what is "socially acceptable" may be differing in, say Bangladesh and Malaysia. Second, the focus is on the ability to purchase goods and services (thus, on money) or on their ownership (material possessions). (Jalil, 2007)

According to the Penguin Dictionary of Economics, poverty is "the situation facing people whose material needs are least satisfied. Poverty can be defined by some absolute measure (earnings below some specified minimum level) or in a relative terms (the number of the poorest 10 percent of household, for example). Poverty

[4] Salehuddin Ahmed, a former governor of Bangladesh Bank

exists not merely because incomes are low, but also because the needs of some low income household are high. (Bannock; Baxter; Davis, 1998)
The World Bank defines poverty as an "unacceptable human deprivation in terms of economic opportunity, education, health and nutrition, as well as lack of empowerment and security."
Amartya Sen, 1998 Nobel Prize Winner for Economics, earlier defined poverty as a situation where people lack the economic resources to realize a set of basic functioning (1985 and 1993). In his book "On Economic Inequality (1997), argues that, rather than comparing money or detailed quantities of consumer goods, we should compare what is called 'capabilities'. Loosely, it is a similar term of 'quality of life'. More precisely, a person's capability is to be measured by the extent to which, one reason or another, they are not able to do the various things they value doing, leading the kind of life they value living or being the kind of persons they desire to be. These value things, he suggested, may vary from the elementary, such as, being adequately nourished, to the personal states, such as, being able to take part in the life of community. This idea led Sen to a deeper definition of the concept of poverty itself, namely capability deprivation. A person is in poverty if s/he is unable to do many things they value doing. Obviously, the concept has two aspects. One aspect is the physical, social and psychological process that generates the menu of desires or aspirations; the other is the personal or social environment that constraints achievement. In the subsistence society, the main need is food and the main constraint is land. In the modern economy, needs, desires, and aspirations are broader and the main constraint is money. So the issue is not, for example, freedom from hunger, but rather the capacity to be well nourished. And he expanded upon this to other freedoms. (Jalil, 2007)

Muhammad Yunus, 2006 Nobel Prize Winner for Peace, defines poverty as isolation. The isolation is not necessarily geographic isolation; it is societal isolation, or isolation from the mainstream. As Yunus explains, an individual borrows money because she or he does not have any, and yet the reality is that one cannot borrow money unless that person has already achieved a threshold of net worth. Through microfinance, however, billions of people without access to financial institutions can have the opportunity to be incorporated into the mainstream economy. The barrier of isolation is effectively removed. (Source: Thomas Davis , 2009 from Vanderbilt Magazine)

There is no single concept of poverty that stands outside history and culture. It is a construction of specific societies. Moreover, different groups within a society may construct it in different ways. Because of the moral imperative of poverty and its implications for the distribution of resources both within and outside societies, it is a political concept. As such it is highly contested. Concept of poverty has political effects. [5]

3.2 The scenario of Poverty in Global and OIC perspectives

The global fight against poverty has succeeded in bringing down the absolute number of poor living on less than US$1 per day in developing countries from 1.2 billion people out of the 6 billion in 1990 to just over 1 billion in 2002. In terms of the ratios,

[5] Jalil; 2007

the incidence of poverty in the developing world has declined from 28 percent in 1987 to 24 percent in 1998 and further declined to 20 percent. This decline is below the rate needed to meet the international development goal of reducing extreme income poverty by half by 2015.[6]
Against these global benchmarks, 400 million of the 1 billion people estimated to be in absolute poverty lived in 31 of the 56 OIC member states, i.e. 40% of the world's poor live in the Muslim countries. In relative terms out of 975 million people living in these countries 400 million or 40 percent are below the absolute poverty line. In other words, the incidence of poverty in these 56 OIC member countries is double the average of the developing world. [7]

Recently HDI for 2007 has been calculated for 182 countries. It is important to note that these HDI results, based on 2007 data, do *not* reflect the effects of the global economic crisis, which is expected to have massive impacts on human development achievements in many countries around the world. Countries have been divided into four distinct categories. These are Very High Human Development, High Human Development, Medium Human Development and Low Human Development countries. First three categories are dominated non-Muslim countries and last category is highly dominated by Muslim countries which portrays the fragile situation of Muslim countries. There is one Muslim country (Brunei Darussalam) in the top 30 Very High Human Development countries whereas among the 24 Low Human Development countries 14 are Muslim countries. Distribution of countries is shown in Table 1.

Table 1: Comparison on HDI performance by Muslim and Non-Muslim Countries

Categories	Total countries		Non-Muslim Countries		Muslim Countries	
	Number	%	Number	%	Number	%
Very High HD	38	100	34	89.47	4	10.53
High HD	45	100	36	80	9	20
Medium HD	75	100	48	64	27	36
Low HD	24	100	10	41.67	14	58.33
Total	182	100	128	70.33	54	29.67

Source: Author

Five large states based on population – Indonesia, Pakistan, Bangladesh Nigeria and Egypt with cumulative population of 784 million people have 221 million people living below the poverty line. The incidence of poverty in these countries is slightly above 28 percent.

[6] Meier & Rauch, 2005, p-30 ; Husain, 2007

[7] Husain, 2007

Fourteen states of Low Human Development category with a total population of 165 million people out of which more than 50 percent i.e. 85 million live below the poverty line face severe problems and are also on a slipping path as far as fight against poverty is concerned. These countries are in urgent need of assistance.
Fifteen states mainly in the Middle East and including Malaysia and Brunei are relatively well-off and do not have serious poverty problem. Some of these rich countries, though, have weak human development indicators which need immediate attention by public policy makers.[8]

4. Scenario of the Economy of Bangladesh, Poverty alleviation strategies in Bangladesh and their impact

4.1 Scenario of the Economy of Bangladesh

Although it has been said frequently that the level of poverty reduced but reality is very different. In a country like Bangladesh, there is no scope to consider poverty ratio and total population with poverty at the similar view. There is a meaningful difference between the poverty ratio and the number of poor people. Considering the number of country's total population the trend of cumulative number of poor is increasing, but statistically the poverty ratio is on decreasing trend as of 1 percent per annum which is not addressing the decreasing of poverty in real sense. According to the Household wise Income and Expenditure Survey (HIES) - 2005 of Bangladesh Bureau of Statistics (BBS), the number of country's total poor is 56 million, of which 42.1 million are extreme poor (those have less than $ 1 income in a day). In 1990-91, the number of poor people in Bangladesh was 51.6 million, this number increased to 55.3 million in1995-96 and 55.8 million in 2000. During last 15 years, 1991 to 2005, the number of poor people increased by 4.4 million.[9]

One of the main causes for increasing poverty rate in Bangladesh is existing income discrimination. According to the Gini Co-Efficient, this income discrimination rate is 0.46. The difference between the income discrimination of rich and poor is on increasing trend. According to the Poverty Monitoring Report-2005 of Bangladesh Bureau of Statistics, in 1990 the income of the most 5 percent rich people was equivalent to the 18 times of most 5 percent poor people's income, and in 2005 this situation is now raised to 84 fold.[10]

Land is unequally distributed in Bangladesh and poverty on the basis of land ownership is severe. In 2005, the estimates of incidence of poverty by ownership of land using the upper poverty line were found to be 46.3 percent for landless households, 56.4 percent for owners of less than 0.05 acre land and 44.9 percent for owners of 0.05-0.49 acre land. In 2005, moreover, the estimates of HCR by ownership of land using the lower poverty line were found to be 39.2 percent for land size less than 0.05 acre, 28.2 percent for 0.05 to 0.49 acre, 20.8 percent for 0.50-1.49 acre, 11.2 percent for 1.5-2.49 acre, 7.0 percent for 2.50-7.49 acre and 1.7 percent for 7.5 acre or more land. So it is generally concluded that massive progress of the country's poverty

[8] Ibid
[9] Equity and Justice Working Group (www.equitybd.org) , 2008
[10] Ibid

situation is merely a day dream without the development of the fortune of marginal farmers.[11]

4.2 The poverty Alleviation strategies in Bangladesh:

Policies for poverty alleviation can be classified broadly into two categories: Indirect Policies and Direct Policies. The first strategy provides opportunities to utilize the assets of the poor i.e. physical labor trough pursuit of policies and programs for realizing a higher rate of economic growth, to be achieved through appropriate policy interventions to stimulate investment, GDP and employment growth in the economy and the second strategy increases the productive capabilities of the poor to enable them to take advantage of the available economic opportunities, to improve their quality of life through augmentation of their levels of employment, income and consumption.[12]

4.2.1. Indirect Policies for Poverty Alleviation:

The Indirect Policies are target neutral and potentially benefit all groups of the population along with the poorer groups, through the trickle down process derived from high investment for growth. High economic growth alone may not however necessarily help in alleviating poverty. It is, therefore, necessary to formulate policies to ensure a more equitable distribution of income, opportunities and choice. Enhancing the productive capacities of the poor must thus be seen as integral to any strategy for enhancing as well as sustaining aggregate economic growth. Improving the real incomes of the numerous poor has considerable growth potential because it involves raising the productivity of a numerically large segment of population. The consequential enhancement in the incomes of the poor substantially enhances the size of the domestic market which serves to stimulate growth in other sections of the economy. Such a strategy for promoting poverty alleviating growth is of crucial importance for low income, demand constrained economics.

4.2.2. Direct Policies for Poverty Alleviation:

Direct policies or target group oriented programs directed to the poor such as Social Safety Net Programs have for many years been used in Bangladesh to alleviate poverty.

Social safety net program includes Cash transfer programs, Food Transfer programs, providing incentives, financial assistance and funds for poverty alleviation, Micro-credit for poor, Infrastructure Development program etc. Every year the budget allocation has been increased in case of every program. This is desirable, but from the evidence it is said that there is a large gap between the allocation and implementation of social safety net programs. Because of this large gap, SSNP's are not much effective in Bangladesh (Khan; 2009). The upward trends make doesn't show an overall optimistic view because the benefits are dragged down due to following reasons:

- Social Safety Net Programs are distributed by government officials. Most of them are involved in corruption. According to the Corruption Database Report 2005 of Transparency International Bangladesh (TIB) about 71.9% government officials and employees are involved in corruption.

[11] Economic Review of Bangladesh, 2009
[12] Hassan & Rahman; 2003, p- 263

- Focusing largely on transfer payments rather than for enhancing the capabilities of the poor.
- Lacks of sustainability as these programs are mainly driven by foreign aid.
- The actual numbers of beneficiaries were less than the officially determined number.
- Local political leaders are grabbing aid able goods such as rice, wheat, lentils etc through VGF card manipulation.
- Nearly 50 percent of the recipients of the stipend at school and Madrasah level are fake and they are getting the stipend money illegally in collusion with a section of corrupt teachers.
- Anomalies are found in transportation, handling of grains and inaccurate weighing for distribution.
- Needy and poor people are not conscious about their rights.
- Information gap persists between recipients and authority.
- Failure of government in selecting effective programs.

During the last decade the government, quasi- government bodies and many small and big NGO's have focused on developing a collateral free credit delivery system for providing credit to the poor to increase self employment opportunities and income in order to alleviate poverty of the particular target groups. The Grameen Bank (GB), Swanirvar Bangladesh (SB), Bangladesh Rural Development Board (BRDB), Bangladesh Rural Advancement Committee (BRAC), Proshika, Association for Social Advancement (ASA) may be mentioned, among others, as the principal organizations engaged in such credit programs directed to the poor. Besides this interest based micro credit programs, Islami Bank Bangladesh Limited (IBBL) is operating an Islamic micro credit program named Rural Development Scheme (RDS). Main pitfalls of micro credit institutions are:

- Creditors do not get much time to invest their credit as he has to pay the first installment just one week after taking credit.
- Subsistence people who takes credit due to consumption purpose.
- There is no sound program to meet immediate consumption demand of the lower strata of population.
- To pay the loan of a particular microfinance institution, most of creditors go to another microfinance institution.
- Local micro credit providers always create pressure on creditor and creditors are being mentally and in some cases physically tortured by them.

5. Poverty Alleviation in Islam:

According to Professor Abulhasan M. Sadeq (1997), any poverty eradication scheme has to be based on an inquiry into the causes of poverty. At macro level, there are two possible causes of poverty. First is the low level of GNP and second, the unequal distribution of income. At micro level, poverty may be caused by several reasons. A person may be poor because he is unemployed, handicapped and so on or, just he is born in a poor family and hence is deprived of equal social opportunities.

Qaradawi has shown three ways of Islamic solution of poverty problem in his book named "Poverty Alleviation in Islam". These ares-

- First way, related with Self Responsibility: If a person has ability and opportunity of working, he must work to manage his livelihood. The duty of society and state is to assist him through training and giving money in which s/he can find a suitable job.
- Second way, related with Muslim Ummah: Those who takes responsibility for providing financial security of the poor to perform the ordained obligatory duty on him or hoping to find the return from Allah. This security system is ensured in the following ways:-
  - ❖ Spending for the nearest relatives
  - ❖ Preserving the rights of the neighbors
  - ❖ Paying obligatory Zakah
  - ❖ Providing ordained incidental right on wealth such as *Kaffara (fine), Mannot* (promise), helping the vulnerable people and so on.
  - ❖ Temporary or perpetual voluntary *Sadakah* such as *Waqf* system

- Third way, related with Islamic state: whose Shariah obligation is to take initiative for the excellence of every destitute who has no guardian or no way to earn, whither he is Muslim or not, if he live in a territory of Islamic state. The sources of such state guardianship are as follows:-
  - ❖ Zakah: main everlasting source of treasury of Islamic state in alleviating poverty.
  - ❖ Other Sources: one fifth of *Ganimath, Fai, Kiraj*, Jijiya, wealth without heir etc.
  - ❖ Extra sources: Imposing tax on rich, if amount of zakah and other sources are not enough to reduce poverty.

A poverty alleviation program should keep all these in view for an effective policy formulation and implementation. The poverty alleviation would thus include polices as follows:

1. To increase GNP with a pragmatic and effective economic development plan,
2. To achieve equity in the distribution of income
3. To provide equal opportunities to all in the society for upgrading economic conditions of the disadvantaged strata of the population, and
4. To address individual issues of specific situation

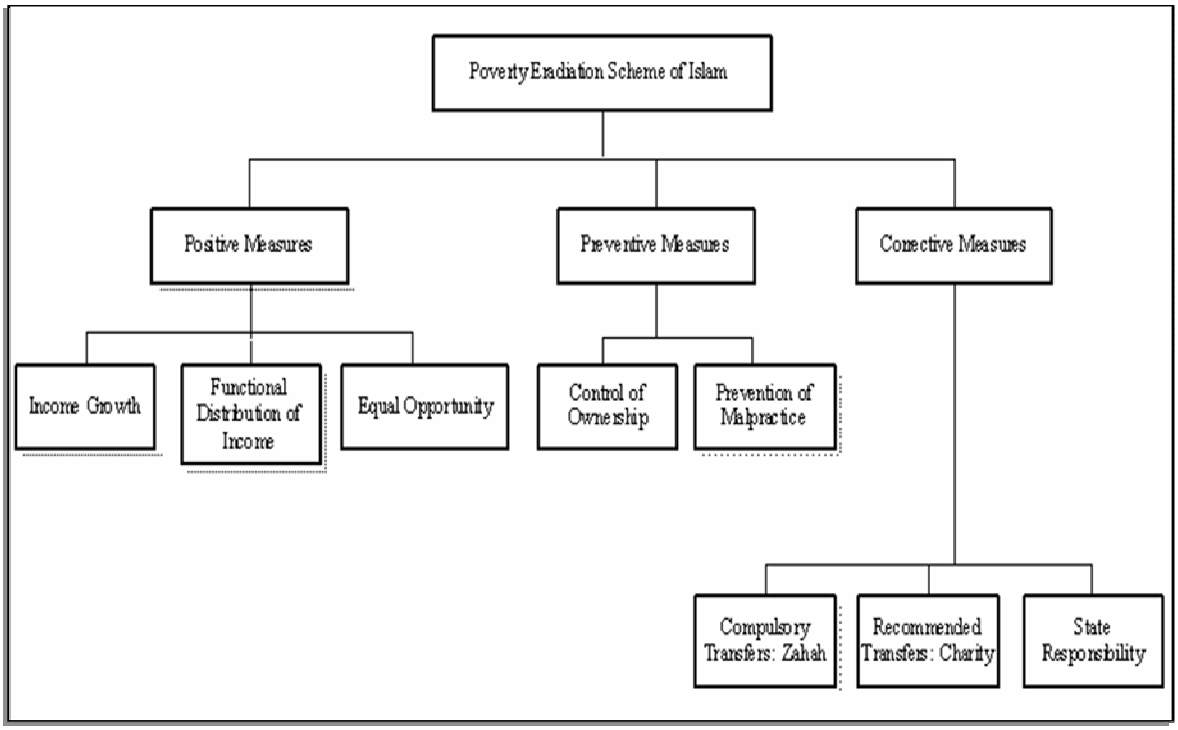
Islamic approach to poverty alleviation involves three distinct sets of measures:

1) Positive measures: Islam engages different positive measures in alleviating poverty. Such measures are:
   a) Income growth
   b) Functional distribution of income
   c) Equal opportunity.
2) Preventive measures: In an Islamic economy, preventive measures would be taken so that wealth is not concentrated in a specific section of population. Such preventive measures include:
   a) control over ownership and
   b) prevention of malpractices
3) Corrective measures: Under such measures, Islamic principles establishes different modes of wealth transfers so that wealth is not concentrated among the rich:
   a) Compulsory transfers: *Zakah*

b) Recommended transfers :*charity*
c) State responsibility: Enforcement and basic needs

Following figure explains the whole thing at a glance-

Figure 1: Poverty Alleviation Scheme of Islam



Source: Hassan & Rahman (2005)

The poverty alleviation strategies and policies are multi-dimensional; one of them is Charity. Again, charity is of several kinds:

a) Compulsory Charity : *Zakah* and *Fitrah*
b) Optional Charity : *Sadaqah*
c) Perpetual Charity : *Waqf*

The compulsory and optional charities deal with the poverty problem by adopting basically a redistributive approach, while waqf can be used to enhance the capabilities of the poor to take part of themselves by providing access to education, health, physical facilities, and so on. Thus, out of three measures of poverty alleviation, the institution of waqf has direct relevance to the second and third measures, mentioned above, namely,

(i) Improving upon non-income aspects such as health, education, and so on
(ii) Increasing access to physical facilities, resources, and employment.

That is, the institution of waqf can effectively address the issue of poverty in its new and comprehensive approach. [13]

[13] Sadeq (2000), Waqf, Perpetual Charity and Poverty Alleviation, p-6

6. Waqf as an Islamic Instrument of Poverty Alleviation

Various Islamic scholars are working to develop models based on waqf to revive this much needed Islamic institution in fighting the endemic poverty problem. We, therefore, are observing that the area of waqf is being diversified and developed over the years. Before discussing the role of waqf in poverty alleviation, the introduction to waqf and its essential characteristics are mentioned briefly.

6.1 Meaning of Waqf:

Waqf is an Arabic word derived from the root verb *Waqafa*. *Awqaf* is the plural of *Waqf*. Ahmed (1998) asserted that there is no equivalent word or expression in English to convey the Islamic concept and meaning of *Waqf* in the true sense of the term. So it's good to use the word *Waqf* in its Arabic form instead of attempting to give a precise translation.

Meaning of Waqf can be expressed in different points of view such as

- **Linguistic point of view :** *Waqf* means forbidding movement, transport or exchange of something (Raissouni, 2001, p. 13)
- **Literal meaning in the Arabic language:** *Waqf* means 'confinement or prohibition'. (Bewley2001, p.62)
- **In Legal Usage:** *Waqf* means the non-negotiability of property ownership which is of employable value, and the direction of its benefits to a certain charitable purpose, once and for all. (Bewley2001, p.62)
- ***Shari'ah* point of view:** *Waqf* may be defined as holding a *Maal* (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness and/or philanthropy. (Kahf 1998, p. 4)
- The defining the meaning of waqf by Ibn Qudama: Waqf means bequeathing the property and dedicating the fruit. (Raissouni 2001, p. 14)

6.2 Defining Waqf:

Some of the important definitions are cited below:-

- Appropriation or tying up a property in perpetuity for specific purposes. No property rights can be exercised over the corpus. Only the usufruct is applied towards the objectives (usually charitable) of the waqf. (Obaidullah and Khan, 2008)
- Dr. Monzer Kahf defines, "*Waqf* is a continuously usufruct-giving asset as long as its principal is preserved. Preservation of principal may result from its own nature - as in land - or from arrangements and conditions prescribed by the *Waqf* founder."

- Ibn Abdelbar defines, "It's when an owner gives benefactorily whatever he likes from his revenue, fruits, crops or real estate so that the yield, tax and benefits thereof follow the course he schemed willingly. That is one way of seeking God's favor. Legal claim is in this case mortmain and meant neither to be sold nor granted and never inherited no matter how much remains thereof."

- In the context of the census report of Waqf Estates 1986, Waqf Estate has been defined as land or other immovable property (a part or whole) donated

by a person or a group of persons or an organization for any social, religious or state activity without having any return.

6.3 Kinds of Waqf:

Eminent Islamic economist Monzer Kahf has shown three kinds of Waqf such as:-

1. **Religious Waqf:** Mosques and real estate confined for providing revenues to spend on mosques' maintenance and running expenses are in the category of **Religious Waqf.** Religious Waqf, in any society and for any religion, adds to the social welfare of any community because it helps satisfy the religious needs of people and reduces the direct cost of providing religious services for any future generation.
2. **Philanthropic Waqf:** It aims at supporting the poor segment of the society and all activities that are of interest to people at large such as public utilities for the poor and needy, libraries, scientific research, education, health services, care of animals and environment, lending to small businessmen, parks, roads, bridges, dams etc.
3. **Posterity or Family Waqf:** It started shortly after the death of Prophet, pbuh, during the regime of Umar (635-645), the second successor. In this case, the revenues of Waqf must first given to their own children and descendants of the waqf founder and only the surplus, if any, should be given to the poor.

6.4 New Dimensions of Waqf:

It is very interesting to note that lately some new types of Waqf are making their appearance. These are Cash Waqf and Waqf of intellectual property.

- **Cash Waqf:**

Previously, waqf of building and land are the most popular forms of waqf. Nowadays, cash waqf has become increasingly well-known, particularly because of its flexibility, which allows distribution of the waqf's potential benefit to be benefited by the poor anywhere. *Cash waqf* was firstly introduced in Ottoman era in Egypt. Professor Mannan then socialized cash waqf in Bangladesh through Social Investment Bank Limited (SIBL). SIBL issues Cash Waqf Certificate to collect funds from the rich and distributes gains of the managed funds to the poor. (Masyita, Tasrf and Telaga, 2000)

In the recent past, some well-to-do persons pooled their funds to jointly crate *Cash Waqf* to create number of private universities in the wake of the enactment of the Private University Act, 1992 (Sadeq, 2000). Among others there is one organization which is partially created by *Cash Waqf*, namely, the Social Science Institute (SSI). It has three funds. First, an endowment fund which is a *Cash Waqf*. The whole money is kept in the investment fund of an Islamic bank, which operates on the basis of *mudarabah*. The profits are spent for fulfilling some Islamic objectives laid down in the constitution of SSI. Secondly, the general fund, the profit of which is used to meet the operational cost of SSI activities. Thirdly, a poor-fund consisting of Zakah is paid by SSI which is used to help the poor, especially poor students. In this way *Cash Waqfs* have added a new dimension to the activities of charity in Bangladesh. (Sadeq, 2000)

- **Waqf of Intellectual Property:**

Another very interesting development in the area of Waqf in Bangladesh is the creation of Waqf of Intellectual Property, consisting of copyright of Books. There are at least two such waqfs in the country.

i. The Khairun Prokashani Trust, and
ii. The Deeni Publications Trust.

The Khairun Prokashani Trust is a waqf created by Maulana Abdur Rahim, a renowned Islamic scholar of Bangladesh, of the copyright of his books with his wife and children as beneficiaries. The Waqf has a printing press, a building of its own in Dhaka.

The Deeni Publication Waqf is another waqf of Intellectual Property, established by another renowned Islamic scholar, Maulana Muhammad Abdul Khaleq, making waqf of copyright of all his books. Twenty of which have already been published. [14]

6.5 Distinct features of Waqf:

As a special kind of benevolence Waqf has following two characteristics:

I. Perpetuity:

It means that once a property, often a real estate, is decided as Waqf it remains Waqf forever. Elimination of the Waqf character of a property requires difficult and lengthy process. It requires a process of exchanging the Waqf property for another property of equivalent value with approval of a local court. Upon completion of such an exchange the new property must be dedicated a Waqf for the same purpose and beneficiaries as the former property. Theoretically at least, perpetuity implies that Waqf properties should not decrease.

II. Performance of Stipulations of the Waqf Founder:

Since Waqf is a voluntary act of benevolence, conditions specified by the founder must be fulfilled to their letter as long as they don't contradict or violate any of the Shariah rulings. This implies that revenues of Waqf should exclusively be used for the founder. Furthermore, the conditions of the founders may not be changed by management or supervisory court as long as they are still feasible to execute. If a Waqf purpose becomes infeasible, the revenue of this Waqf should be spent on a closest purpose available and if not it goes to the poor and needy. Performance covers all the founder's stipulations whether they relate to purpose, distributions of revenues, management, supervisory authority, etc.

As an Islamic charity instrument waqf differs from Zakah and other charity instrument such as Sadaqah, Fitrah, and Lillah etc. Following table shows the comparison of Islamic charity instruments.

[14] Sadeq, Abulhasan M., 2000, Awqaf in Bangladesh, p- 169

Table 2: The comparison of Islamic charity instruments

Factors	Waqf	Zakah	Lillah
Nature	Voluntary	Compulsory	Voluntary
Rate	Any amount	Fixed rate	Any amount
Expense categories	Flexible expense categories. Donor can decide	8 Fixed expense categories	Flexible expense categories. Donor can decide.
Spend	Generally Capitalized	Generally spent in one year	Generally spent in one year
Investments	Invested in social or economic asset	Generally not invested – needs to be discharged as soon as possible	Generally not invested – may be discharged according to need and mandate
Shariah governance: Liability	Donor must be sane, of age, male or female	Liability for payment is governed by Shariah	Any person can give
Mutawallee	Must appoint Mutawallee (trustee)	Mutawallee not necessary	Mutawallee not necessary
Document	No document necessary	No document necessary	No document necessary
Sadaqah Jariyyah	Always a continuous charity and continuous reward	Generally not continuous	Generally not continuous
Capital base	Forms a Capital Base for Sustainable Community Development	Not a capital base	Not a capital base
Beneficiaries	May be applied to all irrespective of creed.	Applied only to Muslims.	May be applied to all irrespective of creed.
Time for payment	Can be paid at any time	Generally paid in Ramadan	Can be paid at any time
How payment is effected	Can take the form of any asset – cash, land, coins, jewellery	Generally paid in cash or stocks	Can take the form of any asset

Source: M Kabir Hassan (2008)

6.6 History of Waqf in Bangladesh and Salient Features of Waqf Census Report 1986:

Traditionally, the Muslim population of Bangladesh is deeply religious in sentiment having great attachment to the Islamic institutions and culture. These traits are more prominent in the eastern districts of the country due to the influence of Muslim preachers and saints who worked in those areas comparatively more extensively, as

such; vast endowments for multiple religious and social welfare activities exist there. (www.waqfbd.com)

Historically Bangladesh (The Bengal region during Mughal period) had a very rich tradition of establishing *waqf* and still it persists. A large number of institutions providing religious and secular education, orphanages, hospitals and such other establishments were either created or supported by waqf funds dedicated to these institutions. Some institutions of waqf survived the British period, and are still fully functional. Contribution of *awqaf* to the education sector alone is significant. More than 8,000 educational institutions are waqf. Besides, there are more than 123,000 mosques, imparting religious education which includes secular education as well. Many of them are approved by the Bangladesh *Madrasah* Education Board. As a result, students of these *madaris* may easily be transferred to any of the national universities, and many students are so dong. In this way the contribution of *awqaf* in providing educational facilities to all has wider scope and utility.[15]

A census of Waqf Estates was conducted throughout Bangladesh by the Bangladesh Bureau of Statistics (BBS) at the request of the ministry of Religious Affairs. The census was conducted in January- February, 1986. In my paper I have assembled the census data as division wise. Bangladesh consists of six divisions namely Dhaka (17 Districts), Rajshahi (16 Districts), Chittagong (11 Districts), Khulna (10 Districts), Barisal (6 Districts), and Sylhet (4 Districts). **See Appendix** to observe all the compiled tables of the census. In the following the salient features of the waqf census are described briefly.

- **Status of Waqf:**

  Table-1(appendix) shows Division wise number and percentage of Waqf Estates by Status of Waqf. Waqf Estates are classified into 3 classes: viz. Registered, verbal and traditional. Registered *waqfs* are those which were reported to be registered with the office of the Waqf Administrator. In the verbal category the concerned property was declared waqf verbally and is being used as such. The third category relates to Waqf Estates used as traditionally. It could be private or govt. property.

  According to 1986 Census of Waqf Estate, there are 150,153 waqf estates in Bangladesh. Out of the total waqf estates, 97,046 are registered, 45,607 are verbal and the rest 7,940 are traditional. Rajshahi division has the highest number of registered waqf (30419), verbal waqf (12809) and traditional waqf (1971).On the other hand Sylhet division shows the least numbered of registered waqf (6024) and traditional waqf (744) while Barisal division shows the least numbered of verbal waqf (2877).

- **Main Beneficiaries of Waqf:**

  Table 2- A & B (appendix) classifies the Waqf Estates by principal of beneficiary. There are five broad categories of beneficiaries' viz. general public, heirs, religious institutions, Educational institutions and others. A Waqf Estates may have more than one beneficiary. Therefore the total of all

[15] Sadeq, Abulhasan M. (2000), Awqaf in Bangladesh , p-159

beneficiaries' will not add up to the total numbers of Waqf Estates. It appears from the table that the major beneficiaries of the Waqf Estates are the Religious institutions (93.5%) followed by the general public (22.2%)

- **The Waqf Estates by Management:**

Table 3- A & B (appendix) classifies the Waqf Estates by Management. Here again the waqfs have been classified into 5 categories- Managed by heirs, managed by trustee boards, managed by a committee, managed by government officials and managed by others. The table provides data on absolute and percentage terms. A Waqf Estates is managed by only one of the five arrangements. It appears from the table that the highest percentages of waqf are managed by the local committees/ Motowallis (92.5%) and least number is managed by trustee boards (0.7%).

- **Total Land and Average (In Acres) and Annual Income- Expenditure of the Waqf Estates:**

In table 4- A & B (appendix), the Total Land and Average are computed on the basis of the number of *waqfs* reporting the corresponding data. Also shows are the number of *waqf* not reporting data on land, income and expenditure. To get the number of *waqfs* 'Reporting' corresponding data it is required to subtract the number of *waqf* 'not reporting' respectively from the total number of waqfs in the 1st column. The corresponding averages are calculated from the 'Reporting' waqfs and not of total *waqfs*. The averages calculated on the basis of the total number of *waqfs* will be equal or less than the values shown in this table. From the table we see that annual income from reporting *waqf* estates is 906 million taka and annual expenditure is 856 million taka, then surplus is 50 million taka.

- **Total and Average Income of the Waqf Estates by Broad Sources of Income:**

Table 5- A & B (appendix) shows total and average income of the Waqf Estates by Sources. There are three broad sources- land, other immovable property, and other sources. Total and average of Income figures are calculated from data reporting the corresponding sources. Also shown are the number of waqf not reporting income source. To get the number of waqf reporting data on corresponding source it is necessary to subtract the number of waqf 'not reporting' respectively from the total number of waqfs in the first column. The averages are calculated on the basis of the reporting waqfs only. From the table we see that Chittagong has highest and Rajshahi has lowest average annual income.

- **Total and Percentage of Annual Income of Waqf Estates from Broad Sources of Income:**

Table 6 (appendix) shows the Total and Percentage distribution of income by broad sources. The Percentage under 'all sources' column shows the distribution of income of division to the nation, but The Percentages in the

other columns show the distribution of income by sources to the total of the nation.

- **Number of Waqf Estates Reporting Expenditure by Category of Expenditure**

Table 7- A & B (appendix) shows the Number of Waqf Estates Reporting Expenditure by Category of Expenditures. There are 14 (fourteen) such categories which are elaborated in the footnote at the bottom of the table. The users are advised to consult the footnote to the table while using this table.

- **Average Annual Expenditures of Waqf Estates by Category of Expenditure**

Table 8- A & B (appendix) shows average annual expenditure of Waqf Estates by 14 categories. The users are advised to consult the footnote to the table for descriptions of categories. The averages are calculated on the basis of the reporting waqfs estates of the relevant category.

- **Number of Waqf Estates Reporting Income from Land by Detail Use**

Table 9 (appendix) shows the Number of Waqf Estates Reporting Income from Land by category of use of land. There are 8 such categories of land use viz. Agricultural land, Garden/Orchards, Pond/Tank, Mosque or place of performance of salat, Idgah/ open space, Grave yard/Dargah, Madrasah/ School and land use for other purposes. "Any use" column shows the number of Waqf Estates Reporting Income from at least one of the eight categories.

- **Average Annual Income of Waqf Estates from Land by Detail Use**

Table 10 (appendix) shows the distribution of Income of Waqfs from Land by use in 8 categories viz. Agricultural land, Garden/Orchards, Pond/Tank, Mosque or place of performance of salat, Idgah/ open space, Grave yard/Dargah, Madrasah/ School and land use for other purposes. The figures in the table are the averages in taka unit of the reporting source of income of the relevant category.

- **Number of Waqf Estates Reporting Annual Income by Sources (Property except Land and Others)**

Table 11(appendix) shows Number of Waqf Estates Reporting Annual Income by Sources other than land by category of sources. There are 8 such categories viz. House, Factories, other immovable property, public subscription/donation, donation in kind, Govt. grants, Investment/ share/ etc. and other sources. "Any sources except land" column shows Number of Waqf Estates reporting income from these 8 categories of sources of income.

- **Average Annual Income of Waqf Estates by Sources (Property except Land and Others)**

Table 12 (appendix) shows the average Annual Income distributed in detail categories by sources other than land. There are 8 such categories viz. House, Factories, other immovable property, public subscription/donation, donation in kind, Govt. grants, Investment/ share/ etc. and other sources. The average is calculated on the basis of the reporting waqfs.

- **Number of Waqf Estates Reporting Land Area by Detail Uses**

Table 13 (appendix) shows the Number of Waqf Estates Reporting Land Area by Different category of land use. There are 9 (nine) categories viz. Agriculture, Garden/Orchards, Pond/Tank, Homestead/ shops, Mosque or place of performance of salat, Idgah/ open space, Grave yard/Dargah, Madrasah/ School and others. "Any use" column shows the number of Waqf Estates Reporting use of land in at least one of these nine categories of land use.

- **Average Land Area (in Acres) of Waqf Estates Classified by Detail Uses**

Table 14 (appendix) shows the Average Land Area (in Acres) under different uses of land. The use of land is classified into 9 categories viz. Agriculture, Garden/Orchards, Pond/Tank, Homestead/ shops, Mosque or place of performance of salat, Idgah/ open space, Graveyard/Dargah, Madrasah/ School and others. The 1st column of the table shows the average size of the reporting Waqf estates. The average is calculated on the basis of the reporting waqfs only.

6.7 Evaluating the role of Waqf in Poverty Alleviation:

Awqaf institutions can play an important role in alleviating poverty, if their size devoted to social welfare activities can be increased. But it is more difficult to assess the potential of *awqaf* in alleviating poverty due to a lack of relevant aggregate data on these institutions and identifying the *Awqaf* institutions that can be used to mitigate poverty. The social welfare role of an *awqaf* will depend on their types and size. Waqf may be of two type's viz. Religious and Philanthropic. The Philanthropic waqf has two types of beneficiaries' viz. family members and general community. Only the philanthropic waqf for general community is relevant institutions for poverty alleviation. The number of these waqf institutions is limited. So it is said that in Bangladesh waqf is not playing any direct role in poverty alleviation. On the other hand, indirectly waqf is playing the most gigantic task in poverty alleviation because schools, hospitals, roads are being created trough waqf. In these waqf institutions many students are studying free or in a low cost, many people are having free treatment when they ill. These institutions are helpful in building efficient human capital as well as efficient manpower. They are self motivated, more productive, more innovative and able to work. By this way waqf is playing role in poverty alleviation.

One example may be cited here, Dhaka University, the largest university of Bangladesh, has an area of 600 acres of land which is a Waqf Estate. It contains

30,000 students, of them 90% students come from rural and urban poor strata of population. Most of them are not able to bear the high cost of higher education. But comparing with other private universities on the basis of cost, it is said that student of Dhaka University pays a negligible amount. Besides, The University contains about 220 Trusts and Foundations offering scholarships and medals to meritorious students of the University and a large number of scholarships are also offered by the University, Dhaka University Alumni Association and the Government. These scholarships are easing the hardship of students while studying. Now if we look back to the output, we see that Dhaka University has played frontier role in nation building. Historically in case of language movement, Liberation War and practically in any job sector, the students of this university are leading from the front.

7. Recommendations

Some recommendations are submitted below:

- **Conducting census on Waqf Estates on a regular basis:** The first ever complete census on Waqf Estates was conducted by BBS in 1986. After that last 23 years we have no comprehensive study on Waqf properties. So Govt. should immediately update the complete census.
- **Further research:** There is a lack of comprehensive studies in case of waqf in the context of Bangladesh. Scholars should focus the issue and uphold the divine role of waqf in poverty alleviation.
- **Integrating Zakah and Waqf in PRSP:** While the Government of Bangladesh is very keen of alleviating poverty, it has never looked at the institution of Zakah and waqf as a national strategy of poverty alleviation. But once poverty was removed from the world through joint operation of waqf and zakah. So Govt. should seriously think in this regard and integrate waqf with PRSP.
- **Financing of Poverty Alleviation Projects by Waqf Certificates:** Income / employment generating projects, medical facilities, and infrastructure are essential in alleviating poverty. In this case, waqf certificate in financing primary and secondary poverty alleviating projects can be helpful. The idea is, **"Waqf Administration body (WAB) issues waqf certificates of different denominations and puts in the market for sale. The individuals and institutions buy them. The waqf proceeds are then used to establish the targeted poverty alleviation projects."**
  This is an excellent idea proposed by Islamic Economist Prof Dr AbulHasan M Sadeq in his paper entitled "Waqf, Perpetual Charity and Poverty Alleviation" in July 2000.
- **Constructing Waqf based Islamic MFI:** Microfinance initiative is widely acclaimed as a new approach to alleviate poverty and bring about development. If we utilize *waqf* to finance MFI operations, it can reduce the financing costs and improve the viability of these institutions. So Waqf based Islamic MFI should be constructed. This is another excellent idea proposed by Prof Dr Habib Ahmed in 2007.
- **Motivating the Rich people:** Motivating the rich people to create waqf is necessary otherwise day by day this instrument will lose. Therefore *Ulamas* including imams of mosques, teachers of religious institutions should take initiatives fast because people believe them and they have immense influence on these people. So, if they consult with rich people and inform them about the divine benefits as well as earthly benefits of making waqf, it can bring a strong

positive change in the society. Moreover, Islamic scholars should write on this issue and give speech anywhere they can.

8. CONCLUSION

The foregoing analysis attempts to substantiate that poverty is the number one problem in Bangladesh. There is no way to deny that govt. is cordial and serious about reducing poverty. In this regard, they have taken so many initiatives such as micro-credit operation, social safety nets, cash transfers etc to alleviate poverty. But unfortunately they never include Islamic instrument of poverty alleviation like zakah, lillah, waqf as poverty reduction strategy. As a result despite the high cordiality we have a little success in case of poverty alleviation. But once upon a time through the joint operation of Zakah and waqf poverty was totally abolished from the world. So if Bangladesh government integrates waqf in poverty alleviation programs and try to put into practice like the classical age of Islam, waqf can be an effective Islamic instrument of poverty alleviation.

Appendix

Division wise Compilation of

"REPORT ON THE CENSUS OF WAQF ESTATES 1986"

Table 1: Number and Percent of Waqf Estates by Status of Waqf

Division	All Waqf Estates		Status of Waqf					
			Registered		Verbal		Traditional	
	Number	%	Number	%	Number	%	Number	%
Chittagong	26386	17.52	17562	18.1	7132	15.64	1692	21.31
Sylhet	11267	7.50	6024	6.21	4509	9.89	744	9.37
Dhaka	41317	27.45	28422	29.29	11225	24.61	1620	20.4
Barisal	11931	7.95	8224	8.47	2877	6.31	830	10.45
Khulna	14533	9.52	6395	6.59	7055	15.47	1083	13.64
Rajshahi	45159	30	30419	31.34	12809	28.1	1971	24.82
Bangladesh	**150593**	**100**	**97046**	**100**	**45607**	**100**	**7940**	**100**

Table 2(A): Number of Waqf Estates by Main Beneficiaries of Waqf

Division	All Waqf Estates	Main Beneficiaries of Waqf				
		Public	Heirs	Religious	Educ. Ins.	Others
Chittagong	26386	8072	1043	24639	2087	548
Sylhet	11267	3807	273	10007	623	202
Dhaka	41317	9883	684	38432	1743	497
Barisal	11931	1203	528	11406	655	23
Khulna	14533	3663	223	13626	311	150
Rajshahi	45159	6780	630	42625	968	485
Bangladesh	**150593**	**33408**	**3381**	**140735**	**6387**	**1905**

Table 2 (B): Percent of Waqf Estates by Main Beneficiaries of Waqf

Division	All Waqf Estates	Main Beneficiaries of Waqf				
		Public	Heirs	Religious	Educ. Ins.	Others
Chittagong	17.52	24.16	30.85	17.51	32.68	28.77
Sylhet	7.50	11.4	8.07	7.11	9.75	10.6
Dhaka	27.45	29.58	20.23	27.31	27.29	26.09
Barisal	7.95	3.6	15.62	8.1	10.26	1.21
Khulna	9.52	10.96	6.6	9.68	4.87	7.87
Rajshahi	30	20.29	18.63	30.29	15.16	25.46
Bangladesh	**100**	**100**	**100**	**100**	**100**	**100**

Table 3 (A): Number of Waqf Estates by Mode of Management

Division	All Waqf Estates	Waqf Estates Managed By				
		Heirs	Trustee Board	Committee	Government	Others
Chittagong	26386	1973	187	23864	106	256
Sylhet	11267	424	63	10590	58	132
Dhaka	41317	2074	156	38578	152	357
Barisal	11931	1744	82	10012	26	67
Khulna	14533	497	95	13733	87	121
Rajshahi	45159	1433	160	42543	116	907
Bangladesh	**150593**	**8145**	**743**	**139320**	**545**	**1840**

Table 3 (B): Percent of Waqf Estates by Mode of Management

Division	All Waqf Estates	Waqf Estates Managed By				
		Heirs	Trustee Board	Committee	Government	Others
Chittagong	17.52	24.22	25.17	17.13	19.45	13.91
Sylhet	7.50	5.21	8.48	7.6	10.64	7.17
Dhaka	27.45	25.46	21	27.69	27.89	19.4
Barisal	7.95	21.41	11.03	7.19	4.77	3.64
Khulna	9.52	6.1	12.79	9.86	15.96	6.58
Rajshahi	30	17.59	21.53	30.54	21.28	49.29
Bangladesh	**100**	**100**	**100**	**100**	**100**	**100**

Table 4 (A): Total Land (In Acres) and Annual Income- Expenditure of the Waqf Estates

Division	All Waqf Estates	Waqf Estates Reporting			No. of Waqf Estates not Reporting		
		Land	Annual Income (Taka)	Annual Expenditure (Taka)	Land	Income	Expenditure
Chittagong	26386	28407	269796354	275845585	4	1513	1493
Sylhet	11267	21101	92128927	87817472	4	1385	1475
Dhaka	41317	16395	271170290	242472893	13	4248	4634
Barisal	11931	15647	53148082	50846209	8	141	128
Khulna	14533	5919.1	56937920	51834046	3	2200	2514
Rajshahi	45159	31796.43	163250355	147261507	12	4354	4588
Bangladesh	**150593**	**119265**	**906431928**	**856077712**	**44**	**13825**	**14832**

Table 4 (B): Average Land (In Acres) and Annual Income- Expenditure of the Waqf Estates

Division	All Waqf Estates	Waqf Estates Reporting		
		Land (In Acres)	Annual Income (Taka)	Annual Expenditure (Taka)
Chittagong	26386	1.08	10225	10454
Sylhet	11267	1.87	8177	7794
Dhaka	41317	0.40	6563	5869
Barisal	11931	1.31	4455	4262
Khulna	14533	0.41	3918	3567
Rajshahi	45159	0.70	3615	3261
Bangladesh	**150593**	**0.80**	**6628**	**6306**

Table 5 (A): Total Income of the Waqf Estates by Broad Sources of Income

Division	All Waqf Estates	Income (Taka) of Reporting Waqf Estates From			No. Waqf Estates not Reporting Income From		
		Land	Other Property	Other Sources	Land	Other Property	Other Source
Chittagong	26386	50506531	12615372	20667540	11741	25728	2724
Sylhet	11267	13069199	1592079	77467649	5667	11080	1813
Dhaka	41317	27431403	22078581	220663346	28748	40419	5718
Other div	71623	66893739	3956363	203487256	42702	71014	11946
Bangladesh	**150593**	**157900872**	**40242395**	**708293652**	**88860**	**148239**	**22201**

Table 5 (B): Average Income of the Waqf Estates by Broad Sources of Income

Division	All Waqf Estates	Income (Taka) of Reporting Waqf Estates From		
		Land	Other Property	Other Sources
Chittagong	26386	3276.909	10138.45	8455.909
Sylhet	11267	2452.5	7566.25	7347
Dhaka	41317	1914.412	8798	5749.882
Other div	71623	-	-	-
Bangladesh	**150593**	**2558**	**17095**	**5517**

Table 6: Total and Percentage of Annual Income of Waqf Estates from Broad Sources of Income

Division	Total and Percentage of Annual Income by Broad Sources of Income from							
	All Sources		Land		Other Property		Other Sources	
	Total (taka)	%	Total (taka)	%	Total (taka)	%	Total (taka)	%
Chittagong	269796354	29.76	50506631	32	12614322	31.35	206675401	29.18
Sylhet	92128927	10.16	13069199	8.28	1592079	3.96	77467649	10.94
Dhaka	271175280	29.92	27431403	17.37	22080521	54.87	221663356	31.3
Barisal	53148082	5.86	21648153	13.71	728220	1.81	30771709	4.34
Khulna	56937920	6.28	6192380	3.92	1286668	3.2	49458872	7
Rajshahi	163250356	18	39053106	24.73	1940585	4.82	122256665	17.26
Bangladesh	**906436919**	**100**	**157900872**	**100**	**40242395**	**100**	**708293652**	**100**

Table 7 (A): Number of Waqf Estates Reporting Expenditure by Category of Expenditure

Division	Number of Waqf Estates Reporting Category* of Expenditure						
	Any Category	**1**	**2**	**3**	**4**	**5**	**6**
Chittagong	24893	294	4644	9846	2301	65	199
Sylhet	9792	38	633	4283	892	11	12
Dhaka	36683	108	1317	14711	1581	57	135
Barisal	11812	358	3785	8283	668	55	67
Khulna	12019	51	1503	4500	449	22	65
Rajshahi	40562	290	6899	11611	1600	66	100
Bangladesh	**135761**	**1139**	**18781**	**53234**	**7491**	**276**	**578**

*Category – 1) Paid to Heirs; 2) Taxes /Rent /etc; 3) Mosque; 4) Madrasah/ Maktab; 5) School /College; 6) Orphanage

Table 7 (B): Number of Waqf Estates Reporting Expenditure by Category of Expenditure

Division	Number of Waqf Estates Reporting Category* of Expenditure							
	7	**8**	**9**	**10**	**11**	**12**	**13**	**14**
Chittagong	53	21878	289	15116	8387	859	147	737
Sylhet	13	8582	91	5101	2811	243	21	204
Dhaka	40	29950	313	13645	10444	924	131	1126
Barisal	34	10141	128	3891	6299	907	33	318
Khulna	16	8712	87	5717	3353	388	38	346
Rajshahi	60	34636	850	20316	9297	989	93	1493
Bangladesh	**216**	**113899**	**1758**	**63786**	**40591**	**4310**	**463**	**4224**

*Category – 7) Charitable Clinic; 8) Local Employees; 9) Honorarium to Committee Members; 10) Maintenance/ Gas/ Electricity /Water/ Phone; 11) Religious Function; 12) Musafir / Poor Feeding; 13) Stipends; 14) Other Grant Donations

Table 8 (A): Average Annual Expenditures of Waqf Estates by Category of Expenditure

Division	Average Annual Expenditures (In Taka) Classified by Category* Reporting Waqfs						
	All Use	**1**	**2**	**3**	**4**	**5**	**6**
Chittagong	10654.82	43404.27	413.18	5896.82	5339.82	9773.82	37074.36
Sylhet	8342.25	17501.75	263	4016	3105.5	3985	12867.75
Dhaka	6013.77	5320.12	391.18	4139.29	5571.53	27837.12	28837.29
Barisal	4293.17	17398	132	872	2438.17	2126.17	13284.67
Khulna	4096.2	4317.5	112.2	2688.4	2578.8	4447.3	16789
Rajshahi	3609.75	10787	213.13	2129.18	2745.75	6532.5	14624.06
Bangladesh	**3895**	**15504**	**113**	**853**	**3045**	**1257**	**6850**

*Category – 1) Paid to Heirs; 2. Taxes /Rent /etc; 3) Mosque; 4) Madrasah/ Maktab; 5) School /College; 6) Orphanage

Table 8 (B): Average Annual Expenditures of Waqf Estates by Category of Expenditure

Division	Average Annual Expenditures (In Taka) Classified by Category* Reporting Waqfs							
	7	**8**	**9**	**10**	**11**	**12**	**13**	**14**
Chittagong	10591.36	5574.6	6243.91	1776.27	1841	4385.91	6875.82	3962.91
Sylhet	4409.25	5428.5	3391.25	1333.75	1565	2156.25	10138.5	3187.5
Dhaka	4144.12	3456.35	2029.29	1694.12	1060.41	2229.82	1310.24	1363.82
Barisal	1146.17	2383.83	1666.5	715.83	915.67	1306.67	1169.67	944
Khulna	432	2750.2	858.2	1097.6	835.5	2798.4	3491.8	2544.1
Rajshahi	8050.56	2271.19	2112.5	988.75	911.56	1670.37	1933.81	1931.87
Bangladesh	**825**	**2308**	**1549**	**453**	**900**	**767**	**450**	**631**

*Category – 7) Charitable Clinic; 8) Local Employees; 9) Honorarium to Committee Members; 10) Maintenance/ Gas/ Electricity /Water/ Phone; 11) Religious Function; 12) Musafir / Poor Feeding; 13) Stipends; 14) Other Grant Donations

Table 9: Number of Waqf Estates Reporting Income from Land by Detail Use

Division	Number of Waqf Estates Reporting Income from Land by Use								
	Any Use	Agri-Culture	Orchard	Pond/ Tank	Mosque	Idgah/ Open Space	Grve-Yard Dargah	School/ Madrasah	Others
Chittagong	14686	12945	1259	2578	1091	334	213	252	226
Sylhet	5598	4744	689	920	245	53	94	11	104
Dhaka	12569	9093	961	987	1665	453	370	128	733
Barisal	8410	7484	1194	666	982	358	32	74	145
Khulna	3397	2396	412	280	460	150	132	28	55
Rajshahi	17073	13630	547	714	2833	705	426	59	272
Bangladesh	**61733**	**50292**	**5062**	**6145**	**7276**	**2053**	**1267**	**552**	**1535**

Table 10: Average Annual Income of Waqf Estates from Land by Detail Use

Division	Average Annual Income from Land by Detail Use of the Reporting Waqf Estates								
	Any Use	Agri-Culture	Orchard	Pond/ Tank	Mosque	Idgah/ Open Space	Grve-Yard Dargah	School/ Madrasah	Others
Chittagong	3276.91	2954.18	817.45	1463.1	2046.91	575.55	4406.27	2593.09	6662.36
Sylhet	2452.5	2302.25	1518.75	1123.5	1306	637	1915.5	2597.5	5907
Dhaka	1914.41	1612.47	596.88	1640.89	1228.94	780.94	1265.88	5109.77	3594
Barisal	2430.17	2325.83	828.17	870.67	650.67	541	1279.83	2590.17	1180.17
Khulna	1750	1859.7	683.1	1286.2	1363.1	298.3	2898.6	1655.9	1575
Rajshahi	2180.31	2219.19	1205.13	2139.44	591	877.19	1994.38	4956.19	2409.81
Bangladesh	**2558**	**2432**	**857**	**1344**	**990**	**704**	**3055**	**6061**	**4645**

Table 11: Number of Waqf Estates Reporting Annual Income by Sources (Property except Land and Others)

Division	Number of Waqf Estates Reporting Annual Income by Source								
	Any Source Except Land	Immovable Property But Land			Others sources of Income				
		House(s)	Fact-ories	Others	Public Subscrip Donation	Other Donation In Kind	Govt Grants	Invest-ment share	others
Chittagong	23741	306	106	313	22315	7954	1203	861	2801
Sylhet	9467	50	26	127	9005	4124	205	421	888
Dhaka	35685	256	154	548	31762	14027	1918	1760	3062
Barisal	10399	84	7	56	9648	2053	569	286	1402
Khulna	11772	63	17	130	10856	4309	469	645	1309
Rajshahi	37621	88	46	167	34037	13966	1275	1864	3465
Bangladesh	**128685**	**847**	**356**	**1341**	**117623**	**46433**	**5639**	**5837**	**12927**

Table 12: Average Annual Income of Waqf Estates by Sources (Property except Land and Others)

Division	Average Annual Income (Taka) of Reporting Waqf Estates from								
	Any Source Except Land	Immovable Property But Land			Others sources of Income				
		House(s)	Fact-ories	Others	Public Subscrip Donation	Other Donation In Kind	Govt Grants	Invest-ment share	others
Chittagong	8884.18	8989.27	11602.18	8684.64	5763.27	3173.27	14441.36	7966.55	6212
Sylhet	7481.75	8304.25	13063.75	5285	5812.25	2599.75	6610	4192.5	3747.25
Dhaka	6193.59	6684.65	7548	8796.35	3898.12	2166.94	9713.12	6041.06	4395.47
Barisal	2942.5	3907.5	1791.67	4740.83	2148.17	1187.67	8523.33	2937.17	1333.83
Khulna	4090.6	3515.7	8775.8	4632.9	2764.4	1783.5	8683.4	2277.1	2445.2
Rajshahi	3318.31	6078.62	5140.19	5244.44	2265.31	1571.81	11038.75	2877.81	2169.75
Bangladesh	**5817**	**12761**	**14096**	**18249**	**3898**	**2209**	**10292**	**5040**	**4628**

Table 13: Number of Waqf Estates Reporting Land Area by Detail Uses

Division	Number of Waqf Estates Reporting Land by Detail Uses									
	Any Use	Agri-Culture	Orchard	Pond/ Tank	Home Stead Shops	Mosque	Idgah/ Open Space	Grve-Yard Dargah	School/ Madrasah	Others
Chittagong	26382	13258	1722	5294	792	22483	9697	6781	3574	995
Sylhet	11263	4908	1311	5294	293	9161	6053	2725	549	737
Dhaka	41304	9439	1400	2007	710	33172	15781	4406	1876	672
Barisal	11927	7554	1738	2161	439	11310	5872	1708	720	299
Khulna	14530	2476	558	606	169	10695	5569	1426	446	514
Rajshahi	45144	14069	829	1082	334	36828	12612	4117	1152	642
Bangladesh	**150593**	**51704**	**7558**	**16496**	**2737**	**123649**	**55584**	**21163**	**8317**	**3859**

Table 14: Average Land Area (in Acres) of Waqf Estates Classified by Detail Uses

Division	Average Land Area Classified by Detail Use of the Waqf Estates									
	Any Use	Agri-Culture	Orchard	Pond/ Tank	Home Stead Shops	Mosque	Idgah/ Open Space	Grve-Yard Dargah	School/ Madrasah	Others
Chittagong	1.24	1.43	0.37	0.28	0.38	0.1	0.18	0.38	0.12	1.47
Sylhet	1.91	1.79	3.98	0.65	0.68	0.09	0.17	0.77	0.25	9.45
Dhaka	0.38	0.74	0.14	0.4	0.34	0.071	0.17	0.48	0.15	0.40
Barisal	1.37	1.43	0.45	0.26	0.71	0.05	0.17	0.1	0.18	1.63
Khulna	0.43	1.07	0.2	0.45	0.6	0.08	0.18	0.6	0.25	0.3
Rajshahi	0.72	1.47	0.5	1.04	0.67	0.08	0.24	0.76	0.24	0.95
Bangladesh	**0.8**	**1.37**	**0.41**	**0.35**	**0.5**	**0.07**	**0.16**	**0.52**	**0.14**	**2.22**

REFERENCES

Sadeq, Abulhasan M. (2000). *Awqaf in Bangladesh,* in Rashid, Syed Khalid, (ed.), *Waqf Experience in South Asia,* op.cit.pp.159-171.

Sadeq, Abulhasan M. (2000). Waqf, Perpetual Charity and Poverty Alleviation

Qaradawi, Yousuf Al. (2008). *Poverty Alleviation in Islam*. Dhaka, Bangladesh. Central Shariah Board for Islamic Banks of Bangladesh. Website: http://www.csbib.org

Kabir, Ekram. (2004). *Strengthening Social Safety Nets in Bangladesh*. Dhaka, Bangladesh. NewsNetwork. Website: http://www.newsnetwork-bd.com

Manik, Nurul Islam (Edited), (2007). *Eviction of poverty in Islam* (2nd edition). Dhaka, Bangladesh. Islamic Foundation Bangladesh. Website: http://www.islamicfoundation-bd.org

Hasssan, M. Kabir (2008). *Estimation of Zakah in Bangladesh with secondary macro-data.* Website: http://centerzakatmanagement.org

Ahmed, Habib (2007). *Zakah, Maceconomic Policies, and Poverty Alleviation: Lessons from Simulations on Bangladesh*. Paper presented at the "International Seminar on "Islamic Alternative to Poverty Alleviation: Zakat, Awqaf and Microfinance", April 21-23, 2007, Bangladesh.

Zafor, Mohammad (2007). *Islamic Alternative to Poverty Alleviation Zakah, Awqaf and Microfinance: Bangladesh Perspective.* Paper presented at the "International Seminar on "Islamic Alternative to Poverty Alleviation: Zakat, Awqaf and Microfinance", April 21-23, 2007, Bangladesh.

Jalil, M A (2007). *Perspectives of Global Poverty: Concepts, Causes and Impacts.* Paper presented at the XVI Biennial Conference "Participatory Development: External and Internal Challenges" of The Bangladesh Economic Association (BEA) held on 12-15 December, 2007, Bangladesh.

Kahf, Monzer (2007), *Role of Zakah and Awqaf in Reducing Poverty: a Case for Zakah-Awqaf – based Institutional Setting of Microfinance*. Paper presented at the "International Seminar on "Islamic Alternative to Poverty Alleviation: Zakat, Awqaf and Microfinance", April 21-23, 2007, Bangladesh.

Kahf, Monzer (2003), Role of Waqf in Improving the *Ummah* Welfare. Paper presented at the "International Seminar on "Waqf as Private Legal Body" held on 6-7 January, 2003 organized by the Islamic University of north Sumatra, Medan, Indonesia.

Chepkwony, Kefa Chesire (2008). *Islamic Philanthropy: The Case of Waqf in Poverty Alleviation and Social Economic Development.* Bologna University

Ahmed, Habib (2007). *Waqf-Based Microfinance: Realizing the Social Role of Islamic Finance.* Paper written for the International Seminar on "Integrating *Awqaf* in the Islamic Financial Sector" held on March 6-7, 2007, Singapore.

Ahmed, Habib (2004). *Role of Zakah and Waqf in Poverty Alleviation.* IRTI of IDB, Occasional paper no. 8, Jeddah, Saudi Arabia

Khan, Fahim M. (2005). *Integrating Faith-based Institutions (Zakah and Awqaf) in Poverty Reductions Strategies (PRS),* IRTI

Hasan, Sami (2006). *Muslim Philanthropy and Social Security: Prospects, Practices, and Pitfalls.* Paper presented at the 6th ISTR Biennial Conference held on 9-12 July 2006 in Bangkok.

Hassan, M. Kabir & Rahman, S.M. Habibur (1998). *The Role of Zakah in Poverty Alleviation.* Paper presented in the International Seminar on "Zakat and Poverty Alleviation in Bangladesh" held on 14-15 December, 1998. Dhaka, Bangladesh

Todaro, Michael P. & Smith, Stephen C. (2008), *Economic Development* (8th Ed.)

Meier, Gerald M. & Rauch, James E. (2006), *Leading Issues in Economic Development* (8th Ed.)

Human Development Report 2009

Waqf Ordinance 1962

Report on the Census of Waqf Estates 1986

Economic Review of Bangladesh 2007 &2009

THE ROLE OF CASH WAQF IN FINANCING MICRO AND MEDIUM SIZED ENTERPRISES (MMES)

A NEW ISLAMIC FINANCIAL APPROACH BY USING CASH WAQF MODEL

–

TESTING THE MODEL ON MALAYSIAN MMES FRAMEWORK

Dr. Ahcene Lahsasna

INCEIF University, Kuala Lumpur,
Malaysia

The Author
Dr. Ahcene Lahsasna.

Contact details:
2nd Floor, Annexe Block, Menara Tun Razak, Jalan Raja Laut, 50350
Kuala Lumpur. Malaysia
Tel: +603 2781 4027
Fax: +603 2692 4094
Mobile: +60129117570
Email: hasan@inceif.org .

THE ROLE OF CASH WAQF IN FINANCING MICRO AND MEDIUM SIZED ENTERPRISES (MMES)

A NEW ISLAMIC FINANCIAL APPROACH BY USING CASH WAQF MODEL – TESTING THE MODEL ON MALAYSIAN MMES FRAMEWORK

Ahcene Lahsasna

ABSTRACT

The main objective of this paper is to analyze and evaluate the role of cash waqf as new financial model in the Islamic financial system. The cash waqf model is meant to develop and enhance the financial services for micro and medium sized enterprises (MMEs). With the financial infrastructure base on cash waqf model the MMEs can overcome their financial challenges and obligation in business and commerce. However the cash waqf model can be used as mechanism through its commercial and financial aspect to enhance the MMEs and facilitate their financial needs. The cash waqf has the potential to improve the domestic economic growth and play a vital role in the socioeconomic development by allowing the MMEs to have access to the financial services. The cash waqf model we present it in this paper will improve the function of the entrepreneurship and enhance other business model of equity financing such as mudarabah financing and musharaka financing, and increase their implementation in the industry. The risk of issuing capital is mitigated, moderated and well monitored in cash waqf framework; in fact the mechanism of cash waqf even goes further beyond the expectation by providing some free interest loan (qard hasan) to the MMEs through a safety mechanism discussed in this paper based on trusteeship model, Equalization profit reserve, and surplus fund of the cash waqf. The scope of cash waqf channeled to develop the MMEs has very wide business concept and scope which include the most active segments in the market such as banking, finance, takaful, and capital market.

Key words: *Cash waqf, financing, micro and medium sized enterprises (MMEs), debt financing, equity financing.*

1. Introduction to the Small and medium size enterprises

1.1. Concept of small and medium size enterprises

There no standards definition for SME, different agencies defines SME base on their own criteria, such as annual sale turnover, number of full time employees and shareholders funds, in this paper I refer the concept and definition of SME in Malaysia base on the National SME development council of bank Negara.

1.2: Small and medium size enterprises SME in Malaysia

- Presently, there is no common definition of small and medium enterprises (SMEs) in Malaysia. Different Agencies define SMEs based on their own criteria, usually benchmarking against annual sales turnover, number of full-

time employees or shareholders' funds. In addition, present definitions focus mainly on SMEs in the manufacturing sector.

- The establishment and adoption of standard definitions for SMEs will facilitate better identification of SMEs across sectors, thus enabling more effective formulation of SME policies and implementation of SME development programmes, and provision of technical and financial assistance. It will also allow better monitoring of SME performance and their contribution to the economy.
- The National SME Development Council has, on 9 June 2005, approved the common definitions of SMEs across economic sectors, for adoption by all Government Ministries and Agencies involved in SME development, as well as financial institutions.[1]

1.2.1 Coverage of definition for SMEs in Malaysia:

The definitions of SMEs will be based on two criteria, namely: Number of employees; or Annual sales turnover.
Therefore, an enterprise will be classified as an SME if it meets either the specified number of employees or annual sales turnover definition.

The definitions will apply for the following sectors:

- Primary Agriculture;
- Manufacturing (including agro-based);
- Manufacturing-Related Services (MRS); and
- Services (including Information and Communications Technology).[2]

1.3. Approved SME definitions

1.3.1. Primary Agriculture:

A: General Definition

A small and medium enterprise in primary agriculture is an enterprise with full-time employees not exceeding 50 or annual sales turnover not exceeding RM5 million.[3]

B: Specific Definitions

- A micro enterprise in primary agriculture is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200,000;
- A small enterprise in primary agriculture is an enterprise with full-time employees of between 5 and 19 or with annual sales turnover of between RM200,000 and less than RM1million.
- A medium enterprise in primary agriculture is an enterprise with full-time employees of between 20 and 50 or with annual sales turnover of between RM 1 million and RM5 million.[4]

[1] Secretariat to National SME development Council, Bank Negara. Malaysia 13 September 2005. P. 2.
[2] Ibid, p. 2 – 3.
[3] Ibid, p. 2.
[4] Ibid, p. 3.

1.3.2 Manufacturing (including agro-based) and MRS

A: General Definition

A small and medium enterprise in manufacturing (including agro-based) and MRS is an enterprise with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25 million.

B: Specific Definitions

- A micro enterprise in manufacturing (including agro-based) and MRS is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM250,000;
- A small enterprise in manufacturing (including agro-based) and MRS is an enterprise with full-time employees of between 5 and 50 or with annual sales turnover of between RM250,000 and less than RM10 million.
- A medium enterprise in manufacturing (including agro-based) and MRS is an enterprise with full-time employees of between 51 and 150 or with annual sales turnover of between RM10 million and RM25 million.[5]

1.3.3 Services (including ICT)

A: General Definition

A small and medium enterprise in services is an enterprise with full-time employees not exceeding 50 or annual sales turnover not exceeding RM5 million.

B: Specific Definitions

- A micro enterprise in services is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200,000;
- A small enterprise in services is an enterprise with full-time employees of between 5 and 19 or with annual sales turnover of between RM200,000 and less than RM1million.
- A medium enterprise in services is an enterprise with full-time employees of between 20 and 50 or with annual sales turnover of between RM1 million and RM5 million.
- The table below summarises the approved SME definitions based on number of full-time employees:[6]

Sector / Size	**Primary Agriculture**	**Manufacturing (including Agro-Based) & MRS**	**Services Sector (including ICT)**
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees
Medium	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 Employees.[7]

[5] Ibid, 4 – 5.
[6] Ibid, p. 5.
[7] Ibid, p. 5.

The table below summarises the approved SME definitions based on annual sales turnover:

Sector / Size	**Primary Agriculture**	**Manufacturing (including Agro-Based) & MRS**	**Services Sector (including ICT)**
Micro	Less than RM200,000	Less than RM250,000	Less than RM200,000
Small	Between RM200,000 & less than RM1 million	Between RM250,000 & less than RM10 million	Between RM200,000 & less than RM1 million
Medium	Between RM1 million & RM5 million	Between RM10 million & RM25 million	Between RM1 million & RM5 million.[8]

Therefore Malaysia adopted a common definition of SMEs to facilitate identification of SMEs in the various sectors and subsectors. This has facilitated the Government to formulate effective development policies, support programmes as well as provision of technical and financial assistance.[9]

	Micro-enterprise	**Small enterprise**	**Medium enterprise**
Manufacturing, Manufacturing-Related Services and Agro-based industries	Sales turnover of less than RM250,000 OR full time employess less than 5	Sales turnover between RM250,000 and less than RM10 million OR full time employees between 5 and 50	Sales turnover between RM10 million and RM25 million OR full time employees between 51 and 150
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000 OR full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19	Sales turnover between RM1 million and RM5 million OR full time employees between 20 and 50

[8] Ibid, p. 6.
[9] http://www.smidec.gov.my/detailpage.jsp?page=defsme

1.4. Category of SMEs

There are two categories of small and medium size enterprise as follows:

1.4.1. Manufacturing, Manufacturing-Related Services and Agro-based industries:

From the above table small and medium enterprises in the manufacturing, manufacturing related services and agro-based industries are enterprises with full-time employees not exceeding 150 OR with annual sales turnover not exceeding RM25 million.

1.4.2. Services, Primary Agriculture and Information & Communication Technology (ICT):

Small and medium enterprises in the services, primary agriculture and Information & Communication Technology (ICT) sectors are enterprises with full-time employees not exceeding 50 OR with annual sales turnover not exceeding RM5 million .[10]

2: The existing financial assistant for SME in Malaysia

There are some financial assistant to the SME in Malaysia provided by various ministries and agencies in various forms of grant and soft loans. The Government is trying to provide an enabling environment for the growth and development of globally competitive and resilient SMEs. Initiatives and programmes by the Government are directed towards addressing constraints and enhancing capabilities of SMEs in areas such as financial accessibility, advisory services, marketing, technology and ICT. Apart from the Government, funds are also channelled through commercial financial institutions.[11] The financial assistance as follows:

2.1. Grants

To provide greater financial accessibilities, the Government through its agencies offers various grants and incentives to the SMEs. Partial grants are provided to finance product, process and quality improvements, market development, skills upgrading, factory audit and acquisition of strategic technology.[12] The governments agencies involve in assisting the SME are as follows:

- Small & Medium Industries Development Corporation (SMIDEC)
- Malaysia External Trade Development Corporation (MATRADE)
- Malaysia Productivity Corporation (MPC)
- Malaysia Industrial Development Authority (MIDA)
- Ministry of Entrepreneur and Co-operative Development (MECD)
- Ministry of Agriculture and Agro-Based Industry (MOA)
- Ministry of Science, Technology and Innovation (MOSTI)
- Ministry of Rural Regional Development (MRD)
- Malaysian Technology Development Corporation (MTDC)
- Malaysia Venture Capital Management Berhad (MAVCAP).[13]

[10] http://www.smidec.gov.my/detailpage.jsp?page=defsme
[11] http://www.smidec.gov.my/detailpage.jsp?page=defsme
[12] http://www.smidec.gov.my/detailpage.jsp?page=incentives
[13] Each one of the above government agencies has a specific criteria and procedure for the financial facility.

2.2. Loans

Access to financing is one of the major problems for SMEs especially for expansion and business development. In this regard, in order to facilitate the easy access to the fund and financing the Government and commercial institutions provide loans for working capital, purchase of fixed assets and project financing.[14] The institutions involve in assisting the SME are as follows:

2.2.1. Government Financial Institutions

- Bank Negara Malaysia
- SME Bank
- Bank Pertanian Malaysia
- Malaysian Industrial Development Finance Bhd (MIDF)
- Sabah Development Bank Bhd
- ERF Sdn. Bhd
- Malaysia Debt Ventures Berhad.[15]

2.2.2. Commercial banks:

The commercial banks are also involve in the financial facility for SME, the banks which provide Islamic financing modes to the SME are as follows:

- EON Bank Bhd
- Hong Leong Bank Bhd
- HSBC Bank Malaysia Bhd
- Maybank Bhd
- OCBC Bank (Malaysia) Bhd
- Public Bank Bhd
- RHB Bank Bhd
- Southern Bank Bhd
- Standard Chartered Bank Malaysia Bhd.[16]

2.2.3. Finance companies

The finance companies are part of the SME financing facilities, they are providing Islamic financing for SME, these banks are as follows: AFFIN-ACF Finance Bhd, Eon Finance Bhd, Hong Leong Finance Bhd, Mayban Fiance Bah. Public finance Bhd. Southern finance Bhd.

2.3. Bank Negara Malaysia: development finance and Enterprise Department

In order to assist SME in Malaysia, Bank Negara Malaysia has set-up the "Development Finance and Enterprise Department". The Unit aims to assist viable SMEs in obtaining financing. While the banking system is the main provider of funds to the SMEs, other alternative sources of financing for SMEs include the development financial institutions and the various special funds established by the Government.[17]

[14] http://www.smidec.gov.my/detailpage.jsp?page=loan
[15] http://www.smidec.gov.my/detailpage.jsp?page=gvtfinancialinstitutions
[16] Each one of the above banks has a specific criteria and procedure for the financial facility, base on bank parameter but within the framework of government guideline.
[17] http://www.smidec.gov.my/detailpage.jsp?page=financialassistance

SME Special Unit

Bank Negara Malaysia has "Small and Medium Enterprise Special Unit". The SME Special Unit is a centre to assist viable SMEs in obtaining financing.

The SME Special Unit is to assist the SMEs in the following areas:

- To provide information on the various sources of financing available to the SMEs.
- To facilitate SMEs in their loan application process.
- To address difficulties faced by viable SMEs in securing financing.
- To provide advisory services on other SMEs financial requirements.[18]

3. The role of cash waqf in financing micro and medium sized enterprises (MMEs)

(The new suggested financial approach by using cash waqf model): This model is base on the cash endowment scheme that the SME create for their benefit, the model is explained as follows:

3.1. The concept and framework of the commercial and financial aspect of cash endowment scheme:

The concept and framework of the commercial and finance aspect of cash waqf will be explained as follows:

3.2. Corporate and financial definition of cash endowment

The waqf can be defined as: The confinement of property, movable or immovable, from the founder (Waqif) and the dedication of its usufruct (according to founder's condition) in perpetuity for the welfare of society". The general concept of waqf is grounded on the above definition; however the concept of cash waqf should be more oriented towards financial and economic dimension in order to suit the corporate need in the industry. Therefore the cash waqf can be defined as: diverting funds (and other resources) from consumption and investing them in productive assets that provide either us usufruct or revenues for future consumption by individuals or group of individuals.[19] This definition seem to be not accurate because the essential element of perpetuity of the waqf is not mentioned, this gives some reservation on the definition from shariah point of view, the appropriate definition will be: cash waqf is mobilization funds from donors base on perpetuity and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups by taking into account the policy and guideline provided by the donors and receivers.[20] This definition for cash waqf is more comply with the shariah concept of waqf and it is financially driven.

3.3. The benefit of cash endowment for SME in commerce and finance

The commercial aspect in cash waqf has a multiple objectives, which can be described as follows:

- The cash waqf with its commercial and finance aspect will be more productive for the benefit of SME particularly, and for the society in general especially at macroeconomic level.

[18] http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=666

[19] Islamic world, website: http://www.islamic-world.net/economic/waqf/waqaf_financing.html. Financing the development of awaqf property, p.4.

[20] This definition is provided by the author.

- The benefit of cash endowment will include the donor him self at the first place who will be one of the beneficiaries of the waqf.
- Cash endowment creates a great opportunity for SME by getting financial reward and profit which can be channel to their needs according to their terms during the establishment of the cash waqf.
- Cash endowment increase the accumulation of liquidity and capital in the industry and create more business opportunity.
- Improve the market by increasing more business activities.
- Enhancing the domestic economic by providing the following:
    - liquidity to the business sector.
    - financing the SME in the industry.
    - circulating the fund in the market.
    - Creating more employments.

3.4. Objectives of cash Waqf Certificate

According to Mannan (1998), the objectives of cash waqf certificate are;

- to equip banks and other waqf management institutions with cash waqf certificate,
- to help collect social savings through cash waqf certificate (cash waqf certification can be done in the name of other beloved family member to strengthen family integration among rich families),
- to help transform the collected social savings to social capital, as well as to help develop social capital market,
- to increase social investment,
- to encourage rich communities' awareness on their responsibility for social development in their environment,
- to stimulate integration between social security and social welfare.

3.5. Process of the cash endowment model for SME (Malaysia Case: testing the model on SMIDEC)

SMIDEC (Malaysia) — Stand for Small and Medium Industries Development Corporation

Phase 1: Establishment of the cash waqf by SMIDEC

Phase 2: Appointment of trustee by the SMIDEC/ founder of the cash waqf (fund management to invest the capital)

Phase 3: Fund mobilization
(start from SME members in SMIDEC, NGO, financial institution, Government, etc ..)

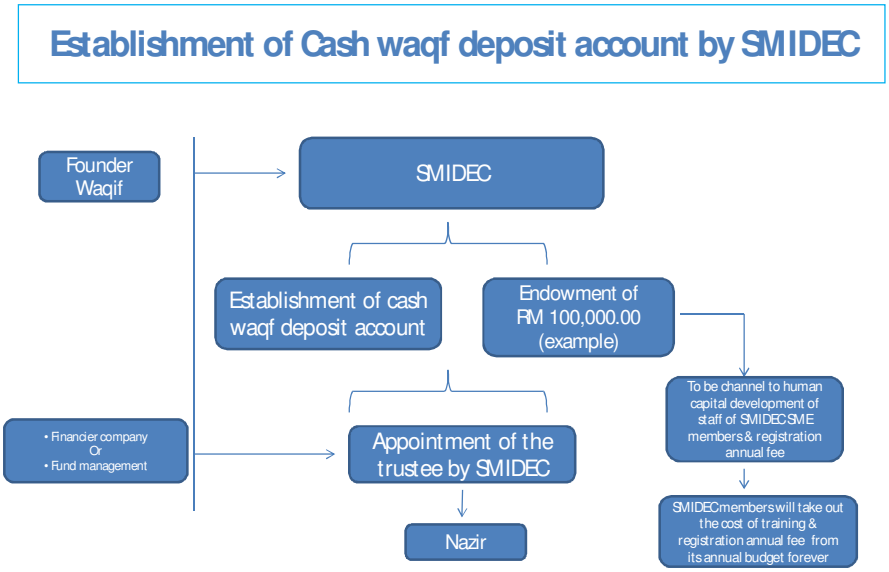
Phase 4: Investment of the fund in debt financing
(low risk investment: murabahah, Ijarah, Istisna, BBA)

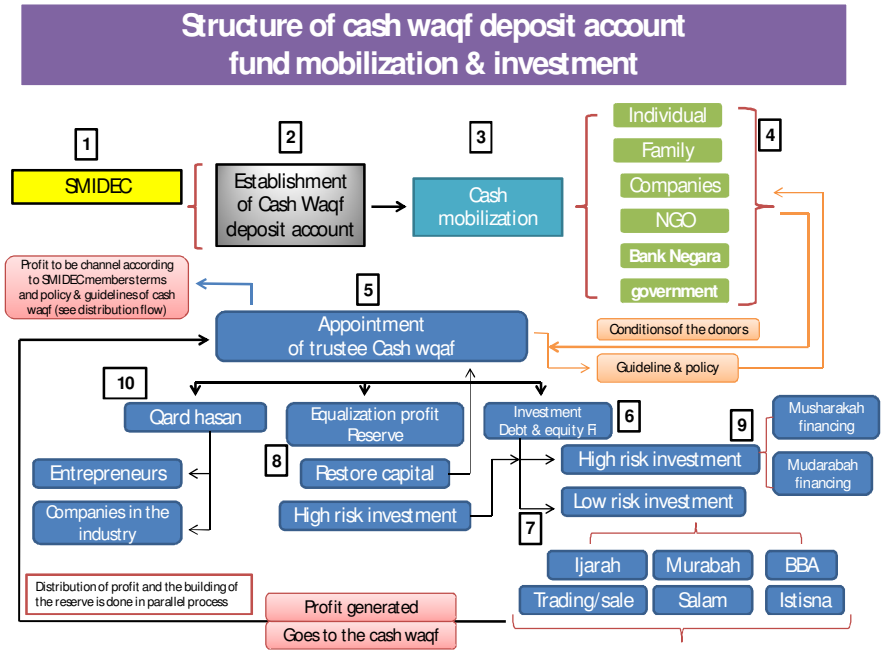
Phase 5: Profit generated from investment
(Channel in parallel: for building reserve, building qard hasan account, profit distribution to SME according to their terms)

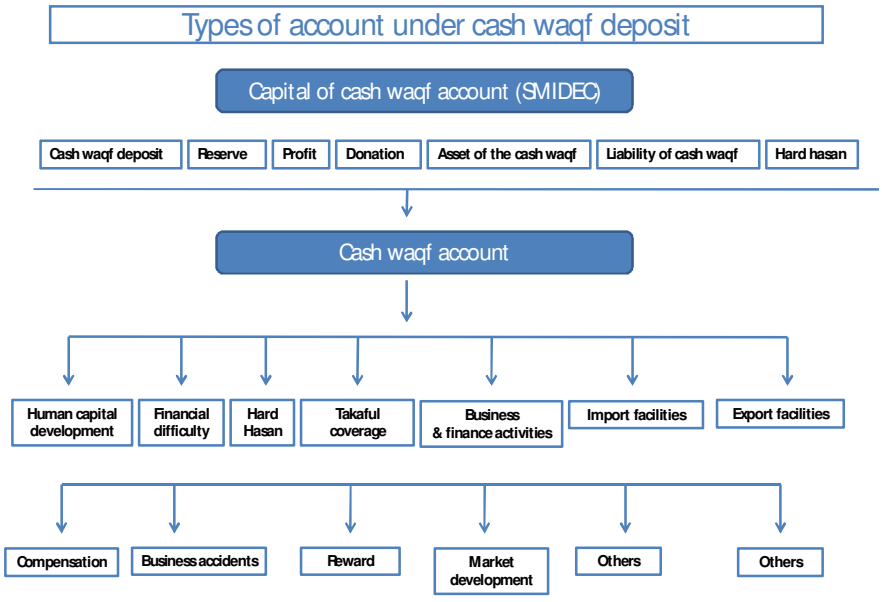
Phase 6: Accomplishment of building: Equalization Profit Reserve & Qard hasan account.

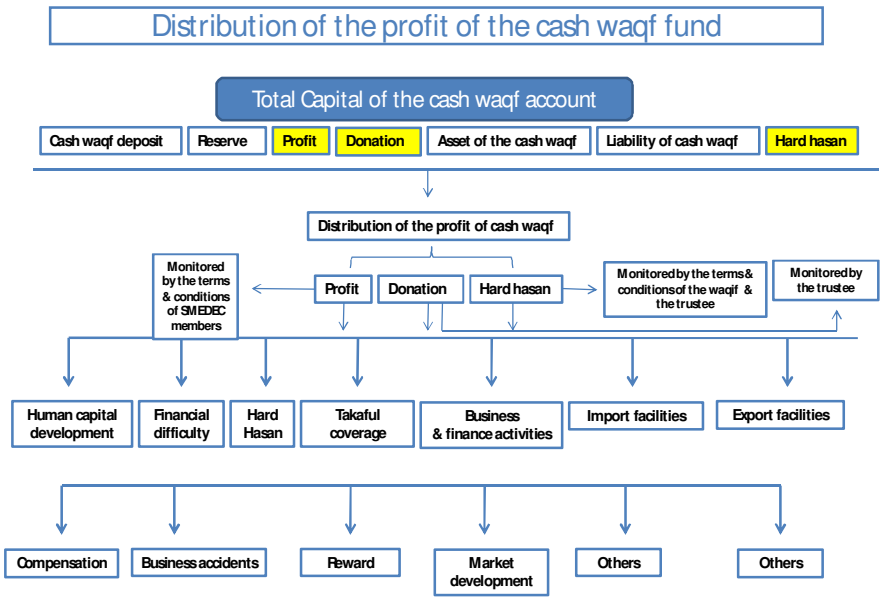
Phase 7: Investment of the fund in equity financing & providing qard hasan (High risk investment: Mudarabah & Musharakah)

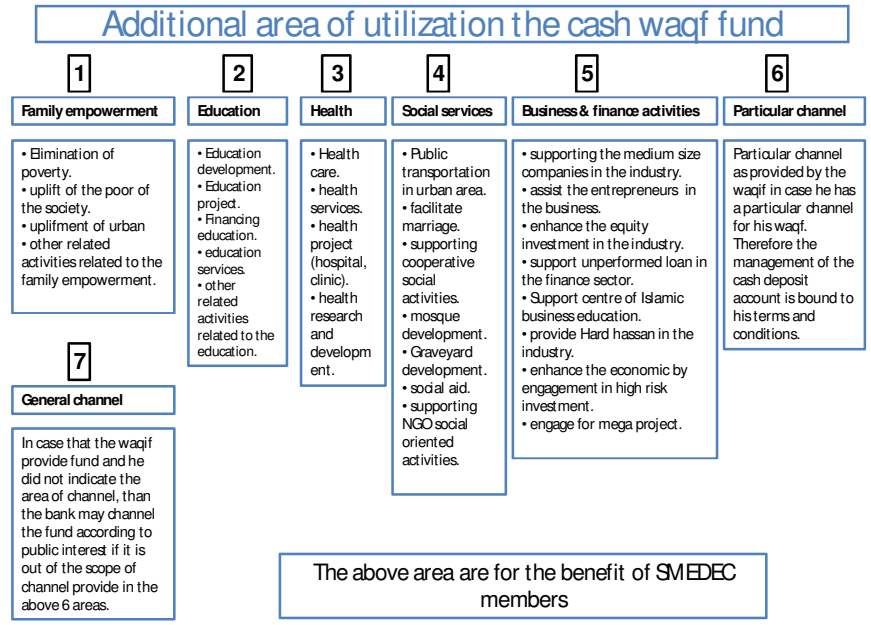
Phase 8: Distribution of the profit according to SMIDEC member's terms and according to the accounts of cash waqf management.




Structure of cash waqf deposit account
fund mobilization & investment
1
SMIDEC
2
Establishment of Cash Waqf deposit account
3
Cash mobilization
Individual
Family
Companies
NGO
Bank Negara
government
4
Profit to be channel according to SMIDEC members terms and policy & guidelines of cash waqf (see distribution flow)
5
Appointment of trustee Cash wqaf
Conditionsof the donors
Guideline & policy
10
Qard hasan
Equalization profit Reserve
Investment Debt & equity Fi
6
9
Musharakah financing
Mudarabah financing
Entrepreneurs
8
Restore capital
High risk investment
Companies in the industry
High risk investment
Low risk investment
7
Ijarah
Murabah
BBA
Trading/sale
Salam
Istisna
Distribution of profit and the building of the reserve is done in parallel process
Profit generated
Goes to the cash waqf


Types of account under cash waqf deposit
Capital of cash waqf account (SMIDEC)
Cash waqf deposit
Reserve
Profit
Donation
Asset of the cash waqf
Liability of cash waqf
Hard hasan
Cash waqf account
Human capital development
Financial difficulty
Hard Hasan
Takaful coverage
Business & finance activities
Import facilities
Export facilities
Compensation
Business accidents
Reward
Market development
Others
Others





3.6. The relationship between the SME depositors and the account of cash endowment:

The fund will be deposited in the account of the waqf established by SMIDEC; upon the contribution and deposit of the cash as waqf in the account certificate of the cash waqf will be provided accordingly (during the opening of the account). After the creation of the cash waqf account the trustee start invest the capital to generate profit, the investment can be channel to different area of investment which includes education, social services, financing. The trustee will

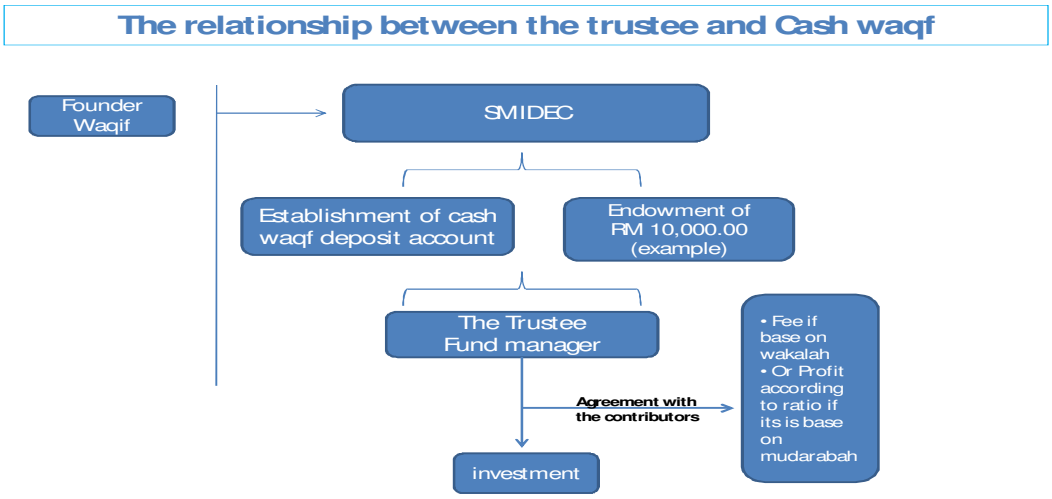
act as financial institution with business entity, and profit oriented. The profit generated from the business activities will be spent for different purpose according to the terms of the SMIDEC members, if the SME members don't have a specific channel the fund management will channel according predetermine agreement with the SME members. It is important to note that there is policy in form of agreement which guide the contribution of SME to the cash waqf, and that policy govern the relationship between the cash waqf management (trustee) and the donors including SME members. This policy can be described as a guideline for the operation of the cash waqf scheme as provided by the social investment bank in Dakah as follows:

- Cash waqf is an endowment in conformity with shariah, the institution manages the waqf on behalf of the waquif.
- Waqfs are done in perpetuity and the A/c is opened in the title given by the waquif.
- Waquif have the liberty to choose the purpose(s) to be served either from the list provided and identified by the institution, covering (a) family empowerment credits (b) Human resource development (c) Health and sanitation and social utility services or any other purpose(s) permitted by shariah.
- Cash waqf amount earns profit at the highest rate offered by the institution from time to time.
- Cash waqf amounts remain intact and only the profit amount is spent for the purpose(s) specified by the waquif.
- Unspent profit amounts automatically added to waqf amount and earn profit to grow over the time.
- Waquif can also instruct the institution to spend the entire profit amount for the purpose specified by him/her.
- Waqif have the opportunity to create cash waqf at a time.
- The deposits can start with any amount.
- Waquif have the right to give standing instruction to the institution for regular realization of cash waqf at a rate specified by him/her from any other A/c maintained with the institution.
- The amount in cash waqf of account is a perpetual deposit.[21]

3.7. The relationship between the trustee and the cash endowment account.

The relationship between the fund manager or operator and the cash waqf endowment account is based on mudarabah or wakalah concept, therefore the fund manager will be sharing profit according to ratio agreed up front, the relationship can be similar to takaful operators in Islamic insurance. However if the concept is based on kafalah the fund manager will be entitled for fee.

[21] Social investment bank, Bangladesh, http://www.siblbd.com/html/homepages.php . Mannan, New frontiers of Islamic micro finance and voluntary sector banking and finance, p26. (with some amendment).



3.8.Cash endowment mobilization:

This is a very important stage in the structure of the cash waqf, it is basically the starting point towards the financial dimension of this product. The mobilization of the fund for the cash wash is base on the prearrangement agreement between SMIDEC and SME members. However we have to mention that the cash waqf should be established for the business community of SMIDEC in order to meet their financial needs.

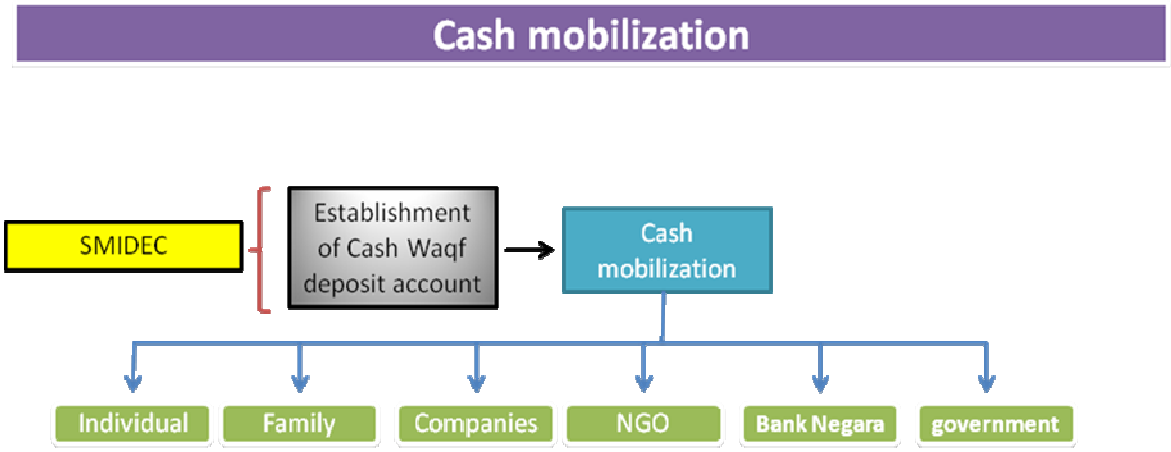
A. **Individuals:** The participation of the individual can be part of the contribution by having a cash waqf certificate which represent a financial contribution to the fund of cash waqf, this cash will located to the cash waqf funds, and channel to one of the available model provided by the funds management.

B. **Organizations**: The organization is a very import part of the creation of the cash waqf, regardless whether the organization is NGO or government, and regardless of the nature of their activities. The organization will be treated as separate identity for the cash waqf, and all the terms and conditions apply.

C. **SME members:** The companies of SME represent the core of cash waqf, they are behind the creation of the cash waqf, therefore they should be very active participant in the creation of the endowment, they can contribute to the growth of the cash waqf by directing their business activities to the cash waqf. On the other hand the SME will be an important partner for the funds management who run the cash waqf, whereby the investment of the cash waqf in the market will be through the SME members as well.

D. **Government:** The government is the key player for the successful of the cash waqf operation, the importance of the government can be observed in the following:
   - Supporting the cash waqf as unique instrument and approach in the industry.
   - Facilitate the legal framework of the cash waqf operating in the financial market, and be part of the national business activities.
   - Regulated the function of waqf by putting shariah standards that governs the waqf, this include shariah aspect, financial aspect, accounting aspect, and managerial affairs accurately.
   - Amend the existing legal framework to suit the cash waqf business operation.

- The government has the full responsibility to safeguard the interest of cash waqf in the nation not by managing the cash waqf but by facilitating the cash waqf operation in the industry.
- Full responsibility of standardized method to manage the waqf marketing, information related, managerial, fees payment, compensations expenses which could be used for auditing, investigation and rating.
- The government agencies related to SME can contribute to the cash waqf for the benefit of the SME, the cash waqf can be channeled to any particular aspect of their needs and activities according to government agencies plan and proramme.



3.9. Notion of the contribution and the cash endowment account

The contribution of the above categories including SME is for the sake of the following purpose:

- Participation for the creation of cash waqf by seeking the reward from Allah without any further intention of getting the reward in this world which can be in form of collecting benefit generated from the cash waqf investment.
- The contribution of the individual can be in form of supporting the various segments in the industry.
- The contribution of the companies can be as benevolent act for the benefit of the needy of the SME which are facing a financial difficulty.
- The contribution can be for the improvement of SME member in SMIDEC. This improvement includes education development or health care or other social activities.
- The contribution can be also in form of supporting the investment of SME in the industry.
- The contribution can also be in form of supporting the investment of the waqf funds by taking care of the investment and ensuring the safety of the waqf funds as part of their corporate responsibility for the successes of the waqf project.
- The contribution of the government and related organizations and agencies attached to the government will be in similar form of the above mentioned, which means that the government can contribute by donation to support the social activities by providing more support to the investment of the waqf funds and ensure the safety of the capital.

The contribution can have two different aspects base on the willing of SME:

- The first one is social aspect as part of the social responsibility of SME; this contribution can be in form of supporting the needy of the society at the macroeconomic level and at the level of the individuals as well.
- The second aspect is related to the business activities which include investment in banking, entrepreneurship and capital market and other segment of the market as well.

4. The financial framework of the cash endowment in investment and its mechanism:

The financial framework of the cash endowment in investment can be described as follows:

4.1. The financial framework of the cash endowment in investment

The framework of the cash waqf is base on trustee concept, the fund will be managed according to the model of financial institution, takaful operation or fund management. This concept will safeguard the fund from parties involve in the cash waqf. This model will keep the capital save in case of misconduct, corruption or unforeseen circumstances. Furthermore this concept will increase the efficiency and productivity of the business, and operation.

4.2. Investment of cash endowment

The purpose of the cash waqf is to channel the funds to the market for investment to contribute to the economic growth and generate profit to fulfill the will of the participant provided in the policy of cash waqf if any. The funds management has the full responsibility as professional and trustee to employ their best and effort for the success of the investment. There are some important guidelines must be observed in order to ensure the safety of the investment of the cash waqf, these guidelines have been mentioned by the Islamic fiqh academy in its resolution No. 140 (15/6) as follows:

- From Islamic point of view Cash waqf is permissible because its objective is to restrain the ‘ain (property) and to channel its usufruct to the beneficiaries with the original ‘ain protected.
- Cash waqf can be created for qard hassan (benevolent loan), for investment either direct investment or musharakah investment through fund investment or through issuing of cash waqf shares. This will encourage the establishment of cash waqf from all people.
- When cash waqf is invested in acquiring tangible assets such as buying real state, or made an Istisna contract, the acquired asset or the assets of Istisna can not be considered as waqf property and it can be sold cash or reinvested but the original cash waqf amount must be preserved.[22]

4.3. Type of investment in cash waqf

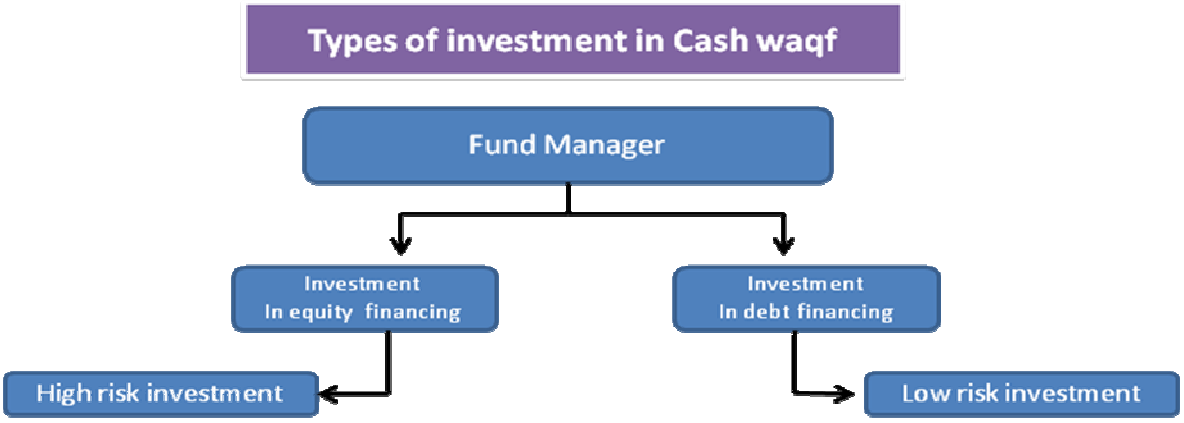
The funds of cash waqf can be invested according to a professional business plan provided by the trustee base on the need and requirement of the industry and market, therefore the trustee who manages the fund must act as financial organization with business identity oriented which means that the goal will be generate profit by investing the funds. However to ensure the safety of the capital It is recommended to

[22] Ibid.

invest in low risk investment and secured projects similar to the investment to the financial institutions. The trustee should take the bank investment model as their benchmark, the reason behind this is to avoid any deficit of the capital and not expose it to any substantial risk or damage. There are some principles of investment of the cash waqf must be observed and considered by the trustee while they are running their business and investment. These principles are as follows:

- The trustee should draft a guideline and principles for the participant, member of SMIDEC to be adopted during the establishment of the cash waqf. This guideline is in form of a policy which governs the relationship between the parties involves in the cash waqf.
- The investment must be in halal, and the non halal investment must be avoided at all stages.
- The investment should be in safe investment to safeguard the capital of the waqf.
- The trustee should create a reserve from the profit for the safety of the capital in case of loss in the investment and business operation.
- Once the reserve is created the trustee is required to invest in micro credit, and micro financing, and partnership financing such as mudarabah and musharakah in order to assist the entrepreneurship and medium size enterprises in SMIDEC.
- The trustee should create a fund to support the voluntary sector and demonstrate the social responsibility of the waqf; therefore the cash waqf should be able to provide qard hasan to assist the industry members of SMIDEC who are facing financial difficulty.
- The trustee should adopt the recommendation of the international fiqh academy in its resolution No. 140 (15/6): which is as follows:
- When investing the income of waqf the following conditions should be observed:
    1. Statement and scope of the investment should be shariah compliant.
    2. Observation of variation of investment scope in order to diversify business risks, taking guarantees, documentation of the contracts, conducting of feasibility study for the intended investment projects.
    3. Selection of the safest modes of investment and keeping away from the high risk investment modes.
    4. Investment of waqf properties should be according to the shariah compliant and modes suitable to those properties which serves and protects the waqf and beneficiary rights. Therefore, if the waqf properties are tangible assets the investment should not lead to the termination of their ownership, and if they are in the form of cash they can be invested in any shariah compliant mode of investment, such as Mudharabah, Murabaha, and Istisna, …etc.
    5. There must be an annual disclosure on the investment activities and make such information available to the persons involved.[23]

[23] International fiqh academy in its resolution No. 140 (15/6).

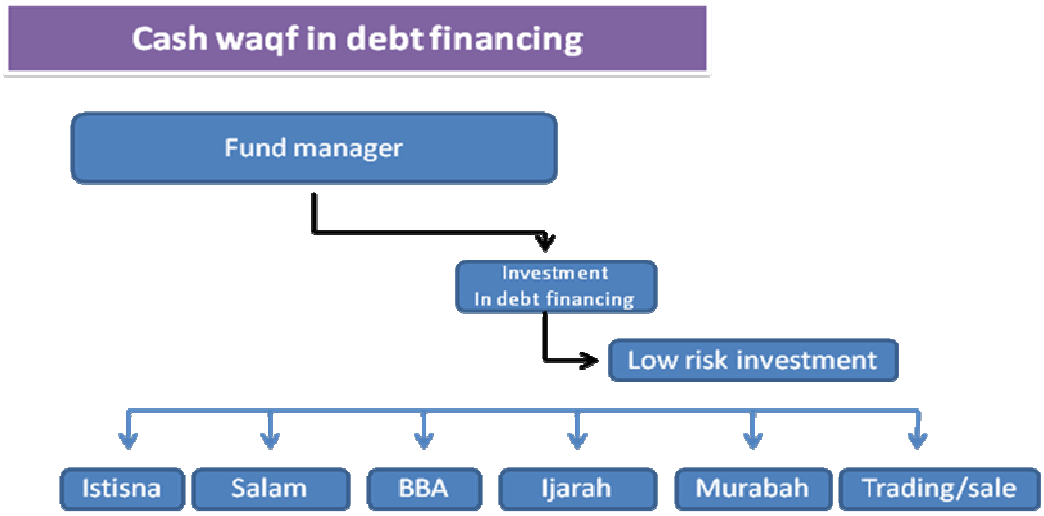


4.4. Cash waqf and micro financing

Cash waqf is very liable source for micro credit and micro financing; it is a very strong source for the medium size enterprises and entrepreneurship. The cash waqf can contribute to the improvement of the performance of the industry through the assistance provided to the MMEs. Cash waqf can create more project, business opportunities, and more employment, which contribute to the economic growth, and the financial system. There are many area of investment of cash waqf that SMIDEC members can be part of it. We can divide the corporate financing it into two major categories according to the market segment which are: debt financing and equity financing. The former is a low risk investment whereas the later is a high risk investment; the cash waqh is the only model which can take the challenges to do both investments.

4.4.1. Cash waqf in debt financing

The debt financing has low risk compare to equity financing, therefore the cash waqf can be invested in this business sector, especially in the first year of investment, the fund management should be very careful in the investment to safeguard the capital of the waqf. SMIDEC members will play a vital role in making this type of financing successful. On one hand they are the participants of the cash waqf and from the other hand they are the investor of cash waqf, it is their duty to safeguard the capital at the initial stage and at the ultimate stage as well. There are many types of debt financing, we just mention few of them, but the funds management can engage in many other type of investment in the debt financing provided, there is profit to be generated, and it is low risk investment and shariah compliant. Some of them are Murabahah financing mode, *Salam* financing, Istisna' Mode financing, Bai' Bithaman Ajil (BBA financing), Ijarah Mode etc.



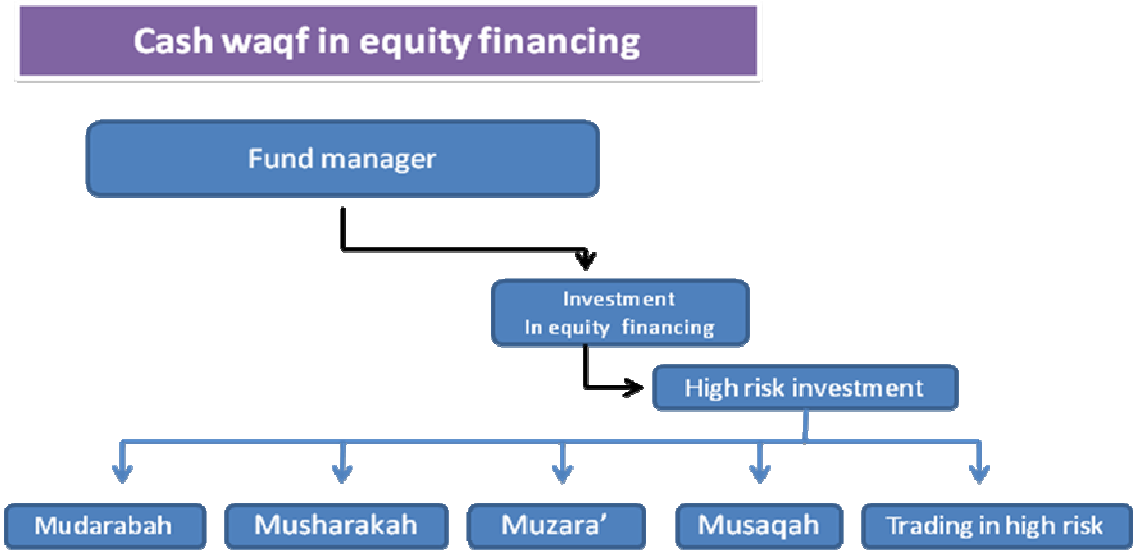
4.4.2. Cash waqh in equity financing

Equity financing is a very important area of investment for the cash waqf. It is the only financial model which can accommodate this type of investment without any accountability in front of the shareholders. However at any circumstances the trustee is required to act in the industry with a business identity to generate profit, the fund manager can engage actively in the market for business venture as far as the principles of shariah in business are fulfill. This investment will give a special consideration to partnership business**,** since the Islamic banks don't support the partnership model such as mudarabah and musharkah, the cash waqf can take the initiative to play this role to enhance this type of business sector in the industry and shows some good positive indication in the market. It should be noted here that the challenges that the cash waqf is taking does not mean exposing the funds and capital to risk due the high risk of capital in this type of investment, but the objective is to activate this business sector in micro financing, and improve the performance of the enterprise in order to encourage the Islamic banks to follow the same path.

Since this type of investment has a high risk, the issue may arise regarding the safety of the cash waqf, and the possibility of deficit of the capital which crate a shariah issue in the cash waqf. We suggest an approach to overcome this problem which is as follows:

- The trustee should allocate portion of the profit generated from the business activities, and create a fund reserve.
- As we know the profit from shariah point of view is not a waqf, but it is property owned by the waqf, therefore different rules can be applied to govern the profit generated.
- The profit can be channel to different business activity which includes high risk investment and social investment.
- In order to ensure the shariah compliant regarding channeling the surplus funds to different business activities, consent of the participant can be obtained during the creation of cash waqf.
- Therefore the surplus of the cash waqf will be invested in high risk investment for the benefit of the Muslim entrepreneurs and enterprises, which is part of the social responsibility.

- Similar consent can be obtained from the creator of the cash waqf that portion of the profit will be located as qard hasan for the small and medium enterprise, who can not get this facilities from the Islamic banks.
- This scheme is for the benefit of SMIDEC members, and the investment will be channel to them.
- This approach will enhance the application of the partnership in the industry (musharakah, mudarabah) and help the small business man to get free interest loan, however if there is loss the capital, the reserve fund will absorb it, and the cash waqf will stay save and intact and will not be affected because the reserve will be a coverage for any loss may occur.



5. Policy and guideline agreement between the trustee and the members of the cash endowment account.

- All the parties involve in the cash waqf must honor the policy and the guideline, and the policy will be bound to any contributor for the cash waqf.
- The investment must be in halal, and the non halal investment must be avoided at all stages.
- The investment should be in safe investment to safeguard the capital of the waqf.
- The trustee should create equalization profit reserve from the profit generate for the safety of the capital in case of loss in the business operation.
- Once the reserve is created the trustee is allowed to invest in micro credit, and micro financing, and partnership financing such as mudarabah and musharakah in order to assist the entrepreneurship and medium size enterprises.
- The trustee is allowed use the surplus fund to support the voluntary sector and demonstrate the social responsibility of the waqf institution; therefore the cash waqf should be able to provide hard hasan to assist the industry members who

are facing financial difficulty. This facility is channeled to SMIDEC members who are the micro and medium sized enterprises (MMEs).

- The profit of waqf is not a waqf, but it is property owned by the waqf, therefore different rules can be applied to govern the profit generated.
- The profit can be channel to different business activity which includes high risk investment and social investment.
- In order to ensure the shariah compliant regarding channeling the surplus funds to different business activities, consent of the participant can be obtained during the creation of cash waqf by signing this agreement policy.
- The surplus of the cash waqf will be invested in high risk investment for the benefit of the Muslim entrepreneurs and enterprises, which is part of the social responsibility.
- Similar consent can be obtained from the creator of the cash waqf that portion of the profit will be located as qard hasan for the small and medium enterprise, who can not get this facilities from the Islamic banks.
- The trustee should adopt the recommendation of the international fiqh academy in its resolution No. 140 (15/6): which is as follows:

1. When investing the income of waqf the following conditions should be observed:
2. Statement and scope of the investment should be shariah compliant.
3. Observation of variation of investment scope in order to diversify business risks, taking guarantees, documentation of the contracts, conducting of feasibility study for the intended investment projects.
4. Selection of the safest modes of investment and keeping away from the high risk investment modes.
5. Investment of waqf properties should be according to the shariah compliant and modes suitable to those properties which serves and protects the waqf and beneficiary rights. Therefore, if the waqf properties are tangible assets the investment should not lead to the termination of their ownership, and if they are in the form of cash they can be invested in any shariah compliant mode of investment, such as Mudharabah, Murabaha, and Istisna, …etc.
6. There must be an annual disclosure on the investment activities and make such information available to the persons involved.

Conclusion

This research concludes with some finding and recommendation as follows:

- Cash waqf in a very powerful tool for fund mobilization and investment.
- The cash waqf should function on trustee concept and act as financial institution.
- The participants involve in the creation of cash waqf can be individual, family, groups, firms, companies, NGO, government.
- The model provided can be customized base on SMIDEC requirement. Or any other business or social organization.
- The cash waqf can accommodate the terms and conditions of waqif within the shariah rules and framework.
- Cash waqf management should provide a policy as guideline to govern the relationship between the participant and the cash waqf.
- Cash waqf can play a crucial role in the improvement of the industry, financial system and the economic growth.

- The investment of cash waqf be dedicate to debt financing which has a low risk investment to generate profit and expand the fund of cash waqf, and can be expanded to equity financing as well to assist the medium size enterprises in micro credit and micro financing.
- The cash waqf is able to enhance the partnership business organization in banking and finance.
- The cash waqf must create a reserve for the purpose of capital safety and allocate fund for high risk investment and hard hasan.
- Cash waqf can easily demonstrate the social responsibility in its business activity.
- Cash waqf is always guided by the shariah advisory to ensure shariah compliance in the various business activities.

ANALYSIS ON CASH *WAQF* RETURN FUND ALLOCATION IN INDONESIA: ACASE STUDY IN INDONESIAN *WAQF* DEPOSIT

AHMAD AFFANDI
Lecturer and Senior Researcher,
Tazkia Islamic Business School, Jakarta Indonesia

DIAH NURHAYATI NUFUS
Researcher,
Tazkia Research and Community Empowerment Indonesia

ANALYSIS ON CASH *WAQF* RETURN FUND ALLOCATION IN INDONESIA: ACASE STUDY IN INDONESIAN *WAQF* DEPOSIT

Ahmad Affandi[1]
Diah Nurhayati Nufus[2]

ABSTRACT

Cash waqf is one of the alternative solutions amid the inability of government in providing prosperity for Indonesian society. On the other side, the system of cash waqf return allocation need to be rejuvenated in a professional way. IWD (Indonesian Waqf Deposit) as a representative of nadzir foundation of cash waqf in Indonesia taken as a case study of this research. The objectives of this study are to identify the amount of IWD's cash waqf revenue, the amount of IWD's cash waqf allocation on productive sector, the amount of IWD's cash return waqf fund and to examine how an effective policy on cash waqf allocation. This study employs AHP (Analytical Hierarchy Process) as main methodology in analyzing the data. To measure more effective criterion of cash waqf return fund allocation, this study use good deed effect, free rider effect and income redistribution effect. The study found that the collection of cash waqf fund still far from expectation. Meanwhile rehabilitation of poor family is the first priority of cash waqf fund allocation.

Keywords: *Cash waqf, AHP, Good Deed Effect, Free Rider Effect, Income Redistribution Effect*

INTRODUCTION

A. Background

Indonesia is proven not capable in ensuring the prosperity of the people since its independence. According to some literatures, the poverty has been increased significantly from 16% in February 2005 to 22% in March 2006 and 2008. Apart from this evidence, the suffer still continues by diminishing the provision of social safety net, increasing infant mortality, and other social diseases. The inability of government to prosper the society related to the availability of fund. Although the government has progressive attempts by way of seeking foreign loan but it actually increases the national burden. In fact, this attempt made the government in foreign debt trap.

Indonesia as world largest muslim population, possess huge potential of waqf. Suppose the country has ten million of middle-up muslim population with average income of 0.5-10 million Rupiah per month and there are four million muslim population with monthly income of 0.5 million Rupiah, it is expected that every one

[1] Lecturer and Senior Researcher, Tazkia Islamic Business School, Jakarta Indonesia
[2] Researcher, Tazkia Research and Community Empowerment Indonesia

will contribute for waqf Rp 60.000 annually. It means annually waqf collection could reach Rp 240 billion. If there are two million people who have monthly income of Rp 2-5 million and they contribute Rp 120.000 annually, waqf collection is expected to be Rp 1.2 trillion. And supposed there are one million people with Rp 5-10 million of income per month and they contribute for waqf Rp 1.2 million annually, the waqf collection is expected to reach Rp 1.2 trillion. It means the total waqf fund collection is expected to be Rp 3 trillion annually (Nasution, 2003:43-44; Proyek Peningkatan Zakat dan Wakaf, 2003 :92). For more details the table below shows the illustration of cash waqf collection.

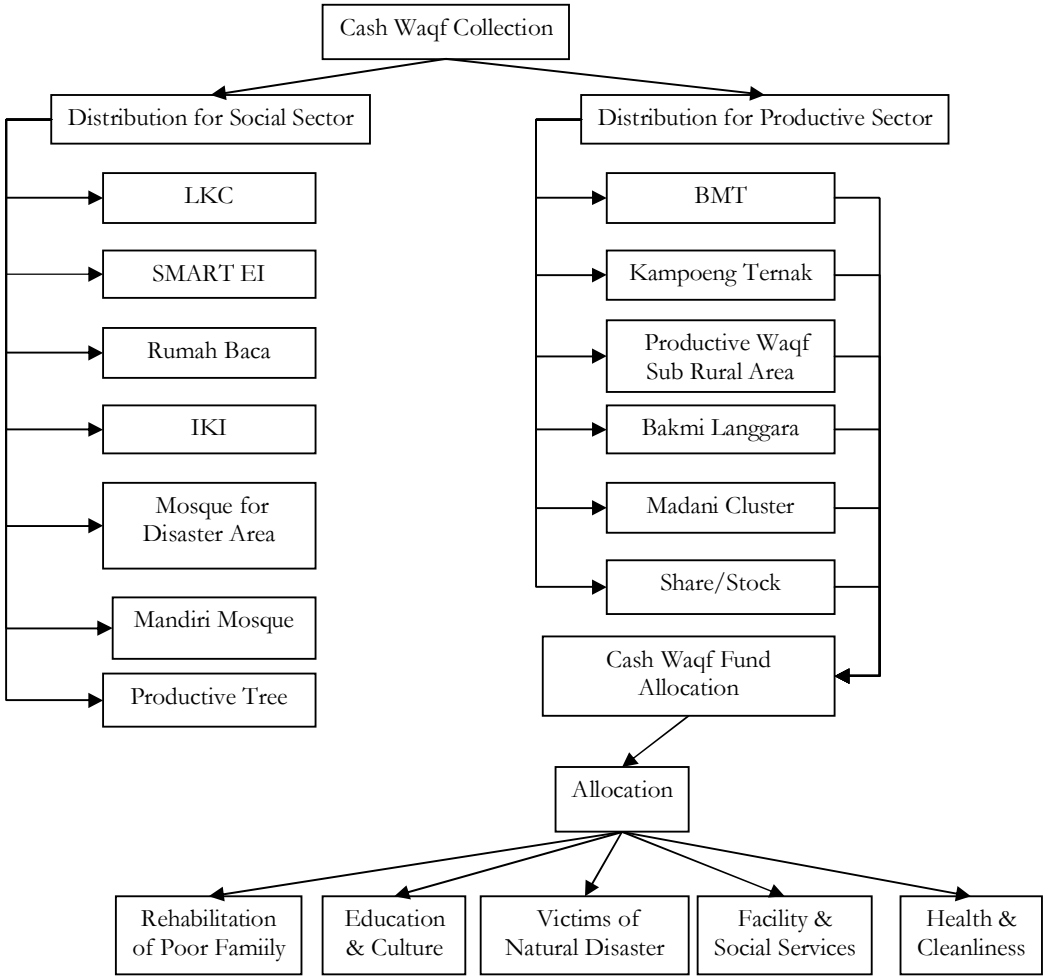
In Indonesia, the existence and implementation of cash waqf has been implemented since 2004. However, the government agreed and inaugurated the act in 2004 by releasing act no 41 2004 pertaining to waqf which also comprises of tangible waqf such money, stock and securities. Until today, there are many waqf insitituions established in Indonesia such as Indonesian Waqf Deposit, Centre for Justice and Caring of Ummah, Caring of Ummah Daarut Tauhid and many other cash waqf institutions.

However, although there are many cash waqf fund bodies, but the system and its allocation still need to be rejuvenated to reach the desired goals in an effective, efficient and professional way. This evidenced by small amount of cash waqf collection and effectiveness of distribution and allocation. The awareness of people, government regulatory framework and the management of waqf institutions are primary indicators why the allocation of cash waqf remains an obstacle of waqf development in Indonesia.

Indonesian Waqf Deposit (IWD) is the pioneer and first institution in Indonesia established merely to manage cash waqf. The existence of IWD is parallel amid the inability of government to ensure the prosperity for Indonesian society. No doubt that this institution becomes economic bulwark during the suffer. However, the problem arises when huge amount of cash waqf not distributed in an effective and efficient way. Many government policies like subsidy of direct cash transfer for poor family could not reach to the right people due to lack of proper policy on cash distribution.

In Line with this situation, there is an urgency to analyze on how the priority of cash waqf distributed. To support this study, the research will employ AHP (Analytical Hierarchy Process) since this methodology has been used frequently to derive proper decision whilst many solutions.

In order to reach systematic analysis of this study and to examine the effective way of cash waqf fund allocation and its priorities, the study attempts to explore the following theoretical framework of this research:



B. Problem Statement

The Process of allocation management of cash waqf can be classified into three phases: collection, investment and allocation. The two first phases aimed to obtain the fund that will be utilized in empowering community. Third phase is an important step where *nadzir* manage the wealth of waqf to obtain desired profit. *Nadzir* at this point, should manage waqf fund allocation in a proper way.

Waqf fund allocation has similar characteristic with infaq. This means, waqf fund allocation can be utilized in a broader sector and flexible utilization. IWD as first cash waqf institution established specifically to manage cash waqf since other institutions regard zakat as priority instead of waqf. That is why, IWD is expected to be more capable to represent nadzir institution of cash waqf in Indonesia.

Therefore, it is important to analyze the priorities of cash waqf fund allocation in more effective and professional way. To be more focus, this study raises some problem statements as follow:

1. What is the total cash waqf that being collected by IWD since its establishment?

2. What is the total cash waqf allocation fund delivered for productive sector?
3. What are the priorities of cash waqf fund allocation by way of employing AHP?

C. Objective

Specifically the objectives of this study are as follow

1. To know the development of cash waqf that allocated for productive sector.
2. To know the number of cash waqf return fund allocation for productive sector
3. To determine the effective and efficient way of cash waqf fund allocation

LITERATURE REVIEW

Mannan (2001) describes that waqf can be interpreted as its substance to be maintained, while the result or its function utilized according to waqif's order. So, waqf is a legal process conducted by some one who has huge rewards of his/her deed.

Qahaf (2005) views waqf as holding property in the way of temporary or permanent use to be utilized its benefit directly or indirectly and continuously implemented for specific public benefits. The moslem scholars and waqf laws no 41 2004 states that waqf is a legal act of some one or group of individual or statutory bodies who split their wealth and property to be utilized for the sake of community benefit according to Islam.

According to Maulan (2004), cash waqf is *waqfun nuqud* which later translated to English become cash waqf. According to Indonesian dictionary, it is interpreted in two terms; cash waqf and money waqf. However, irrespective of these terms and languages, the study believes that the term refers to *waqfun nuqud. Waqf* also defined as delivery of property in the form of money to some one or institution of nadzir. Its conditions, output and function utilized for any purpose that comply with Islamic principles.

Waqf possesses two dimensions: religious and social economic dimension. Religious dimension means that waqf is regarded as moslem obligation to Allah which carries reward in the hearafter. Social dimension constitutes mutual cooperation, assistance and prosper the needy which no government intervention.

The development of waqf has been begun before Islam coming to Indonesia although its spirit has the same syariah dimension but its practice and application not necessarily the same as outlined by syariah. This spirit spread out through all cities across Indonesia with different term and local language.

According to Kahf (2007), before the 20th century, the primary priority of cash waqf allocation were dedicated for the prosperity of mosque, its maintenance cost, management. Second priority is dedicated for education sector which includes salary

for teachers and provision of book. Third priority for the needy, orphan and detainee. Fourth mainly for health sector which includes cost maintenance for hospitals, salary of medical doctor and other supporting staff.

Mannan says (2001), waqf fund could be allocated to support some activities to provide public or private goods. Public goods mean, the waqf fund is utilized for the purpose of building public facility like building the bridge. Meanwhile private goods means the waqf fund is utilized for public interest and people are paying in consuming it.

Mannan mentioned that the main objective is to determine the priority of cash waqf fund allocation. To know wether the decision is considered effective, he outlined three conditions; good deed, free rider and income redistribution.

Meanwhile Masyita (2003) views that waqf fund allocation allocated for five sectors: Rehabilitation of poor family, education and culture, victim of natural disaster, social service facility, healthy and cleanliness. Masyita says that if cash waqf that managed in a professional way will produce huge profit and hence used as an instrument to alleviate the poverty.

Instead of generating rewards, cash waqf has economic implication. According to Nasution (2005), the potential of cash waqf in Indonesia could reach three trillion per year. The amount considered as significant if these funds managed to yield more huge fund and hence allocated for the prosperity of society. At least these funds can help the government in boosting national economy. The other effects generated from cash waqf are equal distribution of income, an increase in the consumption level, purchasing power etc.

Getuk (2006) argues that to solve the problem by employing AHP, one should understand two main problems. The study should determine the desired goal, criterion used to derive options and alternative solutions.

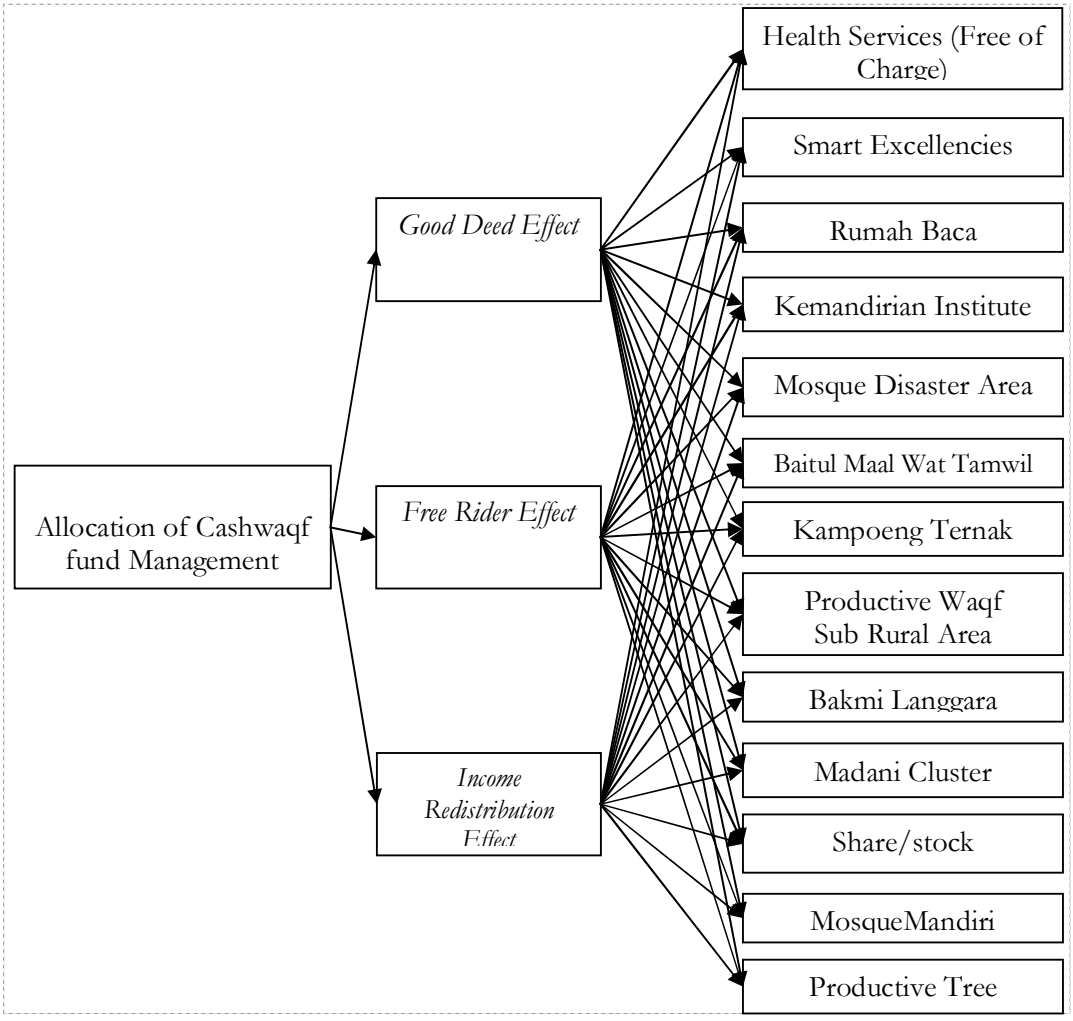
Okka (2003) describes the use of AHP methodology to determine the decision where its criterion could not produce mathematical equation. Employing AHP as research methodology has been intensively used to derive decision making with many criterion and alternative decision

RESEARCH METHODOLOGY

A. Definition of Operational Variable

Good deed can be viewed as the function of cash waqf allocation towards certain sector. Free rider refers to beneficiaries of the fund and Income redistribution means the capability of the fund to improve the income of an object after receiving cash waqf fund.

As an alternative solution, the 13 program of TWD can be selected to allocate cash waqf fund allocation. Hierarchy decision model can be viewed using the following illustration as developed by Mannan.



B. Source of Data

The source of data were collected by way of interview, distributing questionnaire, annual report of IWD and the data generated from 2005-2007 since 2008 still not achievable due to an obstacle in collecting data. Meanwhile, to derive proper respondents, the study use purposive sampling by considering the knowledge of respondents towards cash waqf, its allocation and benefit. The respondents are as follow:

1. Director of IWD
2. Director of Human Resource, Dompet Dhuafa
3. Expert and eminent scholar of cash waqf
4. Expert and eminent scholar of Islamic economic
5. Wakif

6. Maukuf bih

After collecting all necessary sources of data then analyzed using Microsoft Excel or Criterium Decision Plus Version 2.0.

There will be four axioms to be considered in using AHP model namely Reciprocal Comparison, Homogenity, Independence and Expectation. The mathematical groundwork that used is described in a matrix form as follow

$$\mathbf{A} = \begin{pmatrix} 1 & a_{12} & \cdots & a_{1n} \\ \frac{1}{a_{12}} & a_{22} & \cdots & a_{2n} \\ \cdots & \cdots & \cdots & \cdots \\ \frac{1}{a_{1n}} & \frac{1}{a_{2n}} & \cdots & 1 \end{pmatrix}$$

Where $a_{11}=1$

if $a_{ij}=a$ hence $a_{ji}= 1/a$,a ¹O

From the above matrix comparison will be used to derive criterion of respondent by way of formulating geometric mean as follow

$$W_i = \frac{\sqrt[n]{\prod_{j=1}^{n}}}{\sum_{i=1}^{n} \sqrt[n]{\prod_{j=1}^{n} a_{ij}}}$$ where i=1,2...n

To measure the consistency of respondent, the study will employ Consistency Index as follow

$$CI = \frac{\lambda_{\max} - n}{n-1}$$

Where

n = cirteria or alternative

l_{max}= the value of high eigen in matrix and paired with orde n

Another approach can be used to derive the value of 1_{max} can be formulated as follow

$$\lambda_{max} = \left(\sum_{j=1}^{n} W_j \left(\sum_{i=1}^{n} a_{ij} \right) \right), \quad i = 1, 2, \ldots, n$$

Where

a_{ij}= element of matrix reciprocal

W_j= value of criterion j

If CI =0 means the decision considered equal with number of criterion that compared with n criterion. The high value of CI the high level inconsistency from decision Inconsistency of matrix index with 9 scale (1-9) and its reciprocal called random index or RI. According to calculation made by Thomas L. Saaty using 500 sample obtained from average index of RI for each certain matrix ordo in the following table

Table 3.2. Random Index (RI)

Ordo Matrix	RI	Ordo Matrix	RI	Ordo Matrix	RI
1	0	6	1,24	11	1,51
2	0	7	1,32	12	1,48
3	0,58	8	1,41	13	1,56
4	0,9	9	1,45	14	1,57
5	1,12	10	1,49	15	1,59

Source: Saaty and Vargas (1994:9)

Therefore, Consistency ratio can be formulated as follow

$$CR = CI / RI$$

If CR = 0.10 means the result of research is accepted or reliable. If not, then the decision making should obersve again the problems and revise comparative pairwaise matrix.

RESULT AND ANALYSIS

A. Collection of Cash Waqf Indonesian Waqf Deposit and its Allocation to Productive Sector

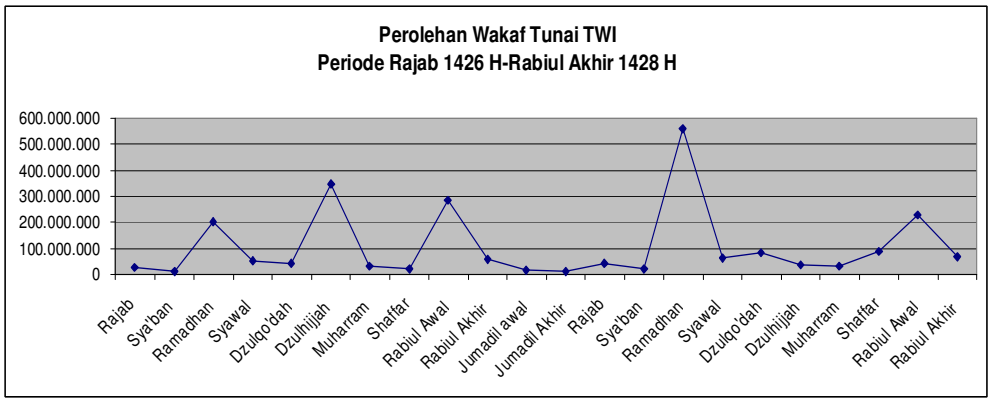
Although IWD established just started operation in 2005, the number of collection of cash waqf was very amazing specially from Dompet Dhuafa. Table 5.1 describes the collection of cash waqf by IWD remain constant performance. It means, the collection of cash waqf by IWD can be assumed to increase or decrease every month. The highest collection every year shows significant increase specially during fasting month. This means people were motivated by religious aspect. People expect more to get more rewards if they undergo some religious activities like ibadah including waqf during the fasting month. The tradition of contributing waqf during ramadhan shows its significant increase only during that month while others experience the opposite situation. This will make nadzir more difficult to distribute the waqf fund for certain program that require regular fund injection for the said program.

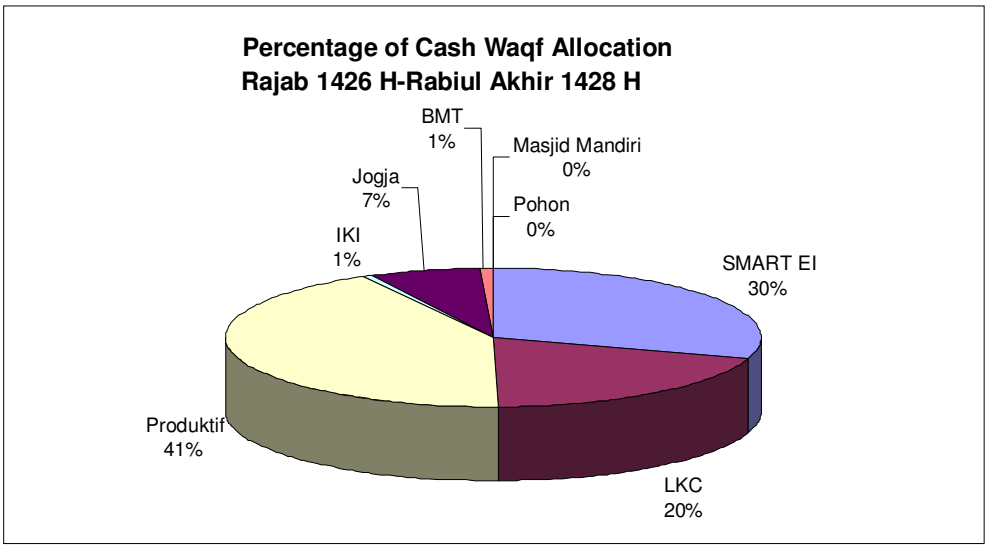
After that period, productive sector becomes one of the three sectors who receive cash waf fund at IWD. In fact, during the last period, productive sector is highest receipient of cash waqf fund amounting Rp 985.011.246 oe 42,18% out of total distribution. The distribution of cash waqf fund to every sector can be viewed in the following picture.

Table 5.1 Collection of Cash Waqf

Year	Month	Collection/month
1426 H	Rajab	24.000.000
	Sya'ban	11.300.000
	Ramadhan	202.885.000
	Syawal	49.608.000
	Dzulqo'dah	41.000.000
	Dzulhijjah	344.600.000
1427 H	Muharram	33.000.000
	Shaffar	21.325.000
	Rabiul Awal	283.000.000
	Rabiul Akhir	56.500.000
	Jumadil Awal	14.025.000
	Jumadil Akhir	11.000.000
	Rajab	40.520.000
	Sya'ban	18.300.000
	Ramadhan	558.220.246
	Syawal	61.750.000
	Dzulqo'dah	83.615.000
	Dzulhijjah	38.675.000
1428 H	Muharram	31.150.000
	Shaffar	87.827.000
	Rabiul Awal	225.111.000
	Rabiul Akhir	66.100.000
TOTAL		2.303.511.246

Source: IWD 2007





B. Collection of Waqf Fund Management

Cash waqf that managed and utilized in a productive sector produce significant benefit that might be used to increase the properity of society. Productive cash waqf was initially recognized as a program of IWD since September 2006. Productive cash waqf currently experience significant profit that was generated from Bakmi Langgara and Kampoeng Ternak.

Table 5.2 Collection of Cash Waqf Fund

No	Bulan	Bakmi Langgara	Kampoeng Ternak	Total
1	January 2007	0	0	0
2	February 2007	1.027.774	0	1.027.774
3	March 2007	474.100	0	474.100
4	April 2007	0	5.531.000	5.531.000
Total		1.501.874	5.531.000	7.032.874

Source: IWD 2007

The collection of cash waqf fund considered as small which only Rp 7.032.874. Most of the collection of cash waqf generated from Kampoeng Ternak. The collection was very small due to IWD just started the implementation of productive waqf. According to them, IWD prefers to make cash waqf in a productive sector that might require more assistance and capital injection instead of allocating for financial sector which is less benefit for rural society.

C. Analysis of Cash Waqf Fund Allocation Using AHP Method

After distributing and collecting the questionnaire to selected sample, the following some respondents that considered eligible as an expert of cash waqf

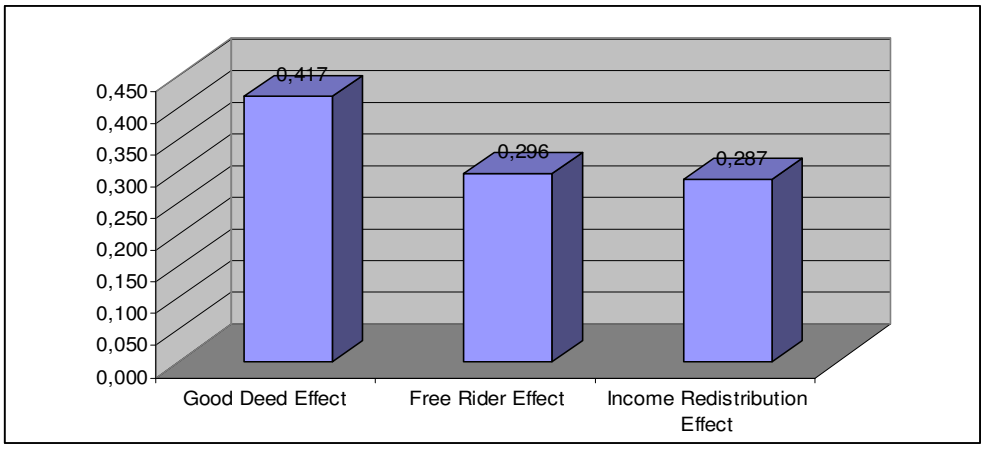
No	Name	Job	Education Background	Income/month
1	Herman Budianto	Director IWD	> S1	> 5 million
2	Ahmad Juwaini	Manager of HRD Dompet Dhuafa	> S1	> 5 million
3	Uswatun Hasanah	Expert of Cash Waqf and Law	> S1	> 5 million
4	Mustafa Edwin Nasution	Expert of Cash waqf and Islamic Economic	> S1	> 5 million
5	Karsono	Wakif : Retired Pertamina	> S1	-
6	Arfan	Maukuf bih : Humas Layanan Kesehatan Cuma-Cuma	> S1	1 - 5 million

The result for every criterion (Good Deed, Free Rider, Income Redistribution) can be describeb by the following table

Table 5.4 Result of Criterion of Cash Waqf Fund Allocation

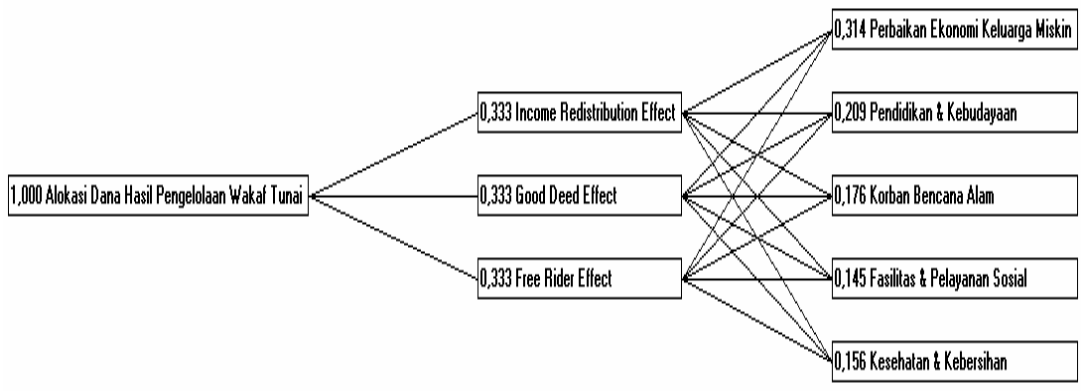
CRITERION	RESULT
Good Deed Effect	0,417
Free Rider Effect	0,296
Income Redistribution Effect	0,287

It shows that Good Deed Effect has greatest result of 0,417 followed by Free Rider Effect 0,296 and Income Redistribution Effect 0,287. For more detail the figure 5.3 describes the situation

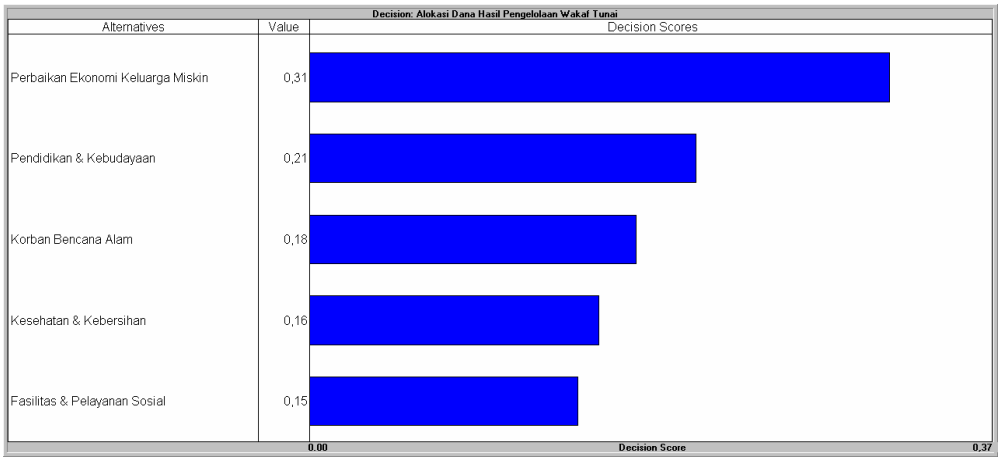


According the above picture, it indicates that the most important criterion is Good Deed Effect. This means the most effective priorities given for cash waqf allocation should be directed for sector with more beneficial purposes.

Data analysis using Criterium Decision Plus produces significant result for every sector. This result obtained based on comparative pairwaise criterion and alternative level. Hirarchy determination of cash waqf fund allocation in Indonesia and their result can be described by the following picture;



The above picture describes the result obtained for every alternative sector; Rehabilitation of Poor Family 0,314; Education and Culture 0,209; Victims of Natural Disaster 0,176; Social Service Facility 0,145; Health and Cleanliness 0,156. Graphically the diagram score of priority analysis can be described by the following picture;



CONCLUSION

When the government is unable to prosper the people through their program, volunteer sector can be seen as an alternative way out. This evidenced in some muslim countries like Utsmani Turki who relied on waqf to prosper the country, scholarship for further studies domestic and abroad. Indonesia as world muslim largerst population has huge potential of cash waqf which could reach three trillion rupiah. However, this opportunity still not result significant output.Indonesian Waqf Deposit (IWD) as cash waqf insitituion in Indonesia strives to get optimum result of this potential and maximize their performance specifically cash waqf.

According to the result of this research, the study found that there are serious attempts for cash waqf allocation;

- Cash waqf generated from IWD for the period of Rajab 1426 H – Rabiul Akhir 1428 H amounting Rp 2.303.511.246, still far from what being expected.

- Cash waqf fund allocation for the said period delivered for productive sector was 42,18% followed by SMART EI 29,94%, LKC 19,73%, Yogya Disaster 6,63%, BMT 0,77%, IKI 0,64%, Mosque Mandiri 0,09%, Tree 0,02%.

- Cash waqf fund allocation for productive sector until 2007 amounting Rp 7.032.874

- According to AHP method, allocation priority for cash waqf fund in Indonesia is Rehabilitation of Poor Familiy with result of 0,314, Education and Culture 0,209, Victims of Natural Disaster 0,176, Health and Cleanliness 0,156, Social Service Facility 0,145.

REFERENCES

Antonio, Muhammad Syafii, 2002, *Cash Waqf dan Anggaran Pendidikan Umat,* Republika, 4 Februari 2002

Chapra, Umer, 2000, *Islam dan Tantangan Ekonomi,* Jakarta: Gema Insani Press bekerja sama dengan Tazkia Institute

Departemen Keuangan Republik Indonesia, 2005, *Data Pokok APBN-P 2004 dan APBN 2005,* _____ , 2007, *Data Pokok APBN-P 2006 dan APBN 2007,*

Dermawan, Rizky, 2006, *Pengambilan Keputusan,* Bandung: Alfabeta

Direktorat Jenderal Bimbingan Masyarakat Islam dan Penyelenggaraan Haji, 2003, *Pedoman Pengelolaan dan Pengembangan Wakaf*, Jakarta: Departemen Agama RI

Direktorat Pengembangan Zakat dan Wakaf Direktorat Jenderal Bimbingan Masyarakat Islam dan Penyelenggaraan Haji, 2005, *Paradigma Baru Wakaf di Indonesia*, Jakarta: Departemen Agama RI

Djunaidi, Achmad, Al Asyhar, Thobieb, 2005, *Menuju Era Wakaf Produktif*, Jakarta:Mitra Abadi Press

Dumper, Michael, 1999, *Wakaf Muslimin di Negara Yahudi*, Jakarta: Lentera Basritama

Fatahillah, 2003, *Strategi Kebijakan Pengelolaan Zakat Di Bazis Dki Jakarta Dalam UU Zakat No 38 Tahun 1999 (Analisis Metode AHP)*, Tesis pada Magister Perencanaan dan Kebijakan Publik FEUI : tidak diterbitkan

Hasanah, Uswatun, 2001, *Wakaf Tunai Ditinjau dari Hukum Islam,* dalam Nasution, Mustafa E. dan Uswatun Hasanah, 2005, *Wakaf Tunai Inovasi Finansial Islam,* Jakarta: Pusat Kajian Timur Tengah dan Islam Universitas Indonesia bekerjasama dengan Bank Indonesia Didukung oleh Departemen Agama RI

Hidayat, Agus dan Gatot Prabantoro, 2004, *Memilih Vendor Pengembangan Sistem Infomasi Manajemen Menggunakan Metode Analytic Hierarchy Process (Studi Kasus Pengembangan Sistem Informasi Akademik STIE Indonesia,*

Kahf, Monzer, 2007, *The Role Of Waqf In Improving The Ummah Welfare,* dalam *Singapore International Waqf Conference 2007,* 2007, Singapura : Majlis Ugama Islam Singapore.

Karim, Shamsiah Abdul, 2007, *Contemporary Waqf Administration and Development in Singapore : Challenges an Prospects,* dalam *Singapore International Waqf Conference 2007,* 2007, Singapura : Majlis Ugama Islam Singapore.

Mannan, M.A., 2001, *Sertifikat Waqf Tunai Sebuah Inovasi Instrumen Keuangan Islam*, Depok: CIBER dan PKTTI UI

Marimin, 2004, *Pengambilan Keputusan Kriteria Majemuk,* Jakarta: Grasindo

Masyita, Dian *et al*, 2003, *A Dynamic Model for Cash Waqf Management as One of The Alternative Instruments for the Poverty Alleviation in Indonesia,*

Mulyono, Sri, 1996, *Teori Pengambilan Keputusan*, Depok:Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia

Nasution, Mustafa E, 2001, *Wakaf Tunai dan Sektor Volunteer Strategi Untuk Mensejahterakan Masyarakat dan Melepaskan Ketergantungan Hutang Luar Negeri,* dalam Nasution, Mustafa E. dan Uswatun Hasanah, 2005, *Wakaf Tunai Inovasi Finansial Islam,* Jakarta: Pusat Kajian Timur Tengah dan Islam Universitas Indonesia bekerjasama dengan Bank Indonesia Didukung oleh Departemen Agama RI

_____ , dan Uswatun Hasanah (Ed.), 2005, *Wakaf Tunai Inovasi Finansial Islam,* Jakarta: Pusat Kajian Timur Tengah dan Islam Universitas Indonesia bekerjasama dengan Bank Indonesia Didukung oleh Departemen Agama RI

Novadrianto, Okka Maylana, 2006, *Analisis Pengambilan Keputusan Strategi Promosi Buku Pada PT Gramedia Pustaka Utama,* Skripsi pada FEM IPB : tidak diterbitkan

Permadi,Bambang, 1992, *AHP*, Jakarta : Pusat Antar Universitas — Studi Ekonomi Universitas Indonesia

Proyek Peningkatan Zakat dan Wakaf Direktorat Jenderal Bimbingan Masyarakat Islam dan Penyelenggaraan Haji, 2003, *Fiqih Wakaf*, Jakarta: Departemen Agama RI

_____ , 2003, *Panduan Pemberdayaan Tanah Wakaf Produktif Strategis di Indonesia*, Jakarta: Departemen Agama RI

Qahaf, Mundzir, 2005, *Manajemen Wakaf Produktif*, Jakarta : Khalifa

Rahardjo, Jani *et al*, , *Penerapan Multi-Criteria Decision Making Dalam Pengambilan Keputusan Sistem Perawatan*, Jurnal Teknik lndustri Vol. 2, No. 1, Juni 2000

Saaty, Thomas L, 1988, *Decision Making for Leaders; The Analyticai Hierarchy Process for Decision in Complex World*, Pittsburgh : RWS Publications

_____ , 1990, *Decision Making for Leaders - The Analytical Hierarchy Process for Decisions in a Company World*, Pittsburgh: RWS Publication

_____ , dan Luis G. Vargas, 1994, *The Analytical Hierarchy Process Vol. VII : "Decision Making in Economic, Political, Social, Technological Environments*, First Ed., Pittsburgh : RWS Publications

Sabiq, Sayyid, 2006, *Fiqih Sunnah,* Jakarta: Pena Pundi Aksara

Siswantoro, Dodik dan Miranti Kartika Dewi, 2007, *The Effectiveness of Waqf Fund Raising Through Mutual Fund in Indonesia,* dalam *Singapore International Waqf Conference 2007,* 2007, Singapura : Majlis Ugama Islam Singapore.

Umar, Husein, 2007, *Metode Penelitian Untuk Skripsi dan Tesis Bisnis,* Jakarta: PT RajaGrafindo Persada

PEMBANGUNAN WAKAF PENDIDIKAN DI MALAYSIA
DEVELOPMENT OF WAQFS FOR EDUCATION IN MALAYSIA

Syed Mohd. Ghazali Wafa Bin Syed Adwam Wafa
Pusat Siswazah Perniagaan (Graduate School of Business),
Universiti Kebangsaan Malaysia
dan Felo Kanan Bersekutu di Institut Islam Hadhari,
Universiti Kebangsaan Malaysia

PEMBANGUNAN WAKAF PENDIDIKAN DI MALAYSIA
DEVELOPMENT OF WAQFS FOR EDUCATION IN MALAYSIA

Syed Mohd. Ghazali Wafa Bin Syed Adwam Wafa*

ABSTRAK

Wakaf adalah amalan mulia yang sangat di galakkan oleh Islam. Sebagai salah satu mekanisme kebajikan, wakaf agak unik berbanding dengan sedekah, hadiah dan derma kerana harta yang diwakafkan itu akan di 'tahan' ia itu tidak dihabiskan tetapi sebaliknya apa-apa manfaat atau pulangan daripada penggunaan harta wakaf itu boleh dibelanjankan. Bermula dengan amalan wakaf harta tetap secara langsung, dewasa ini perkembangan wakaf adalah dalam bentuk wakaf tunai dan daripada tunai inilah sebahagiannya dimanfaatkan untuk pembangunan atau pembelian hartanah atau harta lain dan sebahagian pula akan dilaburkan dalam pasaran kewangan. Mengambil iktibar daripada sejarah amalan wakaf di dalam tamaddun Islam serta amalan 'endowmen' di dunia Barat, mekanisme atau kaedah wakaf tunai (aset cair) dalam berbagai aplikasi atau produk perlu dilaksanakan dengan segera. Pembangunan ini dapat dipercepatkan melalui badan khas diperingkat negeri dan kebangsaan dengan mengambil pelajaran daripada perkembangan institusi-institusi zakat. Penulis membuat saranan akan beberapa produk wakaf pendidikan yang berpotensi.

ABSTRACT

Waqf (Islamic Endowment) is an act of virtue, highly encouraged in Islam. As one of the mechanism for welfare, waqf is unique in that the asset that has been given as waqf is not spent or expensed but rather the asset is maintained or held in kind but any benefits, financial or otherwise, that is able to be derived from it can be used, expensed or consumned. In contrast, any gifts or donations received can be spent directly. With its beginnings more in the form of fixed assets, current trends of waqf are in the form of cash. Through cash collected, a portion will be used to develop or purchase landed properties or fixed assets and another portion will be invested in financial markets. From the traditions of Islamic history and also the development of endowment in the West, it is an important and necessary effort that waqf in the form of cash (liquied assets) be urgently applied in various applications. Taking the que from the institutions of zakat, this development of cash waqf can be expedited through the formation of formal organisations at the state and federal level. The writer makes some suggestions as to the potential products of waqf for education.

Katakunci: Wakaf, sedekah jariah, aset cair, pemegang amanah.

*Penulis adalah Prof Madya di Pusat Siswazah Perniagaan (Graduate School of Business), Universiti Kebangsaan Malaysia dan Felo Kanan Bersekutu di Institut Islam Hadhari, Universiti Kebangsaan Malaysia. Kertas kerja ini dibentangkan pada Persidangan Antarabangsa ke 7: Epistemologi Tauhid – Ekonomi Zakat dan Wakaf di ILIM Bangi, Selangor, Malaysia.

Pengenalan

Diantara amalan terpuji lagi mulia anjuran Islam terhadap pemilik harta adalah untuk menginfakkan harta tersebut untuk kebaikan, iaitu di jalan Allah (*infaq fi sabilillah*)[3]. Berinfak yang wajib adalah Zakat. Salah satu kaedah berinfaq sunnat pula adalah *Sadaqah Jariah*. Amalan bersedekah jariah ini amat digalakan kerana manfaatnya (dan pahalanya) adalah berpanjangan kerana harta dan nilai prinsipal yang disedekahkan itu akan kekal tetapi manfaat atau pulangan dari harta itu akan digunakan untuk tujuan kebajikan. Ini berbeza dengan sedekah biasa dimana harta yang di sedekahkan itu akan turut dibelanjakan tetapi pahala pihak bersedekah ini tetap diperolehi. Sadaqah Jariah juga disebut sebagai WAKAF dalam erti kata bahan yang disedekah itu ditahan dan hanya manfaatnya di gunakan. Apabila seseorang itu berniat mewakafkan sesuatu harta, maka dari awal lagi harta itu pasti akan dikekalkan.

Di bawah Perkara 74(2) Perlembagaan Persekutuan Malaysia, wakaf dimasukkan di bawah Enakmen Pentadbiran Agama Islam Negeri-Negeri dan dikecualikan dari peruntukan Kanun Tanah Negara.

Secara tradisinya wakaf di Malaysia adalah didalam bentuk tanah, masjid dan surau serta sekolah agama dan peralatannya sekali. Dewasa ini usaha sedang giat dilakukan untuk membangunkan tanah wakaf am yang mempunyai potensi pembangunan. Kerajaan Pusat, dalam usaha memakmurkan amalan Wakaf, telah menubuhkan Jabatan Wakaf, Zakat dan Haji (JAWHAR) bagi membantu usaha peringkat negeri. Dari dana yang disalurkan melalui JAWHAR beberapa projek pembangunan telah mula dilaksanakan. Disamping itu sebuah Yayasan Wakaf Kebangsaan telah juga ditubuhkan hasil penggembelingan Majlis Agama Islam Negeri dengan JAWHAR. Projek atau produk pertama Yayasan ini adalah Wakaf Tunai.

Pembangunan Wakaf di peringkat negeri-negeri telah mula mengorak langkah bagi membangunkan projek Wakaf. Beberapa usaha baru yang ketara oleh pihak Negeri dalam urusan Wakaf adalah dengan melancarkan Saham Wakaf. Unit Wakaf telah diperbesarkan dan kaedah utama yang telah dilancarkan adalah Saham Wakaf. Wang tunai yang dikumpulkan melalui program Saham Wakaf ini telah dimanfaatkan untuk membeli hartanah dan projek lain yang diluluskan. Walaupun menampakkan perkembangan, namun perkembangannya wajar dipertingkatkan kerana pada kadar perkembangan yang ada, sesuatu matlamat untuk memperkasakan wakaf di dalam sektor ketiga Ekonomi Islam juga tidak ketara.

Pembangunan sektor ketiga melalui program wakaf adalah sangat penting bagi mewujudkan mekanisme penjanaan dana yang bersifat lestari serta melibatkan hampir seluruh warga masyarakat. Infrastruktur kebajikan amat perlu diusahakan dengan segera agar amalan infaq ini dipupuk dan akhirnya menjadi suatu **Budaya Masyarakat** dan

[3] Muhammad Abdul Mun'im Al-Jammal (2000). *Ensiklopedia Ekonomi Islam*, Jilid 1 (Terj). Dewan Bahasa dan Pustaka, Kuala Lumpur. ms 239

natijahnya adalah mendapat **keberkatan** dan **keredhaan** dari Allah SWT. Selain peruntukan daripada pihak Kerajaan, usaha untuk mempelbagaikan sumber dana bagi projek dan program yang melibatkan kepentingan awam adalah sangat penting. Pembangunan agensi Wakaf peringkat negeri-negeri insyaAllah akan dapat mengembangkan fungsi Sektor Kebajikan (*Ijtima'i*) dalam negara, seiring dengan kepentingan dan peranan yang dimainkan oleh Sektor Kerajaan (*Siasi*) dan Sektor Perdagangan (*Tijari*)[4]. Beza dan uniknya Sektor Kebajikan dalam Islam berbanding ekonomi semasa ialah Sektor Kebajikan Islam adalah bersifat lestari (self sustaining) dan memerlukan kepada pengurusan harta-harta yang "tiada pemilik" iaitu harta wakaf.

Potensi Pembangunan Berasaskan Wakaf

Asas kepada Wakaf adalah bersumberkan hadis Nabi Muhammad saw (maksudnya):

"*Apabila mati sahaja seseorang anak Adam (manusia) maka terputuslah segala amalannya kecuali tiga perkara iaitu sedekah jariah (Wakaf), ilmu yang dimanfaatkan dan doa anak soleh yang mendoakan kebaikan kepada ibu bapanya."*

(Riwayat Muslim)

Di dalam kitab *Tanbihul Ghafilin* oleh Abullaits Assamarqandi ada dihuraikan lagi aktiviti yang memberi kesan manfaat dan pahala yang berpanjangan seperti berikut:

"Yazid Arraqqasyi meriwayatkan dari Anas r.a. berkata: 'Tujuh macam yang dapat diterima pahala sampai sesudah matinya: 1. Siapa yang membangun masjid maka ia tetap mendapat pahalanya selama ada orang sembahyang di dalamnya. 2. Siapa mengalirkan air sungai, selama ada yang minum daripadanya. 3. Siapa yang menulis mushaf ia mendapat pahala selama ada orang yang membacanya. 4. Orang yang menggali sumur (perigi) selama masih ada orang mempergunakan airnya. 5. Siapa yang menanam tanaman selama dimakan oleh manusia atau burung. 6. Siapa yang mengajar ilmu yang berguna, selama dikerjakan oleh orang yang mempelajari. 7. Orang yang meninggalkan anak salih mendoakan dan membaca istighfar baginya; yakni jika mendapat anak lalu diajari ilmu dan Al-Qur'an, maka ayahnya akan mendapat pahalanya selama anak itu melakukan ajaran-ajarannya, tanpa mengurangi pahala anak itu sendiri; sebaliknya jika dibiasakan berbuat lacur fasik maka ia mendapat dosanya tanpa mengurangi dosa orang yang berbuat sendiri."

Asas dan huraian Wakaf di atas dapat menjelaskan bahawa amalan soleh yang utama adalah yang mempunyai kesinambungan manfaat dan pahalanya pula akan berterusan selama mana harta wakaf itu masih dimanfaatkan. Ada harta yang menjangkau tempoh yang amat lama maka pahala itu berterusan selama mana penderma itu masih hidup (di dunia) sehingga selepas dia mati (Akhirat).

---

[4] M. Umer Chapra (1985). *Towards A Just Monetary System.* London: The Islamic Foundation.

Dari huraian hadis di atas, dapat diambil contoh akan aktiviti berasaskan wakaf dimana:

i) ada barangan atau aset atau sesuatu yang di wakafkan
ii) barangan itu dimanfaatkan secara berterusan

Antara contoh aktiviti wakaf dari hadis di atas adalah:

1. Pembangunan Masjid dan juga tempat beribadat
2. Projek saliran air sungai
3. Penulisan mushaf, kitab-kitab yang bermanfaat dan aktiviti pembacaan
4. Pembekalan air perigi, air paip dan seumpamanya
5. Pembangunan pertanian
6. Program pendidikan ilmu yang berguna dan diamalkan
7. Progam pembangunan keluarga bahagia teladan

Jelas bahawa program wakaf amat luas dan tidak terbatas kepada projek "keagamaan" semata-mata tetapi meluas kepada apa-apa aktiviti yag menepati amal yang soleh dan berkepentingan awam. Boleh disimpulkan bahawa aktiviti baik yang berterusan dan mendatangkan manfaat kepada pihak lain adalah dalam ruang lingkup wakaf atau sadaqah jariah.

Maka salah satu keperluan yang sangat penting untuk diketengahkan adalah keperluan dana yang mampan untuk agenda pendidikan. Di Malaysia, umumnya terdapat tiga aliran utama dalam persekolahan: sekolah kendalian kerajaan Persekutuan/Negeri; sekolah aliran agama kendalian Majlis Agama Islam Negeri dan sekolah kendalian persendirian (swasta). Setiap tahun para ibu bapa dikehendaki untuk membayar dan menyumbang sejumlah wang untuk menampung keperluan operasi sekolah terutama yang melibatkan program kecemerlangan akademik. Bagi sekolah-sekolah swasta yang menawarkan kurikulum elit dan mengenakan yuran yang tinggi, mungkin sumber kewangan mereka adalah kukuh. Namun bagi majoriti sekolah, terutama yang menawarkan kurikulum aliran agama Islam, keperluan kewangan merupakan diantara agenda yang besar bagi pentadbiran sekolah. Pelbagai usaha terus dilakukan baik oleh pihak sekolah mahupun badan seperti PIBG untuk menampung keperluan kewangan.

Dalam konteks pendidikan sekolah, amalan kaedah wakaf dapat memenuhi tiga keperluan utama:

1. Pembangunan sekolah dan kemudahannya
2. Menampung kos operasi
3. Aktiviti kecemerlangan akademik, sahsiah dan kepimpinan

Secara tradisinya usaha bagi mendapatkan dana pembangunan adalah daripada peruntukan kerajaan atau daripada sumbangan awam melalui kaedah wakaf. Bagi sekolah yang mendapat bantuan kerajaan, bantuan ini akan meliputi kos operasi juga.

Bagi sekolah lain, sumber kewangan yang utama datang daripada pelbagai yuran dan usaha mendapatkan sumbangan dan derma. Dana yang terkumpul ini tidak menggunakan kaedah wakaf dan dana ini terus dibelanjakan. Melalui kaedah pengumpulan dana berbentuk derma ini adakalanya berjaya mengumpul nilai yang besar dan adakalnya tidak. Maka 'model' penjanaan dana ini tidak stabil. Islam sangat menggalakkan umatnya berinfak tetapi perlu ada kebijaksanaan di dalam memilih kaedah-kaedah yang dapat menjamin kestabilan jangk panjang. Dalam jangka panjang, kaedah wakaf di lihat amat relevan dan bersesuaian.

Amalan Wakaf Dalam Kehidupan Seharian

Kemuncak pada gagasan Wakaf adalah pada zaman Khilafiah Uthmaniyyah. Satu kajian oleh Razali Othman (2005)[5], menyingkapkan kehebatan amalan Wakaf seperti berikut:

"Seseorang dilahirkan dalam rumah yang diWakafkan, tidur dalam buaian yang diWakafkan, membaca buku-buku yang diWakafkan, mengajar dalam sekolah yang diWakafkan, menerima gaji dari pentadbiran Wakaf, dan akhirnya bila ia mati kelak, urusan jenazahnya adalah atas pentadbiran Wakaf dan ia dikuburkan dalam tanah perkuburan Wakaf."

Istanbul, dalam tahun 1576, merupakan manifestasi perhubungan di antara alam sekitar (nature), manusia (human being) dan Tuhan (God) melalui institusi Wakaf. Ribuan institusi Wakaf telah diwujudkan bagi memberi perkhidmatan awam dan bagi memastikan institusi ini berfungsi secara berterusan, harta-harta peribadi telah juga diWakafkan. Melalui Wakaf, harta-harta peribadi ini telah menjadi ribuan perkampungan, ratusan pekan/bandar, jalan-jalan yang menghubungi bandar-bandar, jambatan-jambatan dan sebagainya. Kajian menunjukkan tiga perempat tanah 'Empire Ottoman' adalah tanah Wakaf; setengah tanah pertanian Algeria adalah Wakaf; sepertiga tanah Tunisia adalah Wakaf, dan seperlapan tanah pertanian Mesir adalah Wakaf. Selain Wakaf harta tetap, Wakaf tunai juga mendapat sambutan yang hebat.

Senario di atas menggambarkan keadaan atau suasana dimana masyarakat **berlumba-lumba untuk membuat Amal Jariah** seperti kemudahan kesihatan, kemudahan awam, kemudahan pendidikan, kemudahan ibadat khusus dan lain-lain kemudahan untuk kepentingan awam. Yang cantiknya ialah bahawa semua kemudahan diatas dibangunkan, diselenggarakan dan dikembangkan berasaskan konsep Wakaf. Keperluan kewangan Insititusi Pendidikan Agung Al-Azhar di Mesir dikendalikan sepenuhnya melalui kaedah wakaf.

[5] Razali Othman (2005). *The Influences of Colonisation On The Perception and Practices of Wakaf.* Jurnal IKIM. Kuala Lumpur.

Amalan Wakaf-Endowmen Institusi Pendidikan di Masyarakat Barat

Konsep Wakaf telah diperkembangkan oleh masyarakat Barat melalui "Endowment." Pembangunan institusi pendidikan seperti Harvard, Oxford dan Cambridge telah dilakukan melalui konsep Wakaf. Laporan "The Sutton Trust Report (2003)" menyatakan: "the way forward is through endowment." Laporan itu menyatakan bahawa endowmen boleh digunakan untuk "invest in new facilities; ... pay for specific chairs or general academic posts; undertake research, and pay researchers competitively and create scholarship funds." Kajian oleh Razali Othman (2005)[6] juga melaporkan bahawa pada tahun 2003, sepuluh universiti terbesar di Amerika Syarikat dan UK masing-masing mempunyai dana endowmen berjumlah USD74.24 billion dan USD7.268 billion. Dalam tahun 2003 juga dana endowmen di Oxford dan Cambridge masing-masing bernilai USD3.2 billion. Melalui satu rencana di Internet (2009), dilaporkan dalam tahun 2008, dana endowmen di Harvard sendiri berjumlah USD36.9 billion yang terdiri daripada 11,000 dana berasingan. Secara keseluruhannya, ketika menjelang tahun 2000, dana endowmen pelbagai sektor di Barat telah mencecah nilai USD2 trillion dengan hasil pendapatan yang melebihi USD700 billion.

Prospek Progam Berteraskan Kaedah Wakaf

Dalam usaha untuk menggerakkan Program Wakaf**,** dua pendekatan utama boleh digerakkan iaitu:

(a) Penjanaan dana/sumber dari pelbagai pihak – agensi agama negeri, Kerajaan Negeri dan Persekutuan, yayasan, syarikat, koperasi dan individu, alumni, ibu bapa, berasaskan wakaf dan infaq umum.
(b) Penjanaan dana/sumber dari aktiviti harta wakaf itu sendiri.

a) Penjanaan Sumber Pelbagai Pihak

Aktiviti penjanaan dana/sumber dari kumpulan sasar:

i) Sumbangan individu
- Skim potongan gaji Wakaf dan infaq
- Skim sumbangan e-Wakaf dan e-infaq
- Skim pembayaran sumbangan di kaunter/pusat bertauliah
- Pembiayaan langsung – aktiviti, projek hartanah

ii) Sumbangan Korporat, Koperasi dan Badan Bukan Kerajaan
iii) Sumbangan Kerajaan Pusat/Negeri – langsung dan"matching grant"
iv) Sumbangan luar negara

b) Penjanaan Sumber Harta Wakaf

[6] Ibid, Razali Othman (2005).

i) Pulangan dari Hartanah Wakaf
   a. Sewaan
   b. Pajakan
   c. Keuntungan modal
ii) Hasil projek Sektor Pertanian & Perladangan
iii) Hasil projek Sektor Perindustrian
iv) Pulangan Portfolio Pasaran Wang dan Modal

Di antara produk-produk yang menggunakan kaedah wakaf dan boleh dilancarkan adalah seperti:

- Skim Wakaf dan Infak Am dengan Takaful
- Skim Pendidikan dengan Takaful
- Skim Wakaf Pembangunan Pendidikan dengan Takaful
- Skim Hibah dan Wasiat Pendidikan

Skim di atas boleh secara tunai atau dalam bentuk aset lain. Dana-dana yang terkumpul akan segera dimanfaatkan kepada aktiviti penjanaan hasil dan juga dibuat peruntukan perbelanjaan berasaskan keutamaan pengembangan ilmu.

Apabila Dana Wakaf telah mempunyai nilai yang besar, maka pada ketika itu penggunaan dana Wakaf dan hasilnya boleh diperuntukkan kepada projek-projek pembangunan besar, yang sebahagian diantaranya tidak menjana hasil kewangan dan sebahagian pula menjana hasil. Portfolio Pelaburan Dana Wakaf memerlukan suatu garis panduan juga bagi tujuan kelestarian dan pengembangan dana, khususnya Dana dalam bentuk Tunai bagi pelbagai tujuan penggunaan.

Pemasaran Skim-Skim Wakaf dengan ElemenTakaful

Skim Wakaf-Takaful adalah produk yang ditawarkan bersama dengan Syarikat Takaful Berlesen (ST). Pada prinsipnya pihak ST akan bekerjasama dalam usaha untuk memasarkan produk wakaf. Pihak penganjur akan berunding dengan pihak ST bagi membolehkan kita melantik wakil-wakil dari kalangan individu atau entiti berdaftar bagi memasarkan produk Wakaf-Takaful. Perundingan akan juga meliputi isu pemberian insentif kepada wakil terlantik. Skim Wakaf-Takaful boleh bersifat Kebajikan Am, Pendidikan, Pembangunan dan lain-lain.

Instrumen Pasaran Modal Dan Kewangan

Selain sumbangan pelbagai pihak yang senantiasa di alu-alukan, program penjanaan sumber tidak akan terhad kepada kaedah tradisi. Bagi membiayai pembangunan harta modal pendidikan (dan juga projek lain seperti perindustrian, perladangan, pertanian, infrastruktur), pihak Pengurusan boleh menggunakan instrumen-instrumen pasaran

modal dan wang. Ini bererti bahawa akan terdapat pelbagai projek pembangunan wakaf yang akan bersifat penjanaan hasil dimana sebahagian pulangan akan digunakan bagi membiayai kos projek dan sebahagiannya untuk tujuan perkembangan wakaf. Projek penjanaan hasil akan melalui penelitian kajian kethauran/fisabiliti bagi memastikan pencapaian program wakaf.

Ciri-ciri lain seperti "matching grant" dari pihak swasta dan Kerajaan, manfaat pencukaian, perkongsian pintar, pelaburan, pengurusan projek swasta, pengurusan dana, pengurusan hartanah dan sebagainya akan ditelitikan penggunaannya agar matlamat program wakaf dapat dicapai secara efektif dan berkesan.

Program Lain dan Skim Berteraskan Wakaf

Selain Skim Wakaf Pendidikan-PIBG dengan elemen Takaful, pihak Pengurusan dijangka boleh memperkenalkan produk-produk Wakaf yang innovatif dengan bercirikan elemen Takaful Kelompok, Perkongsian Pulangan Untuk Di Wakaf, Wakaf Instrumen Pasaran Kewangan, Wakaf Instrumen Pasaran Modal, Skim Gabungan Khairat-Takaful-Wakaf, Skim Wakaf Pembangunan Pertanian dan Perikanan, Wakaf Pembangunan Infrastruktur Awam dan pelbagai lagi yang menggunakan konsep wakaf.

Pelbagai program yang bakal dijalankan berpotensi mewujudkan peluang-peluang pekerjaan pelbagai peringkat dari pengurusan, pentadbiran dan sokongan. Program kebajikan juga perlu dan mampu diurus secara profesional. Setiap yang baik dan dilaksanakan mengikut anjuran agama akan menjadi Amal Soleh, insyaAllah.

Firman Allah SWT di dalam Surah At Taghaabun 64 : 9 yang bermaksud:

"...Dan barangsiapa yang beriman kepada Allah dan mengerjakan amal soleh, niscaya Allah akan menutupi kesalahan-kesalahannya dan memasukannya kedalam syurga yang mengalir di bawahnya sungai-sungai, mereka kekal di dalamnya selama-lamanya. ..."

Nabi Muhammad saw telah bersabda (maksudnya):

"Janganlah kamu sekalian satu sama lain hasad menghasad, tipu-menipu, benci-membenci, jauh-menjauhi, dan janganlah (merebut) membeli/menjual (barang) yang sedang hendak dibeli/dijual oleh orang lain. Dan jadilah engkau sekalian hamba-hamba Allah yang bersaudara. Seorang Muslim itu adalah saudara bagi orang Muslim yang lain, tidak boleh ia menzaliminya, enggan membelanya, mendustanya dan menghinanya. Taqwa itu di sini." Dan Beliau mengisyaratkan kepada dadanya tiga kali. Terlalu kejahatan seseorang jika ia menghina saudaranya yang Islam. Setiap Muslim bagi Muslim yang lain adalah haram darahnya, hartanya dan kehormatannya."

(Riwayat Muslim)

InsyaAllah amalan Wakaf akan mengeratkan silaturrahim dan kasih sayang di kalangan warga Selangor khususnya dan pihak lain umumnya. Amalan bantu membantu, tolong menolong, amal jariah adalah ciri-ciri Takwa yang sebenar dan akan mendatangakan Rahmat Allah kepada kita semua. Sesungguhnya Keimanan dan Ketaqwaan adalah teras kejayaan manusia.

Firman Allah SWT di dalam Surah Al-Baqarah 2:177 (bermaksud):

"Bukanlah menghadapkan wajahmu ke arah timur dan barat itu suatu kebaktian, akan tetapi sesungguhnya kebaktian itu ialah kebaktian orang yang beriman kepada: (1) Allah (2) Hari kemudian (Akhirat) (3) Malaikat-malaikat (4) Kitab-kitab (5) Nabi-nabi, dan ***memberikan harta yang dicintainya*** *kepada: (6) Kerabatnya (7) Anak-anak yatim (8) Orang-orang miskin (9) Musafir (yang memerlukan pertolongan) dan orang-orang yang meminta-minta; dan (10) (Memerdekakan) hamba sahaya (11) Mendirikan sembahyang, dan (12)* ***Menunaikan zakat****; dan (13) Orang-orang yang menepati janjinya apabila dia berjanji, dan (14) Orang-orang yang sabar dalam kesempitan, penderitaan dan peperangan. Mereka itulah orang-orang yang benar (imannya); dan Mereka itulah orang-orang yang bertakwa."*

CADANGAN PROGRAM DANA WAKAF PENDIDIKAN DI SEKOLAH

Cadangan program Dana Wakaf Pendidikan ini terbit setelah penulis melalui pengalaman sebagai AJK PIBG sebuah sekolah berteraskan Agama. Disamping itu penulis telah melihat kepada bilangan Sekolah Menengah Agama yang telah mendapat bantuan kerajaan. Berasaskan data di dalam Jadual 1, jelas kelihatan bahawa sekolah-sekolah ini mempunyai bilangan pelajar yang terhad dan berkemungkinan besar sumber kewangannya tidak besar.

Penulis telah membuat simulasi akan potensi dana yang mungkin dapat dikumpulkan melalui tiga pendekatan:

(a) Komponen sumbangan infak bulanan dan komponen caruman Takaful bulanan
(b) Komponen sumbangan infak tahunan dan komponen caruman Takaful bulanan
(c) Usaha pengumpulan dana daripada pihak industri-dermawan korporat

Rumusan dari simulasi penjanaan dana wakaf adalah seperti di Jadual 2 dan 3.

Pada tahap konservatif, sehingga akhir tahun ke dua puluh jumlah dana terkumpul adalah diantara RM 3 juta hingga RM 4 juta. Bagi meningkatkan jumlah kutipan dan dana terkumpul, beberapa inisiatif wajar diketengahkan oleh pelbagai pihak. Di antara contohnya adalah:

(a) Permotongan atau Pengecualian cukai berganda kepada penderma/pewakif
(b) Pemberian insentif gandaan (matching) seperti RM3 bagi setiap RM1 kutipan kepada Sekolah
(c) Rebat cukai atas dermaan/wakaf
(d) Keutamaan kemudahan kepada para penyumbang
(e) Pengecualian cukai pada sekolah (swasta)

Jadual 1: Sekolah Menengah Agama Bantuan Kerajaan – 31 Januari 2009

Negeri	Bil Sekolah	Jumlah Pelajar	Purata Pelajar
Johor	3	894	298
Kedah	14	4,431	317
Kelantan	1	320	320
Melaka	7	1,998	285
Negeri Sembilan	15	2,973	198
Pahang	4	712	178
Perak	24	6,682	278
Pulau Pinang	11	2,917	265
Sabah	2	296	148
Selangor	23	15,546	676
Terengganu	14	9,327	666
Jumlah	118	46,096	391

Sumber: Laman Web Kementerian Pendidikan Malaysia

Jadual 2: Potensi Kutipan Dana Sekolah I (Infaq dan Takaful Bulanan)

		80%		20%				
Bil Penderma	Tahun	Skim Infaq Bulanan		Skim Takaful Bulanan		Jumlah Skim Tahunan	Infaq Korporat	Kumulatif
		70%	30%	60%	40%			
		$10.00	$20.00	$10.00	$20.00			
348	1	23,412	20,068	5,017	6,689	55,186	100,000	155,186
1,208	5	81,176	69,579	17,395	23,193	191,342	20,000	1,047,403
1,531	10	102,915	88,213	22,053	29,404	242,585	10,000	2,266,671
1,320	15	88,731	76,055	19,014	25,352	209,151	10,000	3,466,195
780	20	52,395	44,910	11,227	14,970	123,501	10,000	4,287,038

Selain itu kerjasama pintar dengan pelbagai pihak adalah sangat digalakkan. Media cetak masih aktif di dalam hal ini. Contohnya ada dilaporkan bahawa akhbar Nanyang Siang Pau telah berjaya mengumpul derma untuk institusi pendidikan melebihi RM269 juta dalam tempoh 20 tahun. Akhbar Sin Chew Jit Poh pula berjaya mengumpul derma melebihi RM147 juta dalam tempoh 12 tahun. Pada puratanya, kedua-dua akhbar Nanyang Siang Pau dan Sin Chew Jit Poh berjaya mengumpul purata sebanyak RM12 - RM15 juta bagi membantu 20 - 25 buah sekolah setiap tahun. Usaha-usaha media ini putut mendapat pujian dan wajar diperkembangkan. Ini contoh yang baik dimana usaha pendanaan itu dilakukan pada peringkat kebangsaan dan tidak secara bersendirian sahaja oleh sekolah-sekolah.

Jadual 3 : Potensi Kutipan Dana Sekolah II (Infaq Tahunan dan Takaful Bulanan)

		70%		30%				
Bil Penderma	Tahun	Skim Infaq Tahunan		Skim Takaful Bulanan		Jumlah Skim Tahunan	Infaq Korporat	Kumulatif
		70%	30%	60%	40%			
		$50.00	$100.00	$10.00	$20.00			
348	1	8,536	7,316	7,525	10,034	33,411	100,000	133,411
1,208	5	29,595	25,367	26,092	34,790	115,844	50,000	848,011
1,531	10	37,521	32,161	33,080	44,106	146,868	50,000	1,787,757
1,544	11	37,821	32,418	33,344	44,459	148,043	50,000	1,985,800
1,320	15	32,350	27,728	28,521	38,027	126,626	50,000	2,733,712
780	20	19,102	16,373	16,841	22,455	74,771	50,000	3,450,404

Jangkaan Penyumbang Dan Nilai Sumbangan Pada Tahun Asas dan Seterusnya

1. **Pengkalan Data Alumni dan Penyumbang**
   Kepentingan mewujudkan dan mengurus pengkalan data yang aktif adalah teramat penting! Kegagalan untuk menguruskan pengkalan data aktif ini adalah salah satu punca utama kepada 'kegagalan' sesuatu usaha menjana dana. Kita memberi tumpuan kepada penyediaan brosur dan pamphlet sebagai media hebahan kita untuk mengutip derma. Lebih menyedihkan adalah senario dimana para pelajar sekolah sendiri di "tugaskan" dimerata tempat untuk melaksanakan projek menderma.

2. **Profil Para Penyumbang**
   Usaha akan dilakukan bagi mewujudkan satu profil penyumbang mengikut suatu pengkelasan atau kategori penyumbang. Profil ini disebutkan sebagai Piramid Penyumbang dengan mempunyai beberapa kategori penyumbang dan juga penyumbang berpotensi, penyumbang yang terlepas menyumbang dan kategori tidak menyumbang. Bagi setiap kategori itu akan dibuatkan satu analisis profil berkaitan

dengan maklumat demografi mereka, nilai sumbangan dan potensi mereka serta membuat perancangan strategik yang bermakna sebagai tindakan susulan. Maklumat-maklumat ini amat penting bagi membolehkan Sekolah menjalankan strategi-strategi yang khusus mengikut kategori penyumbang dan nilai sumbangan mereka agar rancangan dan visi memperkasakan pelbagai program Wakaf Pendidikan dapat direalisasikan secara berencana.

3. Penglibatan Penyumbang Utama

Setelah adanya pengkalan data yang aktif dan dilakukan analisis profil penyumbang, maka pihak Sekolah boleh mempertimbangkan untuk mewujudkan satu badan atau Jawatankuasa Khas yang terdiri daripada para penyumbang utama atau penyumbang besar bagi memaklumkan perkembangan Sekolah dan bagaimana sumbangan wakaf dan derma mereka itu telah dapat membawa perubahan yang sangat positif. Pemakluman yang telus serta pengiktirafan akan sumbangan mereka akan dapat merapatkan lagi hubungan penyumbang kepada sekolah dan seterusnya dapat melibatkan mereka dengan perkembangan berterusan sekolah serta kempen-kempen seterusnya.

4. Pelaporan

Keteleusan dalam apa sahaja aktiviti sekolah adalah amat penting, apatah lagi ia melibatkan soal kewangan dan perkembangan akademik para pelajar (anak mereka). Pada asasnya maklumat yang penting selain kutipan dan perbelanjaan adalah sejauh mana dana yang dikumpul itu telah dapat mencapai objektif derma itu sendiri. Umpamanya kalau kita katakan derma bertujuan untuk membantu anak fakir miskin, maka maklumat inilah yang perlu dihebahkan dan bagaimana dengan derma itu para pelajar telah dapat meningkatkan pencapaian akademik, sahsiah dan kepimpinan mereka. Kalau boleh di adakan majlis bersesuaian mempertemukan "keluarga angkat" dengan para pelajar.

5. Kempen Menyumbang Tahunan

Kempen tahunan ini adalah sangat bersesuaian dengan fitrah manusia. Takwim pun adalah berasaskan tahunan. Pihak Masjid pun biasa menjalankan kempen derma seperti sempena Bulan Ramadhan Mubarak dan sebagainya. Maka dipihak Sekolah pun wajar menganjurkan program Menyumbang Tahunan. Dengan adanya kempen tahunan maka sekolah akan dapat membuat analisis dan penilaian terhadap kejayaan sesuatu kempen dan mengambil tindakan pembaikan bagi tahun-tahun berikutnya. Program-program dapat diatur berasaskan tempoh kempen, katakan tempoh empat bulan, sebagai pengisian kempen seperti ceramah dan forum sempena majlis pelancaran, khutbah di Masjid Kariah, larian amal, pameran dan sebagainya. Kempen boleh juga dibantu oleh sukarelawan dan diadakan aktiviti "Telethon Dermawan" selama dua minggu bagi menghubungi bakal penyumbang dan mendaftar/kemaskini pengkalan data.

POTENSI SKIM WAKAF PENDIDIKAN KEBANGSAAN

Bermula dengan model mikro pada tahap satu sekolah dan berkembang untuk kelompok sekolah-sekolah berasaskan aliran, mukim, bandar, daerah dan negeri, program Wakaf

Pendidikan ini boleh dipertimbangkan untuk peringkat Kebangsaan bagi semua rakyat dalam Negara tanpa mengira bangsa dan anutan agama.

Jadual 4: Potensi Wakaf Pendidikan Peringkat Kebangsaan

BILANGAN SEKOLAH DAN KELAS DI SEKOLAH RENDAH DAN MENENGAH KERAJAAN I DAN BANTUAN KERAJAAN DI MALAYSIA SEPERTI PADA 30 JUN 2007

NUMBER OF SCHOOLS AND CLASSES IN GOVERNMENT AND GOVERNMENT-ASSISTED PRIMARY AND SECONDARY SCHOOLS IN MALAYSIA AS OF 30TH JUNE 2007

Jenis Sekolah *Types of School*	Bilangan Sekolah* *Number of Schools*	Bilangan Kelas** *Number of Classes*	Bilangan Bilik Darjah *Number of Classrooms*
Sekolah Rendah /*Primary Schools*			
Kebangsaan / National	5,783	81,275	85,526
Jenis Kebangsaan (C) /National Type ©	1,289	18,971	17,883
Jenis Kebangsaan (T) /National Type (T)	523	4,209	4,022
Khas /Special	28	302	316
Jumlah Kecil / Sub-total	7,623	104,757	107,747
Sekolah Menengah / *Secondary Schools*			
Biasa / Regular	1,840	66,034	57,653
Asrama Penuh / Fully Residential	54	1,250	1,422
Agama / Religious	55	1,404	1,512
Khas / Special	4	84	71
Teknik / Technical	90	2,645	2,831
***Model Khas / Special Model	11	399	380
***Sukan / Sports	2	54	52
Seni / Arts	2	8	-
Jumlah Kecil / Sub-total	2,058	71,878	63,921
Jumlah Besar / Grand Total	9,681	176,635	171,668

* Tidak termasuk sekolah tidak beroperasi / Excluding non-operational schools

** Termasuk kelas prasekolah / Including pre-school classes

*** Termasuk kelas Tahap 2 (Tahun 4, 5 dan 6) / Including Level 2 classes (Year 4, 5 and 6).

	Bilangan Pelajar Sekolah Rendah		
Tahun	2000	2005	2010
Pelajar (Juta)	2.91	3.04	3.2

Sumber: Laman Web Kementerian Pendidikan Malaysia

Dari Jadual 4, kita dapat melihat potensi yang amat besar dalam melaksanakan Program Wakaf Pendidikan Kebangsaan. Bilangan sekolah akan terus berkembang beriringan dengan perkembangan bilangan rakyat di dalam negara.

Konsep Caruman

Program Wakaf Pendidikan Kebangsaan ini akan menggunakan pendekatan caruman bulanan atau tahunan. Para pelajar yang memasuki alam persekolahan bermula darjah satu akan mula mencarum. Pencaruman ini akan berterusan sehingga mereka tamat persekolahan tingkatan lima. Ini bererti mereka aktif mencarum selama sebelas tahun.

Konsep Manfaat

Sebagai skim Wakaf, maka pelaksanaan manfaat Program Wakaf Pendidikan Kebangsaan ini akan menggunakan hasil pulangan atas pelaburan. Pada asasnya program ini boleh memperuntukkan manfaat seperti berikut:

1. Skim Pembiayaan kos / yuran pelajaran peringkat selepas SPM
2. Skim Bantuan Kebajikan Kematian/Keilatan Kekal semasa belajar di sekolah

Tadbir Urus

Adalah disarankan sebuah Perbadanan di tubuhkan khusus bagi melaksanakan program ini. Ia melibatkan kepentingan awam dan nilai dana yang besar. Maka program ini memerlukan kepada tadbir urus yang disokong dengan perundangan yang bersesuaian.

Jadual 5A : Potensi Penjanaan Dana Wakaf Pendidikan pada kadar RM10 setahun

Tahun	1	2	3	4	5
Bilangan Pelajar	3,000,000	3,015,000	3,030,075	3,045,225	3,060,452
Kadar Tahunan	10	10	10	10	10
Jumlah	30,000,000	30,150,000	30,300,750	30,452,254	30,604,515
Terkumpul	30,000,000	60,150,000	90,450,750	120,903,004	151,507,519

Jadual 5B : Potensi Penjanaan Dana Wakaf Pendidikan pada kadar RM12 setahun

Tahun	1	2	3	4	5
Bilangan Pelajar	3,000,000	3,015,000	3,030,075	3,045,225	3,060,452
Kadar Tahunan	12	12	12	12	12
Jumlah	36,000,000	36,180,000	36,360,900	36,542,705	36,725,418
Terkumpul	36,000,000	72,180,000	108,540,90	145,083,60	181,809,02

			0	5	3

Jadual 5C : Potensi Penjanaan Dana Wakaf Pendidikan pada kadar RM20 setahun

Tahun	1	2	3	4	5
Bilangan Pelajar	3,000,000	3,015,000	3,030,075	3,045,225	3,060,452
Kadar Tahunan	20	20	20	20	20
Jumlah	60,000,000	60,300,000	60,601,500	60,904,508	61,209,030
Terkumpul	60,000,000	120,300,000	180,901,500	241,806,008	303,015,038

Jadual 5 memberi nilai potensi dana wakaf yang dapat dikumpul dan akan berkembang untuk tahun-tahun berikutnya. Untuk tempoh peralihan atau awal program ini, adalah penting bagi Kerajaan Persekutuan mendokong projek ini dengan menyediakan belanjawan "matching" sebagai sokongan kepada projek yang bersifat lestari dalam jangka masa panjang. Kalau kita melihat kepada Dana Endowmen Universiti Harvard, dalam tahun 2008, sejumlah US$1.8 billion telah disumbangkan kepada pihak Universiti untuk pelbagai aktiviti dan keperluan. Begitu juga dengan Dana Wakaf Pendidikan Kebangsaan ini, insyaAllah dalam tempoh jangka panjang, dana yang terkumpul akan menjadi besar dan manfaat skim dapat diperluaskan dan dipertingkatkan.

RUMUSAN

Program Pembangunan Wakaf Pendidikan ini bukan saja akan memperkasakan konsep Wakaf, ia juga berpotensi untuk :

i. Memperkasakan sektor ketiga ekonomi Islam
ii. Mengembangkan aktiviti ekonomi melalui pelbagai projek pembangunan, pelaburan dan perniagaan
iii. Pelengkap (compliment) kepada program Pembangunan Bantuan Kerajaan
iv. Pelengkap kepada program Kebajikan Bantuan Kerajaan
v. Pelengkap kepada program Pendidikan Bantuan Kerajaan
vi. Menyatupadukan masyarakat berbilang kaum dan agama atas konsep wakaf

Untuk tahun-tahun seterusnya, pelbagai usaha boleh dipertingkatkan seperti pelancaran produk-produk baru yang juga berteraskan kaedah Waqaf, program Kebajikan dan program Kecemerlangan Pendidikan.

ACCOUNTABILITY OF WAQF MANAGEMENT: INSIGHT FROM PRAXIS OF NONGOVERNMENTAL ORGANISATION (NGO)

Ahmad Zamri Osman
PhD student,
Royal Holloway University of London

ACCOUNTABILITY OF WAQF MANAGEMENT: INSIGHT FROM PRAXIS OF NONGOVERNMENTAL ORGANISATION (NGO)

Ahmad Zamri Osman[1]

ABSTRACT

The paper aims to examine the way in which improvement on the effectiveness and efficiency of waqf management may be made through its relationship with beneficiaries, in this case the poor. The study uses accountability as the main conceptual lens informing this relationship. Although there are many ways to improve waqf management, it is important that the relationship of waqf management with beneficiaries must be given due consideration. This consideration does not merely see participation of beneficiaries as the passenger in the relationship, i.e., sitting at the receiving ends of the relationship or the assistance receiver/the poor. Rather, the relationship should look at the relationship as one of the means to improve management of waqf.

Drawing from accountability literatures especially NGO accountability and the notion of participative accountability, the paper looks at the potential of the notion of downward accountability to augment the conventional upward accountability. In other words, while effort to improve the effectiveness of waqf management tends to focus on upward reporting and accountability to board of trustee akin to corporate style reporting to board of director, there may be a huge potential to listen to and to have dialogue 'downwardly' to beneficiaries. Stated differently, an improved accountability relationship downwardly to beneficiaries offers an opportunity for an improvement on the effectiveness and efficiency of waqf management.

This is essentially a conceptual paper in which the empirical study is in progress. In presenting the conceptual elements, the paper draws experience from NGO literature especially literatures on NGO accountability and explore the extent to which improved accountability relationship towards the poor may improve the effectiveness and efficiency of waqf management.

Introduction

Issues on waqf in Malaysia have come under close scrutiny in recent years. Several initiatives have been and are being implemented in an effort to improve management of waqf. While the act of waqf is itself voluntary, the management of waqf asset could take the form of public entities, or private company or voluntary organisation/NGOs. In

[1] Author is a PhD student in Royal Holloway University of London.

Malaysia, waqf is managed by government-like entity, while in some other countries it may fall under the purview of NGO or private corporation.

With improvement of waqf management in mind, this paper focuses on the entities managing waqf. While there are many ways to improve the state of waqf management in Malaysia, this paper looks at the entities and relationship within waqf environment, specifically State Religious Council (SRC), local service provider and ultimate beneficiaries, i.e. the poor. This paper provides insights on how and what can management of waqf learn from NGO's accountability in its effort to alleviate poverty.

Poverty alleviation is not an alien notion in NGO literatures. The notion of closeness to the poor, as a declared role of some NGOs, is widely discussed. However, since these NGOs sources funds from outside (e.g. government grants, international donors), they have been called to account whether these NGOs have been effective and efficient in achieving the objective of poverty alleviation. Hence, this invariably calls for mechanism sourced upwardly or/and downwardly, to determine whether the benefit actually accrues to the poor. This accountability mechanism serves to inform funder on the effectiveness and efficiency of the NGO's undertaking.

This paper starts with a very brief discussion on the different form of waqf entity and its relationship with other interested parties. It evolves from an individually-managed entity to a more organisation-managed entity, as in the case of some countries including Malaysia. Section 2 discusses the notion of accountability and how the emphasis on accountability within NGO literatures has evolved. Section 3, meanwhile outlines the notion of accountability from Islamic perspective with some epistemological discussion where waqf organisation is situated. Section 4 follows by augmenting insights from the preceding three sections and presents an accountability conceptual framework. Section 5 concludes.

Section One: Evolving forms of waqf management

During the early period of Islam, the arrangement of *waqf* management is relatively simple because the donor and manager is the same person (Kahf, 2007). In this setting, there is no great need for alignment of interest between donor and manager (i.e., the concern in agent/principal relationship), since misalignment of interest logically implies at least two different persons. On this, Kahf (2007, p. 11) noted that 'Umar bin Al-Khattab[2] appointed himself as a manager for *waqf* property he donated. In his *waqf* deed, Kahf (2007) added that after his demise, it is "a person from his family **not** his successor in khilafa" would assume the managerial function. This indicates that even the donor who is a *khalifah* (a head of government) does not allow government to interfere in *waqf* administration (Siti Mashitoh, 2006a). With descendent becomes manager, in many cases, the original intention of donor (for example benefiting needy) could potentially be compromised because descendent/manager may have different interest (Baer, 1997; Kuran, 2001).

[2] After the demise of Prophet Muhammad (PBUH), Islamic states are governed by 4 successive leaders known as *khalifah*. They are firstly Abu Bakr, followed by 'Umar, and then by 'Uthman and lastly by 'Ali.

The above illustrates the case where the donors and manager are now two different parties. In many cases, donor may appoint non-descendent manager since the beginning of waqf establishment. In Malaysia, prior to SIRCs assuming trusteeship function, i.e., circa 1950's, the manager is normally an individual trusted by local community, such as village head, or clergyman (Al-Habshi, 1991; McChesney, 1991; Siti Mashitoh, 2006a). However, the threat of abuse, misuse and neglect on individual trustee/manager provides a necessary reason for state to take over management and administration, including trusteeship of *waqf* property (Siti Mashitoh, 2006b, p. 6). Therefore, now almost all *waqf* assets in Malaysia are under SRC's trusteeship instead of third sector, as previously practiced. Siti Mashitoh (2006a, p. 44) noted that,

> Upon scrutiny, the above application (*i.e., entrusting government body as the sole trustee*), which in fact has been legally recognised by the present practice, *opposes* the practices of the Muslims in the past; where the supervision of the trusteeship of the *awqaf* assets was rested on the private trustees as appointed by the founders or the *qadi* (*i.e., judge*) (*emphasis added*)

In addition to SIRC, there are various entities involved in managing and developing *waqf* properties. A range of entity-types are involved comprising other government agencies (e.g. JAWHAR, YWM), SIRCs-owned companies, other government agencies-owned companied, government-linked companies and normal private corporation, both domestic and international. Their involvement is all made, at least ideally, with the view to improve *waqf* management, which is to ensure that benefit is accrued to beneficiaries as intended by donor-waqif. In short, the form of waqf management has evolved from a simple setting of donor-as-manager to a more structured form of management involving SRC and private entities.

Although several literatures have considered waqf as a voluntary sector which is a form of NGO (Ariff, 1991; Bahmad, 2007; Salih, 2002), and they share similar accountability-related problem such as mismanagement, maladministration and neglect, issues and concerns discussed in NGOs sector do not widely transcend into *waqf* literature. Therefore, next section looks at NGOs accountability which could provide some useful insights as well as framework in which *waqf* literature could gain some valuable pointers regarding the potential of accountability mechanisms in improving efficiency and effectiveness of waqf management.

Section 2: NGO Accountability

Accountability has become a very popular catch-phrase. A simple Google search results in about 6.41 million hits[3] while Yahoo! search engine comes out with a staggering 154 million hits. A more academic search through Google scholar results in 0.87 million hits. In the academic circle, accountability has attracted attention from scholars of various

[3] General search at 2.12am on 4th December 2009.

disciplines. Based on the abstract and introduction of various academic papers[4], accountability seems to an attractive researched area.

Comparing to accountability issues in government and corporation, the concern on NGO accountability is rather new, i.e. possibly arises during 1990s[5] (O'Dwyer, 2007, p. 285). Jordan & Tuijl (2006, p. 4) outlines three reasons for greater call for NGO's accountability, i.e., growth in size and numbers, attraction of more funds and stronger voice in shaping public policy. O'Dwyer (2007, p. 287) echoed similarly but added that the "widely publicized scandals" of NGOs has accentuated a greater call.

Within NGO accountability literatures, there are numerous papers focus on the issues on direction of accountability. Prominent among them are the notion of upward accountability and downward accountability[6]. Any effort toward improvement of management through upward directional (such as reporting to funder) is considered hierarchical in nature while the notion that embraces both especially downward looking (such as inviting beneficiary's participation) is regarded as holistic in nature. To this, we now turn our discussion.

2.1 Upward accountability

Accountability to those who provides funds is similar to corporate accountability in its narrowest sense, i.e., accountability to shareholder. In NGOs accountability literatures, the upward accountability is accountability to donors. This is probably the earlier and more established accountability concern when NGO is called to account (O'Dwyer, 2007, p. 288). Ebrahim (2005, p. 57) noted that "an established literature in both the global North and South suggests that as NGOs increasingly seek external grants, they are simultaneously facing the constraints of donor dependence, public service contracting, and narrow manifestations of accountability that are heavily weighted towards their patrons or funders". In this case, donor's primary concern is on the effectiveness of funds' using. This according to Najam (1996, p. 342) denotes NGOs accountability in terms of "spending designated moneys for designated purpose". Therefore, quantitative indicators (including financial) are in use (see Bendell & Cox, 2006; Dixon, Ritchie, & Siwale, 2006; Edwards & Hulme, 1996; Smillie, 1995). Ebrahim (2003b, p. 197) asserts that "for nonprofit organizations, this may imply reporting on the easily measurable components of their work (such as numbers of homeless people served or hectares of land reforested) in order to satisfy funders…".

[4] Accountability is a key theme and a key problem (Scott, 2000); topic of concern (Erkkila, 2007, p. 1); notoriously imprecise term (R. Mulgan, 2000, p. 87), cherished concept, sought after but elusive (Sinclair, 1995, p. 219), endemic in society (Willmott, 1996, p. 24); central to the emphasis on good government (Moncrieffe, 1998, p. 389); golden concept (Bovens, 2006, p. 5), iconic role (Dubnick, 2002, p. 2), key concept in the management of social affairs (Cousins & Sikka, 1993, p. 53), modern buzzword (Lerner and Tetlock, 1999, p, 255), central to effective corporate governance (Roberts, 2001, p. 1549), the adhesive that binds social systems (Frink & Klimoski, 2004, p. 2), amongst others

[5] However see works by Korten (1987) and Uphoff (1995)

[6] Other directional terms include vertical, horizontal, diagonal, external and internal.

The above leads to the notion of accountability as a controlling and monitoring mechanism, which is a very important accountability mechanism especially if it is discussed in the realm of corporate setting. Avina (1993, p. 458) aptly put this

> "One can expect to find higher levels of institutional accountability in an externally financed agency, if only because it will probably be a condition for external support. Heightened accountability will often include a systematic accounting procedure (if not an actual project accountant) and annual external audits of all project expenses. In addition, there are likely to be pre-established mechanisms for project monitoring".

The concern on accounting is termed by Edwards & Hulme (1996, p. 967) as short-term functional accountability (accounting for resources, resources used and immediate impact) as opposed to strategic[7] accountability, i.e., accounting for the impacts that an NGO's actions have on the actions of other organisations and the wider environment.

On the donor's emphasis on financial accountability, Najam (1996, p. 342) claimed that "the donor asserts financial control by seeking accountability for the money; and policy control by seeking accountability for the designated purposes". He clarified this later, in that "(f)inance provided by the donor can, therefore, be a means both of ensuring that the donor's policy agenda is adopted by the NGO and of holding the NGO accountable to that agenda (by keeping close tabs not only on whether the said money is spent, but also on how it is spent)". This financial control of holding NGO accountable necessitates some form of accountability mechanism to indicate accountability is 'executed' (Ebrahim, 2005; Smillie, 1995). This is discussed by Ebrahim (2003a) at length. One mechanism outlined, i.e., performance assessment and evaluation, are normally employed to assess whether the NGO is worth funded next time. Ebrahim (2003a, p. 817) asserts that this evaluation "typically aims to assess whether and to what extent program goals and objectives have been achieved and are pivotal in determining future funding to NGOs". He further claims that the performance and evaluations "focus on short-term results of NGO intervention (i.e., 'outputs' or 'activities' such as training program offered and irrigation systems built) or medium- and long-term results (i.e., 'impacts' or 'outcomes' such as improvements in client income, health, natural resource base, etc.)". However, most of donor's efforts are channelled towards short-term results since this is easily measurable. The mention terms such as "products, short-term, measurable, quantifiable, simplification, and quantification", similar to that of private corporation, in numerous documents as the condition for funding surmises the emphasis of functional accountability, which according to Ebrahim (2003a) prevalent in NGOs practices.

In addition to performance evaluation as an accountability mechanism, Ebrahim (2003a) also identifies disclosure statements and reports. While performance evaluation has the possibility of including middle- or long-term result, i.e., the impacts; disclosures statement, meanwhile, is considered even cruder due to its exclusive emphasis on figure. Ebrahim (2003a, p. 816) states that funders often requires "highly detailed quarterly and

[7] The use of holistic accountability used by O'Dwyer & Unerman (2008) could be more appropriate as author feels that strategic accountability could unnecessarily imply covert motive.

annual reports on "physical" achievement resulting from funded projects…as well as accounts of expenditure based on pre-specified line items". He further added that "(i)n many cases, NGOs with multiple foreign donors expend considerable care in complying with the auditing system of each funder". He, however, cautioned that this effort may shift NGO's attention away from the real responsibility to the beneficiaries,

> "Yet, the bulk of this reporting emphasizes upwards reporting of financial data, with only limited indication of the quality of NGO work and almost no attention to downward accountability to stakeholders" (Ebrahim, 2003a, p. 816).

Edwards & Hulme (1995a, p. 13) raised similar concern on this notion of accountability, noting that

> "The type of appraisal, monitoring and evaluation procedure insisted on by donors, especially their heavy reliance on 'logical framework' approaches and bureaucratic reporting, may also distort accountability by overemphasizing short-term quantitative targets, standardising indicators, focusing attention exclusively on individual projects or organisations, and favouring hierarchical structure – a tendency to 'accountancy' rather than 'accountability'; audit rather than learning. This is perhaps an inevitable result of the pressure for short-term visible results in order to keep Parliament or Congress happy".

Edwards & Hulme (1995a) above describe that this upwardly-tendency 'may distort' accountability. On the emphasis toward 'audit rather than learning' as mentioned above, Jepson (2005, p. 518) noted that "the audit culture has failed in its goals of accountability and transparency…". Gray et al. (2006, p. 335 & 334) went even further in stating that reducing NGO's complex accountability relationship to a "monotonic performance measure is to demean the complexity of the relationship" and "could stifle the very nature of the organisations".

The above indicates that accountability mechanism commonly employed in corporate setting (financial goal, audit, report) may not effectively working in NGOs setting. Ebrahim (2005) underlines two reasons for this. Firstly, high attention given to upward accountability may ignore broader accountability system[8]. He noted that upward accountability "can overshadow or marginalize mechanisms for holding NGO accountable to communities or to their own missions" (Ebrahim, 2005, p. 60; Najam, 1996, p. 344). Secondly, emphasis on upward accountability initiated to satisfy funding criteria may not be in line with larger public interests. He contend that accountability mechanism advancing "rule-following operational behaviour run the risk of promoting NGO activities that are so focused on short term outputs and efficiency criteria that they lose sight of long-range goals concerning social development and change" (Ebrahim, 2005, p. 61). Jepson (2005, p. 523) aptly summed up by saying "the key to accountability regime is not in the adoption of structural process such as audit trails or the reporting of performance measurements, but in the engagement of public constituencies in informed

[8] Ebrahim (2005) describes that NGO's system of accountability comprise 3 types, i.e., accountability to donors, government (upward); to clients, beneficiaries (downward); and to itself, e.g., mission, staff (internal).

discussion on values, issues and strategy". This notion on engagement with beneficiaries is discussed next.

2.2 Downward accountability

The term 'downward accountability' refers to accountability to partners, beneficiaries, staff and supporters (Edwards & Hulme, 1996, p. 967). On the "non-upward accountability", Gray et al. (2006, p. 334) states that "NGOs are actively accountable through shared values, understanding and knowledge to the staff…the other NGOs…*the communities in which they are embedded* and to the professional knowledge base in…"(*emphasis added*). However, of all those parties identified, Edwards & Hulme (1995b, p. 10), found out that accountability to beneficiaries is ranked the lowest. This lack of accountability to beneficiaries, "leads to an accountability gap"; which in final analysis renders downward accountability just as an act of "discretionary" and "a little more than grace or favour" by NGO management (Kilby, 2006, p. 952; R. G. Mulgan, 2003, p. 137). This is mainly due to little (or no) power in which beneficiaries possess (For more discussion and example see Dixon et al., 2006; Ebrahim, 2005, p. 72; Kilby, 2006, p. 952).

In discussing multiple accountability relationship, Najam (1996, p. 345) underscores the importance of NGO being accountable downwardly noting that,

> "the obvious line of responsibility is for the NGO to be accountable to the needs and aspiration of the community it is working with. After all, serving community interest, as defined by the community itself, is the stated primary goal of much NGO activity in development".

In a similar spirit, ActionAid International (2006) in its ALPS (Accountability, Learning and Planning System) has clearly put the poor as their central focus. In its core elements of ALPS under a heading "Principles", stated "ALPS seeks to strengthen accountability to the poor and excluded people" (ActionAid International, 2006, p. 5). This is further elaborated as presented below.

Key Principle
ALPS strengthens ActionAid International's main accountability, which is to the poor and excluded people with whom we and our partners work.
• ALPS requires that poor and excluded people take part directly in all processes of local programme appraisal, analysis, research planning, monitoring, implementation, research and reviews, including recruiting and appraising frontline staff . Poor and excluded people have a right to take part in decisions that affect them. • ALPS requires us to work with poor and excluded people to facilitate their analyses, respecting and critically engaging with what comes out of it. It means that the priorities and perspectives of poor people must inform the decisions made at all levels by ActionAid and its partners. • ALPS requires us to work with poor and excluded people, their communities, movements, organisations to inform our research, analysis and advocacy.

*Adapted from ActionAid International (2006, p. 7)

Table 2: ALPS Key Principle

This shows the extent to which downward accountability is pursued intently by the NGO, ActionAid. Although it is not explicitly stated above, the notion of participation (by the poor and excluded) inheres, with the use of word such as 'take part', 'engaging' and 'partners'. This similar notion is found in accountability mechanism espoused by Ebrahim (2003a). He underlines the importance of participation process as a "downward (*accountability mechanism*) from NGOs to clients and communities" (Ebrahim, 2003a, p. 825). The notion of participation is commonly cited as the mechanism activating downward accountability (A. S. Bradley, 2007; Ebrahim, 2003a; Kilby, 2006; Ngin, 2004). Najam (1996, p. 346) noted that "the popular mantra of participation is, in many ways, the NGO's way of expressing its accountability to community".

Ebrahim (2003a, p. 818) however cautioned on the possibility of participatory mechanism being co-opted by NGOs giving impression to others (e.g., governments or funders) that they are practicing participation. This section however does not intend to discuss the 'abuse' of the terminology at length as it has been widely discussed by other scholars (see for example Ebrahim, 2003a; Fowler, 1998; Najam, 1996; White, 1996). In a nutshell, the extent to which downward accountability is portrayed through participation could be just as a tool of impression management (O'Keefe & Conway, 2008). Najam (1996, p. 346) asserts that this effort amount to "no more than feel good exercise for both local community and NGO". He then added that "the implication of this problem for the question of accountability is that, since participation is deemed to be the NGO's way of being accountable to its client, the sham of participation translates into the sham of accountability". In other words, the downward accountability intended to achieve is afraid to fall short of its potential.

The above discussion on downward accountability portrays the extent to which how important downward accountability is, albeit normatively. In a more pragmatic note, several current effort directed at pursuing downward accountability in NGO literature has been advanced through the notion of 'rights-based approach' (Callamard, 2006; Edwards & Sen, 2000; Jordan & Tuijl, 2006b; Van Tuijl, 2000). Jordan & Tuijl (2006, p. 13) posit that the growing public expectation on NGO accountability is very much related to the mission and services to beneficiaries, i.e., downward accountability by noting that "a right-based approach to NGO accountability could service this public expectation". This is indicated in the work of Agnes Callamard on Humanitarian Accountability Project International (HAP) (Callamard, 2006). Basically, HAP, which was introduced at the beginning of 2001 by humanitarian community, is intended to address concerns related to lack of accountability towards crisis-affected communities, i.e., 'downward accountability', involved in Rwandan genocide. This human rights-based approach has moved the emphasis of accountability originally leaning towards hierarchical accountability, privileging report monitoring and performance/output measurement to "one that encompasses affected populations" (Callamard, 2006, p. 184).

Linking rights-based approach with downward accountability discussion introduces a different perspective (and different terminologies) regarding the roles of NGOs and beneficiaries and its relationship. Sidoti & Frankovits (1995) argue that this right-based

approach shifts the perspective of all 3 parties, i.e., funders, NGOs and beneficiaries. Beneficiaries are not considered as a passive party anymore, waiting to be served. Instead, they are now right-holder; having the right to live without poverty. NGOs are now duty-bearer instead of manager or coordinator. Meanwhile, donor are seen more of assisting supporter rather than a demanding aid giver.

This shows the extent to which downward accountability is more comfortably placed since beneficiaries are given 'authority' by virtue of rights. HAP, as discussed earlier, underscores this significance of downward accountability to the poor putting them at the centre of attention. While not entirely discounting the importance of formal upward accountability, its implementation needs to be 'subverted' to fulfil a greater good (Callamard, 2006, p. 193). She then explains what 'greater good' means, referring to "true accountability…aimed at listening, responding and providing redress to disaster-affected populations". Linking downward accountability and rights-based approach, she concludes that "to be accountable presupposes recognizing that individuals and populations affected by disasters have rights, including to information and participation in decisions and programmes that directly affect their lives, dignity and autonomy" (Callamard, 2006, p. 193).

The discussion above outlines normative and pragmatic downward accountability which have the potential for effectiveness and efficiency of management. Based on our discussion above, it seems that normatively, downward accountability is ideal since legitimacy of NGO is derived from its closeness to 'the poor' (Edwards, 1999; Fowler, 1997), which is also relevant to waqf; while in practice, the effort to strengthen accountability, as demonstrated above, still seems to incline towards upward accountability (although the intention is to benefit beneficiaries). In the next section, both views of accountability is integrated into one view of accountability; a holistic one.

2.3 Holistic accountability

In the context of NGO accountability discussion, the term is arguably made popular by O'Dwyer & Unerman (2008). They refer this as a broader concept of accountability encompassing both the short-term functional accountability which is, as discussed earlier, privileged in upward accountability discussion; and strategic accountability, which is more familiarly discussed in downward accountability. In investigating Amnesty International, they elucidate that "this expands the concept of 'performance' articulated within hierarchical accountability to embrace quantitative and qualitative mechanisms concerned with signifying the long-term achievement of organisational mission and the impact of this achievement in bringing about structural change. Hence, holistic accountability augments the short-term monitoring aspects of accountability focused on isolated campaign achievements/impacts favoured under hierarchical accountability with mechanisms of accountability for the 'second and third order effects of NGO actions'" (O'Dwyer & Unerman, 2008, p. 4). Framing previous discussion into the notion of holistic accountability, both upward and downward accountability considered individually, is similar to hierarchical accountability while employing both with

balancing act is considered as a holistic approach. In a nutshell, holistic accountability is a form of accountability to a broader range of stakeholders.

Implicit in the discussion of holistic accountability is the notion of stakeholder engagement. In other words, to afford accountability to broader range of stakeholders, it might need, in some way, to identify the stakeholders concerned. This is, to a great extent, addressed by Gray et al. (1997) and Unerman (2007). This linkage between holistic accountability and stakeholder engagement, to a certain degree, is offered by Unerman & Bennett (2004) (although in different organisational context as they ground their discussion in corporate context), in that, stakeholder engagement might potentially be useful in informing the debate and dialogue on determination of organisation's responsibilities and accountabilities (Unerman & Bennett, 2004, p. 688).

This stakeholder engagement informing holistic accountability is similar to the concept of stakeholder-centred polyvocal citizenship" perspective (PCP) introduced by Gray et al. (1997, p. 333), when they discussed a conception of organisation-society interaction. According to them, PCP bases its approach on

> "*stakeholder dialogue* and its essence lies in providing each of the stakeholders with a "voice" in the organization. Focus groups are held with each stakeholder group, from which key issues are identified, and wider constituency of the stakeholder group is consulted to collate their views on these and other issues" (Gray et al., 1997, p. 335, emphasis in original)

This stakeholder engagement is, hopefully, moving in a direction towards, not just those with the most economic (and possibly political) power over the organisation, but to all stakeholder irrespective of its economic and political power, privileging and grounding on "the strength of the more compelling moral arguments" (Unerman, 2007, p. 96; Unerman & Bennett, 2004, p. 691)[9]. Therefore, any effort that balances a formal upward reporting, i.e., hierarchical accountability, with a more participation from and engagement with beneficiaries, i.e., holistic accountability should reduces the current tendency towards short term functional accountability. O'Dwyer & Unerman (2008, p. 4), added that "(t)hus, within holistic accountability, in addition to the key stakeholders recognised under hierarchical accountability, the stakeholders to whom an NGO might be considered accountable include the groups on whose behalf the NGO advocates, along with the individuals, communities and/or regions directly and indirectly impacted by the NGO's advocacy activities".

However, it must be noted that while holistic accountability is offered, the notion of downward accountability, rather than upward, should be the driving force informing any effort or decision-making process. This is in line with O'Dwyer & Unerman (2008, pp. 4-5) in that,

> "(t)his leads to explicit consideration of multiple stakeholder groups, with a significant emphasis being placed on downward accountability to beneficiaries…, in addition to upward accountability to donors and governments. Issues encompassing how responsive

[9] Arguments put forth in both papers are based on philosophical argument by German philosophers, Juergen Habermas on discourse rules. These rules are commonly referred to as "ideal speech situation".

> and aware NGOs are of the actual needs of those whom they seek to assist, as well as the extent of their openness to involving beneficiaries and/or partners in assessing the nature and impact of their work, are prioritised".

This section has put an argument that the notion of holistic accountability is potentially be beneficial in ensuring effective management of NGO. The above demonstrates the potential that a better accountability could contribute in improving the performance of waqf management, more effectively and efficiently. In other words, effective and efficient management of waqf can be improved with better accountability, especially towards the poor/beneficiaries. It is shown that in holistic accountability, notion of downward accountability should (at least, in the present condition) be given greater attention, although upward accountability is not totally neglected. This section concludes with a famous ancient proverb from native American Indian "Treat the earth well: it was not given to you by your parents, it was loaned to you by your children. We do not inherit the Earth from our Ancestors, we borrow it from our Children"[10]. Framing this into accountability-directional discussion in a slightly different perspective, while we must feel gratitude 'upwardly' to our parents, it is to our children that we need to downwardly place more concern.

In the next section, accountability is discussed from Islamic perspective. This includes and extends the notion of accountability to beneficiaries, which is discussed in the current section under downward accountability.

Section 3: Accountability from Islamic perspective

The notion of accountability is not alien in Islam. Murtuza (2002, p. 2) noted that the fact that "human being are accountable to their Creator is an article central to Islamic beliefs". Meanwhile, Khir (1992) quoted in Ibrahim (2000, p. 254) asserts that "the concept of accountability is so ingrained in the Muslim community…this is due to the fact that Muslims hold dearly to the concept of man as a trustee and not as holder of absolute power". Before further embarking into accountability from Islamic perspective, a brief discussion on some of pertinent Islamic teachings is outlined to put accountability discussion in perspective.

Islam is not a mere ritual religion. It is a 'way of life' (A. R. Ansari, 1980; Hitti, 1970). Islamic teaches how human leads his life not confined to 'sacred' matters only (Abdul-Rahman & Goddard, 1998; A. R. Ansari, 1980; M. F. R. Ansari, 2001; Kamla et al., 2006; Lewis, 2001, 2006; Tinker, 2004). The most important concept in Islam is *Tawheed* (Unity of God). Muslim believes that everything in this universe is created by one God-Allah. Therefore, human owes their life, their action and everything to Allah. Maali et. al (2006, p. 271) asserts that

> "(a)ccording to this concept, the Creator is one, and everything originates from this one source. All created things are thus elements of a single set and the whole world is one unit with a single goal, which is God's will. The concept of the unity of God implies total

[10] http://www.indigenouspeople.net/quotes.htm

> submission to God's will and following the religious requirements in all aspects of life. Each Muslim is thus responsible to God for everything that he or she does"

Hamid et. al (1993, p. 135) noted that "adherents to Islam have to be obedient to God and to appreciate the purpose of their existence in this world. The human race, according to Islam, owes its existence to God. Thus …man has to relate his conduct to the purpose of his existence as envisaged by God". And the purpose of human existence in this world is to serve Allah as stated in *Quran* in *Surah az-Zaariyaat* (verses 51:56), "I've not created men… except that they may serve me". The notion of serving Allah is spelt out in *Qur'an* in *Surah al-Fathir* (35:39), which stated that "it is He that has appointed you as trustee in the earth". In essence, for a person to properly serve Allah, that person is appointed as trustee in this world to use any resources available (Abu-Tapanjeh, 2008, pp. 6-7). This notion of trusteeship or *khilafah* brings us closer to the issue at hand, i.e., accountability, which is discussed next.

The concept of *Tawheed* (unity of God) implies that everything in this world belongs to Allah and a human being uses/manages these resources under their capacity as trustee. Kamla et.al (2006, p. 251) quoting Begader et al (2005) stated that "man has been granted stewardship to manage earth in accordance with the purpose intended by its Creator; to utilise it for his own benefit and the benefit of other created beings, for the fulfilment of his interest and theirs". This gives the power and right for humans to use/manage earth and its resources within specified limit. However this power and right is accompanied by responsibility (Cone, 2003, pp. 55-56; Kaler, 2002, p. 332; Muller-Smith, 1998, p. 54)[11]. Human must use this power and resources responsibly because arising from belief in Day of Judgment, human is going to be accountable to Allah on that Day. Lewis (2001, p. 113) succinctly put that,

> "All resources made available to individuals are made so in the form of a trust. Individuals are trustees for what they have been given by God in the form of goods, property and less tangible 'assets' (*such as power*). The extent to which individuals must use what is being entrusted to them is specified in the *shari'a*, and the success of individuals in the hereafter depends upon their performance in this world. In this sense, every Muslim has an 'account' with Allah, in which is 'recorded' all good and all bad actions, an account which will continue until death, for Allah shows all people their accounts on their judgement day" (*emphasis added*)

In fact, Ansari (2001, p. 328) considers that Day of Judgment is the Final Accountability for human when he wrote that "man…should be subject to Resurrection and Final Accountability for his moral actions in this world…wherein virtue should be adequately rewarded and vice adequately punished" (see also 2001, pp. 131, 359).

<u>Accountability to fellow being</u>

In addition to the notion of personal accountability discussed above, a person has a duty to his/her fellow human being. Kamla et al. (2006, p. 253) remark "Muslim is not to be

[11] On a lighter note, this reminds me of a popular catch-phrase in Spiderman "with great power, come great responsibility".

free from care for others". In a similar tone, Ansari (2001, p. 347) asserts that "it is a duty of a Muslim to spend all that he can, save from his basic needs, for the welfare of others. Since, the absolute owner of property is Allah, Allah's commandment (on helping society) should be heeded. Wilson (2008, p. 180) asserts "(r)esponsibility to Allah comes first, (human do) not (have) unrestrained freedom - the stress (is) being on social obligations rather than individual rights…., humans have responsibility for how assets are utilised. (This is) the Muslim concept of khalifah; accountability to Allah for how resources are managed…".

Maali et al. (2006, pp. 272-273) similarly articulate this view noting that the benefit (of using resources) to society should be given priority.. This concern towards society forms a sense of communality, which is enshrined in Islam (M. F. R. Ansari, 2001, p. 192; Kamla et al., 2006, pp. 252-253). Maali et.al (2006, p. 272) later added that "(t)he relationships of Muslims to each other and to the *Umma* in general are emphasised in the *Qur'an* and *Sunnah*. Submission to the will of God thus includes recognizing the rights of others, and dealing with society justly. *Thus, accountability to God includes accountability to society*". Lewis (2001, p. 113), although arguing from corporation's context, claims that "both management and the providers of capital[12] are accountable for their actions both within and outside their firm. Accountability in this context means accountability to the community (*umma*) or society at large".

To extend the argument of right-based approach in preceding section (NGO accountability) in prioritising the poor, Islam has already underscored the right of poor. Qur'an in *Surah Az-Zaariyaat* (51:19) noted that "And in their wealth and possessions, the right of the (needy), him who for some reason was prevented from asking"[13]. This indicates that beneficiaries have a claim/right on the wealth of the rich[14]. With this religious motivation from Islamic teaching, the accountability to beneficiaries is advanced through the notion of God-given right. In fact, the emphasis on duty is not unique to Islam only, where Berger (2003, p. 19) asserts that it is a characteristic of religious NGO, in contrast with many secular NGOs which emphasises rights-based approach. Quoting Falks (2001), she wrote

> "the starting point for religious NGOs is the duty-oriented language of religion characterized by *obligations towards the divine and towards others*, by a belief in transformative capacities, and a concern for justice and reconciliation" (emphasised added).

[12] If we frame this notion into *waqf* institution, the management and providers of capital refer to *waqf* management and donors respectively.

[13] This is also a concept used for *zakah* (obligatory due/*sadaqah*. Literally mean, to increase). In one hadeeth "take some portion from your wealth as obligatory sadaqah, it will purify your souls (and purify your wealth from other people claim); and it will increase your wealth".

[14] It must be noted here that the notion on right is generally not emphasised in Islam. Rather Islam put more weigh on the notion of duty (i.e., its reciprocal partner). "The emphasis on duty creates harmony in social life, because if everyone were to concentrate on his or her duty, the emphasis on rights will naturally vanish. On the contrary, the emphasis on rights creates strife, because if everyone were to think about his rights on others, he would hardly have the mind to think of his duties towards other" (M. F. R. Ansari, 2001). However, when there is unequal power relation as in this instance, right of the weak take precedence.

The above discussion demonstrates two important points. Firstly, accountability is inherent in Islamic teaching. Secondly and relevant to our discussion later is, accountability to Allah is paramount and this accountability is manifested through accountability to beneficiaries where beneficiaries do have a God-given right to ask the rich to be accountable.

Section 4: Conceptualising accountability framework in the *waqf* management

From previous discussion, two important themes emerge. Firstly, initiative to improve *waqf* management is addressed by getting more parties involved. This arguably places beneficiaries away from management, as management now has other parties (and relationship) to contend with and other obligation to satisfy. Secondly, accountability to beneficiaries is a proxy (albeit an important one) to a larger accountability to Allah. Fulfilling accountability to Allah is manifested through privileging accountability to beneficiaries. Informed by these two important insights, this section attempts to offer a conceptual framework in which accountability relationship in *waqf* institution, primarily with the view to accrue benefit to beneficiaries, could potentially be meaningfully addressed, namely through beneficiaries engagement.

4.1 The need for beneficiaries engagement

Entrusting a local *waqf* property to just one state-management without local community/beneficiaries authoritative decision-making capacity could manifest into accountability problem because in deciding the scope of accountability and responsibility, the action at the state level authority might decide differently from the local affected people. Unerman & O'Dwyer (2006, p. 356) argued that the actor "may equally feel no such responsibility to be accountable to many other stakeholders potentially affected by their actions, and where they do feel such a responsibility, they define the stakeholders to whom they feel they are accountable". Contextualising Unerman & O'Dwyer's (2006) argument into current discussion on *waqf*, the management of *waqf* under state religious council (SIRC), might believe that their action serves the interest of society, when in fact their view do not represent the view of local community/beneficiaries in which the property is located, where the need might be different. They may claim to be accountable to society by virtue of undertaking certain project but the 'accountability' asserted may not represent or neglect views of local community or worse, it may run opposite to local community's view. Unerman & Bennet (2004, p. 690) raise the possibility of divergent interest between the real affected people and the people who claim to represent them[15]. They state that

[15] Although their discussion on stakeholder engagement is thrown in light of corporate setting, where there is a notion of economically powerful stakeholder, it has a cunning resemblance with our discussion on *waqf* accountability where there is a possible difference between the interests of real affected people and the perceived interest mooted by representative is put forward.

> "…it seems that if such responsibilities are solely determined by economically powerful stakeholder [*in this case a group of waqf committee and SIRCs, without beneficiaries view*], the impact of corporate operation [*and inoperation*] on the interest of economically weaker stakeholders [*waqf beneficiaries*], who are excluded from the debate, might be overlooked. Although economically powerful stakeholders might take account of what they perceive to be the interests of economically weaker stakeholders when self-reflecting on the morality of corporate actions, their perceptions of these interests (and of the impact particular corporate acts might have on these interests) *may differ substantially* from economically weaker stakeholders' perception of their own interests" (*emphasis added*).

In our context, although the management committee and SIRCs believes that their decision is made with real beneficiaries in mind, it could differ substantially from what the beneficiaries really want and/or need; hence the benefit is not accruing to them. Najam (1996, p. 347), cautioned us the need to balance between "what people deem best for themselves" and "what the NGO and/or donors deem best for the people", because as NGOs strives to achieve accountability to their goals (i.e., what NGOs believe to be in the interest of community/beneficiaries), they inadvertently "dilute the validity of accountability to the community".

Kahf (1999, p. 10) also shares similar view on the need to include local community when he asserts,

> "Hence, in fulfilment of the will of founders, and in respect of the distinctive nature of the third sector, the non-profit sector of *Awqaf*, and in recognition of the tremendous failure of governments in managing economic and benevolent enterprises, and in realization of the need for distinguishing the style of management of *Awqaf* from that of profit-motivated private-interest-seeking enterprises, *the Awqaf management should be run by local people who relate to the beneficiaries of Awqaf as well as to the community* in which *Awqaf* properties represent an infrastructure capital for social work and social interests" (*emphasis added*).

In other words, while Kahf (2007) proposes the idea of empowering community (exclusively "run by local people") in the management of *waqf* property, Najam (1996) echoes a more compromised approach where the management task is shared by both affected community and NGOs (*waqf* management in this case).

The above has conceptually argued that the need for waqf management to put a greater emphasis on beneficiaries and the potential it brings from their involvement and participation. After arguing the need for beneficiaries' engagement which is grounded on accountability to them, this paper attempts to formulate an approach to which accountability relationship between *waqf* management could be made more 'intimate' with the hope that any 'improvement' initiative would accrue its benefit to beneficiaries.

4.2 An attempt at modelling *waqf* accountability: beneficiaries' engagement

As argued earlier, accountability in *waqf* institution is framed in contextual discussion of accountability to higher principal-Allah. *Waqf* management is accountable to Allah (as

any other human beings). However, since operationalising accountability to Allah is 'intangible', it is thus manifested in *waqf* management accountability to beneficiaries. Based on argument made by Ibrahim (2000, p. 258) that operationalisation of accountability to Allah is made 'in the form of Islamic teachings' and that being accountable to the fellow being, including the poor is one of Islamic teaching, then it would be a good starting point here to offer an argument that the operationalisation of accountability to Allah is made clear through accountability towards beneficiaries. In other words, to show that *waqf* management is accountable to Allah, they must be accountable to beneficiaries. In other words, beneficiaries derive its 'authority'[16] from Allah hence *waqf* management should now be accountable to them.

In addition, Najam (1996) also proposes 'giving authority' to beneficiaries by suggesting role reversing exercise, where beneficiaries act as patrons and donor-NGO as client. Therefore, taking a cue from Ibrahim's (2000) framework of dual accountability, *waqf* management accountability to Allah is effected through its accountability to beneficiaries possibly operationalised through local beneficiaries/the poor participation.

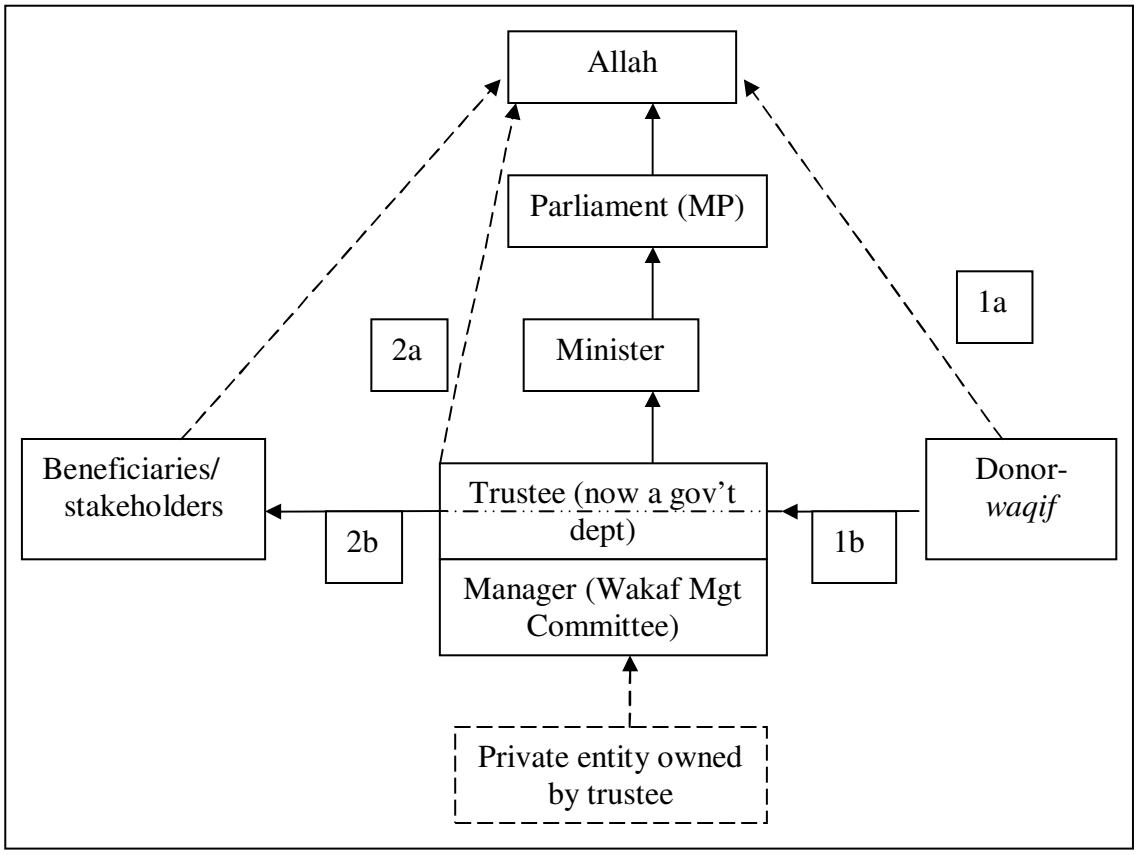
Currently, the operationalisation (e.g., the line of reporting) within waqf relationship is hierarchical in nature. For example, a waqf officer is accountable to its immediate superiors. Beneficiaries have a very limited recourse in ensuring that benefit of *waqf* property should ideally accrue to them although they may have informal avenue such as complaints made to politicians or SRC. However, there is no affirmative intent to ask their participation. Therefore, to ensure that *waqf* management committee is working towards benefiting beneficiaries, every project involving local beneficiaries, in which *waqf* properties is used, might need some forms of mechanisms/efforts which could move towards gaining greater local community participation in decision making; and not totally left to centralised body. Thus, instead of waqf management exclusively be accountable upwardly to higher authority, the accountability model should also engage downwardly to beneficiaries.

Hence, this paper offers a *waqf* accountability model as shown below, i.e., the conceptual framework of *waqf* accountability, in which the focal point of accountability is to higher principal. In the proposed model, it is explicitly shown that every human is ultimately responsible and accountable to Allah. In an arrow marked **1a**, it shows that donor as human and Muslim, fulfils one of his many obligations towards society by undertaking *waqf*. This act/deed exemplifies his discharge of responsibility to society and accountability to Allah. Its operationalisation is crystallised through physical donation of property. Put in another way, the proof that he is accountable to Allah is shown in his good deed of *waqf* donation, denoted in **1b**. He can be the manager or he can appoint someone else. However, as practiced today, it is *waqf* management committee who become manager (Siti Mashitoh, 2006a). In this case, the management is obliged to ensure the intention of donor is implemented. While, management should ideally, at least from NGOs debate, be accountable to donors, many cases, indicate that donor could not be bothered about it anymore, or has already passed away (Sabran, 1991 quoted in Siti

[16] Qur'an *Surah az-Zaariyaat* (51:19) noted "And in their wealth and possessions, there is right of needy".

Mashitoh, 2006a, p. 40). Since the primary accountability of everybody including *waqf* management is to Allah, operationalisation of accountability to Allah for *waqf* management is manifested through accountability to beneficiaries. In other words, the line indicated as **2a** is crystallised through line **2b**. Therefore, it would be interesting to see whether accountability to beneficiaries is affected with other accountability relationship that *waqf* management have. In the diagram below, the **2b** is essentially a stakeholder/beneficiary engagement.

Figure 2b: Proposed conceptual framework



Conclusion

The paper offers some insights, in which waqf management could learn from NGO literature, especially the extent to which how NGO address its relationship with interested parties with the view to remain relevant to its objective. The notion of holistic accountability offers a view to which waqf management may need to consider in its effort to improve its management hence achieving its objective of alleviating poverty. In the context of improving management of waqf, this paper does not view accountability as just a mechanistic tool (e.g., audit, accounting and reporting) used for monitoring an organisation, although it may well do so. Instead accountability should also be seen as the ability for organisation to learn from beneficiaries through engagement and participation, which in turn inform the organisation concerned on how to improve and better serve them.

References

Abu-Tapanjeh, A. M. (2008). Corporate governance from the Islamic perspective: A comparative analysis with OECD principles. *Critical Perspectives on Accounting, In Press, Corrected Proof*.

ActionAid International (2006). ALPS (Accountability, Planning and Learning System). *Journal*, 1-48. Retrieved from www.actionaid.org/assets/pdf%5CALPSENGLISH2006FINAL_14FEB06.pdf

Ansari, A. R. (1980). *Islam: ideology and the way of life*. London: Muslim Schools Trust.

Ansari, M. F. R. (2001). *The Qur'anic foundations and structure of Muslim society* (2nd impression. ed.). Kuala Lumpur: Islamic Book Trust.

Avina, J. (1993). The evolutionary life cycles of non-governmental development organizations. *Public Administration and Development, 13*(5), 453-474.

Baer, G. (1997). The Waqf as a Prop for the Social System (Sixteenth-Twentieth Centuries). *Islamic Law and Society, 4*(3), 264-297.

Berger, J. (2003). Religious Nongovernmental Organizations: An Exploratory Analysis. *Voluntas: International Journal of Voluntary and Nonprofit Organizations, 14*(1), 15-39.

Bovens, M. (2006). Analysing and Assessing Public Accountability: A Conceptual Framework. *Journal*. Retrieved from http://www.connex-network.org/eurogov/pdf/egp-connex-c-06-01.pdf

Callamard, A. (2006). NGO accountability and the Humanitarian Accountability partnership: Towards a transformative agenda. In L. Jordan & P. v. Tuijl (Eds.), *NGO accountability : politics, principles and innovations*. London: Earthscan.

Cousins, J., & Sikka, P. (1993). Accounting for Change: Facilitating Power and Accountability. *Critical Perspectives on Accounting, 4*(1), 53-72.

Dubnick, M. (2002). *Seeking salvation for accountability*. Paper presented at the Annual Meeting of the American Political Science Association.

Ebrahim, A. (2003a). Accountability In Practice: Mechanisms for NGOs. *World Development, 31*(5), 813-829.

Ebrahim, A. (2003b). Making sense of accountability: Conceptual perspectives for northern and southern nonprofits. *Nonprofit Management and Leadership, 14*(2), 191-212.

Ebrahim, A. (2005). Accountability Myopia: Losing Sight of Organizational Learning. *Nonprofit and Voluntary Sector Quarterly, 34*(1), 56-87.

Edwards, M. (1999). Legitimacy and values in NGOs and voluntary organizations: Some sceptical thoughts. In D. Lewis (Ed.), *International perspectives on voluntary action : reshaping the third sector*. London: Earthscan.

Edwards, M., & Hulme, D. (1995a). NGO performance and accountability: Introduction and overview. In M. Edwards & D. Hulme (Eds.), *Non-governmental organisations : performance and accountability beyond the magic bullet*. London: Earthscan.

Edwards, M., & Hulme, D. (1996). Too Close for Comfort? The Impact of Official Aid on Nongovernmental Organizations. *World Development, 24 6*, 961-973.

Edwards, M., & Hulme, D. (Eds.). (1995b). *Non-governmental organisations : performance and accountability beyond the magic bullet*. London: Earthscan.

Erkkila, T. (2007). Governance and accountability: a shift in conceptualisation. *Public Administration Quarterly, 31*(1), 1-38.

Fowler, A. (1997). *Striking a balance : a guide to enhancing the effectiveness of non-governmental organisations in international development*. London: Earthscan.

Frink, D. D., & Klimoski, R. J. (2004). Advancing accountability theory and practice: Introduction to the human resource management review special edition. *Human Resource Management Review, 14*(1), 1-17.

Gray, R., Bebbington, J., & Collison, D. (2006). NGOs, civil society and accountability: making the people accountable to capital. *Accounting, Auditing & Accountability Journal, 19*, 319-348.

Gray, R., Dey, C., Owen, D., Evans, R., & Zadek, S. (1997). Struggling with the praxis of social accounting Stakeholders, accountability, audits and procedures. *Accounting, Auditing & Accountability Journal, 10*, 325-364.

Hamid, S., Craig, R., & Clarke, F. (1993). Religion: A Confounding Cultural Element in the International Harmonization of Accounting? *Abacus, 29*(2), 131-148.

Hitti, P. K. (1970). *Islam: a way of life*. [S.l.]: U of Minnesota Pr.

Ibrahim, S. H. b. M. (2000). *The need for Islamic accounting : perceptions of its objectives and characteristics by Malaysian Muslim accountants and accounting academics.* University of Dundee.

Jepson, P. (2005). Governance and accountability of environmental NGOs. *Environmental Science & Policy, 8*(5), 515-524.

Jordan, L., & Tuijl, P. v. (2006). Rights and responsibilities in the political landscape of NGO accountability: Introduction and overview. In L. Jordan & P. V. Tuijl (Eds.), *NGO accountability : politics, principles and innovations*. London: Earthscan.

Kahf, M. (1999). *Towards the revival of awqaf: a few fiqhi issues to reconsider*. Paper presented at the Harvard Forum on Islamic Finance and Economics, October 1, 1999.

Kahf, M. (2007). *The role of waqf in improving the ummah welfare*. Paper presented at the Singapore International Waqf Conference 2007 on 6-7 March 2007.

Kamla, R., Gallhofer, S., & Haslam, J. (2006). Islam, nature and accounting: Islamic principles and the notion of accounting for the environment. *Accounting Forum, 30*(3), 245-265.

Kilby, P. (2006). Accountability for Empowerment: Dilemmas Facing Non-Governmental Organizations. *World Development, 34*(6), 951-963.

Korten, D. C. (1987). Third Generation NGO Strategies: A Key to People-Centered Development. *World Development, 15*, 145-159.

Kuran, T. (2001). The Provision of Public Goods under Islamic Law: Origins, Impact, and Limitations of the Waqf System. *Law & Society Review, 35*(4), 841-898.

Lewis, M. K. (2001). Islam and accounting. *Accounting Forum, 25*(2), 103-127.

Maali, B., Casson, P., & Napier, C. (2006). Social reporting by Islamic banks. *Abacus, 42*(2), 266-289.

Moncrieffe, J. M. (1998). Reconceptualizing Political Accountability. *International Political Science Review / Revue internationale de science politique, 19*(4), 387-406.

Mulgan, R. (2000). 'Accountability': An Ever-Expanding Concept? *Public Administration, 78*(3).

Mulgan, R. G. (2003). *Holding power to account : accountability in modern democracies*. Houndmills, Basingstoke, Hampshire; New York: Palgrave Macmillan.

Murtuza, A. (2002). Islamic antecedents for financial accountability. *International Journal of Islamic Financial Services, 4*(1).

Najam, A. (1996). NGO Accountability: A Conceptual Framework. *Development Policy Review, 14*(4).

O'Dwyer, B. (2007). The nature of NGO accountability: Motives, mechanisms and practice. In J. Unerman, J. Bebbington & B. O'Dwyer (Eds.), *Sustainability accounting and accountability*. London: Routledge.

O'Dwyer, B., & Unerman, J. (2008). The paradox of greater NGO accountability: A case study of Amnesty Ireland. *Accounting, Organizations and Society, In Press, Corrected Proof*.

O'Keefe, P., & Conway, S. (2008). Impression management and legitimacy in an NGO environment, *Working Paper Series No: 2/2008*: School of Accounting and Corporate Governance, Faculty of Business, University of Tasmania.

Roberts, J. (2001). Trust and control in Anglo-American systems of corporate governance: The individualizing and socializing effects of processes of accountability. *Human Relations, 54*, 1547.

Scott, C. (2000). Accountability in the Regulatory State. *Journal of Law and Society, 27*(1).

Sinclair, A. (1995). The chameleon of accountability: Forms and discourses. *Accounting, Organizations and Society, 20*(2-3), 219-237.

Siti Mashitoh, M. (2006a). *Waqf in Malaysia : legal and administrative perspectives*. Kuala Lumpur: University of Malaya Press.

Siti Mashitoh, M. (2006b). *Waqf Law and Issues*. Paper presented at the National Waqf Convention 2006.

Smillie, I. (1995). Painting Canadian roses red. In M. Edwards & D. Hulme (Eds.), *Non-governmental organisations : performance and accountability beyond the magic bullet* (pp. 157-166). London: Earthscan.

Unerman, J. (2007). Stakeholder engagement and dialogue. In J. Unerman, J. Bebbington & B. O'Dwyer (Eds.), *Sustainability, Accounting and Accountability*. London: Routledge.

Unerman, J., & Bennett, M. (2004). Increased stakeholder dialogue and the internet: towards greater corporate accountability or reinforcing capitalist hegemony? *Accounting, Organizations & Society, 29*(7), 685-707.

Unerman, J., & O'Dwyer, B. (2006). Theorising accountability for NGO advocacy. *Accounting, Auditing & Accountability Journal, 19*, 349-376.

Uphoff, N. (1995). Why NGOs are not a Third Sector. In M. Edwards & D. Hulme (Eds.), *Non-governmental organisations : performance and accountability beyond the magic bullet*. London: Earthscan.

Willmott, H. (1996). Thinking accountability: accounting for the disciplines production of self. In R. J. B. Munro & J. Mouritsen (Eds.), *Accountability: Power, ethos, and the technologies of managing*. London: International Thomson Business Press.

Wilson, R. (2008). Islamic Economics and Finance. *World Economics, 9*(1), 177-195.

INTEREST, MONETARY MANIPULATION AND MISUNDERSTANDING ARE STIFLING EMERGENCE OF JUST AND EFFICIENT ISLAMIC ALTERNATIVES

Hifzur Rab
Al-Hamd Charitable trust, Rahmat Nagar, Jhapia, Bamrauli, Allahabad, India
Working as: Chief chemist, ONGCL, WSS, Chandkheda, Ahmedabad, India
Email: hifzurrab@rediffmail.com

INTEREST, MONETARY MANIPULATION AND MISUNDERSTANDING ARE STIFLING EMERGENCE OF JUST AND EFFICIENT ISLAMIC ALTERNATIVES

Hifzur Rab

ABSTRACT

Sustained economic growth requires that those engineering this growth are granted right to own resources. It requires human resources to grow at par with the materialistic productive capacity. Where interest is prohibited, Zakah drives the economy maintaining balance between human and material resources. Awkaf ensure supply of some important social/religious products free or at low cost. Unlike taxes that are a burden on income and wealth owners, depending upon level of Iman payment of Zakah and creation of Wakf provide a level of satisfaction that may exceed the satisfaction derived from consumption of goods/utilization of services for same value. These maintain balance between productive capacity and purchasing power that ensures full employment growth and welfare.

Intrinsic incapacity of the system of interest to allocate resources efficiently due to massive conflict with nature makes it unsustainable. It has inbuilt powerful income and wealth concentrating tools. To sustain the system of interest Freely Floating Fiat Money is being manipulated (depreciated) continually. Technically monetary manipulation amounts to manipulation of the most important unit. Monetary manipulation leads to failure of market to determine prices justly. Resulting lack of justice in exchange implies complete lack of economic justice. Thus, profit driven investment fails to allocate resources efficiently and to justly distribute the surplus produced between various factors of production. These (interest and money manipulation) have produced gross imbalance between purchasing power and productive capacity of the economy and between human capacity and productive capacity of the material resources. These have lead to massive exploitation of the have-nots. Resulting gross inefficiency and failure of market to maintain economic balances cause economic growth justice and peace to become unattainable.

Zakah is the propellant of the economic system of Islam. Where Riba is strictly prohibited it leads to near economic perfection. In a system driven by interest it has only limited ability to solve the problem of poverty and deprivation. Yet its better management can lead to some significant improvements. Misunderstanding regarding Zakah seems to arise due to our neglect of growth aspect of Zakah. Often, considering some of its features it is compared with wealth tax while it may be compared with tax on income and with wealth tax only against commercial investment and wealth that is not employed in productive work.

Our lack of understanding of monetary manipulation and its strict prohibition in Islam has not only deprived the Ummah of the opportunity to help and guide the humanity but also has led to failure of our contemporary scholars to understand reality of Riba and to provide proper guidance. That has resulted in pulverization of the economy of the Muslims and their institutions. Even where Ummah is in no position to follow its own monetary system it must correct its accounting for the element of fraud incorporated by monetary manipulation.

It is our lack of understanding and misconceptions that has lead us to practice Hila (stratagem) driven Islamic economic policies and it is stifling emergence of just and efficient Islamic alternatives.

Introduction

Physical laws of nature are invariant and uniform throughout the universe. Such invariance and uniformity is not very visible in case of living beings, however each species shows behavior that is consistent and each species is characterized by its nature that does not change. Human are the most developed among the creation and have a characteristic nature that is basically invariant. Innovations normally require a lot of striving and struggling. It may be by accident but even in such cases it happens when observer is highly alert and competent and competence normally comes only by striving and struggling. Human efforts are directed towards achieving the goals. People can be forced to carry out some assignments but they perform best when they expect good reward.[1] Capitalist economies offer highest reward for innovations and they are in forefront in the field. Innovations lead to new products and technologies that allow economy to jump start development. Where people do not have right to own resources the highest level of motivation that causes people to strive and excel is not achieved. Author therefore holds the view that right to own resources is essential for the economy to perform efficiently. Massive downturn that Russian communist economy faced that compelled it for major restructuring confirms this view.

Under system of interest investment is subject to the pleasure of the capital owners and that severely restricts the right of the labour to demand just wages. System of interest is driven by interest and sustained by the greed of the capitalists and fraud (manipulation/depreciation of currency) and these constitute the root cause of the most of the problems. Communism goes to the other extreme of disallowing right to ownership over the resources that restricts motivation and fail to cause significant proportion of population to strive and excel that reduces production of capital goods and effectiveness of Research and Development that reduces competitiveness of the economy. Islamic system has adopted the centrist approach. It ensures social justice by banning interest and enforcing Zakah. *In the Islamic system charge of Zakah assisted by expected gain as share in profit motivates the owners of capital to invest the capital.* Islamic system neither allows anything harmful to human welfare to progress nor protect anything harmful from getting extinct. Banning of interest, enforcement of Zakah, distributive laws of inheritance together with prohibition of socially harmful activities prevents excessive concentration of wealth as well as much of disparity, deprivation and waste. Zakah ensures satisfaction of necessities and needs of the have-nots and exert multiplier effect on the economy. Right to own resources[2] ensures availability of sufficient motivating force to cause sufficient number of people to strive to achieve excellence. Availability of Quardh-e-Hasan ensures cost free supply of capital in deserving cases.

Interest is the driver of the prevailing western economic system generally known as capitalism however a better description may be system of interest. Private ownership and free open market that form the bedrock of capitalism are also among the most prominent characteristics of the economic system of Islam. However while system of interest corrupt the market and impede its functioning by manipulating

[1] This is due to human nature that does not change. Author is of the view that divine revelation, 'There can be no alternation in the nature made by Allah' (Ar-Room-30) confirms it.

[2] In Islam all sovereignty belong to Allah and we own resources as His agent but He does not restrict us from using these resources freely except to protect us from harming ourselves or the society or for our betterment and thus in practice we may be considered to be the owners .

money, system of Islam gaurds the market from corruption and nourishes it. Zakah propels the Islamic economy and *it is a mechanism that purifies and sanctifies people and their earnings and wealth, produces a just and equitable economic order by providing the poor what is their due, binds the Muslims in the Islamic brotherhood and produces and sustains optimum economic growth.* In this paper only some important aspects of these systems will be considered and an attempt will be made to clarify why despite all its superiorities the Islamic system and the Ummah is marginalized.

We will discuss essential requirement of economic growth and performance of these systems. That will be followed by a brief discussion on causes responsible for continuation and dominance of the system of interest. Finally we shall consider the process of rectifying the problems.

Fraud and corruption are integral constituents of the system of interest

Interest is killer for the economy. Amount lent at 15% yearly compound interest doubles in less than 5 years, it multiplies 10 fold every 16½ years, and it multiplies 1000 fold every 49½ years and 1174313 fold every 100 years. Net output of the world does not multiply even 10 fold in 100 years. Thus, net real rate of growth is below 2 %. Therefore, even if capital worth 15 % of the total resources of the world could be invested at 15% interest compounded yearly, the over all growth of the economy will not be enough even for clearing the interest.

Amount payable in lieu of interest based finance doubles and redoubles after a period and this redoubling continue. Suppose rate of interest is 10.41% then amount payable doubles and redoubles every 7 years. Within 50 years it becomes 140 times. Many borrowers are able to repay the loan within a few years but the amount that is returned by previous borrowers is again lent on interest to new borrowers and therefore this process of doubling of dues continues. In nature things grow and then decay and there is nothing real that can continue to grow in this exponential pattern. Therefore, debts created by interest-based finance can't be cleared.

Suppose some one borrowed 100 gm of something at 10% interest. Then it can be seen that amount payable to clear this loan of 100 gm equal weight of earth in 695 years. Clearly unless the unit of account is manipulated (depreciated) dues created by interest can not be cleared. Normally economic transaction use medium exchange as unit of account and thus it is implied that the system of interest can not be sustained without monetary manipulation.[3] Freely floating fiat money is continually manipulated (depreciated by raising money supply in excess of increase in national out put). Manipulation of currency is the manipulation of the most important unit of measurement and it leads to all round inefficiency and corruption [Hifzur Rab (1998, 2006)] and peace and justice become unattainable (Hifzur Rab, 2009).

Essential requirements of sustained economic growth

We shall consider only some important factors relevant to our analysis.

[3] Monetary manipulation is defined as reduction in quantity of what determines its purchasing power thus it is reduction in quantity of what money is or what it symbolizes. May refer to authors works (2006,2008,2009)

Mechanism that determines investment must accord due weightage to gains accruing to labour as well as the masses.

Wages the labour earns directly add to purchasing power of the economy and act as a multiplier. Thus, it constitutes the biggest benefit that the economy derives from economic activities [Hifzur Rab (1996, 1998]. Now we observe that recession tends to perpetuate itself. Its cause is known to be the failure of demand to rise to match the productive capacity that is due to lack of growth of purchasing power and that is due to failure of economy to integrate labour wage and gains accruing to the masses[4] with the mechanism that decides whether or not the entrepreneurs will take up an economic activity. Therefore, a necessary condition for sustained economic growth is that *the criterion that determines whether an activity is set up or shut-off must not neglect wages earned by the labour.* The social/national interest demands that we ought to adopt such a mechanism.

Author (1996) defines 'Real profitability*' of an economic activity as its productivity* for the economy. * is placed to indicate that it is not same as rate of return on real terms. The real profitability* of an economic activity is the sum of the profitability* for the owners[5], profitability* for the employees and the profitability* for the masses. If we use the symbol p_r to represent the real profitability* it may be expressed as:

$$P_r = P_{ow} + P_e + P_m \qquad (1)$$

Where P_{ow} is the profitability* for the owners and it is the sum of profitability for the creditor and profitability for the entrepreneur[6], P_e is the profitability* for the employees. P_m is the profitability* for the masses. It is high during depression and it is low during inflationary period. .

Profitability* for the owners is only one component of the actual profitability* of an economic activity. Managerial actions generally increase profitability* for the owners by reducing $(P_e + P_m)$ i.e., the sum of the profitability* for the employees and the profitability* for the masses. However resulting increase in disparity causes purchasing power to lag behind productive capacity that leads to recession and may lead to depression.[7] Under capitalism investment is determined by profitability for the entrepreneur that is profitability for owner less rate of interest. Profit maximising producer restricts employment[8] that restricts out-put for below the capacity of the

---

[4] Economic activities result in production and supply of products and services demanded by masses. Cheap supply let them gain and supply at higher than just price cause them to be poorer.

[5] In this paper we refer the entrepreneur creditor combine as owners.

[6] Under capitalism profitability for creditor equals average rate of interest on that capital investment is borrowed.

[7] - Allah (S.W.THE.) has revealed,

'Whatever I have created in the world is for you all.'

Economic activities include the activities that provide us sustenance. Therefore, directly or indirectly these should be beneficial to all. It is what equation no. (1) represents. It is remarkable that the creation is based on justice and does not support injustice. We shall shortly see that any effort by any section to corner more than what is its due, disturbs economic equilibriums that exposes the injustice and finally lead to removal of the injustice.

[8]- Under capitalism the marginal wage (being the wage paid to the last labour employed) equals the marginal revenue (being the increase in revenue due to increase in out put due to last labour employed. Many economists have condemned profit motive. Economy can't develop if profit is not allowed because it is profit that motivate entrepreneurs to set up economic activities that produce the employment. What is required is a mechanism that

economy, causes massive unemployment and leads to severe increase in the number of the people below the poverty line. Thus, capitalism fails to accommodate this essential requirement of economic justice and growth. Author (1995, 1996, and 2006) has shown that Islamic system driven by Zakah ensures real productivity of the enterprise for the economy determines allocation of resources.

Balanced growth of human and material resources

Output results from human effort on material resources. It can be expressed as a product of these and therefore it is maximized only if both grow at par [Hifzur Rab (1994, 1996)].

Author has arrived upon the following expression for the net surplus (O_n) produced by the economy:

$O_n = (N_o\ C\ U_h\ R_m\ P\ U_m)^{1/2} - (N_0E_0+M_dd)$

[Where N_o is population, C average capacity of the population and U_h is its utilization (employment); R_m is the material resource, P its average productivity and U_m is its utilization. E_0 is average per capita expenditure to maintain capacity, d is average depreciation rate for depreciating material resources M_d.]

Thus it is maximized only if human capacity (N_0C) and product of material productivity material resources (R_mP) both grow at par [Hifzur Rab (1994, 1996)].

Satisfaction of necessity and need for all is very efficient in maintaining and raising human capacity and leads to low per capita capacity maintenance expenditure (Eo), while consumption of harmful products and waste raise E_O. Expenditure on Tazianat (embezzlement) contribute little to capacity build up and raises Eo.

The out put has to be utilized to fulfill necessities and needs of the people and to compensate for the depreciation of the material resources. What is left is the real surplus that should be utilized to improve material productivity as well as human capacity. What goes to the rich is mainly saved and used to develop material resources while what goes to the poor is consumed and is efficient in improving human capacity. Thus to ensure sustained economic growth economic system must ensure equitable sharing of the surplus between the resource owners/entrepreneurs, labour and the masses. When masses are required to pay a higher price for a product than the benefits they derive from it they become poor, their purchasing power falls resulting in fall in demand that dampens economic environment and economy goes to recession/depression mode. Increased consumption by the rich do not remedy the problem as this additional consumption by rich contribute little in raising human productivity as only little of it is spent on necessity and need fulfillment, only some is spent on Tahsiniat (Improvements) and most of it is spent on Tazianat (embellishment) that hardly contribute to growth of human capacity. What is spent by masses and labour is mainly spent on necessity and need fulfillment and add to their productive capacity. The more they earn the more they spend that raises demand and creates multiplier effect. It follows therefore that sustained economic growth require necessity and need fulfillment for every one and equitable sharing of surplus between creditors and entrepreneurs on one hand and labour and masses on the other. Clearly nature supports justice and injustice leads to inefficiency and waste. Thus the theories

---

ensures full employment (excluding voluntary unemployment) but that can't be achieved under capitalism.

that hold that there is trade off between growth/development and justice are not correct and must be dumped. [9]

Full employment of material as well as human resources

To keep the material and human resources efficiently employed is the primary function of the economy. Its stock consist of different and varied human capacities, technical knowledge and material resources in many different forms. Author (Hifzur Rab 1994, 1996) defines Full employment as the condition in that all resources of the economy are fully employed and that economic activities with positive real productivity for the economy[10] i.e., with profitability to owner up to -2.5% per annum are viable.[11] Such economic activities are sustained only in Zakah driven economy. System of interest can not sustain any such activities as these require banks real rate of interest (lending) to be negative. Further massive concentration of wealth produced by it kills unorganized sector and self employing enterprises.

Islamic system uses Zakah to ensure that capital is not withheld and purchasing power do not lag behind productive capacity. Awkaf also play a very important role in providing some important social services free or at very low cost. It thus produces equitable distribution of income and wealth. Equitable distribution of income and wealth ensures that those who fail to get employed by profit maximising firms are able to gainfully employ them. Similarly Quardh Hasan provides cost free capital in deserving cases. These maximises investment, employment and out put.

Existence of free and open market protected from fraud and corruption

The system that grants right to own resources can not function without a free and open market that is guarded against fraud and corruption. There is no substitute such a market especially there is no other way to determine or set just prices that is essential for justly rewarding various factors of production and for efficient allocation of resources and economy can not prosper otherwise. This requires equitable distribution of income and wealth and a reliable unit of wealth as currency.

Equitable distribution of income and wealth

Market determines prices by integrating preferences of the people with the help of medium of exchange. Individual preferences get recognition only when individuals buy or sell or negotiate in the process. Thus active participation of most of the people that is an essential *condition for market to determine just prices is possible only if the economy has an equitable distribution of income and wealth.*

Reliable unit of wealth as currency

In the process of determination of prices market uses currency as unit of measurement and unit of account. Thus currency is the most important unit of measurement.

---

[9] This position is confirmed by the divine revelation,' It is He Who has created the heavens and earth in all truth (justice).'

[10] Real productivity is defined as sum of profitability for the owners (creditors plus entrepreneur), labour (employment benefit) and masses.

[11] Based on empirical studies economists hold that there exists a natural rate of unemployment. In reality it is due to non viability of economic activities due to failure to produce profit for the owners and thus it follows that full employment require economic activities with zero or even slightly negative rate of return to be viable. These are the economic activities that have positive rate of return for the economy as a whole but have negative rate of return for their owners.

Corruption of unit leads to gross corruption of measurement. To enable market to determine just prices currency must be a definite and well known and most stable unit of wealth. Manipulation of currency leads to failure of market to determine just prices. That lead to lack of justice in exchange, failure of the market to justly reward factors of production and a disconnect between rate of return and productivity of the enterprise for the economy. [12]

In case of the system of interest, manipulation of currency, its inability to employ significant proportion of resources and gross disparity of income and wealth created by it leads to total subversion and corruption of the market. Under these condition market fail to guide the economy and needs excessive regulation so much so that it has compelled most of the votaries of free open market to shut off their mouths. Market do need to be gaurded from corruption as these are in Islamic system but much of the recent criticism of market function and sugestions for intervention are consequences of market failure due to monetary manipulation and extreme disparity created by system of interest. In fact these provide powerful empirical evidence for the problems highlighted by this study. The regulators come from the rich elite who manipulate the market to serve their vested interest. Thus there is no substitute for free and open market that is guarded from corruption. Economic system of Islam strictly enforces just measurement and strictly prohibits interest. Zakah propels economy maintaining balance leading to growth with justice. It does not need to interfere with market and thus it can derive full benefit of the market.

Critical review of the working of the system of interest

Not only that the system of interest do not have any mechanism to maintain balance and sustain growth it is very inefficient even in distributing profit of the enterprise between entrepreneur and creditor. Profitability of investment is spread over a wide range. Author has shown that Investment (dI_P) in the real profitability in the range between P and P+dp is may be expressed by[13]

$$dI_P = \left(\frac{P}{\overline{P}}\right)^2 e^{-C\left|\frac{P}{\overline{P}}-.025\right|} dp \qquad [2]$$

Where $\overline{P}$ is the average real profitability* for the economy and 'C' is normalisation constant. This leads to following result:

Relative Real Profitability*	Percentage of Investment	Relative Real Profitability*	Percentage of Investment
0.25	3	1.0	58
0.50	19.1	1.1	64
0.75	39	1.25	73
1.00	58	1.5	83

Labour employed must be paid even if enterprise employing them does not make any profit. Author (1994) has concluded that even if an investment has zero profitability for owners, profitability for labour is 0.025 (or 2.5%). Supposes average

[12] Hifzur Rab (2008, 2009)
[13] It is revised version of original expression [Hifzur Rab (1994,1996)]

rate of return is 7.5% per annum and rate of interest 2.5% then if all the invested capital were borrowed on interest and all loss making units were to shut down, unemployment rate will be 19%.[14] Thus, even if average profitability is good and prevailing interest rate is most balanced a significant proportion of enterprises employing higher proportion of labour fail to produce surplus even to pay interest at prevailing rate (Hifzur Rab 1994, 1996). Economy can not afford to shut these down nor can these be financed on market principal. Therefore manipulation (depreciation) of currency becomes a perpetual need of the economy. However it provides some relief in the short term at a very high long term cost.[15] At the same time there are many enterprises making hefty profit and what these pay to the creditors is too small a proportion to be considered just. Those who happen to become rich continue to remain rich as the risk free return in form of interest for exceed their expenses while those who become poor continue to grow poorer as they are not able to satisfy their necessities and needs e.g., they can not afford to by house and can not provide for themselves and their children quality education and training. Thus the system tends to limit opportunity for the poor even if they be competent while keeping rich in controlling position even if they are incompetent. Further it has inbuilt powerful income and wealth concentrating tools that has lead to massive concentration of power and wealth.

Clearly system of interest has no capacity to keep resources efficiently employed. Further due to massive conflict with nature, sustenance the System of interest requires medium of exchange to be manipulated. Technically monetary manipulation amounts to manipulation of the most important unit and it is a very serious crime. Monetary manipulation corrupts the market and the market fails to determine prices justly. Resulting lack of justice in exchange implies complete lack of economic justice and peace. Now, profitability driven investment does not lead to efficient allocation of resources resulting in gross inefficiency in investment. These (interest and money manipulation) have produced gross imbalance between purchasing power and productive capacity of the economy, have lead to growing fraud and corruption and massive exploitation of the have-nots. Peace economic growth and justice have become unattainable. These are the worst crimes against humanity and these have lead to growing tyranny and terrorism.

Despite all these problems the system is still preferred by greedy capitalists who continue to dream that continuation of this system will ensure that they will ever remain rich. Recent world wide economic turmoil has confirmed that this system can not lost long however most of the people are unaware of any practical alternative and this is the cause compelling humanity to live with it.

Some issues on working of Islamic economic system

Zakah is the propellant of the economic system of Islam. Where Riba is strictly prohibited it leads to near economic perfection. Unlike Taxes that tax payers consider a burden Muslims pay Zakah willingly and derive a lot of satisfaction in doing so thus transfer of wealth effected by Zakah do not result in any fall in motive force that derive people to under take economic activities while in case of taxes the effective motive force is governed by benefit net of taxes. Similarly Awkaf also provide important social services without any reduction in satisfaction of the Wakif

[14] Considering that it includes disguised as well as voluntary unemployment the figure seems to be quite ok.
[15] Hifzur Rab (2009'-UKM)

(Wakf maker). Thus it can be seen that Islam is using faith to achieve important socio-economic objectives.[16] System of interest or any secular system does not have any such mechanism. Viewed in this perspective Islamic system driven by Zakah has much higher potential to maintain sustained and pure economic growth[17] than the system of interest.

Muslims do believe that Islamic system can solve economic problems but others are not going to accept or try it just because majority of Muslims believe it to be a solution. Reality is that system of interest has made monetary manipulation a universal phenomenon that has created a very complex environment in that preferred Islamic modes of finance such as Quardh Hasan, Mudarbah and Musharikah are practical and efficient only if the accounting is corrected for element of fraud incorporated by monetary manipulation. Majority of our contemporary scholars are unaware of the continuing manipulation of freely floating fiat money and its extremely adverse consequences and continue to wrongly believe that no such correction is permitted in Islam. Consequently now what is said to Islamic basically consists of some variant of conventional products that has all characteristics system of interest except that term interest is not used. It does have some positive elements as much of the speculation and gambling gets filtered out and socially harmful activities are not supported. Even many prominent Islamic economists (e.g., Prof. MN Siddiqui) admit that Islamic economics may not be able to solve many of the economic problems. As regards those who believe that it can, most are not least aware how? Author has studied this problem at great length and using his analytical ability gained through the study of the sciences Allah's grace has allowed him to analyse the causes and to suggest practical solutions. By grace of Allah (Subhanahu wa Taala) author has been able to develop a new approach that is reliable as it is based on application of scientific tools of analysis and is integrated with sure knowledge based on Quran-e-Hakim and Sunnah Mubarakah. Insha Allah it will allow us to see the reality of the problems faced by the humanity and to arrive at efficient practical solutions.

Majority of economists wrongly believe that interest leads to efficient allocation of resources and do not understand that it can be done more efficiently without it. Islamic system is driven by Zakah and charge of Zakah on capital if held for a year ensures that it is not held idle. Creditor (Rabbe al Mal) can share the profit. Since creditor shares profit he/she is concerned where his/her money is invested. That ensures that every creditor (Rabbe al Mal) tries to ensure that his/her money is invested in most profitable venture and exercises due diligence in selecting an honest and competent entrepreneur. In case of loss entrepreneur looses all his/her effort and therefore entrepreneur has also to ensure that it is invested most profitably. However as compared to system of interest it differs in that in this case entrepreneur (Mudarib) is under no compulsion to resort to any unjust, deceptive or fraudulent practice[18] as in case there is loss he/she does not have to bear it. Therefore absence of interest does not lead to any inefficiency of investment and yet it eliminates compulsion on entrepreneur to indulge in fraud, injustice and exploitation. In case the investment is in production function the capital invested is exempt from charge of Zakah and therefore even if profit is nil, in case economy is depressed and there are no good

[16]Dr Umar Chapra (1996) a renowned Islamic economist has taken a similar position in his lecture 'what is Islamic economics' prize winning paper essay

[17] Due to emphasis on morality and common good its adherents are not likely to indulge in any activity that destroys ecology and therefore economic growth rate in this system will be harmless and thus pure.

[18] Hifzur Rab (199h, 200h)

avenues of investment the creditor (Rabbe al Mal) prefer to keep the business going as in case business is wound up the capital that is released is subject to Zakah.[19] It is true that due to massive moral debasement due to prevalent unjust an inhuman economic system moral hazard has become an important problem but this problem does not exist in truly Islamic system as it would not indulge in monetary manipulation. In view of falling level of moral values every creditor (Rabbe al Mal) has right to ensure that entrepreneur (Mudarib) does not indulge in any fraud and deception.

Some issues pertaining to Zakah and its misunderstanding

Author (200h) has discussed many issues pertaining to Zakah where there is conflict and misunderstanding. The means of production are exempt from charge of Zakah but Zakah is charged on commercial investment. Thus, *there is clear preference for the productive investment as against commercial investment*. It is a very important characteristic of the Islamic system that maximises out-put and employment. However most of our contemporary scholars seem to disregard it. This has resulted in wrong interpretation of the Islamic law (Shari'ah) in regard to charge of Zakah on some investments. For example: a person holding shares of a company engaged in producing goods in effect invests his/her funds in a productive function. Normally, not more than 20% of assets of such companies are chargeable to Zakah[20] while most of the commercial investment is chargeable to Zakah. However, normally no distinction is made between the shares of the productive and the commercial companies. That shows that the practices of the Muslim community (Ummah) are not conforming to the Islamic law (Shari'ah). As a matter of fact many of the problems that the Muslim community (Ummah) is facing in this regard are due to our failure to consider growth aspect of Zakah.

Productive investment is exempt from the charge of Zakah and that maximises investment and out put. Charge of Zakah on mercantile goods ensures that commercial sector will remain efficient and will try to maintain smallest cycle time, selling goods as quickly as possible (thus keeping profit margins low allowing people due benefit in form of cheaper supply).

A disputed point is the rate of charge of Zakah on shares of companies. Author (199h,200h) holds that

'Rate of charge of Zakah on buried wealth (treasures) is 20%. Rate of charge of Zakah on agricultural produce is 10% or 5% depending upon whether the crop have been obtained using natural sources of water alone or artificial means of irrigation have been used. Considering that most of the jurists agree that expenses are exempt, we ought to consider why the rate of charge of Zakah should be less in case of artificially irrigated land. This shows that special contribution of man in obtaining an output is an important factor in determination of the rate of charge of Zakah. The higher the human contribution the lower is the rate of charge of Zakah. This seems to conform to the fact that Zakah is the right of Allah (Subhanahu wa Taala). Viewed in this perspective in most of the cases output of firm/ public limited company that is engaged in a production function may be charged at the rate of 2.5% only. It may be noted that our renowned jurist Prof... Yusuf Qirdhawi suggests 5 or 10 percent but he

[19] Author is not aware that this distress release function of Zakah has been discussed by any other.

[20] In this case profit earned and Inventories/reserve funds on that year is completed alone are to be charged to Zakah (Hifzur Rab 200h).

has not considered how to fix the percentage and has just quoted analogy with agriculture.'

Regarding Nisab of Zakah for merchandise author holds as under:

There is vast difference between the amount of cash that 20 Dinar (85 gm of gold) and 200 Dirham (595 gm of silver) are worth. in case of merchandise the market worth has been relied upon (by the Islamic law).[21] The problem arose due to relative change of the prices of the goods with respect to one other, however, we have been provided with two standards and what really matters is the change with respect to these. Market failure due to monetary manipulation and gross disparity are major contributors of this difference and market has become unjust and unreliable. Since we have only two standards best course is to give equal importance to both. Accordingly we may hold that Nisab for cash equals the sum of the worth of 42½ gm of gold and 297½ gm of silver.[22] Zakah falls in category of Ibadah and we can not agree to a Nisab that varies with time and place. As regards period of the prophet (peace be on him) value of Nisab for gold was equal to Nisab for silver and therefore it was also equal to 42½ gm of gold and 297½ gm of silver.

In many parts of the world people rent their land and tenants do farming. Author is of the view that the rent is paid on the basis of expected out put and should be treated as part of produce (i.e., value thereof) and landlord should pay 10 or 5% of the rent as Zakah depending upon method of irrigation and the tenant should include the rent with the expenses and deduct it from the produce and pay Zakah on produce net of expenses.

As regards land that a land developer buys to develop and sell, our scholars seem to hold that it becomes a mercantile good and it should be charged as stock in trade. However considering that prophet (P.B.U.H) has not charged Zakah on land or any other immovable property as stock in trade and charged its produce only) and that Allah (S.W.T.) specially mentions that income and what is produced from earth is to be charged (Q-II-267) shows that it may not be correct to charge the land itself. The income of the land traders may be charged at the rate of 5%, considering their minimal role in generation of profit.[23] However land developers may be charged only 2.5%. Further owners of land ought to ensure that its productive capacity is properly utilised.

---

[21] Nisab for merchandise is independent of the nature of the merchandise. During period of the prophet it was their worth that determined their Nisab, confirms it. In case of merchandise what really matters for the traders is the market worth.

[22] The relative variation between the prices of gold and silver arose due to rich having grown richer that allows them to buy and hoard more gold and at increased prices. Silver that is relatively cheaper is inferior good when compared to gold. The poor have grown poorer and it has lowered the living standard of the poor. It is not difficult to see that the measure of living of the rich has followed the trend of increase in gold prices while the standard of living of the poor have fallen as the prices of silver have lagged behind. Zakah is charged on Rabb-al-Nisab. It is the level where poverty ends and affluence begins. Clearly it lies between the levels determined by the two. Period of the prophet represents a standard period in the history of the world. It is why the two standards matched. If justice could be restored, these will Insha Allah match again. Till it happens best course available to us may the middle course suggested above.

[23] Normal trading involve transport of material from one place where it is in excess to another place where it is in short supply but land is sold where it is.

A disputed point is the rate of charge of Zakah on shhares. According to edict[24] if a person buys equity shares intending to earn yearly income he/she has to pay Zakah only on income but one who intends to sell has to pay it on capital. AA Islahi and Obaidullah (2004) hold that normally shares are brought up intending to benefit from appreciation in value of shares and therefore equity shares holders should be charged to Zakah at the rate of 2.5% and average market value of the shares should be considered as the base. Author is of the view that such opinions are based on the understanding that Zakah is wealth tax. This is based on neglect of growth function of Zakah and excessive emphasis on its purification function. System of interest has produced massive disparity and seeing the incidence of poverty some scholars are prompted to think that charge of Zakah ought to be enough to solve problem of poverty however right course of action is to remove interest and the causes that lead to its dominance and to stick to interpretation of Zakah that is as close to Quran and Sunnah as it could be. The right course will be to consider nature of companies business. If it is engaged in production function then its profit and cash and inventory (of product and raw material) will be charged to Zakah. In case it is a commercial business then the stock in trade will be charged to Zakah.

These suggestions are fully consistent with the Qura'nic/Sunnatic concept of Zakah that holds that Zakah purifies Zakah payers and their wealth and ensures that the wealth (economy) grows efficiently. However, *it must be clarified that these suggestions are only intended for consideration of the scholars and author has no authority to decide.*

Monetary manipulation and Islamic economic system

It is only due to intellectual stagnation that the Ummah could not understand that the divine revelation, 'He has set up the Balance (of Justice). In order that you may not transgress Balance. So establish weight with justice and fall not short in the balance.' (Q55: 7-9) relates to all measurements and include measurement of wealth. Clearly this verse strictly prohibits what will lead to faulty measurement[25] and it is thus implied that manipulation of unit is strictly prohibited and that means that manipulation of common medium of exchange i.e., currency is strictly prohibited.

Command to measure correctly implies that any error in measurement/accounting must be corrected accordingly we must correct all our accounts that use currency as unit for the error resulting from manipulation of currency [Hifzur Rab (2008, 2009)]. Thus justice/Shariah requires that our accounting for dues and capital/profit in Mudarabah and Musharikah must be corrected for monetary manipulation. CPI and WPI are approximate inverse measures of the quantity of the basket of national product that money symbolises and either of these may be used for correcting our account for the error caused by monetary manipulation [Hifzur Rab (2008, 2009)].

Author (2004) has shown that Quardh Hasan, Mudarabah and Musharikah become unjust, inefficient and impractical when accounting is done in nominal terms (i.e., no correction is applied for monetary manipulation). However when accounting is corrected for this manipulation, the reality that these preferred modes of Islamic finance are very just, practical and efficient become manifest.

---

[24] Majma al-Fiqh al-Islami, Fourth Session held in Jeddah during Feb. 6-11,1988.

[25] May also refer to Q 7-85, Q 6-152, Q11-84&85, Q17-35. Q26-181 and Q83-1,2&3

On basis of empirical studies Syed Nawab Haider Naqvi[26] has shown that Murabaha and similar other interest like modes of finance that can be considered to Islamically permissible are more efficient than Musharikah and Mudarabah that are generally considered Islamically preferable. Those who understand that these are hardly permissible and these do not produce economic effects desired by Shariah are quite uncomfortable with such findings. Reality is that these results are based on nominal values i.e., values that are not corrected for monetary manipulation and therefore these only highlight the necessity of incorporating corrections as suggested.

Any transaction involving credit/deferred payment where freely floating fiat money (fffm) is used as a denominator (unit/measure) does involve major uncertainty as fffm neither has any intrinsic value nor is defined and is variable, indefinite and unknown. Govt. fiat makes fiat money equivalent to a basket of national products. Future quantity of this basket is not known. Thus all our Muamalat specifying capital or dues in Fiat money are uncertain and involve lot of Gharar. Credit sale for say 10gm of gold is allowed as it is a definite quantity of gold but credit sale for 10 pieces of gold without specifying mass of the piece is indefinite and unknown quantity of gold and is not permitted due to Gharar.

To illustrate effect of correction for monetary manipulation consider differed sale of house. Assume current price of house to be 10M, rate of inflation 8% and rate of profit for bank to be 8+2=10%. Now if 2M is paid in cash and rest is paid in 180 equal monthly installments. The differed price of house comes to 18.656M and monthly installment comes to 92533. When we start applying for correction average rate of return will become lower by rate of inflation. Thus average rate of profit that banks will be able to charge will be say around 0+2=2%. Now differed price of house comes to 11.32M and therefore monthly installment comes to 51778. Suppose it is auctioned to recover dues after payment of 10 installments. Let sale price be 10M. In first case customer has to pay additional 5.621M. How unjust it is? And that to in the name of Islam. It was in consideration of this gross injustice that Judge A Wahab bin Patil of High Court of Malaya (Malaysia) held that bank was entitled only for the principal sum i.e., the amount for that it has purchased the house. What was decided was nearer to justice but it disturbed business of Islamic banks and court of appeal decided in favor of banking institutions. This is the consequence of the decision of our contemporary scholars holding (due to there ignorance regarding the reality of freely floating fiat money) that freely floating fiat money was equivalent to the two cashes implying that 10 RM today is Misl (equal) 10 RM say 10 year earlier or latter that every sensible person knows to be wrong. Unless we correct this error and correct our understanding regarding freely floating fiat money we will continue digging the foundations of Islam in the name of Islam. *Prof. Ahmed Kameel M Meera has informed that IBF has approached Malaysian government to allow it to use a reliable measure of wealth as unit of account. If properly implemented it will be an step in right direction.*

Now consider the second case, now the customer gets 0.8M out of the money paid. It can be argued that even this is not just but considering that parties have preferred a mode that is just permissible over the one recommended Islam can not be blamed.

Just measurement of prices is essential for existence of Justice in Exchange, for Rate of Return to relate to productivity of the enterprise for the economy and for

[26] In his 'A critique of, 'Islamic Banking: An Evaluation' published by Institute for Development Research, 10, Nazimuddin Road, F-ll/4, Islamabad

Profit Motive to be an efficient driver of Investment. Thus failure of market to measure prices correctly results in gross injustice and inefficiency. Further it lead to failure of market based economic checks and balances. Together with interest monetary manipulation is root cause of most of the problems being faced by the humanity as these lead to massive injustice and exploitation and make it impossible for the market to determine just prices that has lead to massive inefficiency and waste. Allah Subhanahu wa Taala ordains just measurement and that is not possible if scale is manipulated. Currency is the measure of wealth that market uses as the scale in the process of determination of prices that is what constitutes measurement of wealth. Thus it has to be held that manipulation of currency is strictly prohibited in Shariah. It is implied that error in measurement has to be corrected and it means that we must correct our accounting. This manipulation of currency is extremely harmful for the economy in the long run and is the root cause of most of the major problems economic, social and political. Our contemporary scholars who held paper currency to be equivalent to the two cashes and that the laws that applied to the two cashes will apply to the nominal value of these currencies on ground of Masalaha (Public good)[27] have made a very serious error that had lead to pulverization of the economy of the Ummah/Muslim nations and marginalised its institutions. That in doing so these scholars have permitted and legalised monetary manipulation and therefore manipulation of measurement of wealth while Allah Subhanahu wa Taala has strictly ordained us to establish just measurement. Therefore the error ought to be corrected at the earliest. Monetary manipulation may be measured using CPI, WPI and the parties should agree to either of these when they enter into any loan, credit sale/Mudarbah or Musharikah based transaction.

Contemporary Islamic banking practices may be divided into permissible and Sunnah based or desirable categories and as pointed out by Mark Rabbani (IFT, Apr-June 2009) about 90% of so called Islamic banking business falls in category of Islamically permissible and only 10% in Sunnah based or desirable category. This permissible category may be somewhat preferable to interest based business but it does not offer any viable solution for economic problems faced by humanity. Such are the consequences of monetary manipulation and unless Ummah becomes aware regarding its reality and corrects its account for the error introduced by monetary manipulation there is no chance that it can offer any viable alternative to system of interest. Similarly it is also very important that the Ummah removes its misconception on the issue of Zakah as the Zakah is the propellant of the economic system of Islam.

[27] They have rightly held that fiat money is subject to Riba and Zakah can be paid in it but error lies in their neglecting the fact that being free float it symbolises variable quantity of national product and being Ribawi implied that when dealing with Muamalat that are have significant spread over time where the quantity of national product these symbolise has changed Rule of Riba will apply on basis of equality of the quantity of national product symbolized by these. This is same as in case gold coins differ in weight an exchange involving these will involve no Riba where exchange is based on equality of weight although the numbers will differ. To put it simply dues in fiat money will vary as the Nisab for currency varies.

Conclusion

System of interest can not be sustained without monetary manipulation and it is in gross conflict with nature as its efficient working require rate of return of economic activities to be nearly equal while natural laws ensure that it is distributed over a wide range and that leads to unemployment as well as inefficient allocation of resources. Further it causes gross economic imbalance. Purchasing power of prevailing currencies continue to fall due to manipulation of the quantity of national products that symbolise money by changing ratio of national product to money supply. While it may allow the system of interest to be sustained for some more time, it is a serious crime as it amount to manipulation of common medium of exchange that leads to failure of market to measure/determine prices justly.

Just measurement of prices is essential for existence of Justice in Exchange, for Rate of Return to relate to productivity of the enterprise for the economy and for Profit Motive to be an efficient driver of Investment. Thus failure of market to measure prices correctly results in gross injustice, inefficiency and waste. Further it lead to failure of market based economic checks and balances. Together with interest monetary manipulation is root cause of most of the problems being faced by the humanity as these are the root causes of most of the problems being faced by humanity. Allah Subhanahu wa Taala ordains just measurement and that is not possible if scale is manipulated. Currency is the measure of wealth that market uses as the scale in the process of determination of prices that is what constitutes measurement of wealth. Thus it has to be held that manipulation of currency is strictly prohibited in Shariah. It is implied that error in measurement has to be corrected and it means that we must correct our accounting. This manipulation of currency is extremely harmful for the economy in the long run and is the root cause of most of the major problems economic, social and political. Our contemporary scholars who held paper currency to be equivalent to the two cashes and that the laws that applied to the two cashes will apply to the nominal value of these currencies have made a serious error. In doing so these scholars have permitted and legalised monetary manipulation and therefore manipulation of measurement of wealth while Allah Subhanahu wa Taala has strictly ordained us to establish just measurement. The error ought to be corrected at the earliest.

Market do need to be guarded from corruption as these are in Islamic system but much of the recent criticism of market function and suggestions for intervention are consequences of market failure due to monetary manipulation and extreme disparity created by system of interest. In fact these provide powerful empirical evidence for the problems highlighted by this study and there is an urgent need to address these.

If we look at the situation in its totality it becomes very clear that the Ummah is plagued with serious significant misunderstanding/lack of understanding in respect of issue of Riba and significant misunderstanding on growth issue of Zakah. Monetary manipulation and dominance of interest are significant contributors to this problem. In case of Zakah main problem is our own misunderstanding. In respect of Riba and profit sharing modes of finance monetary manipulation and moral degradation produced by dominance of interest are the major causes. There is no permissibility of monetary manipulation under divine law. Author has shown that elimination of monetary manipulation does not involve any significant cost and produces tremendous benefits. End of the practice of monetary manipulation can remove most of the problem being faced by the humanity and there is need to create

awareness. It follows that interest; monetary manipulation and misunderstanding are stifling emergence of just and efficient Islamic alternatives. It is our lack of understanding and misconceptions that has lead us to practice Hila (stratagem) driven Islamic economic policies and programs resulting in practices that are often a replica of the innovations of the system of interest and are not capable of solving economic problem of man. However due to complete lack of awareness and complexity of the issue, in many countries Ummah is in no position to free itself from the clutches of monetary manipulation. Correction of accounting for monetary manipulation will solve much of this problem and allow the conditions required to allow this problem to be addressed. Monetary manipulation may be measured using CPI, WPI and the parties should agree to either of these when they enter into any loan, credit sale / Mudarbah or Musharikah based transaction and correct accounting for dues, profit and loss using the measure agreed.

Any transaction involving credit/deferred payment where freely floating fiat money (fffm) is used as a denominator (unit/measure) does involve major uncertainty (Gharar) and such transactions may not be permissible unless we agree to correct the dues for monetary manipulation. If we correct our dealings for the element of fraud incorporated by monetary manipulation problems being faced by Islamic economic and financial institutions will stand resolved and Islamic banking and financial institutions will not be required to indulge in practices of doubtful validity. Use of correction to account for manipulation of money by Muslims/Islamic institutions will over time make truth manifest to all. People will join and associate with these not only due to their faith but also generally due to its efficiency and non-exploitative character. Gradually growing awareness will force governments to link currency to a definite quantity of wealth. Scientific tools of analysis will then allow correct and reliable prediction of outcome of various policies and programmes and allow truly just and efficient Islamic alternatives to emerge. That will allow Muslims to serve the humanity, free it from the serpentine grip of the system of interest and guide it to the right path.

REFERENCES

Anwar Mohd., (2000) "Islamicity of Banking and Modes of Islamic Banking", Professorial Inaugural Lecture Series, IIUM, Malaysia.

Chapra M.U. (2002), 'Alternative Visions of International Monetary Reforms', in Iqbal M. (ed.), Islamic Banking and Finance: New Perspective on Profit Sharing and Risk,

Chapra, Dr M Umar (1983) "Monetary Policy in an Islamic Economy" Money and Banking in Islam, King Abdul Aziz University, Jeddah.

Council for Islamic Ideology (Pakistan) Report (1980) and Report of the commission for Islamization of Economy, Pakistan (1997).

Friedman M. (1980), Monetarism: a reply to critics, The Times, 3rd March, 1980.

Gafoor ALM (1999) *Commercial Banking in the presence of Inflation*. Groningen: Apptec Publications

Greco T. H., (2001) Money: Understanding and Creating Alternatives to Legal Tender, Chelsea Green Publishing Company, Vermont.

Hifzur Rab (1994), Capitalist Economy and Islam, Alhamd BSSL, Bamrauli, Allahabad

Hifzur Rab (1996), Nizam-e-Sarmayadari aur Islami Maashiyat, Islamic Fiqh Academy, Delhi

Hifzur Rab (1998) Dominance of Interest and the way out, Rahmani Foundation, Mazgaon, Mumbai.

Hifzur Rab (2005) 'Impact of Inflation on Mudarabah Profits: Some Observations' *J.KAU: Islamic Econ.,* Vol. **1**7, No. 2, pp. 21-25 (1425 A.H / 2004 A.D)

Hifzur Rab (2006) 'Economic Justice in Islam' AS Noordeen, Kuala Lumpur, Malaysia.

Hifzur-Rab (2002), 'Problems Created by Fiat Money Gold Dinar and Other Alternatives' Meera, A.K. Mydin (ed.), (2002), *International Conference on Stable and Just Global Monetary System*. IIUM, Kuala Lumpur

http://polyconomics.com/showarticle.asp?articleid=1699

Hifzur Rab (2006) Islamic Banking, Fiat Money and Riba paper presented in International Conference on Equity and Justice–the message of Islamic Banking held on Feb, 18th &19th 06 at New Delhi.

Hifzur Rab (2008), Manipulation of Currency and Reality of Riba, presented at 'International Conference on Ijtehad and Ifta in 21st century: Challenges and Prospects, Volume 1', Published by IIUM, Kuala Lumpur, Malaysia.

Hifzur Rab (2009) 'Freedom, Justic*e and Peace Possible Only with Correct wealth measurement with a Unit of Wealth as Currency' presented* at International Conference on Unity of Sciences held on Jan14-15 at BCG trust University Chittagong. Being published in HIJSE 26:2, 2010

Hifzur Rab (2009), Interest and Monetary Manipulation Is the Root Cause of Most of the Contemporary Economic and Social Problems, published in proceedings International Seminar on muamalat, islamic economics and Finance 2009' by Department of Syriah UKM Bangi Selangar Malaysia

Meera, A.K.Mydin ed, 'Proceedings of 2002 the International Conference on Stable and Just Global Monetary System. IIUM, Kuala Lumpur

Meera, A.K.Mydin (2004), Theft of nations, Pelanduk Publications Sdn Bhd,Selangar, Darul Ehsan Malaysia

Mundell R.A.(2001) 'Currency Areas,Voletility and Intervention' http://polyconomics.com/showarticle.asp?articleid=1720

Nuradli Ridzwan Shah Mohd Dali at el., (2004) 'The Mechanism of Gold Dinar.' AS Noordeen

Pakistan's Supreme Courts Judgement on *Riba* (2000), (PLD, 2000). P. L. D. Publishers

Rais Umar Ibrahim Vadillo (2002). 'The Return of The Islamic Gold Dinar' New Edition, Madinah Press.

Shkespeare R and P. Challen (2002) 'Seven Steps to Justice' New European Publications.

Siddiqi, M.N. (1983), *Issues in Islamic Banking: Selected Papers*, Leicester (UK): Islamic Foundation.

Siddiqi, M.N. (2004) Riba bank interest and the rationale of its prohibition, IRTI. Jeddah.

Tarek El Diwany.(1997) 'The Problem With Interest' TA-HA Publishers UK

Yusuf Qirdhawi (1980), Fikh'-uz'-Zakah, Rabat

Umar Ibrahim Vadillo, The Return of the Gold Dinar, URL: http://users.netmatters.co.uk/%20murabitun/Return/Noframes

Wanniski, Jude (2001) "The Numeraire"
http://polyconomic

FISCAL STRUCTURE AND SOCIAL WELFARE PROGRAM IN THE FORMER STATE OF SWAT (PAKISTAN) A CASE STUDY WITH IMPLICATIONS FOR MUSLIM COUNTRIES.

Nasim Shah Shirazi
International Islamic University, Malaysia (IIUM)
(nasimss@iiu.edu.my)

Hafiz M. Yasin
International Islamic University, Islamabad (IIUI).

FISCAL STRUCTURE AND SOCIAL WELFARE PROGRAM IN THE FORMER STATE OF SWAT (PAKISTAN) A CASE STUDY WITH IMPLICATIONS FOR MUSLIM COUNTRIES.

Nasim Shah Shirazi
Hafiz M. Yasin[1]

ABSTRACT

It is claimed by Islamic economists that the society could be relieved from the clutches of abject poverty and gross inequalities if the system of zakat and Ushr is enforced in letter and spirit. Unfortunately, the Muslims have generally ignored the collection and distribution of Zakat & Ushr at the State level and the task is considered to be only a private affair. However, we have a good example in the near past where the system was in operation for a long time. Some forty years back, the former State of Swat was famous for its prosperity and good governance. The State had a well-organized system of Ushr. The collection and distribution mechanism had certain unique and interesting features. The revenues collected were sufficient to cover all the public expenditure, current as well as developmental. The rulers provided the best infrastructure of the time. The judiciary system was very efficient and the law and order condition exemplary. People were provided with standard health and education facilities free of cost. The driving force behind the success was efficient administration and vigilance of the rulers. Swat[2] was known as the Switzerland of Pakistan.

1. Introduction

The prevalence of widespread poverty in different parts of the world is the most serious challenge. The intensity of the problem in developing countries, mostly Muslims, is more severe. Concern for poverty has been expressed over the centuries by historians, sociologists and economists. Its causes have been identified in a variety of sources like prolonged colonial imperialism and perpetuating injustices in the social and economic systems in these countries even after independence. Since poverty is a multi-dimensional problem and always associated with gross inequalities in distribution of resources, its solution require a comprehensive set of well-coordinated measures. Solutions to abject poverty and gross inequalities are often sought via structural changes in the socioeconomic framework along with effective social security programs at the gross root levels. The developed nations of the world have succeeded overtime to provide social protection to their masses by

1 The authors are working respectively at the International Islamic University, Malaysia (IIUM) and the International Islamic University, Islamabad (IIUI).

2 Like other princely states of India, Swat enjoyed internal autonomy during the British rule up to 1947 and even after independence for about 22 years. It is now part of the Malakand Division, North West Frontier Province, Pakistan.

launching a variety of such welfare programs. Unfortunately, similar social security measures either do not exist or do not work efficiently in the third world countries. Thus the problem manifests in its full bloom, which in turn leads to instability of the political systems and growth of numerous social evils in these countries.

In the early Islamic period, the institution of *Zakat & Ushr* was strong and well-organized. This worked as a common pool and reservoir, to which the well-to-do could contribute according to their capacities and from where the poor and the destitute could draw according to their needs. The Holy Prophet (peace be upon Him) had predicted for a time to come when there would be prosperity and plenty of wealth in the society such that no body could be found to accept alms and charities. These sayings came to be true during the regime of Pious Caliphate, particularly during the period of Umar bin Abdul Aziz (Qardavi, 1981). Nevertheless, the prophecy materialized only when the Muslim *Ummah* had strong governments, rule of justice and a general atmosphere of piety and support for the poor and destitute. Unfortunately, this important institution has been generally neglected now. The system of *Zakat & Ushr* is officially introduced only in a few Islamic countries whereas in majority cases, the task is considered to be only a private affair. Even where the system is officially implemented[3], it has failed to come at par with the expectations of masses.

It is generally claimed by Muslim scholars that the society could be relieved from the clutches of abject poverty and gross inequalities if the institution of *Zakat & Ushr* is allowed to work in its true spirit. Fortunately, we have a good example in the near past where the system worked effectively for a long time. Some forty years back, the former State of Swat was famous for its prosperity and good governance. It was established around 1915 during the British regime in the Indian subcontinent. Miangul Abdul Wadood was entrusted with the responsibility to be its ruler in the grand *Jarga*[4] of prominent tribal leaders convened for the purpose in 1917. The *Badsah Sahib* ruled for about 32 years and worked hard in transforming the nomadic tribal structure into a modern society. He took active part in the movement for independence of Pakistan and handed over the charge in 1949 to his son - Abdul Haq Jehanzeb. He was later on called as the *Wali Sahib* and remained in power for about 20 years. He proved to be an efficient ruler and launched the country on the path of prosperity and steady growth[5].

The State of Swat had a well-organized system of *Ushr*. The collection and distribution mechanism had certain unique and interesting features. The revenues collected were sufficient to support all the public expenditure, current as well as developmental. The rulers provided the best infrastructure of the time like roads, schools, hospitals and rest houses for travelers. The judiciary system was very efficient and the law and order exemplary. People were provided with health and education facilities, available at that time, free of cost. The State could maintain an efficient judiciary system and effective law enforcement agencies. The literacy rate was much higher and health facilities better when

3 In Pakistan, the system of *Zakat & Ushr* is in vogue somehow since 1980 but it suffers from inherent weaknesses and not performing well.

4 *Jarga* is a formal gathering of the elderly and influential personalities of *Pukhtoon* society convened to discuss and settle some issue of national interest. It is an ancient and rudimentary form of the present day parliament.

5 A brief historical sketch of Swat can be provided for interested readers.

compared to other Frontier States and even the settled areas of Pakistan. Swat was known as the Switzerland of Pakistan and it enjoyed internal autonomy even after annexation with Pakistan till its formal merger in1969. Certain structures of that glorious time can still be seen in the valley. The driving force behind the success was efficient administration and vigilance of the rulers.

A case study of the fiscal structure of the State will be therefore interesting. The objective is to find ways and means and to look at the feasibility of its replication in other Muslim countries. The study is based on a detailed public survey conducted by the authors during 2008 when the law and order conditions in Swat had not yet aggravated[6]. We present below the methodology and data sources in brief. This is followed by an outline of the fiscal system of Swat and its nexus with the social welfare program. At the end, we discuss the implications for Islamic countries in general and Pakistan in particular. The final section is reserved for concluding remarks.

2. Methodology and Data Sources

The methodology comprised collection of the requisite information from the common people as well as those involved practically in the administration of *Ushr* and who were the eye witnesses of the system. The survey was conducted through properly designed questionnaires. In addition, we retrieved the old official record from treasury, consulted the available literature and interviewed some prominent personalities for the purpose[7].

A three-pronged strategy was adopted by our research team so far as data collection was concerned. First, it comprised collection of information via tracing out the 40-years old official record of the revenue department of the State. This also included a review of the concerned documents and other available literature. Second, a detailed survey was conducted via filling of the questionnaires through the vast areas once falling in the jurisdiction of Swat State. Third, we personally consulted and interviewed some elderly people and notaries still living so as to retrieve some information worth consideration regarding working of the system.

2.1 The Revenue Record

The first thing of importance was to retrieve the relevant information from the official record. In this connection we visited the district record office (*Muhafiz Khana*) at Saidu Sharif (district headquarter) Swat. The DCO Swat was kind enough to pass on instructions to the concerned officials for cooperation. The revenue record office during the times of Wali Sahib was called '*Diwan Khana*' where accounts ledgers were maintained, although there were such offices at each sub-division

6 Unfortunately, the valley of Swat and the whole tribal belt along the western border of Pakistan is severely affected by terrorist activities since the intervention of US-led forces in Afghanistan. The valley that was famous for peace and tranquility, natural beauty with charming scenes and snowy peaks, orchards laden with fruits and thick forests, busy shopping centers and crowded motels, is now blazing; its educational and health centers blasted, its tourism and economy destroyed and its routes no more safe for traveling. The situation in Swat is somewhat under control after the army operation during the current year (2009).

7 H.E. Miangul Aurangzeb, the heir prince (*Wali-Ahad*) of Swat and later member of the national assembly of Pakistan (MNA) and Governor Balochistan was kind enough to provide his valuable comments on the *Ushr* system in the interview.

(*Tehsil*) level. Likewise various decisions; often arrived at after consensus in the conventions of elderly people (*Jirga*) on different affairs of the localities concerned and which assumed the form of State regulations issued from time to time, could be made available. These regulations, collectively called precedence '*Riwaj* or *Dastoor*' are now available to some extent but scattered in files of the record rooms. One such collection, compiled by a government official for guidance of the Pakistani administrators after the merger, is available in printed form[8]. This book contains various decisions arrived at from time to time and sheds sufficient light on working of the socio-political and economic system in the State of Swat.

2.2 General Survey

As noted above, a general survey was conducted from Nov 2007 to Jan 2008 in three districts, namely Swat, Buner and Shangla, which comprised the former State of Swat and now included in the Malakand Division of NWFP[9]. The population was divided into two groups: (i) General public who participated in the system as tax payers, and (ii) Active participants of the revenue system who worked in their areas as administrators, collectors, contractors, auctioneers, record keepers and other officials of the State. For the purpose of survey, 10-15 villages within each sample districts were selected at random. So far as general public was concerned, they were interviewed at random and the questionnaires filled in through personal contacts. However, the "snow ball" sampling technique was used for the administrator's sample; whereby one individual, in addition to providing his personal information, also identified other relevant individuals in the locality who were directly involved in the system. Special care was taken that the respondents ought to be aged persons (50 years or above) and eye-witnesses of the system then prevailing in the State.

2.3 The Sample Size

The data was collected through properly designed questionnaires for the two kinds of respondents comprising around 50 multiple answer quarries[10]. About 50% of the quarries were common in both kinds of questionnaires. However, some special questions were designed for the second group of respondents. The objective was to retrieve in-depth information regarding the factual working of the system. As noted above, the questionnaires were filled in at random but through personnel contacts; in other words, not through mail or telephone in absentia. A sample size of around 300 households (100 from each district on the average) was considered to be sufficient for the first category of respondents, the general public. Likewise, a sample size of 150 individuals (50 per district) constituted the sample for the second group, the active participants. After completion of survey, the total number of valid questionnaires was found to be as under:

---

8 Please refer to Bibliography and References: 'The Book of Precedence (Riwajnama Swat)' - compiled by Ghulam Habib Khan Supdt. D.C. office Swat (1973).

9 It may be noted that each State of Swat, Dir and Chitral was given the status of a district at the time of merger in 1969. The three districts constituted Malakand Division. It is distinct from Malakand Agency, which prevails since the British rule and comprises the tribal areas adjacent to district Swat, Mardan, Dir and Bajaur agency. It is administered by the provincial government of NWFP.

10 The questionnaires were written in Urdu that could be easily understood by the respondents or communicated to them in Pushto by the surveyors. Samples of the questionnaires are annexed.

Table- 1: Sample Size

District	General Public	Administrators	Total
Swat	97	51	148
Buner	110	50	160
Shangla	98	49	147
Total	305	150	455

Source: IIIE Survey 2007-08

3. The Fiscal System of Swat: An Outline

The administrative set up of Swat resembled closely to that of the British India. The State was administratively divided into various regions/areas called *Hakimi's*[11] and further divided into *Tehsils*. The area administrator was called *Hakim* who was assisted by *Tehsildars* of sub-areas. Both *Hakim* and *Tehsildar* were collectively called as *Amileen* and they were directly accountable to the ruler. They enjoyed vast administrative, judicial and financial powers[12]. They were the executives, the judicial magistrates as well collectors of State revenues. They could hear civil and judicial cases and decide the disputes according to the precedence (*Riwaj*)[13]. The Finance Minister (*Wazir-e-Mal*) was the overall head of the fiscal (revenue) system. However, the expenditure side was controlled by the treasury officer (*Mohtamim Khazana*) who was directly accountable to the ruler. Thus the administrative hierarchy comprised of the *Tehsildar* at the bottom and the ruler at the top.

3.1 Sources of Revenues

No state can exist or a government performs without reliable sources of revenue. Whatever may be the nomenclature, the 'tax' constitutes the central part of the revenues. Imposition of tax is considered as the constitutional right of a state and its payment as the obligation of the citizen. There is no difference on this point among the economists and social philosophers. Of course, the ways revenues are collected and the manners scarce resources are utilized by the state have always been controversial. The imposition of tax and payment by the public is synonymous to prevalence of writ of the government and subjugation of the people to its authority.

Swat State was very young and short lived when compared to other princely states of the subcontinent. Likewise, it was comparatively very small in area, population and resources. Nevertheless the rulers succeeded in devising an efficient taxation structure within a few years of gaining power. The major sources of revenue comprised *Ushr* on agricultural produce and livestock, *Octrois* (a sort of excise and custom duty on exports and imports) collected at the entry points, some rudimentary form of income and property taxes (called *Hasiyyat tax*), royalties from forests and minerals, token fees on vehicles (called road tax), license fees of arms, fines and stamp duties. The explanation given by *Wali Sahib* himself in this regards is worth noting[14]:

11 In the early days of its establishment, there were five such *Hakimis*, later on the number of administrative divisions increased to about ten or eleven.

12 *Hakim* was a position somewhat equivalent to the Deputy Commissioner in the settled area.

13 Qazi courts were also there to decide cases of serious nature according to *Shariah*.

14 See Barth (1995) pp 54.

"My father got the idea for the auction method from Dir (State). It formed the corner stone of State's economy, and was very just and simple and inexpensive to administer. Another advantage is that the prices of grain grow higher every year. Though we continued to pay our army in kind, there was always some net surplus left, and the value of that surplus has risen every year. That has been one source of income for the State.

The second source of income that my father developed was the forest. The vast forest of Upper Swat and Kohistan were not accessible to any regular exploitation. When the State was organized, my father said that the forests are State property; and whatever the income from it will be, one tenth will go to the local people, and nine tenths to the State.

The third source of income he established was the *octroi*, the export and import dues he imposed on goods crossing our boundaries at Landaki. We could not call it customs duty because we were not independent; but it functioned like custom duties."

As evident from above, the primary source of revenues in Swat was *Ushr* on agricultural produce, which constituted about 78% of the tax revenues and 46% of overall resources (see appendix Table 1.4). It was levied generally at the rate of one tenth[15] and collected during the harvest season by auctioning the specified areas through open bids. The area administrator (*Amil Alaqa*) had to conduct the process of open bidding. The contractor (*Ijaragar*) was obliged to collect *Ushr* of cereals in kind and that of gardens and orchards in cash from the area of his jurisdiction at the specified rates. He had to deposit the agreed upon amount/ quantity in the stores built for the purpose within three months of the completion of harvest seasons. The surplus over and above the specified amount was obviously the profit of the contractor. The defaulters were to be dealt with iron hand and evasion was not easy. Usually, the contractors were given extension in genuine cases, if they failed to deposit the contractual amount within due time. The rulers were rational and generous enough to wave off part of the liability in case of natural calamities and loss to crops. However, the chronic defaulters could be fined, beaten, jailed or their properties confiscated in severe cases. The rate of *Ushr* was not strictly one tenth of the produce; rather it varied from time to time and according to nature of the commodities. It was not feasible for the contractors to exploit the farmers and to charge some thing in excess of the stipulated rate, obviously for the fear of filing complaints against them. The procedural details in the words of *Wali Sahib* are self explanatory[16]:

"The *Ushr* to the State was (generally) one tenth of the produce, to be paid in kind. We would divide the land into suitable areas, each composed of a few villages. Anyone who had some influence and some source of income could bid for the right to collect this tax. He would have to have some income, for if a pauper got the contract he might then sell it and run away. And he would have to have some influence, or he would be unable to collect it from the villagers. But he could not use force to take more than one tenth, for everyone knew how much they were obliged to give and if they were pressed for more they could appeal to our officials, who were not involved in the collecting, or they

15 The rate of Ushr varied according to nature of commodities. For instance it was between 10-12.5 percent for the crops (collected in kind), 15 percent for fruit gardens (collected in cash), about 5 percent on butter and ghee (the final produce of milking animals) and 2.5 percent in case of grazing animals (one animal out of forty in case of herds of sheep and goats feeding on public meadows).

16 See Barth (1995) pp 53.

could approach me directly. In fact, such complaints never came to me – it was a system that resisted all abuses by itself. Then sometimes there might be a hailstorm or other natural damage to the crop. In such cases, the contractor could appeal to us, and we would verify the conditions and estimate the loss, and the payments required from him would be reduced accordingly."

3.2 Expenditure of the State

The main heads of non-development expenditure in Swat comprised salaries of State servants, particularly police and army, provision of social services like education and health facilities to general masses free of cost, provision of judiciary through *Qazi* courts, communication and postal services etc. However, the State was relaxed of high expenditure on defense after independence and annexation with Pakistan. The remaining resources were to be spent on the development of the infrastructure, construction of roads and bridges, schools and college, dispensaries and hospitals in all parts of the valley. The expenditure system was simple and cost friendly. The low paid employees of police and army used to draw their remuneration in kind from the collected cereals. The remainder of *Ushur* (collected grains) were used to be transported to the capital or auctioned in the local market and the amount credited to the treasury.

The disposal of revenues depended completely on the sweet will of the rulers and no one could dare to question about it. It is strange but comfortable to note that no blame of financial corruption was recorded against the ruling family even after the merger when they were no more in power. A fraction of the collected revenues was allocated for payment of 'allowances' (called *Muawajibat*) to the influential people, heads of tribes and religious leaders to win their hearts and keep them tamed[17]. Although, there was no direct share for the local poor and needy people in the *Ushr* collected from different areas, the benefits were passed on to the common masses including the poor indirectly via provision of free education and medical facilities. However, the poor and needy could approach *Wali Sahib* for financial assistance on specific occasions like marriages of their children, sickness and deaths of the earning hands, and their requests were often honored. Moreover, the brilliant students were provided with adequate scholarships and stipends for higher education within the State and abroad.

3.3 Budget of the State

The State policy behind the whole fiscal system was simplicity and self reliance. Of course, the State received some occasional funding from the British rulers and from Govt. of Pakistan after independence for specified purposes, but the major reliance was on its own resources. The revenues of the State were usually sufficient to finance its expenses and there used to some savings in the treasury. The *Wali Sahib* comments on sources of the State income as under[18]:

"The monetized income of the State rose very satisfactorily. When I became ruler after my father, the total monetary income was 5 million Rupees per annum. It ended up at 20 million – with no extra taxes, and no income tax. The *Octroi* duty alone, which in the early days started at 14,000 Rupees, had risen to 2 million Rupees when my State ended."

17 This head of spending out of Zakah revenue is recognized by the Holy Quran and Sunnah of the Prophet (SAW) and known as 'Taleef al- Quloob'.

18 See Barth (1995) pp 115.

The following statement may reflect the budgetary position overtime, although there was no precedence of preparing formal budgets. In fact, the expenditure followed revenues and not the vice versa, as the common practice of modern states.

Table- 2: Budgetary Position of Swat State Overtime (Rs)

Year	Income	Expenditure	Balance (Saving)
1949-50	6,000,000	6,000,000	00
1955-56	6,400,000	6,125,000	275,000
1961-62	11,473,000	11,300,000	173,000
1966-67	16,010,000	15,740,000	270,000

Source: Sultan-i-Rome (2008) pp 195 on the authority of Sirajuddin Swati (1970).

It seems appropriate at this stage to present the main features of the State budget for the year 1966-67 and 1967-68 (the details are given in the appendix). It is evident from Table-3 that around 60 percent of the State revenues comprised taxes (*Ushur*) and 40 percent were other non-tax sources. The major part of *Ushur* was contributed by the agricultural sector (crops) and the major part of non-tax revenues comprised royalties from forests and minerals. On the expenditure side, we notice that around 67 percent of the budget was allocated to current spending, about 30 percent to development projects and a minor fraction comprised transfer payments (as royalties of natural resources to the general public)[19]. The budgets were kept balanced and there were always some surplus in the treasury to finance deficits in the future, if any, as we observe in case of the revised budget for 1966-67. The deficit was primarily on account of special development project (construction of water channels for irrigation). Further, there was no scope for deficit financing (since printing of money was beyond the jurisdiction of the State, both before and after the independence).

Table- 3: Summary of Budget Estimates of Swat for 1966-67 and 1967-68 (Rs. Lakhs)

Heads of Income And Expenditure	Budget Estimates 1966-67	Revised Estimates 1966-67	Budget Estimates 1967-68
Income	**160.02 (100)**	**175.29 (100)**	**174.09 (100)**
Tax Revenues	94.02 (58.75)	105.97 (60.45)	103.11 (59.23)
Ushur (Crops + Livestock)	{73.43 (45.88)}	{85.35 (48.69)}	{82.42 (47.34)
Non-Tax Revenues	66.00 (41.25)	69.32 (39.54)	70.98 (40.77)
Expenditure	**157.39 (100)**	**198.08 (100)**	**173.33 (100)**
Current Expenditure	106.75 (67.83)	118.87 (60.01)	116.36 (67.13)
Development Expenditure	45.00 (28.59)	71.98 (36.34)	50.00 (28.84)
Transfers	5.64 (03.58)	7.23 (03.65)	6.97 (04.02)
Saving/Deficit (+/-)	**+ 2.63**	**- 22.79**	**+ 0.76**
Financing: Reserve Fund	-	15.00	-
Net deficit		7.79	

Source: Extracted from the record maintained at the Tribal Office, Directorate of Libraries and Archives, Govt. of NWFP, Peshawar. (One lakh equals one hundred thousand and ten lakhs equals one million).

19 It may be noted that current spending did not include the remunerations of servants paid in kind directly from *Ushr* collection at *Tehsil* level. Similarly, the revenues are net of those payments of dues (*Muajibat*) at source.

It might be interesting to compare the budget estimates of Swat with the corresponding figures of the then East and West Pakistan provinces. Only the revenue budgets of Pakistan for the same periods are reproduced in summary form to facilitate comparison (the details are given in the appendix). The capital budgets of both the provinces as well as the central government comprised internal and external borrowing besides the meager surplus on revenue account to finance the ADP's. It is important to note that the size of Swat economy was roughly equal to that of a medium sized district of West Pakistan. As such, only the percent fractions should facilitate comparison rather than the actual size.

Government of Pakistan

Table- 4: Summary of Revenue Budgets for 1966-67 and 1967-68 (Rs. Lakhs)

Income/Expenditure	**West Pakistan**		**East Pakistan**		**Central Govt.**	
Year (Revised/Budget)	1966-67	1967-68	1966-67	1967-68	1966-67	1967-68
Total Rev. Receipts	**179,98**	**182,71**	**130,42**	**147,49**	**447,52**	**470,42**
Principal Receipts	106,47	105,02	97,42	93.69	327,24	335,79
Other Receipts	73,51	77,69	33,00	53,80	120,28	134,53
Total Expenditure	**177,89**	**185,79**	**120,16**	**142,95**	**376,55**	**407,71**
Current Expenditure	147,89	143,56	87,04	105,29	353,63	358,94
Development Expend.	30,00	42,23	33,12	37,66	19,01	30,00
Grants to Provinces	-	-	-	-	3,91	18,77
Surplus/Deficit	**2,09**	**- 3,08**	**10,26**	**4,54**	**70,97**	**62,71**

Source: Derived from Pakistan Economic Survey 1970-71.

The above schedule (Table-4) reveals that total revenues of West Pakistan comprised the Principal Receipts (tax revenues) and Others (non-tax revenues), which comprised 58-59 percent and 41-42 percent of the total revenues respectively. In case of East Pakistan, the sources of revenues differed widely, probably due to more grants made available from the central government. The tax revenues comprised 75 percent and non-tax portion was 25 percent in 1966-67 whereas these proportions respectively were 63 percent and 36 percent for the year 1967-68.

Looking at the expenditure side of the budgets, the Govt. of East Pakistan utilized 72-73 percent of the resources to finance current spending in the two years and allocated 26-27 percent for development purposes. The case of West Pakistan was somewhat different. It allocated vast fraction of revenues (83 percent) to current (non-developmental) expenditure during 1966-67, probably due to the aftermaths of the 1965 war with India, and could allocate only 17 percent for the development purposes. The proportions however changed next year. The fraction of current expenditure fell to 77 percent of the budget during 1967-68 and that of development expenditure rose up to 23 percent out of the revenue budget.

The position of Swat was much stronger on the development side than both East and West Pakistan during the two years under reference. The reason is obvious. Swat had no significant liability of defense after its accession to Pakistan in 1947. It could therefore allocate freely for the social sector development. In contrast, the lion share of the domestic resources in case of Pakistan was absorbed by defense (and still this practice continues). Consequently, the development program had to be financed through foreign aid and domestic borrowing along with a small saving on the revenue account.

In a nutshell, one may conclude that the fiscal system of the State was simple as well as comprehensive. In particular, the revenue collection mechanism was efficient and well organized with minimum administrative cost and little chances of evasion or corruption. No doubt that the driving force behind the success was the strict administration and close vigilance of the ruler himself. The disposal of available resources depended entirely on the sanction of the ruler, the *Wali Sahib*. The advisory council[20] (*Shura*) or the cabinet (*Majlis Wuzara*) was not supposed to give approval of the expenditures. Members of these bodies could simply indicate or recommend various projects for the kind perusal of the ruler.

4. The Social Sector Development in Swat

The people of Swat were ignorant and followed a tribal and nomadic life. The founder ruler (*Badshah Sahib*) introduced so many reforms after he took over in 1917. He wanted that people should adopt a civilized living. For this purpose, he ordered for a permanent settlement of lands in the early 1930's to disband the nomadic style of living. This formidable but very laborious plan opened the path of development and prosperity for the people of Swat. In particular, the agriculture sector began to flourish rapidly. Swat became a place of peace and progress with beautiful buildings, farms, markets and homes appearing quickly with the passage of time[21].

As compared to other Frontier States, Swat was quite rich and prosperous. Besides natural forests, the State was endowed with emerald mines and marbles. The rulers utilized the wealth for development of the infrastructure and welfare of the society. Although the neighboring Dir State was equally rich in resources, particularly in natural forests and area under cultivation, but the rulers did not exploit and/or utilize these resources efficiently. Economically, culturally, educationally – in every way, Dir had remained underdeveloped, and the people were not given the facilities for development which were their right[22].

4.1 Expansion of Modern Education

Although *Badshah Sahib* had no formal education himself, yet he was very fond of educating not only his own children but also the children of his people at large. The first primary School was established in Saidu Sharif in 1922 but it was hard to find students. For this purpose, he personally motivated people to get their children admitted in the school and offered them with incentives and scholarships. This strategy was fruitful and other schools could be opened at prominent places like Barikot, Charbagh, Chakesar, Daggar and Pacha Kaley within five years. An Anglo-vernacular middle school at Saidu Sharif was established in 1927. Its total expenditure per annum was Rs. 18000/-. This school was later named after the ruler as Wadudia School, which was upgraded to high school level in 1940. An institution for religious education, *Dar-ul-Uloom* Swat was also established at Gulkada near Saidu

20 The advisory council was formally constituted by the Govt. of Pakistan in 1954, which comprised 15 elected and 10 nominated members vide the Govt. of Pakistan (Interim Constitution) Act -1954 for Swat. However, the ruler could exercise absolute powers and was not answerable to the advisory council. Also there was no formalized budget before 1954.

21 Sultan-i-Rome (2008) pp 233 with reference to Taj Muhammad Khan Zebsar, Uruj-e-Afghan Vol 2.

22 See Barth (1995) pp 133.

Sharif in 1943 and its branch opened at Charbagh in 1945. According to different reports, around 25 schools were opened during the era of *Badshah Sahib.*

The contributions of *Wali Sahib* towards expansion of education in Swat are commendable, which are not paralleled by any other ruler in the near past, within Pakistan or the sub-continent. He was himself highly educated (with reference to the facilities available in 1920's) and he took keen interest in providing modern education at the door steps of the citizen. According to his own statement, the literacy rate in Swat was 20 percent by 1969; this progress (from barely zero to 20 percent) was achieved in about 40 years (1922 to 1969) all by their own efforts[23]. The expansion of education facilities during the reign of *Wali Sahib* can be judged from the following schedule[24].

Table 5: Expansion of Education facilities during *Wali Sahib* Period (1949-69)

Male → Year ↓	Primary Schools	Lower middle Schools	Middle Schools	High Schools	Colleges
1949	12	9	3	1	-
1959	53	19	25	9	1
1969	164	14	33	37	1 + 2* = 3
Female (1969)	1	-	1	1	1

* Two colleges sanctioned and building completed but formally opened after the merger.

An Intermediate College for boys was opened at Saidu Sharif in 1952[25], which provided formal education in science and humanities. Later on it was up-graded to degree level in 1954 and named after its founder as the Jehanzeb College. Presently, it is a post-graduate college with at least 6 departments. The college granted admission to both Swati and non-Swati students. The two-storey building was almost complete by 1951. Subsequently, the Govt. of Pakistan granted a sum of Rs. one lakh under the 'social uplift scheme' for the construction of science laboratory in the college. A privately managed school – The Christian Mission School' was opened at Sangotha in early 1950's with the financial support of *Wali Sahib*. Likewise, the first college for girls (at Intermediate level) was opened in 1962. Approval for the establishment of two more college, one each at Daggar (Buner) and Matta (Upper Swat) was granted in 1967 and construction of college buildings completed by 1969, however the colleges were formally opened after the merger. There was progress on the female education side as well.

The *Wali Sahib* not only endeavored for expansion of modern education in the valley of Swat but was also vigilant on the standards of education. For this objective, the talented students were awarded scholarships within the State and abroad and the teachers were provided with necessary incentives. According to *Wali Sahib*[26]:

23 See Barth (1995) pp 112.

24 See Sultan-i-Rome (2008) pp 217 for further details.

25 It was about the same time when Intermediate colleges were opened at the six district headquarters of NWFP like Abbottabad, Mardan, Peshawar, Kohat, Bannu and D.I. Khan. Previously, there was only one institution for modern education, the Islamia College Peshawar established in 1932.

26 See Barth (1995) pp 113. It is interesting to note that the rule of punishment in terms of stoppage of increments was adopted in the Education Department of NWFP, probably looking at the practice in Swat. However, the incentive of one month's salary was never adopted.

"The Education Department of the Frontier was responsible for exams in our schools and college; and I made special arrangements to encourage sound work and high standards. At the annual examinations, if the pupils of a certain teacher averaged 90% or above, then he was given one month's extra salary; whereas whoever had an average of 30% or a poor result in his class, then one of his normal salary increments would be stopped. In that way, I ensured that there was always a little reward, and a little punishment, for all the teachers in the system. As a result, they all worked to the best of their ability. "

By virtue of his esteemed services to the humanity in general and to his country in the field of education in particular, the University of Peshawar, in its 15th convocation held on 24th of December 1965, conferred upon him (Major General Miangul Jehanzeb, H.Pk. H.Q.A. CIE, Ruler of Swat) the degree of Doctor of Law (*Honoris Causa*)[27]. According to *Wali Sahib*, he was the first Pakistani ever to be honored with this kind of degree.

4.2 Provision of Health Services

There was no hospital (or even a dispensary) in Swat when the founder ruler took over in 1917. People used to consult local *Hakeems* for their ailments. A general purpose, small scale hospital 'the Lady Minto Swat Hospital' was established by the British rulers in 1895 at Malakand, which had to serve all the agencies and princely State in northern parts of the Frontier Province. The first regular dispensary was opened by *Badshah Sahib* at Saidu Sharif in 1927. It was upgraded in 1929 to be called as the State Civil Dispensary and affiliated to the Provincial Medical Department, which deputed a surgeon for duty. By 1947, there were three hospitals, one each at Saidu and Daggar for male and one hospital at Saidu for female. These hospitals had a capacity of 140 beds.

During the rein of *Wali Sahib*, special attention was paid to the provision of health services. The surgeon of Saidu Hospital was in-charge of the Health Department under the direct supervision of the ruler himself. By 1958, the number of hospitals and dispensaries increased significantly. During another time span of 10 years, the number of dispensaries increased to 45 and that of hospitals to 16 with a capacity of 611 beds. In addition, there were two mobile dispensaries, a dental clinic and a maternity home at Saidu Sharif as well as two veterinary hospitals. The rate of progress overtime can be judged from Table-6 below[28].

Table 6: Expansion of Health Services during Wali Sahib Period (1949-69)

Male → Year ↓	Dispensaries	Hospitals	Capacity	Veterinary	Misc. Institutions
1947	1	3	140 beds	-	-
1958	17	6	240	1	2 mobile dispensaries
1968	45	16	611	2	1 dental clinic
Female (1968)	-	1	40	-	1 Red cross maternity

The local practice of medicine (*Unani*) also continued side by side, but it was regulated by the State. Only those *Hakims* were allowed to practice who were certified by the *Tibya Colleges*, Delhi or

27 See Barth (1995) pp 114

28 See Sultan-i-Rome (2008) pp 225-27 for further details.

Lahore. Likewise, the sale of English medicine was restricted to those having a license of certified 'chemist and druggist' from the Health Department, NWFP.

4.3 Infrastructure Development

Needless to mention that the infrastructure serves as the backbone of an economy and it has strong nexus with physical as well social development. The rulers of Swat were well aware of this fact and they paid particular attention to the development of roads and communication system. Communications in the pre-State era were rudimentary and people followed the foot-paths by the sides of canals and water channels, since the area is mountainous. The founder ruler (*Badshah Sahib*) remarks[29]:

"I was convinced that no government could run unless each area was easily accessible. Thus, linking of all major towns of the State with Saidu Sharif (the capital) was, therefore, of prime importance. So I set about making roads through out the length and breadth of my territory. It was an enormous task and could not be accomplished soon".

The first road was built from Mangora to Landakey. The work started in 1923 and the road was further extended to Malakand in 1924. The road from Mangora along the river bank up 36 miles was completed in 1927. A wooden bridge on the river near Kanju was completed in 1928 to communicate upper Swat with the capital. By the end of 1949, there was a chain of three hundred and fifty miles of un-metalled roads connecting Mangora with all the major towns of the State as well as with the down country (Mardan, Peshawar). James W. Spain records in the 1950's the excellent system of communications and transport facilities in the State, which included1500 miles of telephone lines, and 375 miles all-weather roads[30].

On the accession of Miangul Jehanzeb as the *Wali of Swat*, roads and other means of communications were among his top priorities. He established a separate department for the purpose. The reserve army personals were often engaged in the task to help in the construction work. He not only expanded the network of roads started by his father but also tried to maintain them properly and to convert them into metal-led ones[31]. The quality of roads was excellent. It was generally said (as a proverb or piece of fun) that when your vehicle stops jumping and begins to run smoothly, it is sufficient indication that you have entered the premises of Swat. The progress on communication system overtime is shown below in Table-7.

Table 7: Progress on Communication System over time

Year	Un-metal-led Roads	Metal-led Roads	Total Length Roads (Miles)	Bridges (Number)	Telephone (Number) Exchange/Connections
1947	350	-	350	120	05/160
1957	385	15	400	240	10/292
1968	484	116	600	500	17/597

29 Sultan-i-Rome (2008) pp 238 on the authority of Muhammad Asif Khan (the Story of Swat)-the autobiography of *Badshah Sahib* –the Founder of the State.

30 See Sultan-i-Rome (2008) pp 240-41.

31 Sultan-i-Rome (2008) pp 241 on the authority of Reports by the Political Agent Malakand during 1958-68.

In order to appreciate the sincerity of *Wali Sahib* to the cause of social sector development, it is advisable to refer back to the budget estimates of Swat for the years 1966-67and 1967-68 cited above. The allocation for Education and Health services (within the current expenditure) was about 27 percent of the total budget for both the years. Likewise, the allocation for the construction of Schools, Colleges and Hospitals (within the development expenditure) was around 15-16 percent and that for the construction of roads and bridges was around 13-14 percent of the total budget of the years concerned.

5. Policy Implications

As discussed in the beginning, the prevalence of widespread poverty is the most serious challenge of the millennium for world community. The twin and conjugate problems of poverty and inequality in distribution are tense in the low-income (third-world) countries. Unfortunately, majority of Muslim countries belong to this group and have so far failed to overcome these problems[32]. These countries are agricultural in general and can therefore draw useful lesson from the experience of Swat State to solve their financial problems via implementation of *Zakat & Ushr*. However, enforcement of any new levy is not an easy task from political and administrative points of view. The success of such a program depends on the perception of people, particularly when they are sure that *Ushr* is solely meant for the welfare of poor masses and that the system is transparent.

6. Concluding Remarks

The State of Swat was quite prosperous and self sufficient in resources. It could afford considerable spending on development programs without any serious problem of deficits or need for borrowing. The revenue system was economical and comprehensive. The expenditure side was totally in the grips of the rulers. The State had to spend on the maintenance of law and order, provision of speedy justice and the necessary infrastructure. Special attention was paid to education and health services. The ruler himself used to visit the important sights where construction work was going on. The economy was strong and constantly growing. There used to be some surplus in the treasury ever ready for emergency needs. Around 40 percent of the State resources were normally allocated to Public Works. The policy of self reliance was generally followed and the State had no debt liabilities at the time of merger. The revenues from *Ushr* were meant for the general welfare of the society; however, the poor and needy could apply for financial assistance to *Wali Sahib* on certain occasions like ailments, calamities, marriages and deaths etc. and their requests often accepted. The general masses could benefit from the system indirectly via free education and health facilities and provision of justice, which was costless and speedy. The fulfillment of these basic needs had a positive impact on the

32 Muslim countries where the problems are severe include Afghanistan, Azerbaijan, Bangladesh, Benin, Cameron, Djibouti, Egypt, Gabon, Gambia, Guinea and Guinea Bissau, Indonesia, Ivory Coast, Kyrgyzstan, Mali, Mauritania, Niger, Nigeria, Pakistan, Senegal, Sierra Leone, Somalia, Sudan, Tajikistan, Tanzania, Turkmenistan, Uzbekistan, Yemen etc,

standard of living of people. They could find employment easily within the State and elsewhere or they could invest in business without frustration.

Tranquility and peace is a pre-condition for the growth of an economy and prosperity of its people. The State of Swat was famous for good governance and exemplary law and order conditions. This had brought the rate of crime to the minimum. The administrative and judicial system was efficient to ensure protection to the lives and properties of people and provide them with speedy justice. The State enjoyed a general recognition and confidence of the public at large. Although, there was no democracy in the popular sense of the word, the precedence of mass consultancy though *Jarga* system on important issues was always there. Obviously, some political resistance did exist against the policies of the rulers, which is natural and common everywhere, however, the common man was satisfied. The socio-political systems devised by human beings have always some strength as well as limitations. The rulers of Swat were neither angels nor the Pious Caliphs. Nevertheless, their contributions towards the development of the homeland were commendable. They did not usurp the national resources, which were entirely at their disposal, nor did they build personal estates abroad. Their families are still living among their people, who do remember their contributions and give them full respect and honor even when they are no more in power.

BIBLIOGRAPHY & REFERENCES

Barth, Fredrik (1985) – "The Last Wali of Swat: An Autobiography as told to Fredrik Barth"- A detailed account of Swat by Abdul Haq Jehanzeb, the Wali of Swat- an English publication – reprint by White Orchid Press Bangkok (1995).

Inam-ur-Rahim and Allen Viaro (2005) – "Swat: An Afghan Society in Pakistan- Urbanization and Change in a Tribal Environment", published by an NGO HUJRA,
Swat in collaboration with the Graduate Institute of Development Studies, Geneva. Urdu translation of a few chapters is available under the title: "Swat: Social Geography: in-between the Tribal traditions and Modernization".

Khan, Ghulam Habib (1973) - "*Riwaj Nama/Dastoor-ul-Aml* Swat (The Book of Precedence)" - Official document on the procedures of Swat State.

Khan, Muhammad Asif (1958) – "History of the State of Swat along with the Biography of the founder ruler Abdul Wadood Khan"– written in Pushto and quite detailed - Publisher not known.

Khattak, Qabil Khan (1992) – "Sama aur Swat (The Plain and Swat)" – Jadoon Press, Peshawar.

Khan, Muhammad Nawaz (1996) – "Pakistan: The Evolution of N.W.F.P. and the Tribal Area: In Historical, Constitutional, Judicial Retrospect" – radiant Publishers, Mardan.
Khattak, Muhammad Habibullah Khan (1997) – "Buner: The Forgotten Part of Ancient Uddiyana" – Department of Archaelogy and Museums, Karachi.

Pakistan Economic Surveys (relevant issues) – Economic Advisor's Wing, Finance Division, Government of Pakistan, Islamabad
Qardawi, Yousuf al (1981) – "Economic Security in Islam" – Arabic into English translation by Muhammad Iqbal Siddiqui – Lahore: Kazi Publications.

Spain, James W. (1962) – "The Way of the Pathans" – Great Britain; 7th Impression by Oxford University Press, Karachi (1994).

Swati, Sirajuddin Khan (1970) – "Sarguzisht Swat" - A moderately detailed history of Swat - written in Urdu, Al-Hamra Academy Lahore.

Swati, Saranzeb (1984) – "Tarikh Riyasat-e-Swat (History of Swat State)" written in Pushto – Azeem Publishing House, Peshawar.

Sultan-i-Rome (2008) –"Swat State from Genesis to Merger (1915-1969)"-
A more comprehensive book based mainly on the Ph.D. dissertation of the first author, written in English and published by Oxford University Press, Pakistan.

Appendix Tables 1- 4

The Yousafzai State of Swat
Table- A.1: Revenue Estimates for 1967-68 (Rupees)

Heads of Income	Budget Estimates 1966-67	Revised Estimates 1966-67	Budget Estimates 1967-68
Income	**160,02,300**	**175,29,665**	**174,09,000**
Tax Revenues	**94,02,300**	**105,97,594**	**103,11,000**
1. Land Revenues (Ushr)	71,00,000	82,93,451	80,00,000
2. Ushr from Ghee/Animals	2,43,270	2,42,559	2,42,000
3. Export/Import Tax	18,60,000	18,60,500	18,60,000
4. Income (Haysiat) Tax	1,10,000	1,12,054	1,12,000
5. Excise duty (Opium/Hashish)	76,000	76,000	80,000
6. Sales Tax Animals (Mal Mandi)	13,030	13,030	17,000
Non-Tax Revenues	**66,00,000**	**69,32,071**	**70,98,000**
7. Forests (sale of timber)	25,00,000	26,02,035	30,00,000
8. Minerals (exports/sale)	10,00,000	10,03,000	10,00,000
9. Income from Swat Hotel	1,00,000	1,39,289	1,39,000
10. Rent of Govt. properties/houses	56,000	1,16,718	1,16,000
11. Stamp duty	2,20,000	2,38,829	2,38,000
12. Road Tax (Vehicles)	8,19,000	8,19,000	8,66,000
13. Arms Licence, Tongas, Phone, certificates and other fees	3,05,000	3,18,631	3,18,000
14. Fines	4,00,000	4,21,209	4,21,000
15. Funding from Govt. of Pakistan	12,00,000	12,50,203	10,00,000
16. Sale of Govt. Properties	-	23,157	-

Source: Derived from the record maintained at the Tribal Office, Directorate of Libraries and Archives, Government of NWFP, Peshawar.

The Yousafzai State of Swat
Table- A.2: Budget Estimates for 1967-68 (Rupees)

Heads of Expenditure	Budget Estimates 1966-67	Revised Estimates 1966-67	Budget Estimates 1967-68
Expenditure	**157,39,000**	**198,08,774**	**173,33,000**
Current Expenditure	**106,75,000**	**118,87,127**	**116,36,000**
General Administration	**52,55,000**	**57,45,900**	**56,50,000**
1. Administration+ Privy Purse	18,00,000	19,27,577	20,00,000
2. Advisory Council	55,000	49,053	50,000
3. Armed Forces	25,00,000	27,40,505	26,00,000
4. Police	9,00,000	10,28,765	10,00,000
Social & Economic Services	**43,80,000**	**47,91,269**	**48,88,000**
5. Education Department	28,00,000	31,11,979	32,00,000
6. Public Health Department	14,00,000	14,67,281	15,00,000
7. Irrigation department	10,000	10,600	10,000
8. Information/Broadcasting	40,000	63,178	40,000
9. Telephone Department	1,30,000	1,38,231	1,38,000
Other Expenditure	**10,40,000**	**13,49,958**	**10,98,000**
10. Magazine Factory	70,000	77,069	77,000
11. Jails Department	1,20,000	1,21,490	1,21,000
12. P.W.D./Govt. Vehicles	7,00,000	8,94,520	7,00,000
13. Gratuity civil/military retired	1,50,000	2,56,879	2,00,000
Development Expenditure	**45,00,000**	**71,98,141**	**50,00,000**
14. Construction schools/hospitals	25,00,000	34,69,771	25,00,000
15. Roads & Bridges	20,00,000	35,83,370	25,00,000
16. Irrigation Channels	-	1,45,000	-
Transfers	**5,64,000**	**7,23,506**	**6,97,000**
16. Muwajibat	94,000	96,469	96,000
17. Malakana, Diyyat, Fin. Aid	70,000	1,01,049	1,01,000
18. Royalties Payment/Forests	2,50,000	2,75,988	3,00,000
19. Royalties payment/Minerals	1,00,000	1,00,000	1,00,000
20. Donation to Pakistan Fund	50,000	1,50,000	1,00,000
Saving/Deficit (+/-)	**+ 2,63,300**	**- 22,79,109**	**+ 76,000**
Financing: Reserve Fund **Net deficit**	**-**	**15,00,000** **7,79,109**	-

Source: Derived from the record maintained at the Tribal Office, Directorate of Libraries and Archives, Govt. of NWFP, Peshawar with a note that since a sum of Rs. 15,00,000 exists in the treasury as reserve, the deficit in the revised budget can be easily handled

Government of Pakistan
Table- A.3: Revenue Budgets (Central) for 1966-67 and 1967-68 (Rs. Lakhs)

Heads of Income	**1966-67**	**1967-68**	**Heads of Expenditure**	**1966-67**	**1967-68**
1. Customs	124,91	126,62	1. Direct demand on Revenues	5,30	5,83
2. Central excise	126,94	155,82	2. Debt Services	53,53	62,19
3. Sales Tax	36,33	22,52	3. Civil Administration	46,08	49,30
4. Income & Corp Tax	32,99	26,81	4. Defence Services	229,35	218,65
5. Others	6,07	4,02	5. Civil Works/Roads	6,29	6,81
Total Principal Heads	**327,24**	**335,79**	6. Miscellaneous	12,12	12,04
6. Post & Telegraph(net)	7,79	8,70	7. Currency & Mint	0,96	1,12
7. Debt Services	65,88	74,53	8. Grants-in-Aid to Provinces	3,91	18,77
8. Civil Administration	14,14	13,61	9. Other including Dev. Exp	19,01	30,00
9. Currency and Mint	6,67	7,26	**Total Expenditure**	**376,55**	**407,71**
10. Miscellaneous	12,37	11,03	Surplus/Deficit	70,97	62,71
11. Defence Services	11,64	12,77			
12. Others	1,79	6,73			
Total Revenue Receipts	**447,52**	**470,42**			

Source: Derived from Pakistan Economic Survey 1970-71.

Government of Pakistan

Table- A.4: Revenue Budgets (Provincial) for 1966-67 and 1967-68 (Rs. Lakhs)

Item↓ Government→	**West Pakistan**		**East Pakistan**		**Item ↓ Government →**	**West Pakistan**		**East Pakistan**	
Heads of Income	**1966-67**	**1967-68**	**1966-67**	**1967-68**	**Heads of Expenditure**	**1966-67**	**1967-68**	**1966-67**	**1967-68**
1. Customs	1,22	0,70	1,36	0,84	1. Direct demand on Revenues	6,81	7,14	11,27	9,70
2. Central excise	10,26	11,27	12,05	13,23	2. Debt Services	37,40	37,80	32,36	39,89
3. Sales Tax	25,61	18,86	24,48	15,75	3. General Administration	13,56	14,76	4,11	5,01
4. Income & Corp Tax	22,03	23,87	26,59	29,16	4. Police	12,50	13,47	7,99	8,58
5. Land Revenues	15,08	16,32	14,69	14,91	5. Civil Works/Roads	0,93	1,20	- 2,75	1,61
6. Stamps	6,55	7,66	6,82	7,40	6. Irrigation works	1,36	1,91	-	0,4
7. Others	25,72	26,32	11,03	12,40	8. Agriculture	5,65	6,07	1,68	1,69
Total Principal Heads	**106,47**	**105,02**	**97,42**	**93,69**	9. Industries	1,47	1,59	0,55	0,30
8. Debt Services	18,81	22,77	15,99	24,96	10. Education	29,17	31,79	13,80	15,09
9. Civil Administration	2,00	2,51	3,97	2,86	11. Medical/Public Health	7,39	7,86	5,05	6,18
10. Civil works+ Elect	0,96	0,81	1,30	0,99	12. Other departments	9,84	9,61	4,94	5,42
11. Miscellaneous	3,98	5,77	2,78	2,46	13. Miscellaneous	8,12	9,02	4,65	5,38
12. Railway	11,81	-	3,47	5,93	14. Railway	11,81	-	3,47	6,01
13. Irrigation works	5,80	6,87	-	-	15. Dev. Expend. (non-Plan)	30,00	42,23	33,12	37,66
14. Beneficent Deptts	7,17	9,31	-	-					
15. Extra ordinary	7,85	6,42	-	- 0,50					
16. Grant from C. Govt	15,04	23,23	5,49	16,60					
Total Rev. Receipts	**179,98**	**182,71**	**130,42**	**147,49**	**Total Expenditure**	**177,89**	**185,79**	**120,16**	**142,95**
					Surplus/Deficit	2.09	- 3.08	10,26	4,54

Source: Derived from Pakistan Economic Survey 1970-71.

ISLAMIC FINANCE IN AUSTRALIA: THE POTENTIAL PROBLEMS AND PROSPECTS

Dr. Abu Umar Faruq Ahmad*
Senior Lecturer in Islamic Legal Studies, Sule College
163 Kurrajong Road, Prestons, NSW 2170, Australia
Tel: +612- 96051815, Fax: +612-96072592, Mob: 0402881917

Contact address: 22 Railway Parade, Glenfield, NSW 2167, Australia
Email: aufahmad@gmail.com

Dr. Noor Mohammad Osmani
Assistant Professor, Department of Qur'an and Sunnah Studies,
International Islamic University Malaysia
53100 Gombak, Kuala Lumpur .
Tel. +603-6196 5567 (Office), +6- 013-3536485 (Mobile)
Email: abusajid@yahoo.com, abusajid@iiu.edu.my

and

Mohd. Fazlul Karim
Lecturer, Law Unit, Faculty of Management (FOM)
Multimedia University, Cyberjaya, Malaysia

Faculty of Management, Ground Floor, Block D, Faculty of Creative Multimedia Building, Multimedia University, 63100 Cyberjaya, Selangor Darul Ehsan, Malaysia
Phone: +603-8312 5580 (work), Fax: +603-8312 5590
Email: **dildar69@yahoo.com**,

* will serve as lead and corresponding author

ISLAMIC FINANCE IN AUSTRALIA: THE POTENTIAL PROBLEMS AND PROSPECTS

Abu Umar Faruq Ahmad
Noor Mohammad Osmani
Mohd. Fazlul Karim

ABSTRACT

Islamic finance began in the 1960s, accelerated rapidly during the 1970s and has grown significantly in the 1990s as a result of banking deregulation in the 1980s. Although Islamic finance emerged in Australia in 1990s in response to the growing demand of 350,000 of its Muslim population through establishment of the Muslim Community Cooperative Australia Limited, it did not grow substantially due to an enormous problems faced by Islamic finance industry. The underlying problem in this regard is Australia's legislative and regulatory framework. In order to thrash out these problems and examine the potentials of Islamic finance in this continent we did not attempt to evaluate the economic efficiency and profitability or otherwise, of Islamic finance in Australia. Also, the approach for the study is not supplemented by any empirical work. The method employed in this study is a mixture of direct observation from legal and regulatory perspectives and authors' personal experience, curiosity and association with this industry. However, Shari`ah remains the only theoretical basis of the study. Through examining the above the paper seeks to argue that since the principles Islamic finance differ from its conventional counterparts a separate legal framework should be established to facilitate its growth and development in the Australian financial market.

Keywords*: Regulation, problems, prospects, Islamic finance, Australia*

1. INTRODUCTION

The Muslims are considered as the largest religious minority in the highly diversified multicultural Australia (ABS, 2007). Naturally, the Muslims in Australia like Muslims in any other countries wish to conduct their financial activities in accordance with the tenets of their Islamic belief. Given this, there is a necessity for the establishment of Islamic financial institutions (IFIs) that would cater for the needs of its observant Muslims. The establishment of these institutions would enhance competition in the financial market by offering an alternative to the traditional interest based banking which ultimately would benefit the consumers. Consequently, this would help the Australian economy through creating an opportunity to bring in significant foreign direct investments into Australia and also help expand its existing trade and economic ties with other Muslim countries.

Despite the remarkable growth and development of Islamic banks (IBs) and financial institutions over the last few decades in other comparable developed countries with minority Muslim population, their expansion in Australia is very slow though steady (Al-Salem, 2008). Currently there are two IFIs, the Muslim Community Cooperative Australia Limited (MCCA) and Islamic Cooperative Finance Australia

Ltd (ICFA), which operate on the principles of co-operative. The Iskan Finance Pty Ltd. has also been providing Islamic financial services in the country. Although another financial institute namely Kuwait Finance House (Australia) Pty Ltd. which is recently licensed to provide financial services in the country it did not commence its operation yet (NST, 2009). Neither of the above mentioned IFIs has a banking licence to operate as a bank.

There is plethora of reasons why these institutions did not succeed in growing substantially in Australia. Examination of all these reasons is not quite possible within the permitted length of this paper. However, the paper attempts in focusing on the potential problems and huge prospects of Islamic finance in Australia. Given the findings of the study the study recommends to make necessary legislative changes to facilitate the growth of IFIs in Australia as demonstrated by the experience of other comparable developed countries.

The lack of regulatory support with specific legal and policy framework continues to hamper the rapid expansion and acceptance of Islamic finance in Australia. Given this perspectives, this study seeks to discuss challenges the IFIs face offering *Shari`ah*- compliant financial products to Australian observant Muslims. The Australian prudential regulations administered by APRA, which follow the current Basel standards and are in the process of changing over to the Basel II standards. Neither of these makes provision for *Shari`ah*-compliance. Both the Accords treat these types of financial arrangements as equity, rather than credit - thus giving them a heavy capital treatment.

Research conducted indicates that due to the unfamiliarity of the relatively new Islamic finance system, IFIs in Australia have not been able to play the expected role in the development of Australian economy through mobilising funds and attracting more customers (Ahmad, 2008). Other major flaw in Australian regulatory system is its federal structure. All institutions, be they financial or otherwise, are required to follow both State and Federal regulations. These regulations may vary from State to State. The States and Territories may have different regulations. Thus lack of uniform regulations across all the six States and two Territories is also not conducive for growth of Islamic finance in Australia (Ahmad and Hassan, 2006).

The authors believe the Australian government should take necessary steps to enable these growing opportunities to be pursued in this country. The study, therefore recommends that the relevant regulations may be developed by the Australian regulatory regime so as to make Islamic finance a viable alternative system of financing for Muslims in Australia. In this regard the exemption for religious charitable funds may be made through setting up a charity with the object of lending to observant Muslims in accordance with the *Shari`ah*. The study also suggests that IFIs would take an intensified program to familiarise the public and policy makers with an overview of the Islamic finance and of the financial services and products they use in Australia.

This study is divided into a number of sections. The organisation of these sections is as follows: Followed by an introduction, Section 2 provides an overview of Islamic finance practice in the Australian financial market in regulatory perspectives. Section 2 discusses the problems faced by Islamic finance industry in the Australian market in legal, regulatory and operational levels. Section 3 delineates the prospects of Islamic finance in Australia. Section 4 concludes with the summary and analytical findings of the study. It also offers some suggestions and recommendations, and argues for the need of further research in the relevant field.

2. ISLAMIC FINANCE PRACTICE IN THE AUSTRALIAN FINANCIAL MARKET: THE REGULATORY PERSPECTIVES

2.1 The Regulatory Regime for Islamic Finance in Australia

An appropriate legal and regulatory framework is a basic requirement for establishing and operating sound financial institutions and markets. Like the Common law and Civil law systems the *Shari`ah* offers its own framework for the implementation of commercial and financial contracts and transactions (Ahmad, 2003). Nevertheless, commercial, banking and company laws appropriate for the implementation of Islamic banking and financial contracts do not exist in many countries. For example, in most countries, many Islamic banking and financial contracts are treated as buying and selling properties and hence are taxed twice. In some countries like the UK and Singapore, double stamp duty on some Islamic home finance schemes has been abolished so as to provide tax neutrality (IRTI and IFSB, 2007). Conventional financial laws also narrow the scope of activities of IFIs within conventional limits. In the absence of Islamic banking laws, the enforcement of agreements in courts may require extra efforts and costs. Therefore, banking and company laws in several countries require suitable modifications to provide a level playing field for IBs (Ahmad, 2004). Furthermore, international acceptance of Islamic financial contracts requires them to be *Shari`ah*-compatible as well as acceptable under the major legal regimes such as the Common law and Civil law systems.

Currently, the IFIs by their nature are subject to the same regulatory infrastructure which applies to conventional financial institutions taking into consideration the characteristics of IFIs and IBs, and also of the review of their compliance with Islamic principles (Wilson, 2004). The regulatory framework for Islamic banking and finance is necessary for the benefit of the banks' account holders (such as investment accounts, current accounts etc.), shareholders, other stakeholders and the community at large. The regulatory regime and the public have an interest in ensuring an efficient banking system and averting systemic risk leading to bankruptcy. Likewise, IBs and IFIs have an interest in ensuring not only that the bank is financially sound but also that their internal financial involvement is strictly in accordance with the *Shari`ah*. The reason lying behind all these is that a sound financial system is a key factor in achieving economic and political stability as well as sustainable growth in both developed and underdeveloped economies. Otherwise, weak financial systems are bound to break down in periods of economic distress, causing severe distress in other economies and heavily damaging otherwise healthy financial systems. Given this, authoritative legal and regulatory bodies in any country are needed in order to enhance the stability of the key elements of the financial system. Some of the elements of structural regulation would include the establishment of measures of capital adequacy and of the riskiness of portfolios, setting deposit insurance schemes and the enforcement of regulatory standards for disclosure of information (ECB, 2006).

In the light of the above, like conventional financing, the Islamic finance industry needs to be supported by a strong regulatory and supervisory framework. This is to ensure that the operations of the IFIs are sound and not a source of susceptibility to the banking system. Apart from a common legal and regulatory framework, to a large extent, the IFIs in most jurisdictions should be governed by the same regulatory framework that is applied to operations of conventional finance reinforced by the Islamic legal framework and Islamic accounting standards. However, as the regulatory framework of conventional finance is premised on an interest-based debtor-creditor

relationship, the regulatory framework for conventional finance is built to assess and mitigate risks arising from loan-based financial transactions. Islamic finance is different in term of its underlying philosophy on the prohibition of interest. This in turn shapes the nature of the financial transactions that has its own risk characteristic for Islamic finance. The specific risks associated in operations of Islamic finance therefore need to be identified, to ensure its prudential regulation is adequately addressed. This is to ensure greater transparency and disclosure as well as a strong legal and independent judicial system, reinforced by strong *Shari`ah* governance for IFIs.

The legal and regulatory framework of the financial sector in Australia covers banks, non-bank deposit-taking institutions, investment banks, collective investment managers, securities and futures exchanges, clearing houses, securities and futures dealers and brokers, and insurance and superannuation entities (The Treasury, 2008). There is no formal legal and regulatory framework or infrastructure in existence in Australia for guiding and supervising the functions of IBs and other IFIs operate in line with the precepts of Islamic legal system. Australia's financial sector regulatory framework reflects a considered approach by government to prudential supervision and is based upon the international standards put forward by the Basel Committee of the Bank for International Settlements (Ahmad, 2007).

The regulatory framework is based around three central agencies: the Reserve Bank of Australia (RBA); the Australian Prudential Regulation Authority (APRA); and the Australian Securities and Investments Commission (ASIC). The co-ordinating body for these agencies is the Council of Financial Regulators (ABA, n.d.). It contributes to the efficiency and effectiveness of financial regulation by providing a high level forum for co-operation and collaboration among its members (APRA, 2006). However, in every state and territory the Department of Fair Trading administers the Consumer Credit Code in relation to the conduct of the credit facilities. ASIC regulates bank takeovers, mergers and/or expansion applications under the *Corporations Act 2001*. The Australian Consumer Credit Code (ACCC) also plays a role in the competition issues relating to the merger.[1]

The Government's legislative framework provides scope for self-regulation by the main securities and derivatives markets - the Australian Stock Exchange Limited (ASX) and the Sydney Futures Exchange (SFE) subject to oversight by ASIC. These exchanges have Memoranda of Understanding with ASIC which elaborate on their respective roles as set out in the *Corporations Act 2001*.

2.2. The Development of Legal Framework of Islamic Finance

The legal framework and regulatory standards are important elements in the development and growth of the Islamic financial services industry. The development of an Islamic financial system that is able to contribute towards stability and balanced growth needs for its development to be achieved in the context of a rigorous and robust legal, regulatory and supervisory regime. This is reinforced by effective supervision, a strong *Shari`ah* framework and an efficient judicial system that promotes confidence and soundness in the Islamic financial system.

Although Islamic finance is different from conventional finance in terms of its mission, objectives and practice, the operation of IFIs in Australia is still subject to basically the same laws and regulations as their conventional counterparts and applies the same capitalist interest-based framework for regulatory and supervisory activities. A uniform regulatory and legal framework supportive of an Islamic financial system has not yet been developed in this country (Ahmad and Ahmad, 2007). This is indeed

essential as the absence of such a supportive framework obstructs Islamic finance in its effective and smooth functioning in accordance with Islamic principles. Thus, in order to support the operational soundness, Islamic banking and finance should be equipped with a proper set of regulatory and supervisory instruments that fit its operational activities, and are different from the conventional ones.

3. PROBLEMS IN THE DEVELOPMENT OF ISLAMIC FINANCE IN AUSTRALIAN MARKET

Given that all Australian banks and financial institutions as well as its regulatory system deal in interest, it has proven a significant challenge to develop and deliver non-interest based Islamic financial products and services that will cater to observant Muslims' unique needs. Moreover, since Islamic finance is still in a state of infancy in Australia, it has been facing a number of problems and challenges, which can be identified as operational problems. This paper highlights some of the issues and challenges that come with introducing Islamic finance into Australian financial market. They are:

3.1 The Common Problems in the Growth of Islamic Finance in Australia

The Acceptance of Interest

The deep-rooted acceptance of interest as a function of how the financial sector operates may be an obstacle in wider acceptance of Islamic finance. Australia is blessed with a profitable, stable financial sector in which the payment of interest plays a crucial part. Interest rates and bank charges are now important factors for customers in choosing where to invest, save and borrow from.

The attention paid by media outlets from non-Muslim countries to the Islamic finance sector in the Middle East and Malaysia stems in part from the novelty of a system in which interest is not used. An early report about Islamic finance on the Australian Broadcasting Corporation described banking without interest as seemingly like playing cricket without a bat – such is the accepted view on the link between interest and banking.

Given this, despite the huge growth in Islamic finance over the past three decades, the wider banking and finance sector may be reluctant to enter the sector, viewing a system that eschews interest as a niche market and even a gamble given that it operates outside the historically accepted conventions of the sector.

A Wait-and-see Approach

While the major global players in banking sector such as Citibank, HSBC and Standard Chartered in Malaysia; Deutsche Bank in Germany; and HSBC and Lloyds TSB in the UK have embraced Islamic finance, Australian banks appear to have taken a wait-and-see approach. The non-existence of an Australian bank offering Islamic finance products could also change once Islamic non-banking financial institutions like the MCCA negotiate the often complex regulatory frameworks that govern both state and federal financial operations.

The Size of the Muslim Community

The size and infancy of the Muslim community may be a factor in the growth of

Islamic finance. With more than three hundred thousand members, the Muslim community in Australia makes up less than two per cent of the population. As the primary market for Islamic finance, the Muslim community's asset base is not strong. The demand for Islamic finance products among Australian Muslims is greater than the available supply. This contrasts strongly with the United Kingdom, where a Muslim population of 1.6 million is serviced by at least two conventional banks with Islamic windows, and several stand-alone IBs.

Doubt Concerning Shari`ah Compliant Finance and Investment Products

Skepticism about *Shari`ah* compliant financing and investment products may be a further barrier to the growth of Islamic finance. While Islamic financial services in Australia have been used by members of the Muslim community, and while demand for such services exceeds the supply, not everyone welcomes the growth of Islamic finance. Within Australia's Muslim community there are those who are skeptical about (and in some cases downright hostile to) the first Islamic finance products available to Australian Muslims, questioning the validity of the *Shari`ah*-compliant label.

The Australian Bond University Professor Dr Ariff comments in this regard (Bahfen, 2008):

"Many would say that the Islamic banks are not really different from conventional banks and that they are playing with words and semantics and so on and so forth – coming up with Arabic terms that sound very Islamic but if you scratch it, you will find that it's not that different from conventional financial products. So such concerns do exist."

3.2 Problems Related to Law and Regulation

The legal and regulatory problems are the key impediments in the growth and development of Islamic finance industry in the Australian financial market. These problems and challenges may be discussed in this study under the following heads.

3.2.1 Regulatory Problems

Problem of Operating as a Bank

A major regulatory problem faced by Islamic finance in Australia is getting approval from the APRA for an Islamic Financial Institution (IFI) to operate as a full fledged bank normally would in taking deposits. Like many countries, Australian law generally does not permit taking deposits without having a license from the appropriate authority. In order to carry on a banking business, a financial institution has to obtain a license from APRA under section 66 of the *Banking Act 1959*.[2] These licences are not easy to get and have to have detailed examinations by the regulator of the proposed financial institution, with the typical application period taking up to 18 months.[3]

Regulatory Change

The absence of a regulatory and legal framework to support an Islamic banking system is a major drawback in the proper implementation of Islamic financial practices in Australia. For housing loans, there is the double stamp duty problem. Although *Shari`ah*- compliant home financing already exists, various legal hurdles make them relatively expensive. Therefore, regulatory changes would make it easier and cheaper for Muslims in Australia to get financial products that do not conflict with their beliefs.

This would in turn help to make home-ownership more accessible and affordable for Australia's most significant religious minority.

The Incompatibility of the Basel Accords

The apparent incompatibility of the current Basel and Basel II accords with Islamic finance are also issues in Australian regulation. The Australian prudential regulations that are essentially being administered by the APRA follow the current Basel standards, and are in the process of changing over to the Basel II standards.[4] Since neither of these makes provision for *Shari`ah*-compliance internationally this has not yet been addressed in Australia. Also, there have been no applications to the regulator to confront the issue yet (APRA, 2006).

3.2.2 Legislative Problems

Mortgage Lending Law

The conventional business of mortgage lending is highly efficient and strictly regulated in Australia. Part and parcel of the formality in mortgage lending is a very strong culture of disclosure and consumer protection codified by the Federal Government and various States and Territories. It is enforced by several law enforcement as well as consumer protection agencies. Therefore, layered over the real estate process is a specific flow of paper and documentation that is designed to present to consumers the cost of lending, the terms of lending, and the overall time framework of relevant and effective communication.

The Burden of Additional Stamp Duty on Islamic Home Financing

One of the simplest of many possible examples of a typical Islamic financial arrangement is the finance provided to purchase a home. Here, the IFI would buy the property and resell it to the customer at a profit on a deferred payment basis over a fixed period. This requires legal title in the property to be transferred twice: once to the financier, and subsequently to the customer which means there is double stamp duty to pay. In all States of Australia except for Victoria the problem of double stamp duty payment on Islamic housing finance exists. Indeed, it is an obstacle in Islamic housing finance, because in Islam, the payment or receipt of interest is strictly forbidden. Islamic housing finance relies on the involvement of a financier who buys the property, and then sells it on to the buyer and collects instalment payments (similar to traditional mortgage payments) for the repayment of the capital. Instead of charging interest, the financier often sells the property for the same price but then charges additional profit/rent on it for a specified period of time. Stamp duty is therefore charged twice - as the ownership of the property transfers twice - first to the financier, and then to the ultimate buyer. This has necessarily been reflected in the price of the Islamic housing finance. Re-financing also presents a problem because the old lender has to sell the property to the new lender and thus incur another charge of stamp duty.

Exclusion from Lender of Last Resort Function

A related impediment is that Islamic finance in Australia is, by its unique character excluded from the lender of last resort function. The Reserve Bank of Australia being the central Bank of the country by tradition stands behind the conventional banking and financial system to offer liquidity, lending to banks if the system is short of funds. Islamic finance in Australia may not be able to get advantage of this because of the interest payments due on loans which are outlawed by the

Shari`ah.

Absence of Interest-free Pension Funds

Australia's pension funds are known as Superannuation funds which are the mandatory provident funds for individual pensioners. Australian law currently mandates that at least 9 percent of every employee's wages or salaries are paid into a pension fund which, in most cases, cannot be accessed until the person retires at the age of 65 (Andrew, 2007). The problem at the moment is quite simple i.e. none of the superannuation funds currently being offered to the public are *Shari`ah*-compliant (EIA, 2001). The pension funds are typically invested in broad index-type products and include interest receipts. This means that devout Muslims need to either try to calculate how much of the returns to their superannuation funds are due to Islamically unlawful activities and then give that amount to charitable causes or try to manage their superannuation by themselves. The first option is difficult, if not impossible, and the second is expensive and time-consuming and may require financial expertise.[5]

Absence of Islamic Insurance

Insurance is another area. While there have been several attempts to establish Islamic Insurance funds, notably during the 1990s, these do not seem to have succeeded due to regulatory constraints they faced.

3.2.3 Australian Legal Concern

Under the Consumer Credit Code (the Code), credit is advanced if there is a fee charged for the credit, whether or not that charge is in the form of interest. Where the *Shari`ah*-compliant methods of finance do invoke the Code, complications in complying with the Code can arise from the lending structure used.[6]

The options for dealing with such an issue include amending large parts of the Code to accommodate quasi-interest charges, issuing an exemption from all or most of the Code for *Shari`ah*-compliant lending, introducing a separate regulatory scheme for *Shari`ah* compliant lending or relying on non-specific consumer protection such as the *Fair Trading Act*.

The existence of *Shari`ah*-compliant lending to finance home purchase, along with the potential for growth in this market, leads to questions about the Code's capacity to continue to regulate all consumer credit. Although the Code was designed to accommodate product flexibility and to apply to all consumer credit, the diversification and sophistication of the market since the Code's inception mean that emerging products and trends challenge its effectiveness. Sometimes, the challenge is a new product such as *Shari`ah*-compliant loans; at other times, the challenge arises from the development of new or the redevelopment of existing products, such as the recent trend to use promissory notes in small amount lending, the renewed activity in reverse mortgages and the seeming rise in resort to consumer leases.

If *Shari`ah*-compliant loans were to be treated differently from other lending, difficult judgements would need to be made, for example: 1) What is the definition of a *Shari`ah*-compliant loan? 2) What other religions practised in Australia have special lending requirements? 3) What happens when non-Muslims want *Shari`ah*-compliant loans?

For the time being, there is no prospect of *Shari`ah*-compliant lending being exempted from the Code. The question will then arise: could departure from the

universality of the Code be warranted on other grounds? For example, where full compliance with the Code inhibits the provision of low cost loans to vulnerable and disadvantaged consumers?

3.2.4 Islamic Legal Concerns

Apart from the above mentioned legal, regulatory and other related concerns, there are some operational problems and issues confronting Islamic finance in Australia. Like the USA, UK, France and Germany where Muslims are minorities, several leading Islamic legal scholars were also involved in different aspects of the development of an Islamic housing contract in Australia (Jenkins, 2007). This was applied mainly by the Muslim Community Co-operative (Australia) Ltd. as the pioneer IFI in developing Islamic financial products in conformity with the Australian legal environment. All were in agreement with the style and philosophy of the relevant countries' consumer disclosures and protections in cases where the Islamic legal scholars were acquiescent to advising consumers of the purpose of the law and avoiding a controversy over matters that are non-contractual.

Scholars of the *Shari`ah*, however, have a number of issues, which are significant to them when determining whether or not a contract complies with the rules of the *Shari`ah*:

Single Contract – No Amalgamation

In accordance with the Australian Law of contract, it is possible to combine contracts. As far as the Islamic law is concerned, the majority of scholars do not allow the combining of more than one contract into single contract. For instance, a contract of sale and lease may not be combined into a single contract.

A Promise is not Equal to Contract

Although Australian courts will find many promises to be a contract[7] the Islamic legal scholars distinguish between the two.[8] The result is that an Islamic financial relationship may be entered into Australia with a greater legal attachment than if it were entered into a purely Islamic environment.

Form and Asset Orientation

Although the Islamic legal scholars are very much concerned with the substance of a contract, their initial point of evaluation is the form. This has, in part, to do with the categorisation of commercial contracts in Islamic legal analysis. Since the distinguishing substantial matter in the *Shari`ah* is the existence and sale of a non-monetary asset the convergence between form and substance is that for a profit, the financial transaction must involve an asset, not money.

Property Taxes and Assessments

The *Shari`ah* rules require that the owner of property pay property taxes. In the case of leased property, the cost to the owner may be recovered in the rent, even as a form of supplemental or additional rent. In an Australian consumer transaction the borrower or lease-to-own tenant is normally responsible for paying taxes (Harvey and Kolliou). There is no regulatory barrier to structuring payments as mandated by the *Shari`ah*.

Casualty Insurance

As with taxes and assessments, Islamic law requires that the owner of property pay the cost of casualty insurance. Flood, hazard and liability insurance have the same treatment in the *Shari`ah* and Australian regulations. On the face of it, such insurance, in the absence of *Takaful* is contrary to Islamic rules. But, neither securitisation, nor investment will occur without some form of protection of the property from various disasters, natural or man-made. The *Shari`ah* experts have permitted conventional insurance in this circumstance on the basis of *darurah* or necessity.

Statutory Interest

In Australia conventional bank accounts as well as in certain pre-paid expenses must accrue interest. Typically, it accrues at a very low rate. The ruling of Islamic legal scholars is that consumer must donate this to charity with no personal benefit. Therefore, the consumer may not count the donation as either *zakah* or *sadaqaat.*[9]

The Use of the Term 'Interest'

State and Federal government agencies in Australia require home finance/mortgage providers to provide their customers with various standard disclosures and representations. These mandatory disclosures utilise standard lending terminology - such as 'interest', 'lender' and 'borrower' - that do not correspond to the nature of the *Shari`ah*-compliant financial instruments and products. Furthermore, the government has yet to approve modifications to these disclosures to adapt them to these products and other transactions in which interest is not present.

Mortgages

There is no objection in the *Shari`ah* to the granting of a housing finance or deed of trust to secure a creditor or investor in their rights. Clearly, the language of such documents must flow with the underlying *Shari`ah*-compliant agreements and procedures.

Late Payments

The penalty in late payment is forbidden in the *Shari`ah* as it is identical to the forbidden *riba*. But, the Islamic legal scholars have permitted that lenders and lessors may charge a flat fee commensurate with their costs of collection. There may not be any compounding of the fee. It may be assessable one time per instance of delaying.[10]

Rent

The payment of money for the use of real or personal property is permissible. The rate or basis for the rent should be freely negotiated in a manner that is transparent to both lessor and lessee.

In fact, the above and many other considerations have been addressed by different quarters and a great number of Muslim Australians now enjoy an Islamically permissible contract whereby they occupy or acquire their homes. If the best conclusions are drawn from a number of experiments, then the numbers of Muslims benefiting from Islamic home acquisition programs will increase in an exponential manner to the tens, if not hundreds of thousands.

3.2.5 Other Related Problems to Islamic Finance

Aside from the above mentioned problems including legal and regulatory issues there are some other related problems that hinder the smooth functioning and potential

growth of an Islamic finance industry in Australia. Some of these issues may be discussed under the following subtitles.

Lack of Understanding on Islamic Finance

The first challenge is that many people - Muslims and non-Muslims alike do not understand what Islamic finance exactly is. The underlying principle that Islamic law does not allow to make money out of money and thus capital should accumulate from buying and selling and possession of real assets is clear to many. However, there does not appear to be a unified definition of an Islamic financial product. The key concern is that the respective *Shari`ah* Supervisory Boards (herein after SSB) of the IB or IFI that in fact defines what is and is not an Islamic financial product and it interprets transactions differently. This leads to an ambiguity about what is, and what is not an Islamic product and a good enough product to conduct business with, which in turn can complicate risk appraisal for both the bank and its customers. This ambiguity so far prevents standardisation and makes it difficult for regulators. Justifiably they would like to know precisely what it is they are authorising (Ainley, 1997).

Risk Analysis and Balance Sheet Management

The second problem for IFIs in Australian financial market is the risk analysis and balance sheet management. Like in any other country, the challenge in formulating the risk management infrastructure in IFIs lies in having an accurate assessment of the various risk variants underlying the alternative modes of finance to provide for their effective quantification and management. On the asset side, the IFIs enter into different financing modes that have varying risk characteristics, ranging from the low risk sales and lease-based modes to the higher risk Equity-based modes of finance. Each of these modes of finance have a distinct intrinsic characteristic dictated by its underlying *Shari`ah* principle, and thus entail different risk profiles. An Equity-based finance may for example involve higher risks and therefore attract a higher capital requirement. Likewise, the liability structure of IBs is characterised by two distinct categories of deposits: 1) demand deposits which are not subject to risks associated with banking business and for which the principal is guaranteed, and 2) investment deposits which involve risks and hence are eligible to share the profits earned from the banking business (Aziz, 1997).

Absence of a Standard Rate of Return

A further regulatory challenge arises from the liability structure of IFIs is the determination of a standard rate of return for account holders. Unlike conventional finance practice where returns are pre-determined, profit-sharing depositors of IFIs know their returns at the maturity of the deposits. These returns are subject to the earnings of the assets that are shared between the IFIs and the profit-sharing depositors. In the event of loss, the depositor as the capital provider will bear the losses. As the deposits in Islamic finance practice for the most part are in the form of profit-sharing deposits, it places a higher degree of fiduciary risk on the management to ensure the funds are utilised in the most efficient manner (SC, 2007).

Difficulty in Classifying Risk Sharing Funds

Another complexity is how to classify risk sharing funds placed with Islamic finance as the classification of these funds has implications for IBs' capital requirements. If these funds are capital certain they would be defined as bank deposits

under Australian banking regulation. On the other hand, if they are defined as investments in a collective investment scheme they are not bank deposits (Zaher and Hassan). On levels of adequate capital the Basel Committee on Banking Supervision (BCBS) envisages that all internationally active banks should be subject to the minimum capital requirements, and the Basle Standards have gained general recognition throughout the globe, including Australia. However, a number of key regulatory issues pertaining to liquidity requirements remain unresolved, especially whether they should apply to all on-balance sheet funds; and how liquidity should be managed for funds which are held off-balance sheet. Yet, the basic issue for any bank whether Islamic or conventional is how easily and quickly, and at what discount, assets can be turned into cash.

Problem of Accounting Standard

A subtle problem that conventional interest-based financial institutions have with Islamic finance is the question of how to account for them. In most of the world, *International Accounting Standard, IAS 39,* generally applies. In Australia the equivalent standard is known as AASB 139 (the Australian Accounting Standards Board).[11] The problem with Islamic finance is that it does not operate in the same way the arrangements will actually work if these standards are used, as most of the world's banks do. The risk sharing nature of many of the arrangements (*Musharaka* for example) means that they are possibly of the nature of a joint venture, but the precise balance of the risks and control transferred really matters. The definition of a joint venture in the standard makes it plain that there must be an element, not only of joint ownership, but also joint control.[12] If there is no real control over the use of the asset by the bank, then is it a financial instrument, merely entitling them to a flow of revenue (say the rental income) or is it an equity ownership of the asset as they are entitled to a proportion of the unpaid, residual value? During the life of a *Musharaka* arrangement when does ownership and equity control really pass (Troshina, 2004)?

International Prospective

Another related problem is the disregard for the potential for the sale of Australian-sourced financial products overseas. Australia offers very stable political, regulatory and judicial systems. Returns on investments in Australia have, over the long terms favoured by Islamic investors, been very high and much of the investment in Australia is in *Shari`ah*-compliant products such as land, mining and agriculture. The first company to issue products to investors globally is likely to encounter some regulatory hurdles, but they are also likely to tap into a deep and growing well of capital (Andrew, 2007).

4. PROSPECTS OF ISLAMIC FINANCE IN AUSTRALIA

Islamic finance has emerged in recent decades as one of the most important developments in the financial world and is gaining momentum and attention on the global stage. Besides catering to the Muslim markets throughout the world, particularly in the Middle East and South-East Asia, the combination of ethical, social and financial considerations make Islamic finance an increasingly attractive proposition (Ayub, 2008). Reports estimate there are approximately 300 Islamic financial institutions worldwide with assets amounting to more than US$300 billion ($333 billion) and financial investments estimated at US$400 billion ($445 billion). In 2006, there were

126 Islamic equity funds collectively valued at US$16 billion ($18 billion). The US is also host to a growing Islamic mortgage market (Awad, 2008).

Since all affairs of Muslims including economic, political, religious and social fall under the jurisdiction of Islamic legal system there has always been a demand for financial products and services that conform to the tenets of the *Shari`ah* (Lewis, 2006). With the development of viable Islamic alternatives to conventional finance, Muslims are beginning to find *Shari`ah*-compliant solutions to their financial needs.

What is more peculiar, though not surprising, is that during a time when the world's largest banks and financial institutions, have either collapsed or in need of multi-billion dollar government funded bailouts, the IFIs are holding their ground well, although not completely immune to today's crisis. Despite this, growth rates of global Islamic finance industry are estimated 15% annually. While the rising demand for *Shari`ah*-compliant investments form an estimated 1.6 billion Muslims worldwide and Islamic assets are set to hit $US1.4 trillion by 2010, it is projected that the Islamic financial system will soon be managing approximately 4% of the world's economy (Andreas *et al.,* 2008).

Meanwhile, Australia is making small inroads into this fast-growing sector in global finance, and with a growing Muslim population which makes up less than 2% of the population, it has potential to become a major centre for Islamic banking and finance. There is potential for Islamic finance to co-exist, complement and contribute to conventional practice since Islamic models begin with the premise that the role of a financial institution is to promote the overall wellbeing of society. Interestingly, Islamic finance in Australia has been growing rapidly although not beyond the expectation since it was first introduced in 1989 with Muslim Community Co-operative (Australia) Limited and developed with another co-operative known as Islamic Co-operative Finance Australia Limited (ICFAL) in 1998. It has accelerated with the introduction of Iskan Finance Pty Limited back in 2001. Since the introduction of Islamic finance in Australia some international financial institutions are also considering the opening of Islamic banking branches and subsidiaries (Ahmad and Karim, 2008).

Due to the global potential demand for Islamic banking and finance and also Sydney's reputation being the world's third busiest financial centre after New York and London the prospective demand for the Islamic financial market seems to be very high (IMF, 2005). The number of Muslim population in Australia is 340,392 making Islam the third largest religion after Christianity and Buddhism, representing 1.7% of the population (ABS, 2007). The Australian Muslim community is drawn from more than 70 different countries, is ethnically and linguistically diverse, and geographically scattered (DFAT, 2008). Local Muslims and non-Muslims can now invest and borrow in interest free transactions according to the tenets of the *Shari`ah*.

In July 2003 the *Weekend Australian* reported that the then Prime Minister John Howard had endorsed a shared partnership scheme between home buyers and banks which was very similar to schemes already being used by IFIs (Hussein, 2006). In addition, a report published in *The Australian* on October 20, 2006 disclosed that National Australia Bank (NAB) will look at introducing Islamic financing into its product range to capture an "untapped" market that could be worth millions of dollars. It also declared offering an A$ 25,000 post-graduate scholarship to a member of the Muslim community for the year 2007 to further NAB understands of Islamic banking. Furthermore, NAB was reported to be planning a A$35mn investment in a *Shari`ah*-compliant listed industrial property trust (Kerbaj, 2006).

Although insignificant in comparison with the major financial services

providers in Australia, the Australian IFIs are now playing an important role, and their customers now include non-Muslims interested in the services provided by these institutions (Saeed, 2001). In the aftermath of the Asian economic trauma, Australia stands out as an investment opportunity as well as a financial centre. Through using IFIs' financial services and investment vehicles their customers can reinforce the message that they are significant players in the global services economy. Consequently, in recent years, some international financial institutions like HSBC and Citibank are considering the introduction of Islamic banking branches and subsidiaries in Australia (Datamonitor, 2004). ANZ Banking Group Limited - a major Australia and New Zealand based international financial services group has already been offering Islamic financial services in some Muslim countries. In addition, it established special Islamic banking counters or branches in Western countries to capture these significant funds (Ahmad and Hassan, 2008).

Given the geographical proximity of Australia to several Muslim majority nations, and given that some of its banks have the global presence to attract substantial business from the Middle-East; Islamic finance is a well of untapped potential. There is extensive trade between Australia and neighbouring countries such as Malaysia and Indonesia, who have been making significant inroads into the Islamic financial landscape. Australia has also good trade relations with the Middle East particularly the Gulf States. A submission to the Joint Parliamentary Standing Committee on Foreign Affairs, Defence and Trade, on how to improve Australian business performance and maximise the opportunities for growth of its trade to middle-eastern countries, comments (Ayan, 2004):

"Islamic Banks throughout the Middle East and Malaysia, utilising the principles of Islamic banking and finance have proved successful over the years".

The submission proceeds:

"From an Australian perspective it is possible to approach these principles (*the principles of Islamic banking and finance*), particularly in relation to investment as ethical investment. From that point of view, ethical investments may be incorporated into a broader scheme or strategy of attracting investment funds from the Gulf States to Australia. It is very likely that such flexibility will enable Australia to capture a larger share of the investment outflow from these states than would otherwise be the case. Some investors may require validation by a Muslim knowledgeable in the field that their funds and the returns made on those funds have the ethical investment criteria and are in essence Halal".

Given the above, there is a lot of potential that the Australian businessmen may leverage on Malaysia's comparative advantage in financial services to penetrate new markets in ASEAN and the West Asia in the areas of Islamic financial services. A data indicates that in 2006, the Islamic banking system in Malaysia showed robust growth with high profitability. *Shari`ah*-compliant assets rose to US$34 billion or 13% in terms of market share from less than 3% a decade ago. The Islamic debt market has progressed in much swifter fashion: Islamic corporate bonds now amount to US$36 billion or 48% of the total corporate bonds in issue (MITI, 2007). In addition, Malaysia is well positioned to provide the linkages through Islamic finance to support the increasing trade flows between the Gulf States and the rest of the world. There is much potential in Islamic finance and Malaysia, which is a Muslim-majority country is the place to explore these opportunities. Anticipating the increased interest in Islamic finance, Malaysia has put into place a comprehensive Islamic financial system that includes best-practices in legal and regulatory infrastructure, a diversity of market players and a wide range of products and services. Over the next ten years, Islamic

banking in Malaysia is expected to command 20% market share vis-à-vis conventional banking. Therefore, banks in Australia should take these opportunities to use Malaysian banks as a channel to access Islamic banking and financial markets in Asia and other parts of the world especially in West Asia.

Andrew Reynolds, Perth based KPMG's [13] associate director of financial services says (Lannin, 2008):

"We could become a hub for the region over the next 10 to 20 years, because of our stable financial and political system. A major part of the market would be servicing the existing Muslim community here. To me, the larger potential, at this point in time at least, is servicing Muslims resident elsewhere, seeking investment opportunities. Islamic banking is the largest growing sector in the banking world, globally, and it will be big in Australia, purely because there is a demand. within five years' time there will definitely be at least one Islamic bank operating in Australia, if not more, purely because there is a demand. Australia sits on the doorstep of the some of the largest Islamic regions in the world. Australian investors, given the time zone in which the market trades here, is of particular interest, and I think there's strong interest in this area of the market".

According to Reynolds,

"We've got a large Islamic finance group based in London and Malaysia – they're the two main centres. In Australia ... we've been having some chats with the major banks". "…We're doing some demographic studies and essentially we're putting together a business case for [Islamic financial transactions] here".

Reynolds also remarks:

"What I'd like to be able to do is to work with our clients to bring to that market an appropriate array of products. They're not difficult, they're not expensive, and they may well be attractive to those of us who aren't Muslim. A fully invested equity fund is likely to produce higher returns than one with a large chunk of bonds in there. They're just going to be more volatile,"

MCCA's Chairman, Board of Directors Akhtar Kalam comments (MCCA, 2008):

"There is a huge demand both here in Australia and globally, due to the total potential size of the Muslim market and also due to Muslims now rediscovering their Islamic values."

Nevertheless, a significant area which has been neglected is the potential for the sale of Australian-sourced financial products overseas. Australia offers well-established and stable political, regulatory and judicial systems. Returns on investments in Australia have, over the long terms favoured by Islamic investors, been very high and much of the investment in Australia is in *halal* products such as land, mining and agriculture. The first company to issue products to investors globally is likely to encounter some regulatory hurdles, but they are also likely to tap into a deep and growing well of capital.

5. SUMMARY, FINDINGS AND RECOMMENDATIONS

5.1 Summary and Findings of the Study

The objectives of this research project was to suggest that the Australian regulatory regime develop appropriate regulations to make Islamic finance a truly

viable alternative for banking and finance based on religious and ethical considerations for Muslims living in Australia. Keeping this key objective in consideration the study suggests that steps be taken to introduce a separate legislation in the Australian Parliament for strengthening the country's Islamic financial market system.

The following is the summary of the findings of the study examining the regulation and supervision of Islamic finance in Australia:

1. There is no legal and regulatory framework in existence in Australia for guiding and supervising the functions of Islamic finance to operate in line with the precepts of the Islamic legal system. The fact is that like their conventional counterparts the regulation of Islamic finance is most effective where there is already a sound regulatory framework in place that provides for adequate reporting, monitoring of capital adequacy, risk management controls and customer disclosure. Given this, it is the regulatory authority which will address the issue of financial soundness. The Islamic finance in Australia was established in an environment where conventional financial services providers are already in the market. The crucial challenge in this regard is that Islamic finance' customers must enjoy similar, although not necessarily the same, protection as customers of conventional financial institutions. At the same time, it is expected that regulatory authorities would ensure there is a level playing field, so that neither Islamic finance nor conventional financial institutions are disadvantaged. In Australia where Muslims are minorities and full fledged IBs are absent, regulators have nevertheless been expected to approve and monitor Islamic financial products, including those offered by Islamic managed funds.

2. From a regulatory perspective the significant foundation is to accept that the fundamental principles of conventional financial markets regulation apply with equal force to Islamic financial markets. The key philosophies that distinguish conventional from Islamic financial markets may suggest that the regulatory building blocks for regulating Islamic finance need to be different from those used for conventional regulation, but in fact they are not different from a regulatory perspective. The principles that strengthen conventional markets regulation are mainly designed to ensure that financial firms are able to deliver upon their promises - promises to cover policy holders' losses; or to repay investors or depositors upon particular terms agreed at the time of contract formation. Like other regulators, Australian regulatory authorities would like to be satisfied that Islamic financial markets have appropriate compliance and enforcement powers and practices; that the conventional and Islamic finance are both in good standing with relevant international standard setters; and that they are committed to appropriate levels of information sharing and cooperation. If all of these hurdles can be overcome, obviously they can take comfort that differences of detail in regulatory approach will not prejudice consumers of the *Shari`ah*-compliant products.

3. Islamic finance in Australia is still in its early stages. Because of the character of most of Australian immigrants, lots of incoming Muslims here have naturally been more worried with how to support their families than with developing financial institutions. However, quite a few small financial enterprises have started; with at least three in operation at present. Some of these IFIs, being cooperative in nature are currently limited to providing facilities for their shareholders and are not allowed to accept normal bank deposits as Australian law normally does not permit taking deposits without an appropriate license. While others work with a number of other providers and offer mortgage and leasing facilities.

4.2 Suggestions and Recommendations for the Study

This study suggests that in order to overcome the underlying problems and challenges faced by the Islamic finance in the Australian market the Islamic finance sector in Australia should work on the following two areas.

1. The defining feature of Islamic finance is the prohibition on interest. Yet this is not the only feature. Islamic finance is, theoretically at least, built on profit sharing, access to equity, and the idea of customers becoming partners with IFIs' principles that seem alien to the modern day concept of banks as corporate behemoths squeezing charges and fees out of their clients. The idea of shared risk and morally acceptable business practices that underpin Islamic banking can be further developed and used to market Islamic finance products. Such ideas can also be used to overcome the perception of Islamic finance from some quarters as simply regular finance with an Arabic nomenclature.

2. With a very small and specific niche market, the future for Islamic finance in Australia might depend on whether the appeal of the products offered by the sector can broaden to people outside the minority Muslim community. This has been the case in other parts of the world where Islamic finance has seen successes. The expansion of Islamic banking in the UK, for example, can be attributed in part to a corresponding rise in the size of the Muslim middle class whose members need access to *Shari`ah*-compliant banking services. Australia has seen the growth of superannuation schemes that are based on ethical investments, suggesting that Islamic finance based on the *Shari`ah* principles of risk and profit sharing, and fair dealings with customers, not merely on the avoidance of interest, may find appeal among non-Muslim customers.

Furthermore, the study makes the following recommendations for consideration by regulatory authorities for Islamic banking and finance in Australia.

1. There is a strong desire and growing demand among and from Muslims for a fully fledged Islamic bank to function in line with the tenets of the *Shari`ah*. It is thus recommended that a full fledged Islamic bank be established in Australia. The authors believe the Australian government should take necessary steps to enable these growing opportunities to be pursued in this country. In this connection, steps be taken to introduce legislation in the Australian Parliament for strengthening this country's Islamic financial market system. Such a move to enact legislation by the lawmakers would contribute to the Muslim community in Australia finding a truly viable alternative for banking and finance based on religious and ethical considerations.

2. The study recommends that the regulators in Australia introduce measures necessary to equalise the revenue duties liabilities of Islamic alternatives for interest-based mortgages with a view to creating a level playing field for financial institutions and customers. Given the differing treatment of similar financial products under the different State regulatory systems, it is suggested that the government consider making changes to facilitate the levying of a single payment of duties/fees on what in effect is a single purchase.

3. In order to facilitate Islamic finance for the Muslim community the Muslim Charitable funds should be given similar exemptions as enjoyed by Christian charitable funds. The Muslims should be allowed to derive the benefit the way the provision of "Church Funds" is accessible in Australia. What may be possible would be to set up a charity, or series of charities, specifically with the object of lending to observant Muslims for the purpose of allowing them to observe their religion. If properly structured and prudentially supervised an appropriate framework could certainly be provided. In this connection, if Muslim communities in Australia could meet and agree

on a regulator, set up and run by them and provide some degree of assurance over these funds they would be allowed to grow to the sort of size where they could no longer be kept out of the mainstream of banking practice in Australia.

4. This study also recommends that a strenuous effort be made to educate people given the high level of ignorance of the underlying philosophy and nature of Islamic finance among the general populace and those associated with the industry. For example, it is not known to many people that one of the great successes and growth of Islamic finance lies in "its value-orientated ethos that enables it to draw finances from both Muslims and non-Muslims alike". Also, since the *Shari`ah* contracts that are now used and advertised by Islamic finance in Australia appear to be traditional mortgage contracts where the borrower takes the risk and the lender gets a fixed rate of return it is suggested that Muslim customers should be provided with fully disclosed information about the institutions with whom they enter into business relationships.

5. The Islamic finance may merge with each other for their future growth and development through attracting more capital and providing investment facilities. This will help expand Islamic finance that Australia's vibrant Muslim community could use comfortably as it would meet their religious as well as financial and market requirements.

4.3 Suggestions for Further Research

The volume of research on Islamic banking and financial systems has considerably amplified over the past two decades. However, there are still many significant issues to be critically examined. In relation to the problems and potential of Islamic finance in Australia, which is the topic of the present study, there is more work to be done. The authors' research was somewhat limited by its focus to theoretical and technical analysis. It should be followed by empirical studies and tests. Within a few years, a sufficient volume of data on the Islamic finance of Australia will be available, to make such studies practicable.

ENDNOTES

[1] Currently, merger of Australia's main in-country banks is prohibited, by the so-called "Four Pillars" ban. The industry has been lobbying against this restriction, and meanwhile global competitors like HSBC and GE have moved in, including with offers of sub prime loans.

[2] Under section 66 of the *Banking Act 1959* (the 'Act'), a person cannot use or assume a restricted word or expression in connection with their financial business without the consent of APRA. That means, by virtue of section 66 of the *Banking Act*, a person (whether an individual, a body corporate or a body politic) must not use the expressions *bank, banker, banking, credit union, credit society* and *credit co-operative* in relation to a financial business carried on by the person except as permitted by section 66 of the Banking Act; or a consent in force under section 66 of the Banking Act.

[3] The APRA had granted the Muslim Community Credit Union Limited (MCCU) permission in December 1999 to carry on banking business. However, its license was withdrawn in August 2002 when it became apparent that its funds were not enough to sustain operations. The reason was that the APRA under paragraph 9(4) (a) of the 'Act', imposed on the MCCU among other conditions the condition of maintaining a minimum ratio of capital to risk-weighted assets of 15% at all times.

[4] Basel II, also called The New Accord (correct full name is the International Convergence of Capital Measurement and Capital Standards - A Revised Framework) is the second Basel Accord and represents recommendations by bank supervisors and central bankers from the 13 countries making up the Basel Committee on Banking Supervision to revise the international standards for measuring the adequacy of a bank's capital. It was created to promote greater consistency in the way banks and banking regulators

approach risk management across national borders.

[5] An amendment to the Financial Services Reform Bill (FSRB) requiring superannuation funds and funds managers to disclose their policy on ethical investment has been passed by the Australian Parliament in 28 August, 2001. The amendment will require all financial services product disclosure statements to outline "the extent, if any, to which labour standards, environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment". The legislation is not fully *Shari`ah*-compliant though it creates an imperative for the investment community to get up to speed on socially responsible investment.

[6] MCCA has lobbied the Victorian Government for a serious consideration of how to maintain consumer protection like the Code without hindering the development of the *Shari`ah* compliant lending. In 2003, MCCA had over $20 million committed to home lending arrangements. It also reported having hundreds of potential borrowers waiting for *Shari`ah* compliant finance so they could purchase a home. The Code assumes that most credit will be advanced in return for an annual percentage rate of interest. Where consumer credit involves profit in the form of interest but this profit cannot bear an 'interest' label, thus compliance problems arise.

[7] In *Ward v Byham [49]* a promise to make a child happy was accepted as sufficient consideration in contract formation.

[8] A promise by one party, without some form of consideration being extended by the other party, does not result in a contract or other enforceable obligation, regardless of the sincerity of the promise. Although each party must extend consideration to the other in order to form a contract, the value of the consideration need not be equal.

[9] The root meaning of Arabic term *Zakah* comes from *Z-K-W*, meaning 'growth' and 'development', while the root meaning of *Sadaqaat* comes from the root S-D-Q, meaning truth and power. Although both of these terms are interchangeably used in the Qur'an to mean the compulsory charity the *Sadaqah* (singular of *Sadaqaat*) is also used in some places for voluntary charity. *Zakah* is exclusively meant for compulsory charity, which is a fixed share of income or property that every Muslim must pay as tax or charity, for the welfare of the needy (Al-Qur'an, 2:215, 3:134, 7:156, and 9: 60).

[10] Most scholars have ruled that, to serve as a deterrent to such as may willfully delay payments, the financer may get the buyer to agree, at the time of the contract, to make a pre-specified donation to an agreed charity in case of late payment of monthly installments. These scholars, however, caution that this device should be used to the minimum extent and only in cases where *Musharaka* or *Mudaraba* are not practicable for one reason or another.

[11] AASB 139 (issued July 2004) included a free choice option to designate financial instruments at fair value through profit or loss. Under AASB 2005-4 the ability to designate financial assets and financial liabilities is restricted. The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's (FRC) strategic directives to adopt International Financial Reporting Standards [the Standards and Interpretations of the International Accounting Standards Board (IASB)] for application to reporting periods beginning on or after 1 January 2005 and to harmonise the requirements applicable to general purpose financial reports of public sector entities and those applicable to Government Finance Statistics.

[12] International Accounting Standards (IAS) 31, under the caption "Financial Reporting of Investments in Joint Ventures", Para 3, say: "a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control."

[13] KPMG do not offer financial services in Australia but act in an advisory or audit capacity to institutions that do offer financial services themselves.

REFERENCES CITED

Ahmad, A.U. F. 2004. "Islamic Banking in Bangladesh: Legal and Regulatory Issues", conference paper, Harvard Law School, Harvard University, Sixth Harvard University Forum on Islamic Finance, Cambridge.

Ahmad, A.U. F. 2003. *Islamic Banking in Bangladesh,* LLM (Honours) Thesis, University of Western Sydney Law School, University of Western Sydney, Sydney.

Ahmad, A.U. F. 2008. *Law and Practice of Modern Islamic Finance in Australia,* PhD Thesis, University of Western Sydney Law School, University of Western Sydney, Sydney.

Ahmad, A.U. F. and Ahmad, A. B. R. 2007. "Islamic Micro and Medium Sized Enterprises (MMEs) Finance: The Case Study of Australia", conference paper, Centre for Islamic Banking Finance and Management, Universiti Brunei Darussalam, 1st International Conference on Inclusive Islamic Financial Sector Development, Brunei, Brunei Darussalam.

Ahmad, A.U. F. and Karim, M. F. 2008. "Legal and Regulatory Issues of Islamic Finance Industry: The Evidence From UK and Australia", conference paper, Sixth International Islamic Finance Conference, Kuala Lumpur, Malaysia.

Ahmad, A.U. F. and Hassan, M. K. 2006. "The Adoption of the UK Finance Bill Proposals on Islamic Finance into Islamic Banking in Australia", *Review of Islamic Economics,* Vol. 10, No.1.

Ahmad, A. U. F., and Hassan, M. K. 2008. "Regulatory Challenges and Opportunities: A Case of Australia", conference paper MCFS Symposium - Islamic Financial Services: What Role for Australia? Melbourne, Australia.

Ainley, M. 1997. "Under a Veil of Regulation", *The Banker*, October 1.

Al-Qur'an, 2:215, 3:134, 7:156, and 9: 60.

Al-Salem, F. 2008. "The Size and Scope of the Islamic Finance Industry: An Analysis," *International Journal of Management,* March 2008, available at: http://www.encyclopedia.com/doc/1P3-1460961701.html (accessed 2 February 2009)

Andreas J., Peter K., Paul M., and Amadou, S. 2008. "Islamic Bond Issuance: What Sovereign Debt Managers Need to Know", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 1, No. 4.

Andrew. 2007. "Opportunities Down Under: Islamic Finance in Australia", *Risk Management in Australia*, available at: www.ozrisk.net (accessed 20 November 2008).

Australian Bureau of Statistics. 2007. "Census Shows Non-Christian Religions Continue to Grow at a Faster Rate", available at: http://www.abs.gov.au/Ausstats/abs@.nsf/7d12b0f6763c78caca257061001cc588/6ef598989db79931ca257306000d52b4!OpenDocument (accessed 25 November 2008).

Australian Prudential Regulatory Authority. 2006. "Banking Act 1959 Consent to Use Restricted Expressions", available at: http://www.apra.gov.au/Legislation/Banking-Act-1959-CONSENT-TO-USE-RESTRICTED-EXPRESSIONS.cfm (accessed 25 December 2008).

Awad, Amal, 2008. "Finance for a new World", *Lawyers Weekly Online,* available at: http://www.lawyersweekly.com.au/articles/Finance-for-a-new-world_z130673.htm (accessed 25 December 2008).

Ayan, A. 2004. "Inquiry into Australia's Trade and Investment Relationship with the Economies of the Gulf States", *A Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade: Parliament of Australia,* Melbourne, 26 February.

Ayub, M. 2008. *Understanding Islamic Finance*, John Wiley & Sons, Chichester.

Bahfen, Nasya. 2008. "Challenges for Australia's Islamic Finance Sector", available at: http://www.mcca.com.au/news.php?product_id=110&newsid=51 (accessed 25 November 2008).

Boey, K. C. 2009. "Letter from Australia: Banking on New Ideas", *New Straits Times,* January 27, available at: http://www.nst.com.my/Current_News/NST/Sunday/Columns/2407495/1 (accessed 25 January 2009).

Datamonitor. 2004. "Australian Mortgages 2004", available at: http://www.datamonitor.com/industries/research/?pid=DMFS1726&type=Report (accessed 20 November 2008).

Department of Foreign Affairs and Trade, Australian Government (2008), "Islam in Australia", available at: http://www.dfat.gov.au/publications/terrorism/chapter3.html (accessed 20 November 2008).

Ethical Investment Association of Australia. 2001. "FSRB Enforces Ethical Transparency", Media Release, 28 August, available online at: http://www.asria.org/pro/news&events/FSRBdisclosureLeg.htm (accessed 21 January, 2009).

European Central Bank. 2006. "Report on the Assessment of Accounting Standards from a Financial Stability Perspective", available at: http://www.ecb.int/press/pr/date/2006/html/pr061219.en.html (accessed 19 December 2008).

Hameed, T. 2007. "Does the Diminishing Musharakah reflect the spirit of Sharia?" *Mortgage Finance Gazette*, January.

Harvey, K. and Kolliou, G. 2003. "GST Treatment of Lease, Hire Purchase and Chattel Mortgage Facilities", *Taxation in Australia*, Issue 37, No.10.

Hussein, J. 2006. "Islam's Shariah and Australian law", available at: *http://www.brisinst.org.au/resources/brisbane_institute_shariah.html* (accessed 14 November 2008).

International Monetary Fund. 2005. "World Economic and Financial Surveys", available at: http://www.imf.org/external/pubs/ft/weo/2005/02/data/index.htm (accessed 10 November 2008).

IRTI and IFSB. 2007. "Islamic Financial Services Industry Development: Ten-Year Framework and Strategies", available at: http://www.ifsb.org/view.php?ch=4&pg=261&ac=26&fname=file&dbIndex=0&ex=1184140035&md=G0%09%1CME%B5%EB%8C%96%AE%DCf%C1W%FD (accessed November 23, 2008).

Jenkins, P. 2007. *God's Continent: Christianity, Islam, and Europe's Religious Crisis,* USA: Oxford University Press.

Kerbaj, R. 2006. "NAB eyes 'untapped' Islamic finance market", *The Australian*, 20 October.

Lannin, S. 2008. "Aussies to Gain from Islamic Finance Boom", *The Brunei Times*, December 22 Issue.

Lewis, M. K. 2006. "Accountability and Islam", conference paper, Fourth International Conference on Accounting and Finance in Transition, Adelaide, Australia.

Ministry of International Trade and Industry (MITI), Malaysia. 2007. "Official Portal", available at: http://portaluat.miti.gov.my/cms/genArticlePdf?id=com.tms.cms.article.Article_f56678d3-ac1c231a-17

b60b60-40c4e830 (accessed 15 November 2008)

Muslim Community Cooperative Australia. 2008. *MCCA Newsletter*, April.

Saeed, A. 2001. "The Muslim Community Co-operative of Australia as an Islamic Financial Service Provider", Abdullah S. and Shahram, A. (eds.), *Muslim Communities in Australia*, University of New South Wales Press, Sydney.

The Consumer Credit Review. 2006. "Four Areas of Focus", *Report of the Consumer Credit Review: Part B*, Melbourne: Consumer Affairs Victoria.

The Securities Commission. 2007. "Cross-sectoral Regulatory Approach to Supervision", *Malaysian ICM*, Vol.2, No.2, Malaysian Islamic Capital Market Quarterly Bulletin.

Troshina, L. 2004. "Accounting Methods and International Accounting Standards", IMF Committee on Balance of Payments Statistics and the OECD Workshop on International Investment Statistics.

Wilson, R. 2004. "Regulatory Challenges Posed by Islamic Capital Market Products and Services", IOSCO Task Force Report on Islamic Capital Market, available at: http://islamic-finance.net/media/ICM-IOSCOFactfindingReport.pdf (accessed November 19, 2008).

Zaher, T. S. and Hassan, M. K. 2000. "A Comparative Literature Survey of Islamic Finance and Banking", *Financial Markets, Institutions & Instruments*, Vol.10, No.4.

POVERTY ALLEVIATION: THE ISLAMIC WAY

Sayuti Hasibuan
Al Azhar University Indonesia
and Muhammadiyah University Solo,
Indonesia

POVERTY ALLEVIATION: THE ISLAMIC WAY

Sayuti Hasibuan

ABSTRACT

Can you eradicate poverty in Muslim countries in a sustainable manner? Yes you can. For this you need to change the paradigmatic societal-developmental process from the basically capitalistic system obtaining in Muslim countries to Islamically consistent human resource based societal development process. The paper will examine the meaning of the change. This means examining not only the identification of the relevant capitalistic as compared to the Islamic characteristics of societal development system; but also expounding the content and the processes of the change. A basic characteristic difference lies in the source of knowledge and its development to guide actions in the capitalistic system as compared to the Islamic system: the former is based on the idea of materialism while the latter is based on human development. Zakat and waqf will be indispensable components of the human based development system. The paper will report the on-going process of system change now being attempted in Indonesia

I. Introduction

A journalistic account in an Indonesian daily reports of cases of a number of families in sub-district Kapetakan in the district of Cirebon, in the province of Central Java to the effect that these families have to eat left-over rice which has been dried (*nasi aking*) because they have been unable to purchase regular rice. The regular rice costs Rp 5000 per kg. The dried rice costs Rp. 2000 per kg. At least ten families in the village of Pegagangan Kidul in the sub-district who could not afford to buy the regular rice. These families are agricultural workers by profession and the income for such professsion is Rp. 10000 a day. The rice for poor people subsidized by the government was reported to be 7 kg. for each family. This is sufficient to meet consumption needs of 2-4 days only. In other cases the amount of subsidized rice from the goverrntment had to be reduced to only 4.5 kg per family. This is because the available rice had to shared equally among all the families in the village. A government development administrator in Cheribon said " I cannot resist the pressure fom the people. Even those who are considered not poor like government employees insisted that they receive the subsidized rice". A picture of a lean mother and her two children accompanied the Kompas report. (*Kompas*, October 5, 2009: 24).

In Indonesia, according to the analysis and calculations of the Central Statistical Office of The Republic of Indonesia, there are 34,963.3 million people who are absolutely poor This is 15.42 % of the total population in 2008 which was 228,5 million. In 2007, the number of people who are poor (37.47 million) was greater and so is the percentage of the poor as compared to total population (16.58 %). Between 2000-2008, the average percetage of poor people is 17.28 of the total population. This percentage is about the same as the pre-crisis percentage of 1996 when 17.47 % of

the population were considered poor and both are lower than the percentage at the height of the crises year of 1998 when 24.23 % of the population were poor. (BPS, 2008)

Why is it that such chronic poverty among a substantial number of families still exists in Indonesia after more than 64 years of independence?

I will argue that continued prevalence of poverty is due to the capitalistic mode of economic development adopted in Indonesia over the years. The characteristics of the capitalistic sytem as it obtains in Indonesia have not been conducive for poverty eradication in a sustainable manner. Towards this end, the underying paradigmes of the capitalistic system will be examined in what ways they have played in the creation of poverty. These underlying paradigmes are individualism, freedom, materialism and positivism. It will be argued that as long these paradigmes are practiced in the conduct of development policies, Indonesia will not be successful in achieving her development goals in a sustainable manner. This is because these paradigmes are contrary to the basic values of the Indonesian idiology of development as contained in the Pancasila. The law of consistency in socio-economic development is transgressed.

There is therefore the inevitable requirement to abandon the paradigmatic principles of capitalism as understood and practiced in the received, conventional economic theory and replace them with other paradigmatic principles of action more conducive to the realization of Indonesian development objectives. These paradigmatic principles are those pertaining to the law of consistency in socio-economic development. An important policy component of these paradigmes is syariah economics. The paper will outline the substantive issues connected with the change to syariah consistent values.

II. The paradigmatic assumptions of capitalism, the mixed economic system and poverty

a. The paradigmatic assumptions of the capitalist system

To see the connection between the capitalist system and poverty, let us first examine the basic concepts upon which the system is built. Samuelson and Nordhaus in their text book "Economics" quoted Adam Smith as a starting point to discuss the efficacy of the market system to solve the trio economic problems faced by every society, i.e., what to produce,for whom and how. The quotation is : "*Every indiviual endeavors to employ his capital so that its produce may be of greatest value. He generally neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own security, only his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention. By persuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it*". (Samuelson & Nordhaus, 2010 : 25).

There is here asserted by Adam Smith that there is a convergence between private interest and public interest. This convergence is based on the assumption that each individual enterpreneur is so small that he cannot influence the totality of market outcome for his own advantage. If enterprneurs are not of equal size, some are big and some are small, the big ones may be able to influence the market outcome. In the case of monopoly, the monopoilst can surely influece price or the quality/quantity of products at the expense of the public. In this case there is no convergence between public and private interest.

The public interest and private interest which are said to converge in the freedom of enterprise concerns primarily materialistic interest. Adam Smith said this explicitly in one of his paasages that to be rich is to acquire as much money as possible. "To grow rich is to get money; wealth and money, in short, are, in common language, considered as in every respect synonymous." (Smith 1960: 376).

Materialism as contained in the market idiology is connected to the principle of positivism. Posisivism asserts that only statements which could be proven by empirical facts and logic alone are to be considered as human knowledge.. But how is such a materialistic and positivistic world view connected with the statement of Adam Smith about the invisible hand bringing about convergence ? In the first place man is or is not God-created. It depends on one's own choosing. In any case what happens in this world has nothing to do with God. God is, according to Hobbs, only the First Mover. After He created everything in the universe he goes to sleep. Philosopher Thomas Hobbs (1588-1679): "Of God we know by reason only that He exists as a First Mover and nothing more. Since He is eternal and Himself uncaused, He is beyond rational investigation. All change is motion, and nothing but a body moved can cause motion. All causation, therefore, and all rational knowledge concern bodies." (Encyclopedia Americana, 1978: 259). All causation is therefore not from God. The invisible hand therefore is not God. It is only a hand and it is invisible.

But what is the nature of man ? Hobbs considers man is fundamentally bad. "The chief characteristics of men are pride, avarice, ambition, and fear of death. Hence in their natural state they must be continuously in conflict, leading a life that Hobbs describes as "solitary, poor, nasty and brutish, and short."... Each man is the enemy of other man, and man is sufficiently equal in that any man can kill, or be killed by any other man." (Encyclopedia Americana 1978: 259).

Adam Smith,it seems, does not go along with the negative view of man. Instead he considers that man as fundamentally good. Selfishness is good. This is proven by Adam Smith in his treatise where by each man in trying to maximize his self-interest will at the same time maximizes the public interest. Adam Smith's book, The Wealth of Nations, cemented the liberal position about the conception of man.

It is the arguement of this paper that the continued prevalence of poverty in Indonesia is because the basic paradigmatic principles of Adam Smith govern the processes of Indonesian development effors.

b. The mixed economic system and poverty in Indonesias.

The translation of the basic principles of positivism, materialism, freedom and indivdulism into institutional forms of governance in human affairs, by necessesity, requires adjustments. This is because of the stringent requirement of the rationality assumption of the economic man. The information requirement of such an assumption on full information about products, prices, tastes, now and in the future which is required for a competitive situation to be established clearly is an unrealistic assumption. So the government needs to intervene to provide the neceesary information infrastructure such as education. The need for public goods such as infrastructure, public order, and the rule of law clearly calls for intervention by governmental authority. So the system that needs to be established to promote the operation of free markets and competition is that of a mixed economic system. In such an institutional arragement, the government has to promote the efficiency of markets, promote stability, prevent negative externality and at the same time undertake development policies to promote the socio-economic objectives of society. The

Muslim countries in the world generally speaking have adopted the mixed economic system to solve their economic problems.

How have such mixed economic system that has been adopted in Indonesia perform? In terms of humanitarian objectives in economic development and in terms of the normative injuction of the Qur'an that Muslims are the best communities that have been created, promoting what is right and preventing what is wrong and believing in God, the performance has not been satisfactory. This unstisfactory performance is based on two considerations.

First, there is the apriori consideration about the working of the law of consistency in socio-economic development. As already stated, the law says that the social behavior of a group of people such as a nation must be consistent with the nation's objectives; otherwise the objectives will not be realized. The law is a general one covering experiences of national development past and present. The law provides an explanation why Westen countries using the capatalistic system of development have been succesfull in their efforts to achieve their development objectives. The capitalistic paradigmes of Adam Smith are fully consistent with the basic beliefs and values of Western people. In the case of Muslim countries, the paradigmes of conventional economics so convincingly articulated by Adam Smith are contrary to the basic beliefs of Muslims. The centrality of the monotheistic belief in Allah negates the ideas of materialism and positivism. The individual interest is not the sole center of consideration in public policy making. Nor is the public interest the sole consideration in such policy making. There has to be a balance between these two interests and this balance needs to arrived at through the process of shurah in the widest institutional applicative meaning of the term. Given the basic inconsistencies between what Muslims fundamentally believe and the paradigmatic principles in the mixed economic system which the Muslim countries have adopted, failure of the development efforts to achieve their aims is assured.The law of consistency in socio-economic development explains the differential experiences in development outcomes between the Muslim countries and the Western developed economies.

But how did the capitalist paradigmes actually work out to produce unwanted consequences of poverty ?

This is through the promotion of economic growth as the paramount and primary objective in development. Through the adoption of economic growth as the main objective poverty is promoted.

But how can this happen? The basic process of capitalist development may be described as Marx does, according to Heilbroner, in a simple formula: M-C-M

(Heilbroner 1986: 76). The first M is money which is converted into capital goods or money capital to create commodities. The C is commodities to be sold in the free market. The second M is money again in the form profits to be made by the owners of capital. The owners of capital will want to invest the profits earned in order to make more money and in order not to lose out to competitors. This pocess will go on indefinitely until there will arise a few capitalists who control the bulk of the society's total production. There will be a few rich people and many poor or marginal enterpreneurs.

Briefly the process of M-C-M means that government and private sector policies together in the mixed economic system is *primarily* to promote economic growth. This means that resources are channelled to those sectors capable of producing high growth rates. In the enterprise or business sector this means favoring the larger enterprises rather than small ones as objects of investments. If one looks into the reality of the economic situation in Indonesia one sees the tendency to the

concentration of economic production and by implication economic power. According to Indonesian Medium Development Plan of 2004-2009, in 2003, there were 42.4 million units of small enterprises. These enterprises comprise 99.9% of the totality of enterprises in Indonesia in 2003. These enterprises produced 56.7 % of the GDP in 2003. The 0.1 % of enterprises which are the big enterprises produced 43.3 % of the GDP (Republic of Indonesia 2004: Bagian IV 20-1). Such divergence in welfare implied by the disparity of economic influence between large and small enterprises cannot be considered other than complete divergence between the private and public interest.

Since 2004, however, there has been an effort by Indonesian Central Bank or Bank Indonesi to allocate relatively more credits to the micro, small and medium enterprises. In December 2004, the micro, small and medium enterprises received Rp.271.3 biilion rupiah out of total commercial credit of Rp. 559.5 billion or about 50 %. In December 2008, the micro, small and medium enterprises received Rp.633.9 billion out of Rp. 1307.7 billion or abou 49 % (Bank Indonesia 2009: *Indonesia Banking Statistics*, Jakarta July 2009). The proportions of cedit going to micro, small and medium enterprises is still far too small compared to the proportion in numbers of the micro, small and medium enterprises which comprise more than 99 % of all enterprisese in 2003.

If we look to the sectors to which the credits are channelled one sees that agriculture enjoys a disproportionately small relative amounts. In 2004, out total commercial credits of Rp.559.5 billion provided to the business sector, agriculture received Rp. 33.1 billion. This is less than 10 % of total credits. In December 2008, agricultural sector received Rp. 67.2 billion out total commercial credits of Rp.1307.7 billion. This is just over 5 % of the total credits. The agricultural sector houses about 50 % of the Indonesia labor force in 2008. So the credit allocation is much too small relatively speaking to be able to change the balance in the pace development as between agriculture and non-agriculture.

But is this balance important from the point of view of poverty eradication? This is important because according to the study conducted by the statistical office or the BPS, in March 2008, there were 34,963.3 million people or 15.42 % of the population who are poor. This is absolute poverty and is defined as population with incme of Rp. 182.636 per month per capita, which is capable of buying 2100 calories of food items and a number of non-food essential items. The greater part of this population (22.194, 8 million) or about 63 % reside in the rural areas and 56.35 % of the household heads derive their income from the agricultural sector These poor households really lead very precarious existense. The 15.4 million households are the receipients of subsidized rice to the extent of 15 kg per moth per family. So one may say that credit allocation which is so out of proportion with the proportion of the population living in agriculture may be dubbed to be prolonging the poverty situation.

Absolute poverty is not the only meaure of income disparity. There is also a measure measuring relative income distribution in a general way. This measure is called Gini coeficient, among other measures, which can take a value between one and zero. If there is perfect distribution in an economy, that every person in the economy has equal income, the Gini will be zero. If the income goes to one person only and the rest has zero income, the Gini will be one. So the higher is the Gini coefient, the more unequal will be the income distribution. The Gini coefficient for Indonesia in 2008 was 0.368. According to the UNDP Human Development Report of 2008/2009, the Gini coeficient for Indonesia was .394 in 2007. These Gini numbers are on the high side compared to what should and presumably could be achieved by

Indonesia, with social justice being a very basic component of its national idiology. Denmark and Norway have lower Ginis, with .247 and .258 respectively in 2007 and they have no absolute poverty problems as being faced by Indonesia. It is seen that the lower the Ginis, the greater the probabilty will be that abslute poverty will also be lower.

Does not a a government in a mixed economic system take actions to promote a greater number and and a more widespread enterpreneurship development? Taking the Indonesian experience as a case study the governement could and did take actions to promote the development of small scale enterprises. The government even had special departmet to promote small scale enterprise development including cooperatives. But these efforts and the intention underlying these actions normally are defeated by the basic process of M-C-M, embodying as it were the inculcated motivation of materialistic acquisition. The investment normally goes those sectors wich can in short time promote growth and profits. Such investments favor the large enterprises and a bias against small ones.

III. Capitalist conciousness throughout the governance system and poverty.

The arguement thus far says that it is capitalism through the process of M-C-M that brings about the human poverty as well as the absolute income poverty situation in Indonesia. The fact that such capitalistic process has been going on since Indonesia achieved independence and even before implies that capiatlist deveolpment policies have been suupported by capitalist conciousness all throughout the organs of the mixed system of governance. What is the nature of this conciousness ? Is there in fact such conciousness?

As to the existence of such conciousness I would like to make a methodological point at the outset. This has to do with the existence of values within human beings. An important component of the way in which capitalism affects the state of human development is through the absorption of paradigmatic values of materialism, individualism, positivism and freedom in the conciousness by the various actors in the economy. A question arises how does one know that these values reside within the selves of the actors? One cannot directly access the contents of the hearts and minds of these actors. The best one can say is, in analogy to the existence of ducks, if sounds coming from the next room are sounds similar to those of ducks then one may conclude that those in the room are ducks.

This is of course an extreme situation where one cannot see the direct connection between realities and the values behind them. In fact the situation is not always that unclear. In the promotion of larger enteprises and the relative neglect of small ones as described above is justified because such outcomes are considered to be free market outcomes. Free market outcomes are justifed because these outcomes are the correct ones scientifically. They are supported by economc theory called the neoclassical economic theory. The neoclassical econonomic theory is taught and promoted in universities by such names as micro economic theory and macro economic theory. So the maximization of profits by enterprises and the promotion of economic growth are completely acceptable and are deeply inmplanted in the conciousness of economic actors at the practical level.

The next higher level of conciousness deals with morality and ethics. The materialistic and individualistic world views need the development of morality and ethics to support them. These are relative moral values and standards fashioned by humans as opposed to objective moral values and standards which are derived from the Qur'an. The difference between objective and relative moral values may best be

explained by an example. Take the case of honsety as a moral value. One needs to be honest at all times because honesty as a value exists objectively irrespective of the evaluation of a human being or a group of human beings. For Muslims such objective moral value originates in the holy book of the Qur'an and exemplified in action through the Sunnah. There is a belief that if one goes against the principle of honesty one will be punished not only in this world but also in the hereafter. But if one's highest aim is to be rich materially either as an individual or a nation then one needs to adopt relative moral values. In this case honesty is to be viewed as relative to the conditions and specific situation one is facing. One is honest if need be. There is no commitment to the belief that transgression of the moral value of honesty will be duly punished in the hereafter. So one may maximize material achievement by fair or foul means. Corruption is an example of foul means. But if one is caught in a corruption case then apply material means and refer to the materialistic motivation of lawyers and attorneys and judges and other officials to avoid from going to jail. The prevalence of corruption and trangression of the laws and objective moral values and ethics in Indonesia at the expense of the public may be atrributable to the basic motives of material and individual enrichment of the actors. According to Indonesian Chief Justice (*Ketua Mahkamah Agung*), Mr. Harifin A. Tumpa 50 % of Indonesian 6000 judges at the moment are not independent in their attitude and have suffered degradation of quality compared to the situation in early period of free Indonesia. (Kompas Daily, Jakarta, October 18, 2009, p. 2). Being not independent to my mind means that these judges do not hold and stick to objective moral standards but can be easily swayed by outside pressure either material or otherwise.

Such degradation of moral values concern not only judges. The wider Indonesian public seems to be infected with such degradation. As evidence one may ponit out to the phenomenal increase in various crimes. " In general indices of crimes in Indonesia, in the years before the change in government in 1998, with basis year 1985=100, were 110.8 in 1993, 110.5 in 1994, 116 in 1995, 535.3 in in 1996, and 352.9 in 1997. (Hasibuan (1), S., 2008:10.). Perhaps the greatest negative impact of capitalism has been the erosion of moral values in society and such erosion is connected to poverty eradication efforts in the country, directly or indirectly.

At the highest level of conciousness, at the level of world view of the mixed economic system in Indonesia, one sees the complete manifestation of the capitalistic paradigmes of materialism and individualism. This is reflected in public documents especially the planning documents such as Five-Year Development Plans with the basic objectives of economic growth and income growth per capita. The materailistic and individualistic development orientation is supported by the development planning system as in Law No. 25, 2004 and law No. 17, 2007 about long term development in Indonesia (Hasibuan 2: 2008). The culture of corruption appears to have been so strongly implanted among some members of Indonesian parliament that an article classifying tobacco as an addictive material somehow has been illegally deleted from the agreed texts of the law on health passed by parliament on September 14, 2009 (Kompas, October 30, 2009: 14). Such objectives seep through to many levels of government sector and to parts of the private business sector with negative effects in the form of inequality and poverty in the society. Indonesia in the 1968 to 1993/94 have experienced a high growth rate of 6.8 % on average; but in the same period unempolymet has grown from a low of 1.7 % of the labor force in 1980 to 8.4 % in 2008. (Hasibuan (1) 2008 :.7 ; Republic of Indonesia, Department of National Development/ Bappenas, *Pencapaian Sebuah Perubahan (Achievement in Change),* 2009: 314).

With such materialistic orientation in dvelopment it is not surpring to find a highly capital intensive orientation in investment. As an example, in the period 1989/90-1993/94, the agricultural sector and services sector which employ more than 50 % of the labor force have enjoyed only 7.5% of total investment. (Hasibuan 3: 9). The lopsided distribution of credits in favor of big enterprises has been cited above.

With the widespread inculcation of basic paradigmatic capitalist values within the conciousness of the various actors in the economy and the operational translation of these values in the form of economic growth as the paramount obejctive in the development process one should not expect a high degree of human development and eradication of poverty in its various forms. In this regard I am going to employ three measures to cover a wider meaning of poverty to include measures of human development. These measures are the Human Development Index, the Human Poverty Index and Income Poverty Index. The Human Development Index is included here because human poverty and income poverty are special cases of human underdevelopment.

Using data from Human Development Report of the UNDP 2009, it has been shown that the Muslim countiers have been lagging behind measured by the index of human dvelopment. No Muslim country in the world comes anything near the developed economies in measures of human developmet. According to 2009 Human Development Report, the highest level achieved by a Muslim country when compared to the developed economies has been that of Brunei Darussalam which is in position no. 32 out of 177 countries. Posistion no.1 in 2009 has been achieved by Norway. As is explained in The Technical Note No.1 of the 2009 Human Development Report, HDI is composed of three indices of common concern to all humanity, i.e., the degree to which the people of a country enjoy a healthy and long life, the degree to which the people of a country are successful in the pursuit of knowledge, and the degree to which the people of a country are having a decent standard of living. These three concerns are translated into three indices which are then combined to form the Human Development Index.The nearer the index to the value of one the higher is the HDI. Norway had an HDI index of .971; Brunei Darussalam had na index of .929 The lowest HDI was achied by Bukina Faso with .367 at no.177Indonesia occupies posistion no.111 (UNDP 2009: 172-173).

The Human Poverty and Income Index (HPI I) provides a more dirct measure of human poverty. The HPI I, which is the index created for developing countries includes indices on long and healthy life but its component is limited to probability at birth of not surviving to age 40. The kowledge index comprises only adult illiteracy rate. The Income Povety Index is a separate catagory. The decent standard of living index includes percentage of population not using improved water source and percentage of children underweight for age. The income measures include international standards of US $ 1.25 per capita and US $ 2 per capita, all on PPP basis. The income measure also includes national measure of income poverty. Many developing economies, including Indonesia, do not provide income poverty in terms of international standards.

In the Human Poverty and Income Poverty Index too the Muslim countries do not rank on the high side . Out of 135 countries, posistion no.1 is occupied by The Czech Republic. The hingest position achieved by a Muslim country with posistion no. 19 is Qatar.Larger Mulim countries are in lower posistions, as for example,with Malaysis at no. 25, Turkey at no. 40, Indonesia at no. 69 and Pakistan at no.101.

What do these positions mean in terms of real welfare indices? Taking the Czech Republic with position no.1, as an example, the probability of not dying untill age 40

for the population cohort 2005-2010 is 2 %, adult illiteracy rate as percentage of population 15 and above is non –existent, percentage of population not using improved water source is zero, and children underweight for age is 1 %. Population under international income poverty level under both US$ 1.25 and US$ 2 is under 2%. Indonesia, with position no.69 in the Human and Income Poverty Index, have percentage of population not surviving to age forty respectively at 6.7 %, adult illiteracy rate of 8%, population not using improved water source at 20 %, children underweight for age 28 %. The population under national poverty income standard was 16,7 % for Indonesia (UNDP 2009: 176-179). One may therefore conclude with a high degree of certainty that Indonesia indeed did not fare well in terms of Human Development Index as well as in terms of Human and Income Poverty Index. Such achievements are in line with the apriori prediction of the law of consistency in socio-economic development and coloralily with the capitalistic paradigmes of development.

IV. Poverty as a coordination failure.

An economic development text book defines coordination failure as " a state of affairs in which agents' inability to coordinate their behavior (choices) leads to an outcome (equilibrium) that leaves all agents worse off than in an alternative situatin that is also an equilibrium". (Todaro & Smith 2006: 145). There may be coordination problem as between one sector of the economy and another sector, for example between the education sector and other sectors of the economy with regard to the manpower requirements in development. There may arise coordination problem within programs in one sector or even between activities in one program. Such failure of coordination between sectors or between programs is *horizontal* failure in coordiantion.

Failure in coordination, however, may also be *vertical.* This occurs when an agent or group of agents fail to act in accordance with higher level values or requirements. Thus the exclusive determination of objective in development as material objectives in the form of economic growth is a vertical failure in coordination with the higher values of belief in One God and a just and humane humanity. The law of consistency in socio-economic development is principally founded on the basis of vertical failure of coordination.

The coordination problem is not just an information problem. Even if an agent knows the best chioce for his sector or program, coordination problem stiil may exist because what is best for an agent may not be best for the totality. Best here pertains not only with regard to the substance of behavior but also to its timing and scale. This points to the fact that a major determinant of the failure of coordination is rooted in individualism. Individualism is defined as the tendency to give top priority or preference to one's interest as opposed to collective interest or to one's activity as opposed to collective activity. An organization organized on the principle of hierarchy of power and functions such as he organization of modern governments will be besetted with paradoxes arising from Arrow's Impossibility Theorem or Arow's paradox, which states " that there is no general way to aggregate preferences without running into some kind of irrationality or unfairness." (Wikededia, website). This writer has studied the applicability of this theorem with regard to the implementation of Indonesian Medium Term Development Plan 2004-2009. The conclusion of the study is " Based on past experience as well as implementation paradigms embedded in the five-year plan 2005-2009, there is a very small likelihood that it can be successfully implemented. ...The plan target of reducing open unemployment to 5.1 %

in 2009 from about 9.7 % in 2005 with yearly average of 6.6 % appears very unrealistic. This unrealism is the more so because the plan as it stands embodies paradoxes in its various agendas and programs ofaction resulting from the operation of Arrow's impossibility theorem." (Hasibuan (3), 2006: 20). As things turn out, the growth rate in 2005 has been 5.0%, 2006 5.5 %, 2007 6.3 % and 2008 6.1 %. Average growth 2005- 2008 has been 5.9 %. While the growth achievement compared to the target is not unrespectable, the Plan target of 6.6 % average growth for the five years 2005-2009 is unlikely to be achieved. There is , however, greater underachievement in the employment target. According to goverment figures, unemployment as a percentage of the labor force has been 11.2 % in 2005, 10.3 % in 2006, 9.1 % in 2007 and 8.4 % in 2008. It is highly unlikely that 5.1 % unemployment in 2009 can be achieved. In the case of poverty, there is no quantitative target. Poverty as percenatge of the population decreased from 16.0 % in 2005 to 15.4 % in 2008. The Ministry of National Development / Bappenas, 2009: 314). It is to be noted that in the four years from 2005 to 2008, the poverty rate has been reduced by a mere 0.6 % or 0.15 % per year, from 16 % to 15.4 %. At this rate of poverty reduction, it seems impossible for achieving the United Nations Millenium Development Goal for Indonesia which is to reduce the rate of poverty as a percentage fo the population in the year 2000 of 19.14 % by 50 % in the year 2015 (BPS, 2008: 576). If Arrow's paradoxes are removed, there would have been a lot of complementaries realized in the procesess of execution and this means generally higher efficiency. There would have been more growth, more employment and less poverty and a greater probability of approaching the achievement the Millenium goal.

Briefly what are the main conclusions one may say from the discussion thus far on the connection between capaitalist development and poverty especially with reference to Indonesia? Capitalism is the ideological vehicle by which the basic paradigmes of materiaism, indivdualism, freedom and positivism are implemented. Institutionally, the paradigmes are implemented using the mixed economic system. In this system operates the basic process of capitalist development. This process is that of M-C-M. Money is converted to capital to produce goods and services to be sold in the free market to create more or profits which are further invested to create more money for the capitalists. Economic growth is the main general objective of the society. Economic growth may be achieved but ultimately there will be a few rich capitalists with many marginal enterpreneurs and a lot of poverty in the population. The mode of implementation being based on the basic paradigme of individualism, with the many paradoxes plaguing the system, there is widespread ineficiency, making it the more difficult and expensive to eradicate poverty sustainably.

V. Povery eradication: some preliminary steps.

1. M-C-M versus SDM-K-SDM

The defining operational difference between the capitalistic view of the world and the Islamic one lies in the overiding importance attached to material achivement in the former and in the latter, the overiding importance of constantly improving the behavior of man in the effort to acvhieve *falah*. *Falah* is prosperity in this world and the next. The basic working model to operationalize the capitalistic world view is M-C-M. The basic objecive is to maximize economic growth.What would be the working model to operaionalize the Islamic world view?

It is suggested here that it be SDM-K- SDM. Whereas M-C-M is material based and the process is directed toward maximization of material acquisition, SDM-K-SDM is human based and the process is directed to maximize human quality and

prosperity (qp). SDM is defined to be all human beings in an institution and their potential for development. K is defined to be the increase in faith, the increase of knowledge, the increase in quality of livelihood, the increase in the quality of progeny and the increase in material wealth. So development processes should not only be human based but they should also be directed to ever increase human quality and prosperity along the five dimensions of the *maqasid syariah*. In this process of development, the qp of the human resource will increase constantly. That means the human resouce at the second stage of development will be of higher qp than human resource at the first stage. Presumably this process will go on until a certain stage where there is no poverty anymore in the absolute total sense. There will still be some level inequlity in relative sense involving the various components of the *maqasid syariah.*

2. Programming maqasid syariah

But how can one possibly achieve such a stage ? It is through indexation of the five components of human qp. One first defines the initial position of human qp for each of the five components. One must define the initial position for each of the five dimensions of qp. Take, for example, the case for the increase in faith. There is a problem when can one say that there is an increase in religious faith in society? Possible measures are, decrease in the number of people in jail, decrease in corruption cases, decrease in murders, increase in the number of people going to mosques and to do haj, etc. These are possible measures. Whatever the measures adopted, then these measures need to be indexed for both the present position and the future position one would like to achieve. Say the index for the present position is 50. One would like to achieve an index of 200 in 10 years from now. In the same way one can index the present position and the future position one would like to achieve for the other components of the *maqasid syariah* including poverty reduction and income increase. Thus for example for all the components of the *maqasid syariah,* the total index points that have to be achieved is 1000 in ten years from 250 at the moment.

The proper method of calculating and indexing for the various aspects of human developement may be further improved to include the measurement of faith than the ones used by the UNDP which themselves have been perfected over the years . I would like to refer the reader for such techicalities to Technical Note No.1 in the Human Development Report 2009 of the UNDP.

The important point to note is that by indexing in a holistic manner, one places the various dimensions of objectives in development in proper balance of importance one to each other in accordance with priority needs of a country ia a particular period of time or a particular region within a country. However, the holistic nature of the qp program must be kept. What is to be noted here there is no dimension dominating all the others as the case with the present practice of putting so much undue weight to economic growth as an objective in developement. The holistic approach in increasing qp automatically programs the sustainability of the environment since economic growth is organically connected with the total index to be achieved. The developed economies may need a lower economic growth at the moment given the present state of the world environment, such as global warming, and the role of the developed economies in creating these human woes. That such a holistic approach, for the underdeveloped economies and Islamic ones, may result in a more stable and higher rate of growth in material wealth in the long run than otherwise is something that is supported by both logic and Islamic teachings.

3. The development of conciouness to support the SDM-K-SDM approach

The long term consistency and success in capitalist development in the West since Adam Smith wrote his book, The Wealth of Nations, in 1776, has been a testimony to the continous development of conciousness of the governance system in particular and the population in general along the basic paradigmes of materialism, individualism, freedom and positivism. A similar line of development in conciousness is required in Muslim societies but with values consistent with the *maqasid syariah* if the programs outlined in point 1 and point 2 above are to be successfully implemented. Different from the conciouness development in the West, the development in Muslim countries does not have to be preceeded by a 'revolt against God'. However there is still the management problem of where and how should one begin with this conciousness development?

One should begin with the most practical but fundamental aspects in poverty eradication. These aspects are the development of micro, small and medium enterprises, the increasingly successful implementation of government development programs, including poverty eradication programs, the more serious effort to develop the society's sector in development and the dvelopment of the scientific base to support long term success in SDM-K-SDM approah. These points are dealt with below briefly.

4. Free competition, markets and the development of micro, small and medium enterprise

The present lopsided role in production as between micro, small, and medium enterprises on the one side with the larger enterprises on the other as pointed out earlier has to be considered to be the outcome of individualistic and materialisticc quest for profits in a market which is far from fair. There is asymetric information with the micro, small and medium enterprises on the losing side. As was pointed out the access to credit is far from fair also. On the demand side, the market may be considered to reflect the unequal distribution of income in the society. So there is a strong justification for the government to determine beforehand an objective in improving market structure by setting the relative roles in total production of the micro, small, and medium enterprises on the one hand and the large enterprises on the other. In the micro, small and medium sector is already included the agricultural production sector. So, for example, one may determine that the role of the micro, small and medium enteprises need to increased as a matter of structural objective to 65 % in ten years from 57 % at the moment. Financial, manpower and technology and other policies then will be fashioned to realize the structural target.

5. Overcoming Arrow's paradox to solve the coordination problems

Clearly the key to success in implementation is to do away with Arrow's paradoxes that may exist between programs as well as within a program. This means the establishment of clear quatitative and/or qualitative focus within each of the programs, departments, or divisions which are organically connected to one another not only through power and shared commitments but also though information. The program of maqasid syariah will consist of interconnected foci which become the resposibility of the personel in the departments to achieve. Since no target focus stands alone in isolation, cooperation between personel resposible in target focus achievement will be a basic requirement for success. It is interesting to note that President Yudhoyono, in the first cabinet meeting of the new elected government,

provided his ministers with three taglines to further coordination in implemetation: change and continuity; de-bottlenecking, acceleration and enhancement; unity, together we can (Kompas October 24, 2009: 1). Whether or not such recipes will be able to reduce Arrow's paradoxes and achieve at least 7 % growth by 2014, only time will tell. But one only hopes the structural, motivational and structural assumptions underlying the successful execution of the taglines have been properly taken into account.

6. Development of the community sector

A basic difference between the capitalistic system and the syariah system with regard to sectors is that in the pure competitin system as developd by Adam Smith, there are only two sectors. These are the business sector and the government sector. In the Islamic conseption of the economy, there is a third equally impotant sector which is the society's sector or the comunity.

There is a pressing need to develop the community sector of waqf and zakah to help finance the eradication of poverty in the shortest possible time. This is because the rate of decline in poverty eradication has been slow. In 2000 the rate of poverty as a proportion of the population has been 19.14 %. In 2008 this rate has been 15.4 %. In the 8 years there has been a decline of 3.66 % or about .46 % a year. If one wants to increase the decline one needs not only more funds but also more personel to reach the more difficult locations. The government may lack both. So it is necessary to involve non-government social organizations in the country to participate in the poverty eradication. The sectors of zakat and waqf need ot be invigorated to realize their big potential. The communitys' social organizations such as those of Muhaamdiyah and Nahdatul Ulama need to be systemically brought in to the effort in poverty alleviation. If the communitys' organizations are involved there is a bigger chance that the Millenium goal of halving poverty by the year 2015 to half of the 2000 poverty rate, that is 9.7 % of the population. At the present rate of reduction, in 2015 the poverty rate will be about 12.64 % .

7. The development of knowledge base for syariah oriented development process.

The need for improved knowledge base is exeplified by the development of the syariah banking sector in Indonesia. This development is fast compared to the overall development of the banking sector. For example, between 2005 to 2007, the assets of the syariah banks increased from.Rp.17.84 trilliun in July 2005 to Rp.29.71trilliun in July 2007 or about 32 % each year. In the same period the banking sector overall increased its assets from Rp.1334.6 trilliun to Rp 1771,0 trilliun or about 16 % each year. There has been an increae in office establisments (Hasibuan, Sufianti, Hadi: 2007). However, the syariah banking sector suffers from a lack of qualified personel. As a consequence the sector suffers many deficiencies in its operations. The syariah principle that has been implemented has been mainly revenue sharing. The main line of business that has been undertaken has been the *murabahah* with more than 60 % of total operations. As such therefore the syariah banking sector is far from being the efective vehicle for implementing the values contained in the *maqasid syariah*. In other words, the syariah banks are not yet in a posistion to implement the SDM-K-SDM approach in its institutional development. In any case there is a need to develop

syariah knowledge in banking to help move the development more radidly and professionally.

In a larger context there is need to reorient university teaching in the various fields of knowledge to be Islamically oriented. The field of syariah economics is advancing comparatively farther than other fields in the social sciences. The teaching in the other social sciences need to be likewise turned towards Islamic orientation. The general scientific development in the social sciences has to be to support the cultural transformation from capitalist conciousness to Islamic conciousness. At the moment one is faced with the big task of producing suitable curriculums and textbooks all of which lacking or non-existent.

In the physical sciences, the main issue is to orient the substance of the teaching of theories and their applicatins towards solving the development problems of the Muslim communities in the various fields of engineering, agriculture, housing, water treatment,etc. The development of the physical sciences, it seems, has to be directed to support the material development in Muslim communities to be Islamically oriented. There is along way to go here. It is however clear that economic development on the basis of Islamic values will need the continued supprot of Islamically oriented knowledge development.

VI. Conclusion

Since independence more than 64 years ago Indonsian society has tried to do away with poverty with the government taking the lead. But at this time more than 34 million Indonesians cannot meet their basic needs for food and other essentials. This is not because of lack of food in the country. In 2009 Indonesia exports rice to the tune of 100.000 tons (Google, Rice Exports Indonesia). It is the capitalistic system which has failed to do its proper economic functions especially to properly distribute the wealth that has been created. Poverty and unemployment become rampant. Such malfunction is a systematic error in the system, supported as it is through the development of capitalist conciousness which is inconsistent with the culture based in the belief in God and humanity which are the basis of the Indonesian national ideology.The capitalistic system has to give way to a more suitable system as defined by the Indonesian constitution. Such an economic system is human based using values derived from religious, especially Islmic teachings. One may call it syariah economics. Only through systemic change can poverty be eradicated suatainably. Such a change will involve transformation of conciousness of Indonesians, especially of its leaders. There is a need for change in the basic socio-economic processes from that based on achieving purely material prosperity to human based socio-economic proceeses to achive holistic goals of prosperity in this world and the next. Some short term immediate steps have been indicated by the paper towards this end. Clearly this study is just a beginning to open up new horizons for the implementation of syariah economics in Indonesia, and hopefully other Muslim communities may benefit from it.

BIBLIOGRAPHY

Bank Indonesia, *Indonesia Banking Statistics*, Jakarta July 2009

BPS, *Statistical Yearbook of Indonesia 2008*, Jakarta, 2008

BPS (Central Statistical Office), *Analysis and Calculation of the Rate of Poverty 2008,* Jakarta, 2008

Encyclopedia Americana, Volume 14, USA, 1978

Harian Kompas (Kompas Daily), Jakarta, October 5, 2009

Harian Kompas (Kompas Daily), October 24, Jakarta, 2009

Harian Kompas (Kompas Daily), October 30, 2009

Hasibuan (1), S., *The Role of Syariah Economics and The Failure of Neoclassical Economics,* Muhammadiyah Univesity Surakarta, Solo, Indonesia, 2008, www.uai.ac.id

Hasibuan (2), S., *Sistem Perencanaan PembangunanNasional, Alat Bagi kebangkitan Bangsa* ? (*System of National Development: A Means for National Uplifting ?*), Bulletin No 2, Vol.2, Department of Economics Al Azhar University, Jakarta ,2008, www.uai.ac.id

Hasibuan (3), S., *Manajemen Pembangunan Bangsa dan Rencana Pembangunan Nasional 2005-2009 (National Development Management, Indonesia Medium Term Development Plan, 2005-2009),* in Transformasi, Vol.1 No.2, Department of Economics, Al Azhar University Indonesia, Jakarta 2006 .

Hasibuan, S., Sufianti, Y., Hadi, K., *Fokus Kebijakan Keuangan/ Perbankan Kedepan:Peningkatan Peran Bank Syariah Dalam Perekonomian Secepat Mungki*n (*The Focus of Banking/Finance Policies in the Future: To Increase The Role of Syariah Banks In The Economy As Soon As Possible*), Bulletin No. 7,1997, www.uai.ac.id

Heilbroner, R.L., *The Nature and Logic of Capitalism*, W.W. Norton & Company, Inc., New York, 1986

Republic of Indonesia, Department of National Development/ Bappenas, *Pencapaian Sebuah Perubahan (Achievement in Change*), 2009

Republic of Indonesia, *Indonesia Medium Development Plan, 2004-2009*, Jakarta 2004

Samuelson,P.A. & Nordhaus, W.D., *Economics*, Mcgraw –Hill International Edition, Nieteenth Edition, Singapore, 2010.

Smith, A., *The Wealth of Nations*, J.M. Dent & Sons Ltd., London, 1960

UNDP, *Human Development Report 2009* , Oxford University Press, London, 2009.

AN INTEGRATED POVERTY ALLEVIATION MODEL COMBINING ZAKAT, AWQAF AND MICRO-FINANCE

M. Kabir Hassan,
University of New Orleans
Ali Ashraf, Bangladesh Bank and University of New Orleans

Corresponding Author

M. Kabir Hassan
Department of Economics and Finance
University of New Orleans
New Orleans, LA 70148, USA
Cell Phone: 610-529-1247
Office Phone: 504-280-6163
Email: mhassan@uno.edu
Email: KabirHassan63@gmail.com

AN INTEGRATED POVERTY ALLEVIATION MODEL COMBINING ZAKAT, AWQAF AND MICRO-FINANCE

M. Kabir Hassan

ABSTRACT

In this paper, we present a model that integrates two traditional Islamic tools for poverty alleviation: Zakat and Awqaf, with the evolving concepts of Islamic micro-finance. We also analyze the often-made criticisms of conventional micro-finance and attempt to develop the concept of an Islamic micro-financing institution that may overcome such short-comings. We elaborate on the overall framework of the proposed model, its sources of funds, investment modes and its management aspects.

Key Words: *zakat, awqaf, microfinance, Islamic, poverty alleviation*
JEL Classification: G21, G24, L26, P51

1. POVERTY: CONCEPTS AND VIEWS

Poverty is a multidimensional economic phenomenon that has both political and social ramifications. It exists throughout generations and societies irrespective of cultural affiliation and geographical boundaries. Although the nature of poverty may vary from community to community, culture to culture and time to time, poverty persists in both rural and urban areas alike; and also in both developed and developing economies. [1]

1.1 Definition of Poverty

Schubert (1994) identifies and establishes different poverty features. Poverty is less extensive in urban than in rural areas, as chances of employment and income growth in urban areas are higher. As agricultural activities are associated with the uncertainty of natural disasters and cyclical properties of crop cycles and climatic cycle, the rural poor dependent upon agriculture suffer from poverty of a seasonal nature.

The urban poor generally engage in low-skilled and low-paying jobs such as day laborer, mason, and cleaner, etc. There is a cause-and-effect relationship between family size and poverty. Larger families are more likely to suffer from severe poverty than smaller ones. Lack of education and poverty also has a cause-and-effect relationship as lack of education leads to a low level of human capital and capacity. In general, poverty density is relatively higher in localities that lack infrastructure and facilities. [2]

1.2 Different Approaches to Anti-Poverty Programs

Anti-poverty programs can be broadly classified into two strategies: (a) Indirect Strategies: that formulate a macro-economic policy framework to ensure sustainable growth, higher employment, higher per capita income, and eventually reduce poverty; and (b) Direct Strategies: that target the underprivileged population and provide them

[1] Alhabshi, Datuk Dr. Syed Othman, "Poverty Eradication From Islamic Perspectives", p. 01.

[2] Hassan, M. K. and Md. Juanyed Masrur Khan, (2006), "Zakat as a tool for poverty alleviation in Bangladesh", pp. 07-08.

necessary assistance to ensure credit access, improve health conditions, increase literacy rate and ultimately eradicate poverty (Pramanik, 1994).[3]

Indonesia, Malaysia, and Thailand are good examples of countries that have alleviated poverty through indirect strategies. These countries pursued consistent macroeconomic policies that ensured growth of six percent or greater and increased public spending on education, health, family planning, etc. for decades. In contrast, Bangladesh is an example of direct policy application where government and non-governmental organizations provide a set of services for the targeted poor population like ensuring access to credit, health care and educational services to targeted underprivileged individuals (CPD, 1996).

2. ISLAM AND POVERTY ERADICATION

Islamic principles of poverty alleviation are based on the Islamic views of social justice and the belief in Allah Almighty. Islam defines poverty as a state whereby an individual fails to fulfill any of the five basic human requirements of life: (a) Religion, (b) Physical self, (c) Intellect or Knowledge, (d) Offspring, and (e) Wealth.

The Islamic economy identifies individual differences among people as each person is endowed with different types and levels of human abilities. Thus, even though individuals are provided with equal opportunities, the economic status of two individuals may not be equal.[4] Therefore, poverty cannot be alleviated simply through income redistribution or ensuring equitable opportunities for all. An Islamic approach to poverty alleviation would ideally involve a holistic approach including a set of anti-poverty measures: (a) increasing income level with pro-poor programs, (b) achieving an equitable distribution of income and (c) providing equal opportunities for all social segments.[5]

2.1 Poverty Eradication Strategies in Islam

The Islamic approach involves three distinct sets of measures: (1) positive measures, (2) preventive measures, and (3) corrective measures, as presented in the Figure 1:

2.1.1 Positive Measures: Islam engages different positive measures in alleviating poverty: (a) income growth, (b) functional distribution of income, and (c) equal opportunity.[6]

a. Income Growth: Islam emphasizes moderate consumption behavior at individual level that produces necessary savings for both the individual and the overall economy and also stresses on the need for halal earning. The Quran teaches us that: (1) “A person gets what he or she strives for.” (53:39), (2) “Earning a halal living is farz (obligatory) after obligatory rituals.” (Al Baihaqui, Tabarani), and (3) “Do not make your hand tied to your neck, nor stretch it forth to its utmost reach, so that you become blameworthy and destitute.” (17:29) (Sadeq, 1995)

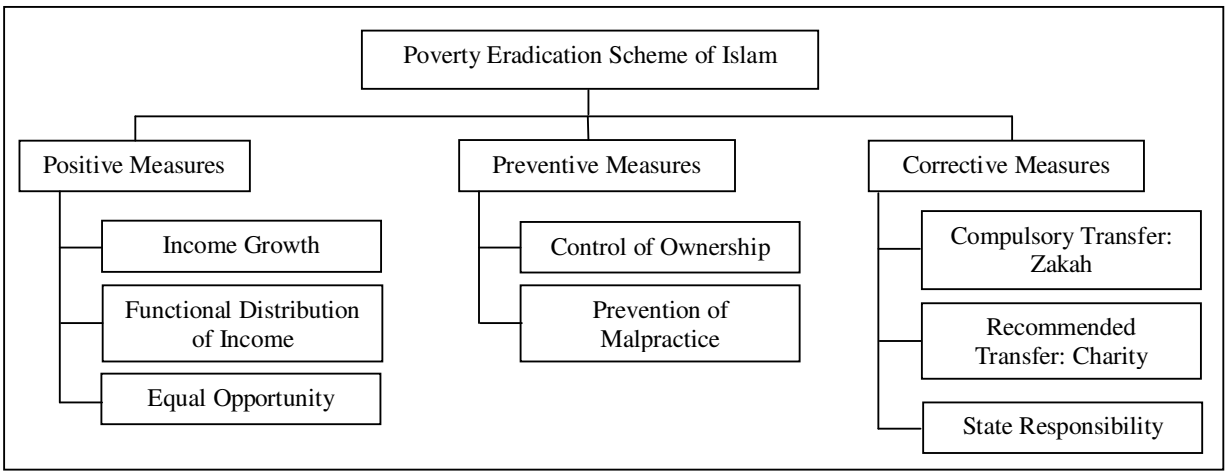
[3] Hassan, M. K. (2006), “The Role of Zakat in Poverty Alleviation in Bangladesh”, pp. 06-07.

[4] Alhabshi, Datuk Dr. Syed Othman, “Poverty Eradication From Islamic Perspectives”, pp. 03-04.

[5] Hassan, M. K. (2006), “The Role of Zakat in Poverty Alleviation in Bangladesh”, p. 13.

[6] Hassan, M. K. (2006), “The Role of Zakat in Poverty Alleviation in Bangladesh”, p. 13.

Figure 1: Poverty Eradication Scheme of Islam



Source: A. M. Sadeq, 1995, Poverty Alleviation: An Islamic Perspective.

b. Functional Distribution of Income: Functional distribution of income refers to equitable distribution of income among all the factors of production in absence of which high income-growth alone may not be able to alleviate. Islamic norms ensure that the principle for factor pricing is based on justice and fairness. The Quran teaches us that: (a) "Allah commands justice and benevolence." (16:90), and (b) "Woe to those that deal in fraud; those when they receive from man take full measure, but when they give by measure or weight to others give less than due." (83:1-3).

Islamic approach recommends measures for an equitable distribution of income among factors of production such as profit sharing. Islam prohibits Riba and emphasizes the distribution of profits on the basic definition of ratio, rather than a nominal fixed interest among the stakeholders (Sadeq, 1995).

2.1.2 Preventive Measures: Islamic economy also ensures preventive measures be taken so that wealth is not concentrated in a specific section of a population; such as: (a) control over ownership, and (b) prevention of malpractices.[7]

a. Control of Ownership: In Islam, ownership of everything belongs to Allah Almighty. Man has the secondary ownership, as trustee, for utilizing resources per the terms and conditions of the trust. In an Islamic economy, resources identified for public use, such as natural resources, cannot be privately owned. The state should own such resources so that they are accessible to all sections of the population when necessary. However, Islam allows private ownership in business and industry as long as they are performed based on Islamic ethics and norms.

b. Prevention of Malpractice: Islam identifies and prohibits malpractices that lead to economic disparity such as gambling, hoarding, cheating, bribery, and interest or Riba. The Quran teaches us: "O ye believe! Squander not your wealth among

[7] Hassan, M. K. (2006), "The Role of Zakat in Poverty Alleviation in Bangladesh", p. 13.

yourselves wrongfully, except it be a trade by mutual consent." (4:29) In modern times, such malpractices take different forms. If all such malpractices including corporate frauds and other white-collar crimes are prevented, inequality in income distribution could be avoided (Sadeq, 1995).

2.1.3 Corrective Measures of Poverty Eradication: The third set of anti-poverty measures: the "corrective measures" fosters wealth transfers so that wealth is not concentrated among the wealthy through; (a) compulsory transfers (Sikh), (b) recommended transfers (charity), (c) state responsibility (enforcement and basic needs).

a. Compulsory Transfer (Zakat): Islam establishes Zakat as a compulsory for all well off Muslims. Zakat is a unique instrument for poverty alleviation as wealth is transferred from well-off people to worse-off people. Islam identifies Zakat as one of the five pillars. Anybody denying obligation of Zakat ceases to be a Muslim. According to the Quran: "The Zakat is meant only for the poor and needy, those who collect the tax, those whose hearts are to be won over, for the freeing of human beings from bondage, for the relief of those overwhelmed by debts, for the cause of God, and for the wayfarer: [this is] an ordinance from God- and God is All-Knowing, Wise". (9:60).

b. Recommended Transfers (Charity): Islam encourages charity and acts of benevolence rather than mandatory transfers like Zakat and Sadaqat al-Fitr. The Quran teaches us: (1) "And in your wealth, are obligations beyond Zakat." (2) "In their wealth, there is a known right for those who ask for it and for the deprived." (70:24-25). Thus, charity and other acts of benevolence are highly recommended. In the case of strong economic disparity or poverty, such transfers would become obligatory (Sadeq, 1995).

c. State Responsibility: In the Islamic system, the state should be held responsible for maintaining a favorable environment for legal business and economic activities. The state should also protect its citizens from malpractice of any form. Finally, the state should enhance the institution of Zakat and provide equal opportunities for all.[8]

2.2 Comparison of Islamic Tools for Poverty Alleviation

In Islam, two charities, compulsory (such as Zakat) and optional (Sadaqa) engage in initiatives of poverty alleviation through the redistributive approach. On the other hand, the third type of charity, Perpetual (Awqaf), is used to improve non-income aspects of the poor such as health and education as well as increasing their access to physical facilities, resources, and employment.[9] Need to say explicitly what physical facilities and resources are available or give an example in parentheses. Table 01 summarizes the key features of three basic tools for poverty alleviation and briefly compares them.

[8] Hassan, M. K. (2006), "The Role of Zakat in Poverty Alleviation in Bangladesh", p. 14.

[9] AbdulHasan M. Sadeq (1995), "Awqaf, perpetual charity and poverty alleviation", p. 137.

Table 1: Comparison of Poverty Eradication Tools in Islam

	Zakat	Lillah	Awqaf
Compulsory/ Voluntary	Compulsory	Voluntary	Voluntary
Rate	Fixed rate	Any amount	Any amount
Expense categories	8 Fixed expense categories	Flexible expense categories. Donor can decide.	Flexible expense categories. Donor can decide
Spend	Generally spent in one year	Generally spent in one year	Generally Capitalized
Investments	Generally not invested – needs to be discharged as soon as possible	Generally not invested – may be discharged according to need and mandate	Invested in social or economic asset
Shariah governance: Liability	Liability for payment is governed by Shariah	Any person can give	Donor must be sane, of age, male or female
Mutawallee	Mutawallee not necessary	Mutawallee not necessary	Must appoint Mutawallee (trustee)
Document	No document necessary	No document necessary	May be done through a Awqafiyyah (Donation Deed)
Sadaqah Jariyyah	Generally not continuous	Generally not continuous	Always a continuous charity and continuous reward
Capital base	Not a capital base	Not a capital base	Forms a Capital Base for Sustainable Community Development
Beneficiaries	Applied only to Muslims.	May be applied to all irrespective of creed.	May be applied to all irrespective of creed.
Time for payment	Generally paid in Ramadaan	Can be paid at any time	Can be paid at any time
How payment is effected	Generally paid in cash or stocks	Can take the form of any asset	Can take the form of any asset – cash, land, coins, jewellery

Source: National Awqaf Foundation of South Africa-Questions and Answer, 2007.

2.3 Zakat as a Tool for Poverty Alleviation

Islam establishes zakat as a compulsory charity tool that can be used on eight purposes. 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 heads are the administrative cost of Zakat, 'those whose hearts are made inclined' (to Islam), and in the way of Allah. Although eight heads for spending Zakat revenue have been mentioned in the Qur'an, 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.[10]

2.3.1 The Nisab of Zakat: There are several opinions regarding which articles would be considered for Zakat. One opinion considers that Zakat is only imposed on four types of agricultural products (wheat, barley, dates and resin), gold and silver, and freely pastured camels, cows, and sheep. However, such items would only constitute a part of the wealth of rich people of modern societies, as wealth and income have taken other forms. Another view of Nisab considers that Zakat must be imposed on the wealth and income of the rich that exceeds the normal and customary personal and

[10] Hassan, M. K. (2006), "The Role of Zakat in Poverty Alleviation in Bangladesh", p.16

family expenditures, like: business assets, bank accounts, financial assets and rentable buildings (Hassan and Khan, 2007).[11]

2.3.2 Scope of Zakat: Zakat can be used as part of a long-term strategy for poverty alleviation. The views expressed by the founder of three scholars of jurisprudence, namely, Shafi, Malik, and Ahmed bin Hanbal are noteworthy. "According to Malik and Ahmed bin Hanbal, the amount paid in Zakat must be enough for one year's requirement. 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." [12] 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.[13]

2.3.3 Zakat As An Alternative Source Of Funding: Zakat funds, if collected and managed properly, could be used to create a *pull of funds* which can be used in financing development activities and can replace government expenditures. In Bangladesh, Zakat funds could have contributed up to 21% of the Annual Development Plan (ADP) in 1983/1984 and up to 43% of ADP in 2004/2005; this amounts to TK.30,683 million in 1983/1984 and TK. 220,000 million in 2004/2005.[14] In developing countries such as Bangladesh, foreign aid from donors contributes a significant portion of the development budget. If Zakat funds are properly managed, these funds could replace foreign aid and therefore significantly reduce the debt burden. (Hassan and Khan, 2007)

2.4 Awqaf

In the Arabic language, the word Awqaf literally means hold, confinement or prohibition. In the Islamic system, Awqaf is a perpetual charity that means holding certain property and preserving it for the confined benefit of certain philanthropic purposes. Although Awqaf applies to non-perishable properties like: fixed property, land or buildings, it can be applied to cash money, books, shares, stocks, and other assets. The concept of Awqaf is a well-practiced phenomenon in recent times in both the Muslim and non-Muslim world. In North America, such Awqaf institutions are rendering a wide range of services by providing religious education, community services and maintenance of the Mosques (Kahf).[15]

2.4.1 Kinds of Awqaf: Awqaf can be classified into different kinds based on its purpose or uses. The following are the most common Awqaf:

a. **Religious Awqaf** focuses on maintenance of Religious institutions, like: mosques and madrasas and their adjacent premises and properties.
b. **Philanthropic Awqaf** aims at providing support for the poor, such as: health services, as well as education. In the early days of Islam, Prophet Muhammad (S.A.W.) initiated this type of Awqaf with the objective to reduce the disparity and inequality among the social strata.

[11] Hassan, M. K. and Md. Juanyed Masrur Khan (2006), "Zakat as a tool for poverty alleviation in Bangladesh", pp. 10-11.
[12] Hassan, M. K. (2006), "The Role of Zakat in Poverty Alleviation in Bangladesh", p. 16.
[13] Kahf, Monzer (2006), "Role of Zakat and Awqaf in Reducing Poverty: A Case for Zakat-Awqaf-Based Institutional Setting of Micro-finance", p.10.
[14] Hassan, M. K. and Md. Juanyed Masrur Khan (2007), "Zakat as a tool for poverty alleviation in Bangladesh", p. 18.
[15] Kahf, Awqaf And Its Sociopolitical Aspects", p. 04.

c. **Family Awqaf** is a unique kind of Awqaf that ensures Awqaf proceeds are given to the family and descendents in the first place and then the excess be given to the poor. This is in contrast to traditional trusts in western society that allows for no benefits towards the families and only to religious or philanthropic purposes (Kahf).

2.4.2 Legal Conditions Of Awqaf: The creation of a Awqaf involves some legal obligations such as: (a) The property must be a real asset that has some meaning of perpetuity such as land, buildings, camels, cows, sheep, books, jewelry etc. (b)The property should be given on a permanent basis. (c)The Awqaf founder should be legally fit and apt to take such an action and a child, an insane person, or a person who does not own the property cannot make Awqaf. (d)The purpose of the Awqaf must be an act of charity from both points of view of Shariah and of the founder. (e) Finally, beneficiaries, person(s) or purpose(s), must be alive and legitimate.

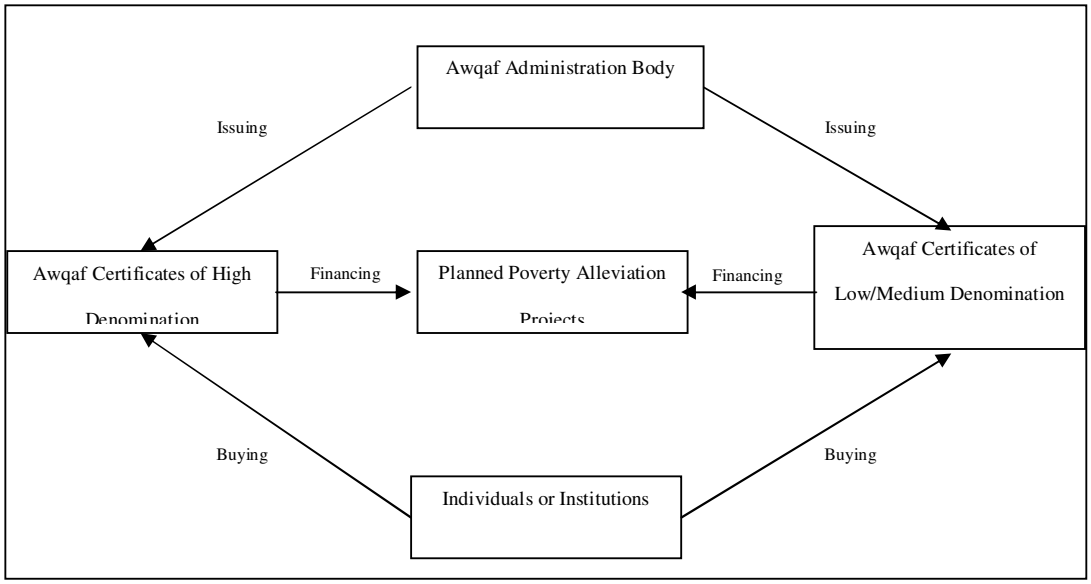
However, Awqaf can be in cash as well. In the first century of Hijrah, a cash Awqaf was in practice in two forms: (1) cash for free lending to the beneficiaries, and (2) cash for investment and its net return as assigned to the beneficiaries. [16] Such cash Awqaf became very common in the later stage of the Ottoman Empire as well.

2.4.3 Scope of Awqaf as tool for Poverty Alleviation: As the primary focus of Awqaf is philanthropy, on principle, its objectives are in line with poverty alleviation objectives. In modern times, Awqaf can be rejuvenated through innovative approaches and at the same time comply with Islamic principles. AbdulHasan M. Sadeq (1995) presents an integrated approach on how traditional institutions of Awqafs may be revitalized through innovations.[17] Awqaf certificates of different denominations could be issued to raise the cash Awqaf, so that a number of individuals or institutions may buy them and finance the development projects. Besides, cash Awqafs could be encouraged among people through building confidence on management.

Awqaf funds raised from issuing certificates and cash Awqafs can be used in creating a pool of funds (similar to the pool of Zakat funds mentioned before) for financing development projects. As Awqafs are generally applied on fixed assets, such assets are often under-utilized. On the other hand, if cash Awqafs are raised by issuing Awqaf certificates, they could be used more efficiently in a wide range of development projects.

[16] Kahf, Monzer (2006), "Role of Zakat and Awqaf in Reducing Poverty: a Case for Zakat-Awqaf-Based Institutional Setting of Micro-finance", p.10.
[17] AbdulHasan M. Sadeq (1995), "Awqaf, perpetual charity and poverty alleviation", p. 143.

Figure 2: Issuing of Awqaf Certificates to Finance Development Project



Source: AbdulHasan M. Sadeq

2.5. Weakness of Traditional Zakat Management

Although in early Islamic states, Zakat funds were collected and managed by the state, Zakat management has gone through historical challenges after the extinction of early Islamic states. After the colonial era, a few Muslim countries such as Yemen, Saudi Arabia, Libya, Sudan, Pakistan, and Malaysia have opted for mandatory Zakat management through government. Other countries such as Egypt, Jordan, Kuwait, Iran, Bangladesh, Bahrain and Iraq, have formed specialized state institutions but participation of public is made voluntary.

However, in most Muslim countries, the contribution of Zakat from Zakat donors to such managed Zakat funds has been less significant because of different reasons: a) Individual Zakat donors usually have preferences over whom they should pay Zakat - in some cases their close relatives and neighbors; b)The low credibility of management because of government involvement; c) More importantly, in National Zakat Management Fund, which has little knowledge regarding the eligibility of recipients.

2.6 Weakness of Traditional Awqaf Management

From the legal point of view, the ownership of Awqaf property lies outside the person who created the Awqaf. The Awqaf manager, also known as Mutawalli, is held responsible for the overall management of the Awqaf property to ensure the best interest of the beneficiaries. Usually the Awqaf documentations mention how the Mutawalli be compensated for this effort. If the document does not mention such compensation for the Mutawalli, the Mutawalli either volunteers the work or seeks assignment of compensation from the court.[18]

[18] Kahf, Awqaf And Its Sociopolitical Aspects", p. 04.

Historically, Awqaf played an important role in the socio-economic development in Islamic societies during the early days of the Islamic era. In early nineteenth century, a special ministry was established for Awqaf in the Ottoman Empire and different laws of Awqaf were enacted. Among them, the most important was the Law of Awqaf of Nov. 29, 1863 (19/6/1280 of the hijrah calendar) that remained in effect in several countries (Turkey, Syria, Iraq, Lebanon, Palestine, Saudi Arabia) for many years after the break-up of the Ottoman Empire in 1918.

Over many centuries, the institution of Awqaf has been systematically destroyed by both the colonial rule, and later on, by post-colonial nationalization of Awqaf management. One reason behind the vengeance against the Awqaf institution was that religious education enjoyed major contributions, which was a cause of rebellion during colonial and post-colonial eras. This systematic destruction of Awqaf management has led to its present problems, like: a) Low credibility of management because of government involvement, b) Lack of research about the modernization of Awqaf as an Islamic institution, c) Lack of consensus among different schools of thought of Islam about Awqaf laws and their implications.

3. CONVENTIONAL MICRO-FINANCE AND ISLAMIC MICRO-FINANCE

3.1 CONVENTIONAL MICRO-FINANCE

Over the last three decades, micro-finance has evolved as a major financial innovation in providing collateral free credit access to the poor. Microfinance assumes that, to the micro-entrepreneurs, lack of collateral is the most important obstacle in availing formal credit and it hinders the overall investment and profitability of the business. So micro-finance aims at providing collateral free financial services to the poor to assist them develop micro-businesses, increase their income level and eventually get out of the poverty trap (Dichter, 2007). [19]

However, the definition of micro-business in micro-finance is not well-defined and it may vary from country to country depending on the country's stage of development, policy objectives, administration, etc. (World Bank 1978). Micro-businesses and medium enterprises are generally identified by amount of fixed capital and the number of workers and usually they involve economic activities in three broad categories: production, trading, and providing transport services[20].

3.1.1 Weaknesses of Conventional Micro-finance

Although the key objective of micro-finance is providing credit access to the poor, there has been much debate among development specialists regarding what activities actually constitute a micro-business and whether or not micro-finance is being used merely for consumption smoothing purpose only. Micro-financers have been promoting non-firm activities among the rural poor to encounter against the inherent seasonal trend of agro-economic activity that generates irregular cash flows. However, in many cases the borrowers start up taking loans for micro-business but end up with fulfilling immediate consumption needs turning micro-finance into a merely consumption-smoothing act.

[19] Dichter, Thomas (2007), "A second look at Micro-finance: The sequence of Growth and credit in economic history", p. 01.

[20] Ahmed, Habib (2002), "Financing Microenterprises: An Analytical Study Of Islamic Micro-finance Institutions, p. 03.

Another problem with micro-credit is the basic assumption that the poor can be good entrepreneurs given access to credit. However, in developed countries people usually prefer jobs to entrepreneurships as they are more risky. There is no reason to assume that the poor would possess better entrepreneurial skills following their basic economic activities that serve subsistence purposes only such as going to a nearby commodity market to buy and sell basic consumption and agricultural products (Dichter, 2007). [21] Apart from these crucial debates, there are some other impediments that endanger the desired effects of micro-finance on poverty alleviation. We explain such problems as follows (Ahmed, 2002).

a) **Asymmetric Information Problems:** Although conventional micro-financing institutions focus on participation of women in entrepreneurial development, eventually such loans may end up in the hands of male members and being used for other purposes, as the society itself is male dominated (Rahman 1999). Such diversion of credit can easily lead to higher loan defaults and lead to adverse selection problem for the micro-financing institutions.[22]

b) **Economic Viability of MFIs:** One of the major financial challenges of the traditional micro-credit institutions (hereafter mentioned as MFI's) is their high operating and administrative cost for monitoring loan operations closely as they engage in small collateral free credits to a large number of borrowers. Bennett (1998) reports that the administrative cost of five MFIs in South Asia is in the range of 24% to 400% for per dollar lent. Besides this, another concern for conventional MFIs is their dependency on foreign aid as ensuring constant and predictable foreign aid may become increasingly difficult in future in the changing business environment.

c) **Charging Fixed Interest Rates:** Usually, MFIs pursue a standard and generalized policy of lending rates in different loan categories. However, profitability of a similar project may be different because of differences in geographic or demographic conditions. For example: a project located in community better equipped with infrastructure may become more profitable that a similar project in a community that lacks good infrastructure. In such cases, charging a fixed specific interest rate irrespective of project features may be counter-productive from a poverty alleviation objective.

d) **Higher Interest Rates and focus on short term loans:** One of the reasons behind the most common allegation against conventional MFIs of higher interest rate is the imbalance in their investment portfolio and capital structure. Although the major portion of the capital and liability structure is long term, their investments are generally short term focused that creates additional pressure on liquidity. As a result, MFI's charge higher interest on their clients to ensure short-term investable funds and to cover up the high administrative costs.[23]

[21] Dichter, Thomas (2007), "A second look at Micro-finance: The sequence of Growth and credit in economic history", p. 01.
[22] Ahmed, Habib (2002), "Financing Microenterprises: An Analytical Study Of Islamic Micro-finance Institutions, p. 07.

[23] "ISLAM, LAND & PROPERTY RESEARCH SERIES"; Paper 8: Islamic Credit And micro-finance UN-HABITAT 2005, p. 12.

e) **Low Rate of Return on Investment:** Conventional MFIs engage in financing micro-business activities that usually substitute the agricultural or farm activities and require fewer skills. Often, such micro-business activities are related to the production of basic commodities, transportation, and trading at smaller scale ventures. However, as more and more households become involved in such ventures, return on such loans decreases as the supply side of such activities increases (Osmani, 1989).

f) **High Dropout Rate and Non-Graduation from Poverty:** The objective of micro-finance is to enhance micro-businesses and eventually alleviate poverty through ensuring a sustainable growth in their income level. Unfortunately, as micro-businesses often involve very basic activities that possess low returns, the borrowers fail to attain desired income growth and fail to upgrade from poverty. Such non-graduation from poverty and other factors such as access to other competing MFIs for credits could lead to higher dropout rates. Karim and Osada (1998) report that there is a steady increase in the dropout rate from Grameen Bank (15% in 1994).[24]

g) **Debt Trap:** Increased dropout and non-graduation from poverty among the borrowers may result in a vicious cycle of poverty. As conventional MFIs engage in strict recovery measures such as peer group pressures and social segregation, unsuccessful borrowers are to some extent forced to repay loans at any costs. Rahman (1996) discovered that the Grameen Bank borrowers often take loans from other sources to pay installments and are trapped in a spiraling debt cycle.[25]

h) **Non-Conforming to Popular Religious Beliefs:** A major challenge that conventional MFIs while operating in Muslim communities is the non-conformance of the credit system to the popular religious beliefs. As usury (Riba) is prohibited in Islam, the clergy in the rural areas and conservative Muslim societies exhibit resistance to conventional micro-financing. Another issue is the focus of credit to women. In some cases, this focus has created social conflict in conservative populations. In extreme cases, although women are the recipients of credit, the credit ends up with the male member of the family, leading to misappropriations and credit diversion.

i) **Credit Rationing:** Imperfect information on behalf of the loan officers and higher interest rates may lead to the problem of credit rationing where only projects with higher profit probability may be selected. That way the true spirit of poverty alleviation through micro-credit may be hampered and overall economic welfare may be endangered. (Dhumale). [26]

3.2.0 ISLAMIC MICRO-FINANCE

Over the past three decades, Islamic banking has grown significantly at annual rate of over 15% with an overall capitalization of US$1.3 trillion at present. (UN-HABITAT, 2005).[27] Compared to Islamic banking, Islamic micro-credit is an evolving concept

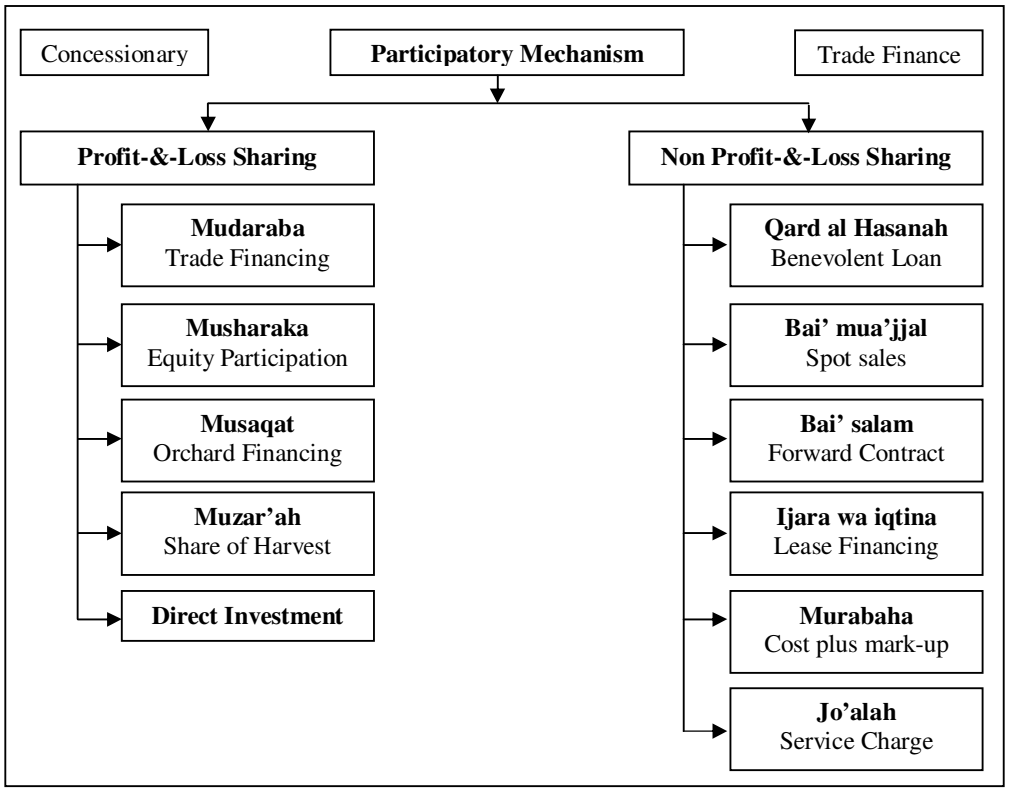
[24] Ahmed, Habib (2002), "Financing Microenterprises: An Analytical Study Of Islamic Micro-finance Institutions", p. 08.
[25] Ahmed, Habib (2002), "Financing Microenterprises: An Analytical Study Of Islamic Micro-finance Institutions", p. 08.
[26] Dhumale, Rahul and Amela Sapcanin (2002), "An Application of Islamic Banking Principles to Micro-finance", p. 05.
[27] "ISLAM, LAND & PROPERTY RESEARCH SERIES"; Paper 8: Islamic Credit and Micro-finance UN-HABITAT 2005, p. 05.

with an outreach in mostly the Arab world and has grown considerably to more than 700,000 borrowers in 2003.[28] As an effective alternative to conventional micro-financing, Islamic micro-financing institutions (mentioned hereafter: IMFIs) are evolving in different countries as well. Ahmed (2002) points out some elementary comparisons between IMFIs and conventional MFIs discussed below. [29]

3.2.1 Sources of Funds: Apart from the basic difference in principle of profit based systems and interest-based systems, IMFIs differ from conventional MFIs in their liability and capital structure. Unlike conventional MFIs that depend on interest free or low interest foreign aid, IMFIs may collect funds from religious contributions through the institutions of Awqaf, Zakat, and other charities.

3.2.2 Modes of Financing: While the conventional MFI's asset portfolio is of fixed interest nature, IMFI's asset portfolios should feature diversity in terms of mode of financing and areas of financing. Figure 03 describes the basic categories of diversified financial products the Islamic financing system offers:

Figure 3: Financing Modes in Islamic System



Source: Kazarian 1993; Iqbal and Mirakhor 1987[30]

Apart from interest-free loans (Qard-Hasan), the principles of Islamic financing can be broadly classified as partnerships (Shirakat) and exchange contracts (Mu'awadat).

[28] Dhumale, Rahul and Amela Sapcanin(2002), "An Application of Islamic Banking Principles to Micro-finance", p. 04.
[29] Ahmed, Habib (2006), "Financing Microenterprises: An Analytical Study Of Islamic Micro-finance Institutions", pp. 09-15.
[30] Dhumale, Rahul and Amela Sapcanin (2002), "An Application of Islamic Banking Principles to Micro-finance", p. 07.

As depicted in Figure 03, the Islamic system engages in three categories of financing modes, among which participatory mechanisms can be relevant for Islamic micro-financing Institutions (IMFIs).

a) **Non-Profit-and-Loss Sharing Modes:** Non-profit-and-loss sharing modes can include different transaction modes such as:
   - ***Bay'-mu'ajjal:*** is a mode of deferred sale in which the object of the sale is delivered at the time of the contract but the price is paid later. The price can also be paid in future installments.
   - ***Murabaha****:* is a special type of financial transaction, in which the IMFI buys a good or asset and sells it to the client at a mark-up. The client pays for the good or asset at a future date or in installments.
   - ***Ijarah:*** is similar to a conventional leasing contract in which the client uses an asset by paying rent.
   - ***Ijarah wa iqtina':*** is similar to a hire-purchase scheme or a lease purchase scheme in which the installment includes rent as part of the price. When the installments are fully paid, the ownership of the asset is transferred to the client.

b) **Profit and loss sharing Modes:** Among different profit and loss sharing modes, the following are most commonly practiced:
   - ***Musharaka:*** is an equity participation mode of contract where the financer provides both equity and entrepreneurial skills on a project and thus shares profit or loss on a fixed proportion. The ***Musharakah*** principle can be used in production (agricultural and non-agricultural). The IMFI can provide part of the financial capital to produce an output and in return receive a share of the profit.
   - ***Mudarabah:*** Production undertaken under the ***Mudarabah*** principle implies that the IMFI provides financing and the client manages the project.
   - ***Muzara'ah:*** is an output-sharing contract specifically for agricultural production where IMFI may provide the funding for the purchase of irrigation equipment, fertilizers, which the landowner uses on his land to cultivate a certain crop.

4.0 AN INTEGRATED MODEL OF ISLAMIC MICRO-FINANCE, ZAKAT AND AWQAF

Diversion of micro-credit for consumption purpose by the borrowers is one of the important sources of credit default in conventional micro-finance. Besides this, charging a generalized interest and at a higher rate has also hindered poverty alleviation through credit rationing and adverse selection problems. These basic challenges of conventional micro-finance can be resolved if an Islamic Micro-Finance Institution is designed in an integrated manner by incorporating the two basic and traditional institution of Islam, the Awqaf and the Zakah with Islamic Micro-finance into a single framework.

Although creating such singular institution may be premature given the present context, in this paper we attempt to outline the basic concept of such a singular

institution. Such an integrated model may effectively resolve fund inadequacy of Islamic MFIs by using funds from the Zakah and the Awqaf. The IMFIs may use the Zakah fund in disbursing funds to fulfill basic consumption needs for the hard-core poor target group in the first place, as on principle no return can be realized from Zakah fund and Zakah fund should be disbursed within one financial year. Zakah fund may also be used in providing the capital investment of or providing the business initiation fund and for that no return should be charged. However, the Awqaf funds may be used as investable fund in providing capital investment and working capital financing for the micro-businesses.

Such an integrated model may reduce the chances of loan default because the basic inherent tendency of the poor to use the loan fund for consumption purpose will be met. As their basic consumption needs are covered, the poor micro-entrepreneurs may be in better position to focus on their business alone. Moreover, the IMFI may initiate financing through different Islamic Shariah compliant modes. Since Islamic financing modes are based on principle of social justice and equity and Riba is prohibited, Islamic MFIs are likely to yield better benefit if they are properly designed. In addition, borrowers will have lower refundable loan, as a result of utilization of Zakah funds, it will result in less financial burden on the poor. Such visible benefits of such a financing organization in contrast to conventional micro-credit organization will be greater.

4.1 Organizational Frameworks and Operational Procedure of our Integrated Model

a) Organization: In modern times, management inefficiency and increased government involvement are two important factors leading to decrease in public participation in Zakat and Awqaf management funds. As a result, Government and donor agencies are increasingly focusing on more private participation or NGO (non-government organizations) participation in different development initiatives. Considering these factors, we propose that an NGO abiding by Islamic ethics and norms with the poverty alleviation objective would be the ideal form of organization.

b) Mission and Vision: The vision of the NGO should be to create a poverty free society based on the Islamic principles of equality, social justice, and balanced growth. The mission of the NGO should be collecting Zakat and Awqaf contributions from a specified locality and providing a credit facility to the poorest segment of society.

c) Objective: The main objective of the NGO should be to reduce poverty through the balanced growth and development of different segments of society. The NGO should focus primarily on developing micro-business among the poor to enable them to attain a sustainable income growth and eventually get out of the poverty trap. In addition to its core service of providing collateral free micro-finance to the hardcore poor, the NGO may also provide financing for other items such as education, health services, and house building.

d) Key Functions: Using an integrated approach, a single concern would be responsible for the management of Zakat, Awqaf and Islamic financing. This organization would perform three key responsibilities:

- Collecting and managing Zakat funds from prospective Zakat donors as well as from other Zakat fund management institutions.
- Collecting and managing Awqaf funds from prospective Awqaf donors, and from other Awqaf fund management institutions.
- Providing micro-credit to the poor on the basis of Islamic Sharia.

In the initial phase, the NGO may concentrate on providing micro-finance and collecting funds from other Zakat and Awqaf management organizations. However, as the organization becomes mature, it may engage in the management of Zakat and Awqaf funds and use them as a stable source of funds.

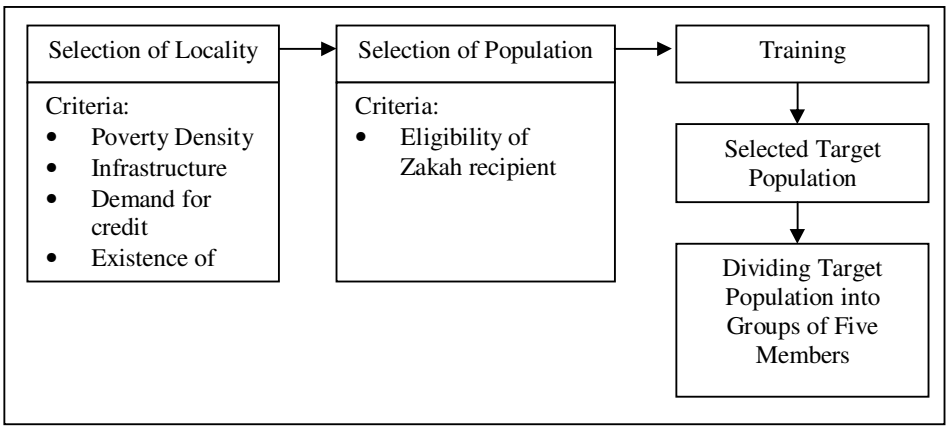
e) Credit Delivery Model: The proposed single model NGO may adapt the success model of Amanah Ikhtiar Malaysia (AIM)[31], a successful micro-finance institution in Malaysia. The success story of AIM provides empirical evidence that micro-finance facilities may be delivered based on the adaptation of Islamic principles, group recovery, and a credit disbursement model similar to the Grameen Model.

In contrast to AIM, where the Malaysian government actively participates in lending interest free capital and covers operational expenses, the proposed NGO may strive to be self-sufficient terms (meaning no government participation). In its initial stage, the NGO may undertake a few pilot projects to analyze the response of customers in different localities. Selection of such pilot projects may engage following process:

1. **Selection of Locality:** The NGO would focus on a location with a high poverty density. The selection of a locality would also depend on other factors such as: (1) a demographic study of the locality, (2) identifying probable micro-credit project options, and (3) understanding the prevailing infrastructure, for its important marketing and the distribution impacts.
2. **Selection of Population:** After selecting a particular area, the NGO would select a target population. It may conduct a household survey, or use references from the existing survey data. Such populations can be selected on the basis of eligibility of Zakat funds or per capita income. In selecting, individual members of the target population, persons eligible to receive Zakat contributions would be chosen first.
3. **Training:** This target population would be given vocational training in relevant areas. Only after successful completion of the training program, such participants would be eligible for membership.

[31] Alhabshi, Datuk Dr. Syed Othman, "Poverty Eradication From Islamic Perspectives",p. 01.

Figure 04: Operational Model:



4. **The Group:** The basic units of the operational model are the groups. The mode of operation within groups would be based on the following principles:
   - The groups are made up of five individuals. Among the five persons of a group, the neediest person would be given credit first. After one month, he or she would make first installment payment, the second person would be given credit. After another month a second person would start repayment, the third member would be eligible for credit and so on.
   - Repayments of credit would be in weekly installments.
   - After they start receiving credit, members of the group would deposit a fixed amount each week as mandatory deposit and insurance for calamities.

f) Organizational structure: The NGO may take its initial initiatives as *pilot projects*. Such *pilot projects* can be described as "units". A unit manager will lead the overall functioning of a particular locality and manage a number of credit officers who will disburse and collect the micro-credit loans to and from the borrowers. Credit officers will be responsible for the overall credit appraisals, credit delivery, monitoring, and recovery process. One credit officer will be in charge of a number of group operations. In addition to regular credit officers, a team of two or three credit officers will be in charge of credit monitoring to determine whether or not credits are used properly. Such a team will also provide additional information, which will be used by unit managers and general management to analyze the model performance.

4.2 Financial Management Framework

4.2.1 Fund Management Principles: In the proposed model, the NGO will use Zakat and Awqaf funds as the two major sources of financing. On principle, Zakat funds do not need any return or repayment. Zakat funds would be used for two purposes: to fulfill basic needs and to provide capital investment so that a member could start a micro-business.

Awqaf funds could be used as source of funding as well. From Awqaf funds, both capital investment and working capital investments could be made. In case of capital

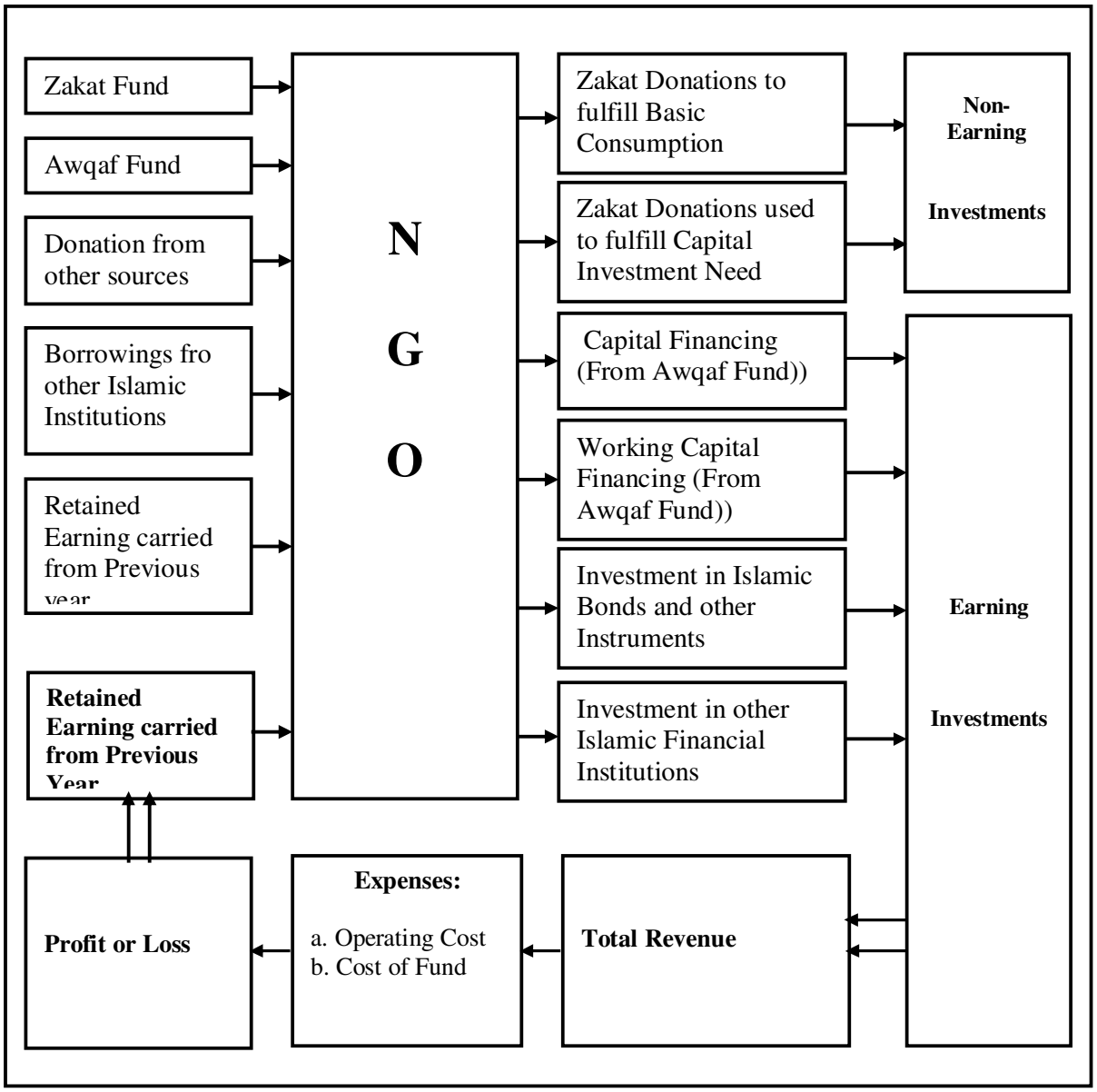
investment with Awqaf funds, the NGO would engage Mudaraba mode. However, in the initial phases, the NGO may engage Awqaf funding only for working capital investment. For operational simplicity, the NGO would prefer the Murabaha mode of financing for working capital as that will also ensure that short-term credit is utilized in a proper way. Moreover, as the fee is fixed, it will ensure the NGO with stable and predictable revenue during the initial years. As Zakat fund's investment in capital investment will not generate any revenue, the NGO will be better off investing in Murabaha mode for working capital financing.

In addition to these two major sources, the NGO would also collect funds from borrowings from Islamic banks and financial institutions, deposits from members, deposits from its employees, and deposit schemes for non-members. If needed, the NGO can also go to the capital market and raise funds through issues of share capital. In its overall financial operations, the NGO will comply with Islamic banking principles and Islamic Sharia'h benchmarks. The diagram on the next page illustrates a graphic presentation of the financial model of the NGO.

4.2.2 Sources of Funds: As previously mentioned the NGO will raise funds from different sources with different contractual modes. In principle, the NGO will not engage in raising funds that does not conform to the Islamic norms of banking. The NGO will collect funds from the following sources.

- Zakat contributions will be collected from prospective members, Zakat donors, or other Zakat fund management organizations. In the initial phase, the NGO might focus on its core function of micro-finance instead of collecting and managing Zakat funds. In countries where the government, by law, does not enforce Zakat, collecting sizeable amounts of Zakat at the initial stage might be a challenge. However, considering the way Zakat funds are collected, for any investment made on Zakat funds, no repayment or return can be charged.
- In the initial phase, the NGO might opt for a similar strategy in collecting Awqaf contributions. However, on investments made from Awqaf contributions, return and repayment can be charged on M*udaraba* mode. All of them should, however, be used for benevolent purposes.
- Donations from other institutional and non-institutional sources might require repayment of principle, and in some cases profits, in addition on *Mudaraba* mode.
- Borrowings from Islamic Banks and non-banking financial institutes will be collected based on Sharia'h principles, especially through M*udaraba* mode.
- The NGO can also generate funds from equity shares or from capital market participation.

Figure 05: Fund Management Model



4.2.3 Uses of Funds: The basic activity of the NGO is to provide credit for micro-businesses. As micro-business requires credit for both capital investment and the fulfillment of working capital needs, the NGO can arrange for both in a balanced way. Its capital investments can create the base upon which to provide working capital credit or short-term credit. As mentioned earlier, the NGO would involve Zakat contributions for non-redeemable capital investment with no return only. However, the working capital credit will be delivered based on the Murabaha model.

Apart from these two basic investments, the NGO will also engage in M*udaraba* investment modes after it can build its own capacity and its clients are well versed in accounting principles. Moreover, investment in micro-credit, the NGO will undertake

diversified investment activities such as investing in Islamic bonds. Earnings from such non-operational activities will provide a cushion during profit fluctuations resulting from uncertainties.

5. SUMMARY

Micro-finance involves providing credit without collateral to the marginally poor. The traditional micro-finance suffers from high default risk, high operational costs, and low returns. Successful NGOs like Grameen Bank, ASA and BRAC have shown that even though there are such risks, micro-finance can also be used to create and sustain successful businesses.

Weaknesses of conventional micro-finance such as charging high fixed interest rates, credit diversion, credit rationing and non-conformity with the Islamic faith of the majorty population necessitates the creation of an Islamic microfinance. There is an opportunity for Islamic micro-finance to grow by catering to the needs of the under-privileged Muslim population.

In our proposed model, we combine Islamic micro-finance with two traditional Islamic tools of poverty alleviation such as Zakat and Awqaf in an institutional set-up. The inherent nature of the proposed model may ensure equitable distribution and welfare among the poor. As the model is based on profit sharing and concessional contract modes, distribution of earnings should be allocated among different stakeholders such as depositors, shareholders, investors in the NGO. The proposed model will be financially viable and sustainable in the long run, resulting from lower default rates reduced the proper use of Zakah funds, which do not require any return. This will create a win-win situation for all stakeholders.

If implemented, this model will contribute to poverty alleviation by combining all three approaches: positive measures (like increasing income growth through development of micro-business for the poor), preventive measures (through ensuring functional re-distribution among factors of productions) and corrective measures (engaging Zakat and Awqaf).

Unlike conventional MFIs, under the proposed model, the poor borrowers will have less debt burden as their capital investments will be partly met by funds from zakah that does not require any repayment. As Islamic financing modes are based on profit-and-loss sharing principle, so there will not be any fixed interest payment burden for the borrowers. All these factors will lead to lower default rates and graduation graduation from poverty will be higher.

To sum up, the proposed Islamic micro-financing model will yield more benefit towards the overall social welfare. If such an IMFI is undertaken on a pilot project basis, and further operational adjustments are made accordingly, there may be a visible impact on poverty reduction among the targeted poor population. Finally, if a number of NGOs apply this model, the aggregate benefit will be greater.

REFERENCES

AbdulHasan M. Sadeq (1995), "Awqaf, perpetual charity and poverty alleviation" 2005, Paper Presented at a conference in Dhaka, 1995.

Ahmed, Habib (2002). 'Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions'. *Islamic Economic Studies* **9**(2): 27-64.

Alhabshi, Datuk Dr. Syed Othman, "Poverty Eradication From Islamic Perspectives," Paper downloaded from the Internet (http://elib.unitar.edu.my/staff-publications/datuk/JOURNAL.pdf)

Dichter, Thomas (2007), "A second look at Micro-finance: The sequence of Growth and credit in economic history", February 15, 2007. Downloaded from Internet (http://www.cato.org/pub_display.php?pub_id=7517)

Dhumale, Rahul and Amela Sapcanin (2002), Islamic Banking Principles Applied to Microfinance: Case Study: Hodeidah Microfinance Programme, Yemen, January, 2002. (http://www.uncdf.org/english/microfinance/uploads/thematic/Islamic%20Banking%20Principles%20Applied%20to%20Microfinance.pdf)

Hassan, M. Kabir (2003)., "Financing the Poor: Towards an Islamic Micro-finance", Mimeo, University of New Orleans, Novmeber, 2003.

Hassan, M. K. and Junayed Masrur Khan (2007), "Zakat, External Debt and Poverty Reduction Strategy in Bangladesh," Journal of Economic Cooperation, Volume 28, 4 (2007): 1-38

Hassan, M. Kabir (2006)., "The Role of Zakat in Poverty Alleviation in Bangladesh", Paper Presented at a conference in Dhaka, November 24-26, 2006.

"ISLAM, LAND & PROPERTY RESEARCH SERIES"; Paper 8: Islamic Credit And micro-finance UN-HABITAT 2005, Downloaded from Internet) *(*www.unhabitat.org/downloads/docs/3546_13443_ILP%208.doc*)*

"ISLAM, LAND & PROPERTY RESEARCH SERIES"; Paper 7: Awqaf (Endowment) And Islamic Philanthropy UN-HABITAT 2005 Downloaded from Internet (www.unhabitat.org/downloads/docs/3546_80031_ILP%207.doc*)*

Kahf, Monzer, "Role of Zakat and Awqaf in Reducing Poverty: a Case for Zakat-Awqaf-Based Institutional Setting of Micro-finance", Paper for the Conference on Poverty reduction in the Muslim Countries, Nov. 24-26, 2006

Kahf, "Awqaf And Its Sociopolitical Aspects" Downloaded from Internet (www.awqafsa.org.za/.../Waqf%20&%20its%20Socio%20Political%20Aspects%20-%20Monzer%20Kahf

SCHOLARS, MERCHANTS AND CIVIL SOCIETY: IMPERATIVE FOR *WAQF*-BASED PARTICIPATORY POVERTY ALLEVIATION INITIATIVES IN KANO, NIGERIA

Muhammad, Ibrahim Nuruddeen FCNA
B. Sc Acctg (ABU); MBA, PD (Mass Comm.), PGDE (BUK)
Chief Lecturer
Department of Accountancy,
School of Management Studies
Kano State Polytechnic, Kano-Nigeria
nuru313@yahoo.com

SCHOLARS, MERCHANTS AND CIVIL SOCIETY: IMPERATIVE FOR *WAQF*-BASED PARTICIPATORY POVERTY ALLEVIATION INITIATIVES IN KANO, NIGERIA

Ibrahim Nuruddeen Muhammad

ABSTRACT

In recent years, poverty in Nigeria is claimed to be a "northern phenomenon" as if only Northern Nigerians, who are predominantly Muslims, face the scourge of poverty. Though this claim might be dismissed as a wrong perception, the presence of itinerant under-aged Qur'anic school pupils (almajirai) as child-beggars in most urban centres, especially in Northern States' capitals, gives the impression that deprivation in Nigeria is restricted to the Muslim-majority northern areas - a condition that is wrongly attributed to Islam. In prescribing approaches to alleviating poverty, however, hardly are Islamic perspectives examined as emphasis is invariably focused on conventional methods. This paper attempts to highlight the relevance and necessity of using Islamic endowment-waqf (plural awqaf,) in the battle against poverty in Kano, Northern Nigeria. Four research questions guided the study. The scope of the paper is limited to exploring the role of three stakeholders: scholars, merchants and civil society organisations, in overcoming the problem of poverty. Documentary analysis and secondary data, supplemented with oral reports, were used. In the main, the study revealed that lack of awareness about awqaf is a great barrier to harnessing their potentialities in redressing socio-economic inequities and impacting positively on the welfare of the poor and the needy. The paper concludes that the impact of poverty alleviation efforts will continue to be partial unless collaborative, waqf-based participatory initiatives are utilized. Findings of the paper suggest that the institution of waqf should be employed in the context of unity of knowledge, wealth and social capital in bringing about a difference in the lives of the neglected and the deprived in Kano in particular, and other Muslim areas of Nigeria, for the sake of Allah (SWT).

Key words: *poverty, poverty alleviation, waqf, collaboration/participation, stakeholders, itinerant child-beggars (almajirai)*

Introduction

Extreme poverty affecting poor people around the world calls for international concern. Statistics, according to Thinkers Forum (2009), indicate that

> 1.1 billion people have consumption levels below $1 a day; more than 1 billion people do not have access to safe drinking water; 6 million children under five die every year as a result of hunger and (that) at the end of 2003, there were 143 million orphans under the age of 18 living in 93 developing countries.p1

This depiction of poverty provides a glimpse at the deplorable condition of deprived people in the world. Perhaps, it is to show international apprehension about the plight of the world poor that the United Nations gave top priority to the reduction of global poverty in its Millennium Development Goals (MDGs). By the year 2015, the MDGs number one target is to "reduce the population of the people living in extreme poverty by half" (Umoren 2009:1). At about the same time that the international community announced its poverty reduction target, Nigeria too declared its own poverty reduction plan in the form of National Economic and Development Strategy (NEEDS). As a development plan, NEEDS has been designed along similar lines as the MDGs (Ado-Kurawa, 2008).

Before looking at the state of poverty in Kano, the focus of this paper, it is plausible to briefly consider Nigeria's poverty reduction programmes at the national level. Regarded as Nigeria's plan for prosperity, NEEDS has four distinct areas: value reorientation, wealth creation, employment generation and poverty reduction. In the area of poverty reduction, NEEDS acknowledges that poverty is a multi-faceted problem that requires a multi-dimensional approach in tackling it. Having realized that overcoming just one factor causing poverty may not be sufficient to free the poor from deprivation, NEEDS seeks to attack poverty from all angles at once. For this reason, the NEEDS plan earmarked various instruments and interventions to protect vulnerable groups that include the rural/urban poor, women, youth and children (NEEDS, 2005). In fighting against poverty, NEEDS is only one among various interventions designed by the Nigerian government. For two decades, 1982-2002, the government has had about 37 poverty eradication programmes (Tomlinson, 2002). Such programmes range from Directorate for Food, Road and Rural Infrastructure (DFFRI), Peoples Bank, Better Life Programme (BLP), Family Economic Advancement Programme (FEAP), Family Support Programme (FSP) and the National Poverty Eradication Programme (NAPEP).

Despite the laudable intervention programmes in the NEEDS plan, in addition to earlier strategies, Nigeria's progress towards realizing the MDGs goal of cutting extreme poverty by fifty percent appears unimpressive. This, as noted by One World (2008), is because

> …the country continues to languish close to the bottom of the Human Development Index, with 54% of its population surviving on less than the international guideline for extreme poverty of $1 a day. Even by the government's own benchmark…the target of 21% for extreme poverty by 2015 appear(s) unpromising (p.1).

Thus, despite the commitment of substantial human and material resources by the Nigerian government, the poverty reduction programmes failed to make positive impact in improving the quality of life of the country's poor. A number of reasons accounting for this failure include poor targeting, misplaced priorities, inadequate funding, and employing a top-down, non-participatory, approach (Ajakaiye, 2002; Mamman 2008). Other reasons include "lack of clearly defined policy frameworks, political deception and kleptomania" (Garba, 2006:5). In most cases, programmes have been designed by the central government without consultation at local government and community levels (Tomlinson, 2002).

Having examined the federal government's poverty reduction efforts and their discouraging outcome, one wonders what poverty reduction measures have been taken by the government in Kano. This issue will be examined under the literature review. Before then, it is pertinent, to assert that the impact of any poverty alleviation programme in Kano would remain partial if collaborative, *waqf*-based initiatives are not utilized to minimize the suffering of the poor, in seeking the pleasure of Allah.

Background to the study

Kano as a state has a 95%-Muslim population (Barau, 2006). As a city, Kano "was for centuries a great commercial centre as a caravan terminus of trans-Saharan trade." (Farlex, 2009). Apart from its rich cultural heritage, Kano has been for decades the hub of industrial activities in Northern Nigeria. The city is famous for quality local crafts such as leather works, dyeing, embroidery, and agriculture. In the modern sector, Kano had been providing employment to the economically active segment of its population in various manufacturing companies such as textiles, food and beverages, footwear, suitcases, plastics, pharmaceuticals and sweets and confectioneries. Similarly, in the service sector Kano International Airport is famed as a busy transit centre for intercontinental flights from Europe to Africa, the Middle East and Asia. Today, however, while the airport has virtually lost its past glory, the industries are either working under capacity, have folded up, or relocated. The lamentation of the Kano State government (Ado-Kurawa, 2008) is clear on this:

> …despite its large population, rich commercial and cultural heritage, Kano is today ranked among the poorest states in the

> federation,…indigenous traders are being pushed out of business and/or businesses are being lost to other cities. The manufacturing sector is also dwindling…More disturbing is that Kano State Government as an entity is not sustainable, as it depends on the federation account to fund its operations…Yet, the citizens…remain ever critical of their state government taking any development loans. pp. 5-6

This gloomy expression reveals a number of facts:

- ★ The state is one of the poorest despite its commercial reputation. This is attested to by the state governor who decried the poverty level among the people at the opening of a Microfinance Investors Forum in Kano (Khaliq, 2009).
- ★ Relocation of businesses to other cities increases unemployment and worsens the poverty among people.
- ★ Dependence on federal funds indicates poorly internally generated revenue arising, partly, from inadequate exploitation of local alternative revenue sources.
- ★ Citizens are averse to taking development loans to finance government operations.

In the light of these revelations, it is surprising that a 95%-Muslim state where "*Shari'ah* is the guiding principle" (Ado-Kurawa, 2008:4) of the administration apparently fails to look inwards- to Islam- to find alternative sources of financing its activities in addition to federal revenues. Why should the state's citizens not be critical of taking development loans that carry interest which is against the teachings of Islam? Given the developmental role of *awqaf* in the provision of schools, libraries, hospitals and portable drinking water, why should the citizens accept loans that intensify indebtedness and curtail people's choices? Is the restriction of choices not an addition to poverty? With *awqaf*, however, a variety of choices without interest, are open to people. For example, *awqaf* are used in building homes for orphans and the elderly and hostels for students; constructing market stalls for rental at subsidized rates that bring about reduction in prices and creation of jobs that lead to a fall in unemployment rates. (Neareast, 2009). Getting answers to these questions, as this paper attempts, could assist in understanding the potentialities, and limitations, of using *awqaf* for developmental purposes, especially in the area of poverty alleviation.

Statement of the problem

By making the reduction of extreme global poverty the number one target of the MDGs, the importance shown by the international community to the plight of the poor becomes obvious.

Paradoxically, though, an arm of the international community, the World Bank, has been advocating a philosophy of less government and a cut in public expenditure (Oyen, 2002). With many developing countries, including Nigeria with a large Muslim population, embracing such a philosophy, governments are either spending less on

welfare programmes or withdrawing subsidies from certain sectors and privatizing public-owned organisations. All these entail a decline in public welfare facilities and the overstretching of available infrastructures. In the end, the poor and the underprivileged sink further into poverty. Even where governments make some effort in alleviating poverty, measures adopted are invariably conventional which work on the assumed needs of the poor and so are less effective.

A combination of factors such as reduced financial support to welfare programmes, shrinking of government involvement from its traditional role and the use of conventional development approach adds to the plight of people suffering under poverty. Due to the exclusion of alternative sources of funding and ignoring other stakeholders, the achievement of poverty alleviation measures is, therefore, partial. Poor and needy Muslims in Kano, Nigeria, need not face this problem of 'exclusion' as Islam provides an alternative source of financing welfare services in the form of *waqf* which Muslims in other parts of the world have been utilizing. Hence, the general concern of this paper is: what could be the prospects and problems of utilizing *waqf* in a collaborative manner for poverty alleviation in Kano?

Objectives of the study

The objectives of the paper are to:

1. Determine indications of poverty in Kano.
2. Assess the impact of current poverty alleviation strategies in Kano.
3. Determine the existence of *awqaf* in Kano.
4. Identify participatory strategies (involving scholars, merchants and civil society organisations) through which *awqaf* could be used to empower the poor and make poverty alleviation initiatives successful.

Research questions

Based on the objectives of the paper, five research questions drawn to guide the study are:

1. What are the indications of poverty in Kano?
2. What is the impact of current poverty alleviation strategies in Kano?
3. What is the existence of *awqaf* in Kano?
4. What participatory strategies (involving scholars, merchants and civil society organisations) could be identified through *awqaf* to empower the poor and make poverty alleviation initiatives successful?

Scope of the study

Tackling poverty through the participatory approach entails the involvement of different stakeholders. This study, however, limits its discussion to a consideration of how three categories of stakeholders: Islamic scholars (traditional *Malams,* the *Ulama*), merchants (business community) and civil society organisations. Though other stakeholders like the government, traditional leaders, international donors and aid agencies are equally important in dealing with poverty, the choice of the three is based on the assumption that a partnership between disseminators of knowledge and ideas, providers of funding and promoters of social networks appears promising in the light of the shift from conventional to participatory development paradigm (Jennings,

2000). Likewise, the study is limited to exploring strategies, and limitations, in employing charity through *waqf* to lift people out of poverty in Kano, Nigeria.

Significance of the study

The rationale for this study lies in the anticipation that it will assist in raising awareness about the value of *waqf* in redressing people's suffering through the provision of social, economic, educational, medical and other welfare programmes. At a time when governments are reducing their involvement in public sector activities through adoption of privatization policies and cuts in welfare spending, philanthropic donations that support *waqf* activities provide useful alternatives for financing welfare and poverty reduction programmes.

Additionally, the study is important in drawing attention to the significance of the third, non-profit, sector through which Muslim philanthropists support the poor and the needy and promote the general socio-economic, scientific, educational and political wellbeing of their communities. In support of this view may be cited the Islamic-World's (2006) observation:

> The very idea of *waqf* itself consists of creating and developing a third sector distinct from the profit-motivated private sector and the authority based public sector, and charging this third sector with the responsibility of performing a group of tasks…in the arena of righteousness, goodness, kindness, mercy and benevolence…Historically, the Islamic society assigned education, health, social welfare and environmental welfare to this third sector. Furthermore, the third sector provided defense services and public utilities in many instances.p.21

Literature review and conceptual premises

General causes of poverty

Prior to discussing the causes of poverty in general, it is worthwhile to dispel the notion that Islam is to blame for the poverty in northern Nigeria. The claim that the predominance of poverty is a feature in the north was made when the former governor of the Central Bank of Nigeria, Charles C. Soludo, said: "Very high levels of poverty is (sic) essentially a northern phenomenon." (Soludo, 2007:10). Citing poverty figures, for which no source was given, the former governor listed ten states, all from the north, with the highest poverty incidence in Nigeria. Although Soludo (2007) did not mention religion as one of the variables that 'highly correlated' with the 'poverty status' he depicted, perhaps in deference to Islam, other Nigerians however, accuse Islam as being responsible for the north's poverty. For example, we read indirect remarks like "One big problem of my northern brothers… they prefer to beg on the streets…. The *Almajiri* syndrome (due to Qur'anic pupils) is killing us in this country. " (Abdulrahman, 2007:1). More directly, we read: "I blame the Northern leaders… and a religion (Islam) that have conspired with the socio-political system in the North to consign the northerners to poverty." (NGO, 2009:2). Left with remarks such as

these, one might simply conclude that Islam is the cause of northern poverty. But this conclusion would be wrong as Ammani's (2009) remarks show:

> The population of beggars on our streets is growing exponentially. Many social commentators have attributed this astronomical growth in street begging to poverty… in the North… to most non-Muslim minds, Islam is not only associated with begging but appears to encourage it. Much as this is a clear misconception, the fact remains that street begging prevails because we Muslims, particularly some of our leading *malams*, provided it with a fertile ground to thrive… In the name of *almajiranci,* some *malams* take children away from their parents into major towns and cities and transformed them into *marabata* (professional beggars)… these people (children) are made to beg for money on the streets.pp1-2

These observations by Ammani (2009) bring to light that the materialist inclination (greed) of some *malams* (traditional *ulama*), rather than Islam is, partly, responsible for the increase in the number of child-beggars (*almajirai*) on our streets and hence poverty, particularly child poverty. In addition to greed, other factors have been identified as causing poverty. These include (World Bank, 1996 as cited in Garba, 2006):

> Inadequate access to the means of supporting rural development in poor regions; inadequate access to assistance for those living at the margin and victimized by transitory poverty and lack of inclusive participation; which is the failure to include the poor in the process of designing development programmes. Pp.2-3

Other causes, according to Ajakaiye (2002) are unemployment, ignorance, high inflation, poor governance and corruption. In general, poverty arises from many factors and is viewed from different perspectives. This paper looks at two dimensions of poverty as explained under the conceptual premises.

Socio-economic role and potential of awqaf for poverty alleviation

The historical importance of *awqaf* as vehicles for socio-economic development is well-known. It is ironical, therefore, that in some parts of the Islamic world, a*wqaf* as institutions are not prominent. In Egypt the middle-east, for example, *awqaf* have for long been used traditionally as vehicles for philanthropy, yet a survey (Douara, 2007), surprisingly found a number of people who neither correctly understand the meaning of *waqf* nor recollect the essence of the term. Similarly, in West Africa the same lack of awareness about *waqf,* more commonly referred to as *habs* in the region, has been noticed as far back as the beginning of the twentieth century, Ruxton (1914:281) stated: "… *habs* is scarcely known in West Africa". Likewise, in Nigeria, Aliyu (2001:6) noted that unlike Zakkah which is generally known, "*waqf* is… yet to be fully apprehended and utilized".

Notwithstanding this lack of appreciation, for centuries Muslims have utilized the institution of *waqf* for executing various development programmes. Considering the

span of Islamic civilizations, *waqf*, according to Bremer (2004), is the most significant charitable institution. Kahf (1998) asserts that in recognition of the importance of the non-profit sector in social and economic development, Islam provides the requisite legal and institutional support and necessary resources for it to function as a major role player in the socio-economic life of Muslims. To buttress this assertion, Bremer (2004:7) claims that the engagement of Islamic charities, in economic development for centuries, reflects "the blending of the religious and the secular, the social and the economic that is a key characteristic of the Islamic ideal."

In the Muslim world today, there are numerous endowments as to defy precise categorization, but as UN-HABITAT (2005) observes, majority fall into five basic classes: food, housing, health, education and religious. This classification may not be exclusive or watertight as it is possible to have an endowment that caters for most of these and other classes of needs, as Bremer (2004) illustrated:

> Typically, the trustee was charged with developing the commercial properties so that income would be generated to support the social service structures…This combination of commercial and social purpose enabled the most effective *awqaf* to function as a sort of self-contained urban development authority…a forward-looking *mutawali* had the capacity to rehabilitate an entire urban zone or the center of a town and to establish a mix of housing, commercial facilities, mosques, and social service facilities suited to the needs of the time (p.10).

In general, despite certain inefficiencies associated with the management of endowments, such as locking *awqaf* resources in inefficient organizations (UN-HABITAT, 2005), the role of *awqaf* as welfare mechanisms has been documented. For instance, Awqaf SA (2007) noted that the entire health, education and welfare budget during the Ottoman caliphate in Istanbul (Turkey) was financed by Islamic charitable endowments (*awqaf*). Moreover, according Future Fund (2006), the Al-Azhar University, founded in Cairo, Egypt, in 972 AD, the oldest and most famous Islamic educational institution has always been financed by *awqaf.*

In addition, Al Noori Hospital in Damascus, Syria, built in 1145 was funded by *waqf* donations and was meant to serve the poor and the needy (Future Fund, 2006). Similarly, the island of Sicily, in the Mediterranean, under Islamic rule had 300 elementary schools built by *waqf* funds and that all teachers' salaries and school supplies were paid from *awqaf* revenues (Kahf, 2006).

There is also a large urban complex, an orphanage in Jerusalem's Old city, *Dar al-Aytam al-Islamiyya,* which is reputed to extend over an area exceeding 10,000 square meters (Bremer, 2004). Additionally, there were *awqaf* for pets like cats and unwanted riding animals in Damascus, Syria, as well as *awqaf* for assisting people to go to Makkah on pilgrimage (Islamic-Word, 2006). These are some of the charitable

endowments established in certain Muslim communities to improve socio-economic well-being.

After considering the general classification and role of *awqaf* in socio-economic activities, it is necessary to identify which specific types are most suitable in providing support to the poor. In the following paragraphs, the writer summarizes the potentials of *awqaf* in reducing poverty as outlined by Ahmed (2004) in his paper titled: *Role of Zakah and awqaf in poverty in poverty alleviation*.

Establishing the exact potentiality of *awqaf* in alleviating poverty poses some difficulty for two reasons: lack of appropriate aggregate date on awqaf and identification of the *awqaf* institutions capable of mitigating poverty**.** The former relates to the deficiency of information about specific *awqaf* institutions employed in welfare and poverty reduction activities. The latter relates to the size and type of *awqaf*. While the size depends on the resources at the disposal of a *waqf*, the type is determined by the decision of the *waqif/fah* (founder, male/female) in specifying who the beneficiaries are and what objectives are to be achieved by the *waqf*. These issues lead to a classification of *awqaf* into four broad types: two on the basis of proximity of the beneficiary to the founder and two others on the objective of founding the *awqaf* as shown in Table 1below.

Table 1: Classification of awqaf

Objective / Beneficiary	Religious	Philanthropic
Family	**A**	**B**
General Public	**C**	**D**

Source: Adapted from Ahmed, H. (2004). "Role of Zakah and Awqaf in poverty alleviation" IDB/IRTI

From Table 1, we observe that Type A *awqaf* are religious/family, like shrines, are not very common; Type B are philanthropic/family like housing estate for a specific family group and Type C are religious/general public such as mosques or cemeteries. In the context of poverty alleviation Types A, B and C are not suitable as they "cannot benefit the poor in economic terms" (Ahmed, 2004:73). *Awqaf* in category D which are philanthropic and for general public use are the appropriate ones for redressing poverty. Awqaf such as shops, electric power and water services, hospitals and educational institutions could be set up to assist the poor and improve overall wellbeing of the ummah.

Conceptual premises

Discussions in this paper centre around three conceptual principles: nature of poverty, development methodology and the ultimate goal of poverty alleviation measures. Firstly, looking at the nature of poverty, it is accepted that deprivation is a multi-faceted problem that requires many-sided approach in handling it. In this paper, however, reference to poverty will be mainly, but not exclusively, to two dimensions of deprivations: poverty as lack of power and poverty as inadequate access to social services. The former, according to Bonfiglioli (2003:60), relates to the "lack of a voice in decision-making and public choices or in the access to resources required to rise out of poverty; lack of basic political freedoms; social exclusion and lack of social rights." The latter pertains to inadequate access to services like health and education that "creates low rates of literacy and education, prevents economic growth, decreases people's productive capabilities (and) limits use of adequate technologies."

Secondly, in line with the theme of this conference, this paper upholds the participatory, bottom-up, development approach as holding the key to the fight against poverty. The paper regards as unsuitable conventional, top-down or government-only, methodology (Kusumaningrum, 2007 and Gill, 2008). This is because, despite certain limitations, participatory development as a non-traditional method is a people-centered paradigm. It broadly encompasses all stakeholders that need to be involved in decision making, at the design, implementation and evaluation stages of programmes (Jennings, 2000). Moreover, the approach commends itself, at least, for two other reasons. One, as the Asian Development Bank (2008) observed, allowing the poor and vulnerable a say in decisions that affect their lives gives them confidence and a sense of empowerment. Two, the approach "builds local capacity and promotes self-help and self-reliance by unleashing entrepreneurial spirit and mobilizing community resources" (African Development Fund, 2005:1).

Thirdly, conceptual issues dealing with the 'ultimate' goal of poverty reduction endeavours fall under fundamental principles. They are issues that touch at the core of any, and all, striving by a Muslim and as such relate to *Tawhid*- a concept that determines the worldview of Islam; forms the foundation of faith and is the embodiment of Islam (Chapra, 1992; Faruqi, 1982). As the heart of Islam, *Tawhid* demands the affirmation that there is no God but Allah (SWT) and that He alone "is the final end of all desire…He is the one and only Master whose will is the ought-to-be of all that is" (Faruqi, 1982:193). The implications of *Tawhid* for this paper apply to four areas: sincerity (*Ikhlas*) - doing things for the sake of Allah alone; compliance with *Sharia* guidance (*Mutaba'a*); cooperation (*Ta'awun*) and consultation (*Shura*). In this context, since poverty alleviation involves exerting effort in reducing the suffering of the poor and the needy, it means that whatever measures are taken must be devoid of show and undertaken sincerely to earn the pleasure of Allah. The Qur'an (Surah al-Insan, 76: 8) says: "*and they feed, for the love of God, the indigent, the orphan, and the captive*."

Methodology

The main source of data is secondary. Printed and electronic materials were obtained from books and journals. The use of secondary sources arose from limitations of resources the researcher needed to generate primary data. The researcher used personal observations and discussions to augment those sources. Data generated were presented in tables. The study employed a descriptive approach and qualitative narrative analysis was used in the discussion.

Results and Discussion

Research question one: What are the indications of poverty in Kano?

From whichever angle poverty is viewed, many instances are identifiable, the following are few examples:

1. Inadequate facilities to students

Insufficient housing facilities hinder the educational progress of many students in Kano. According to A.I.Daurawa (personal discussion, July12, 2008) when one looks around the vicinity of the Bayero University in Kano, one notices many houses built for renting to students. There are, however, hardly any *waqf* houses where indigent students could be freely accommodated. If we look at transportation, there are hardly any buses set aside as *waqf* vehicles to ease the movement of students between the campuses of the university at subsidized rates. Similarly, there are scarcely any houses reserved as waqf property for lodging travelling scholars except they are accommodated in a hotel.

2. Insufficient housing and rent problems

According to the president of Kano Community Based Organizations Forum, M.I. Durumin Iya (personal discussion, October 22, 2009) one of the top three cases preoccupying the attention of most Shari'ah courts in Kano deals with house-rents. Within Kano metropolis, four locations Sheka, Dorayi, Unguwa Uku and Kwana Hudu stand out in facing serious overcrowding and acute housing problems where landlords often arbitrarily increase house rents annually.

In a related issue an informant, A.K. Wambai, (personal interview, August 8, 2008) noted that in Kano it is common to find a person married with a wife and children living in a single room in a rented house. Nowadays, as most Hausa houses are built without "*Soro/Zaure*"-an entrance hall to a house in which children sleep at night, this person's children cannot spend the with him without renting a second room, which he may not afford. Invariably, the person has no choice but to send the children out to sleep somewhere in the neighbourhood. As he lacks control on where or how the children spend the night, quite often such children fall into the hands of people with dubious character and may end up as political thugs-'*Yan daba*- or join the bandwagon of drug addicts or become victims of sexual assaults (sodomized). That is for male children.

In the case of grown up female children, a one-room father is really in a dilemma when the night falls. To send his daughters to neighbouring houses to spend the night is like giving them a free license for promiscuity; to allow them to sleep in a same single room with him and their mother is against Islamic ethics and sexual morality. Frequently, the choice is made in favour of the latter option-an alternative that aids and abets pre-marital relations. Why can't Muslim landlords who have, say, a 10-20-room house set aside about two rooms dedicated as *waqf* so that tenants with children could accommodate them in the *waqf* rooms free of charge? This will not only subsidize the rental charging but above all will assist in protecting sexual morality.

3-Increased pregnancies and out-of-wedlock births

The rising cost of living and high marriage expenses are discouraging young people from getting married. A study by a community based organization, *Safinatul Khair* Foundation (Amin, 1999) in Kano city found that out of 944 houses surveyed more than 70% or 661 houses have grown up girls awaiting marriage. 67% or 632 of them are not attending schools but engaged in hawking. Some of them become pregnant out –of- wedlock some had abortions, while others gave birth. The study found that the causes of this social, and moral, crisis include youth unemployment, ignorance and greed in addition to economic hardships.

In a similar study, also in the city, Tofa (1999) found that poverty aided and abetted child-prostitution as

> …nine out of ten girls (90%) you see hawking…substitute hawking with petty offences of child prostitution. The same can be said of female child prostitute population in Marhaba cinema. These are (a) category of secondary school drop-outs, or who abandon schooling mid-way, or those who are in day secondary school who have to fend for themselves.p.19

Research question two: What is the impact of poverty alleviation strategies in Kano?
The findings reveal that, though Kano is a 95%-Muslim state and the government claims to be guided by the Shari'ah, *awqaf* are not mentioned in the primary document, the Kano State Economic Empowerment and Development Strategy (K-SEEDS), setting the policy framework and strategies for reducing poverty. Table 2 presents the policy targets meant to guide the state in reviving socio-economic activities as well as the strategies designed to realize the targets.

Table 2: Policy targets and strategies for poverty alleviation in Kano

TARGETS
★ Increase per capita income of Kano State indigenes from $350 per annum to $500 per annum by year 2007 ★ Create an additional 15,000 jobs by year 2007 ★ Improve literacy rate among the poor by 50% by year 2009 ★ Increase the number of registered cooperative societies by 25% by year 2006 ★ Eliminate/minimize incidence of discrimination and rejection of the poor by tear 2007 ★ Eliminate street begging by year 2010 ★ Improve access to social services such as water, education, health, sanitation services, justice and security to the poor by year 2007
STRATEGIES
✓ Skills acquisition and micro-entreprises development ✓ Youth development through non-formal education ✓ Establishing and registering CBOs, trade unions, artisans, women, farmers groups and cooperatives ✓ Building capacity for dealing with the myriad and daunting challenges of poverty and ill health ✓ Provision of special support for widows to minimize incidence of women having to fend for themselves and their children ✓ Promoting desirable qualities such as discipline, honesty, hard work, good neighbourliness and patriotism in the state

Source: K-SEEDS Policy Framework and Projects Summary, 2005, Kano State Government

The upper segment of Table 2 gives the policy targets of the Kano State Government expressing, apparently, the priority poverty areas that it hopes to tackle. The areas range from increasing per capita income to job creation and enhancing literacy. Others are expanding registration of cooperatives, elimination of discrimination against the poor and street begging as well as improving access to social services. These targets are commendable as they appear to focus on wide areas which, if tacked successfully, could assist in solving much of the problems of the poor.

The lower segment of the table gives the strategies designed by the government to ensure success in reducing poverty. In this segment, there is no reference to *awqaf* or any Islamic institution as one of the measures the government intends the use in the fight against poverty. For a major policy document, this is a serious omission. The mentioning of Zakkat as one of the instruments expected to be used in reducing poverty in a separate document, Kano State Zakka and Hubusi Commission Report (2004), indicates the apparent lack of coordination between government functionaries. Furthermore, the non-inclusion of Islamic measures as significant components in the policy framework points to the partial achievements the governments may record.

In assessing the impact of these measures, figures published by the government (Ado–Kurawa, 2008:5-36), as shown in Table 3 provide some evidence of the successes achieved in certain areas.

Table 3: Accomplishments towards poverty alleviation

Ministry/Department/Agency	Achievements
Education	• Establishment of 364 new primary schools • Increase in enrollment of pupils by 222,996 • Total scholarships to students of the state between 2003-2008: N1,573,584,667 ($8,940.00)*
Water	• Provision of 228 hand pumps at the cost of N338 million ($1.92million)
Health	• Execution of 170 capital projects worth N3,733,551,533.86 ($21,213,360)
Environment	• Construction of public conveniences N36,821,665.11 ($ 209,214.00)
Zakat and Hubusi Commission	• Distribution N158,500,000 ($866,477.00) to 30,500 persons as financial support • Disbursed N31, 812,000 ($180,750.00) to 3,830 beneficiaries consisting of widows, less privileged households and Imams.
Youth Empowerment	• Distribution of N40, 000,000 ($227,273.00) to 2,000 youth as take off capital.

Source: Ado Kurawa, 1. (2008) Ed. "Achievements of the Shekarau administration" 2003-2008. Research and Documentation Directorate, Government House, Kano.

* (Conversion at $1=N176 using Daily Trust Exchange Rate, April 8, 2009).

The achievements outlined in Table 3 are admirable in the absence of figures from independent sources. But with data from non-governmental sources, the state's achievements appear inadequate. For example, knowing that access to microfinance empowers the poor to lift out of deprivation, through harnessing opportunities for self-employment; Kano's microfinance institutions are negligible compared to the poverty status of the state. Kano records a low level microfinance activity as it has one six out of the 815 (or 0.7%) microfinance banks (MFB) in Nigeria (Khaliq, 2009). For a state with a population of 9,383,682 (National Bureau of Statistics, 2008), it means, on average, one MFB serves over 1.5 million people. This aggravates the poverty of citizens in the state as it severely excludes the access of the needy to microfinance facilities.

Another pointer to the unexciting standard of the government's achievements is in the area of tackling unemployment. According to the National Directorate of Employment (one of the federal institutions handling poverty reduction programmes) Kano state has the highest rate of unemployment in the country, with registered unemployed persons in the state totaling 369,139 (Aliyu,2009).

Research question three: What is the existence of *awqaf* in Kano?

Findings show that there are few *awqaf* in Kano and fewer still of the type with the potential to fight poverty. Additionally, lack of adequate enlightenment is a barrier to the understanding and utilization *awqaf*. Kano also suffers from the same lack of understanding that surrounds *awqaf* in some parts of the Muslims world. As a term, some people consider it literally as full-stop or prison (personal discussion with A.N.Danbare July 13, 2008). In practice, few appreciate its institutional significance. Even with the establishment of the Zakka and Hubusi Commission by the Kano State government, people in the state are yet to be fully sensitized about the meaning and import of a*wqaf* as to embrace them as vehicles for enhancing welfare and poverty reduction. A study (Wambai, 1991) found sixteen endowments (*awqaf*) in Kano. Between 2004 and 2005, the Zakkah and Hubusi Commission (Ado-Kurawa, 2008) received two school buildings, one house, two plots of land and a mosque as *waqf* properties. So, going by documentary evidence (Wambai, 1991 and Ado-Kurawa, 2008), Kano has 22 known *awqaf*. Most of these are religious in the form of mosques, cemeteries, and Islamiyya schools (discussion with M.A Shawis, July 31 and M.B Usman, August 3, 2008). Hardly does one find philanthropic *awqaf* such as public conveniences, shops, orphanages, hospitals, libraries or transport services.

Awqaf, as charitable endowments, form part of civil society institutions, which in Kano exceed 2000 as at January 31 last year (Special Adviser, 2008). It seems, however, the composition of the institutions is dominated more by socio-cultural, educational, economic, political and religious organisations than by religious charitable endowments. These associations, non-governmental organizations (NGOs) and community-based organizations (CBOs), include the Kano State Foundation, Kano Forum, Goodwill Foundation, *Fitilar Kankarofi*, Abdullahi Mai-Masallachi Foundation, *Safinatul Khair* Foundation, Yakasai Zumunta Association, The Islamic Foundation of Nigeria, Organisation for Admonition and Guidance, Usman bin Affan Islamic Trust, Da'awa Group of Nigeria and Federation of Muslim Women Association of Nigeria (FOMWAN). These are involved, in different capacities, in education, small-scale businesses, training for generating youth employment and capacity building and financial services.

It is clear that despite some of these organisations having the word "foundation" attached to their names, they are not endowments in the Sharia context. This is because, even though they have perpetuity under Nigerian trust law, this does not prevent their trustees from disposing their properties, which the management of an Islamic endowment has no right to do (Islamic-World, 2006). Moreover, there is the reality that some of these foundations and organisations, like Kano Forum (Kano Forum, 2005), invest their funds in interest-yielding financial instruments contrary to Islamic investment criteria.

Again some of these foundations, like Kano State Foundation, are elitist (Lucas, 1994) and seem to show little concern for improving the welfare of the less-privileged which endowments are set to achieve. For instance, instead of the Foundation's

schools in Bebeji, Bebeji LGA, being equal opportunity educational institutions, as *awqaf* education is, they embrace the principle of ability to pay thereby widening the socio-economic difference in the community. This made Ilallah (1990) to ask whether the Foundation was introducing a kind of special education for the sons of the rich and suggested that the Foundation sets up a secondary school for indigent children in the state at no cost. On the contrary, truly philanthropic institutions that may be cited in Kano are two: the Al-Basar Foundation's Makka Eye Hospital that charges low fees for eye treatment and the Rochas Foundation College which, established by a non-Muslim, Rochas Okorocha, is serving the needs of indigent students through free tuition, books, transport and even, at times, free meals.

For a state with a population of over 9 million, it means that each of the 22 *awqaf* will serve, on the average, more than 400,000 people. This would, most likely, overstretch the services of any *waqf* institution, say a hospital, were it to attend to as many as 400,000 patients at a time. When this figure is considered in the light of the low microfinance activity in the state, the deplorable condition of the poor is further increased.

The apparent scarcity of philanthropic *awqaf* in Kano could be attributed to different reasons like lack of awareness-creation by the *ulama*, few working *awqaf* to serve as models, and the lack of trustworthy and knowledgeable *awqaf* managers. Of these reasons, the issue of lack of awareness seems paramount. Though religious scholars have been imparting knowledge and educating the *ummah* in Kano, it looks as though, their messages are not making the right impact in mobilizing for philanthropy. This view finds support from one of the scholars, Sheikh A.S. Pakistan (personal discussion, July 22, 2009), who admitted that the *ulama* failed to inculcate in the *ummah* the attitude of charitable giving for improving public welfare. Instead, the *ulama* taught that serving them (materially) is synonymous to supporting the religion of Islam. Sheikh Pakistan illustrated his view by saying that a scholar would normally publicize the merits of giving him immense gifts but scarcely would he urge a sponsorship for educating a (poor) child.

Research question four*:* What participatory strategies involving scholars (S), merchants (M) and civil society organisations (C) could be identified for poverty alleviation through *awqaf* in Kano?

Findings disclose that grounds exist for collaboration between the three stakeholders. Considered individually, evidence abounds in support of an alliance between the three in an effort to overcome the problems of poverty in Kano.

Scholars- the *ulama*- have a role to play in the dissemination of knowledge and ideas for the enlightenment of the Muslim *ummah*. They could create public awareness about the meaning, types and benefits to be derived from establishing *awqaf*. As perpetual charity that brings everlasting reward, *awqaf* provide unending returns for

which scholars need to mobilize Muslims to strive for. In Kano, the *ulama* are involved in various ways in the propagation of knowledge and religious education. Mosques and Qur'anic schools, public gatherings during naming/wedding ceremonies and the mass media, especially the state-owned radio and television stations, are avenues through which scholars reach the general public. In spite of these avenues, Wambai (1991) found that there is need for publicity and enlightenment about *awqaf* in Kano. Supporting this finding, M.I.D. Iya (personal discussion, October 22, 2009) said that in a survey conducted about the contents of Friday sermons (*Khutba*) in 170 Friday mosques in Kano, nearly 165, or 97%, of the sermons delivered mention nothing about *waqf*.

Through the use of their money and wealth philanthropists, among merchants (business community), have been involved in charitable work in Kano. For instance, according to Dan-Asabe (2000:52), a renowned Kano merchant, Adamu Jakada, used his savings to keep "many Muslim scholars and their students in his houses free of charge. He gave some of these houses as charity. If a pauper died, Jakada would provide a shroud. He gave alms everyday."

In another instance, a wealthy businessman assisted in the development of a sub-urban settlement in Kano in the early 1970s. The businessman, Alhaji Baballe Ila, according to Z. U. Yola (personal discussion, June 6, 2009) moved out of inner-city congestion in Darma Quarters of Kano Municipal and settled at the southern outskirts of Kano in a place called Gyadi-Gyadi. At that time, the area was partially inhabited. To encourage more people from Darma Quarters to move to the new settlement, Ila did two things. He purchased plots of land and built houses for his relatives. He then acquired two motor vehicles and put them to commute between the city Rimi Market and Gyadi-Gyadi free-of-charge to ease transport. This free transport service, run for two years, and could be likened to a temporary *waqf*. Besides, the measure assisted in the physical development of the environment as additional people from the city were encouraged to acquire and build houses in the new settlement.

"Poverty is a companion to one who knows nobody" is a literal translation of a verse in a Hausa folklore singer, Dan-Anace's song, Shago DanDunawa. Often one hears the cliché that 'it is not what you know but who you know' that matters. This underscores the value of civil society organisations as providers and fortifiers of social capital. In the golden era of Islamic civilization, it has been noted that *awqaf* formed an integral part of economic and civil society infrastructure (Spellberg, 2009). By way of definition, social capital lacks a universal rendering. However, Oyen (2002:11) asserts that "in its simplest form, an individual acquires social capital through participating in informal and formal networks, registered organisations, associations of different kinds and social movements, and it represents the sum of these experiences."

In creating social capital, participation is regarded as a basic element (Fournier, 2002). What sort of social capital therefore could the poor access to enable them to be involved in programmes for poverty alleviation? Some writers (like Prakash, 2002; Innerarity, 2002) indicate that the poor have three brands of social capital in varying

degrees. The poor could have 'bonding ties' with their communities as part of the common relationship or connection with families. 'Bridging ties' with one's neighbouring communities allow the growth of local market but are not automatic, since some rural communities may lack the enabling material or social resources. For the poor, the third category of social capital, 'linking ties,' seems beyond their reach as Prakash (2002:52) said: "…linking ties with political elites and the ability to influence policies substantially, to have these resources is... not to be poor."

It is noteworthy that, quite often, there is partnership between two of the stakeholders- between scholars and merchants, scholars and civil society or between merchants and civil society. Shu'aibu (as cited in Zara, 2006) observed that people combined trading with preaching of Islam (traditional scholarship). Islamic scholars have founded civil society organisations, as did the former grand Khadi of Kano State, Dr. Hassan I. Gwarzo who established the Islamic Foundation of Nigeria in 1973. Leading merchants in Kano have been involved with civil society associations. Alasan Dantata, for example, established the Kano Traders General Conference that became the Amalgamated Northern Merchants' Union in the 1950s (Lucas, 1994). The Kano State Foundation formed in 1985, and the Goodwill Foundation formed in 2002, are all under the chairmanships of prominent businessmen, Aminu Dantata and Sani Buhari Daura respectively. So, what is required is transforming the already existing 'dual' into 'triple' cooperation between all three stakeholders. This means looking at how knowledge, finance and social relationships could be in partnership in the service of the poor through philanthropic, public-oriented *awqaf*. Three examples will used for demonstration in health, education and electricity supply.

1) Health Services

Provision of health services is one of the areas of acute need for the poor. Certain preventable diseases lead many poor fathers to death for lack of financial support to seek medical treatment. This increases the population of widows and orphans with nobody to cater for them. Where diseases do not result into death, the suffering of the sick is prolonged due to poverty. Here an NGO, Islamic Medical Association of Nigeria (IMAN), Kano State Branch, has a funding scheme that, if restructured, could be transformed into a cash *waqf* in the service of indigent patients. Presently, IMAN shoulders the medical bills of some poor patients involved in accidents/emergencies, HIV/AID, maternity and those in need of blood transfusion. Sometimes it meets the cost of funeral services of dead patients.

The association works in conjunction with philanthropists from whom cash donations are received (personal discussion with I.L Darmanawa, August 7, 2009). In addition to this donation, the Association evolved a scheme of charging each member one percent (1%) of his/her basic salary which is deducted as a source. Through such contributions by members, the Association hopes to achieve financial sustainability to ensure its support to the underprivileged sick.

2) Education

College of Arts and Islamic Studies (CAIS), Hausawa, Kano provides adults and nonformal education and is affiliated to the Annur Institute of Islamic Education, an NGO. The students of CAIS on October 17, 2009 donated sets students' desks and dust bins and constructed an office for the school in which they are temporarily accommodated. The college director, Y.A. Ibrahim (personal discussion, October 29, 2009) submitted that the cost providing that educational support was met from student union levies paid by each student along with registration fees at the beginning of every new academic session. Since the payment of the levies is direct, a stream of stable inflow is assured which could be transformed into an endowment fund- cash *waqf*. In this regard the total levies at the end of each session could be invested and only the proceeds will be used in the provision of educational support materials.

3) Electrification project for small- and medium enterprises

The electrification of towns and cities, including rural areas has been, virtually, the exclusive preserve of governments in most developing countries. In Nigeria today, things are changing partly because the inefficiency of public utilities such as the National Electric Power Authority (PHNC) is causing the Authority to lose the monopoly it had enjoyed for decades of providing electricity in the country. Now even individuals and community-based organisations are involved in the provision of light. An example is that of Fagge Quarters of Kano, with a concentration of tailors, where individuals contribute to purchase milling machines, like Lister, and convert them to generating electricity for lighting and supplying power for running sewing machines. Welders, also, use such electricity for various metal works and carpenters use it for spraying different categories of furniture items.

In this case a *waqf,* in cash or property like generating set, could be founded by a trade associations and/or a merchant. Power generated could be supplied at a subsidized rate to small- and medium-businesses within a neighbourhood like that of Fagge. The income could then be further invested and in the maintenance of the set.

Conclusions

This paper attempted to highlight the relevance of *awqaf* in promoting socio-economic, educational, cultural, scientific and other development programmes in general, and their potential for poverty reduction in particular. This potential of *awqaf* seems not fully exploited in Kano as priority is placed on conventional measures in poverty alleviation. In the end, given reduced public spending on social services, the relegation of other stakeholders, and the partial recognition given to *awqaf*, poverty reduction achievements have been partial. As revealed by the findings in this paper, many problems arising from poverty in Kano need to be tackled. This reaffirms the belief that, unless *waqf*-based strategies are employed in Kano, within the framework of *Tawhid* and participatory paradigm, the success of poverty alleviation efforts will continue to be incomplete.

Recommendations

In the light of the discussion in paper, the following recommendations are proffered:

1. The *ulama* should use sermons during Friday congregational prayers, and the media, to raise awareness about the need for reviving the institution of *awqaf*.
2. The government should recognize the use of *awqaf* funds in public budgets as an imperative and provide an enabling legal framework to philanthropists such as tax exemptions to promote donations to *awqaf*.
3. Membership of the poor in civil society organisations, as the third sector, should strengthened and used as vehicle for their involvement in poverty alleviation programmes.
4. There should Muslims who can effectively run NGOs like *awqaf*, men and women who are trustworthy and knowledgeable.
5. The government need to design "well-functioning political institutions that enable the empowerment of the poor and allow them to overcome the social forces and institutions which are largely responsible for their poverty " (Prakash, 2002:52).

REFERENCES

Abdulrahman, K. (2007) "Too much poverty in Northern Nigeria" Retrieved July 6, 2009, from http://www.sunnewsoline.com

Ado Kurawa, 1. (2008) Ed. "Achievements of the Shekarau administration" 2003-2008. Research and Documentation Directorate, Government House, Kano

Ado-Kurawa, I. (Ed) (2008). "*Rationale for the Roadmap.*" The Economic Development Roadmap. Kano: Research and Documentation Directorate, Government House, Kano.

African Development Foundation (2005). Participatory Development. Retrieved October 6, 2009, from http://www.adf.gov

Ahmed, H. (2004). *Role of zakah and awqaf in poverty alleviation*. Occasional paper No.8. Islamic Development Bank/ Islamic Research and training Institute

Ajakaiye, O. (2002). "Overview of the current poverty eradication programme in Nigeria" in Jega, A.M. and Wakili, H. (Eds.) *The poverty eradication programme in Nigeria problems and prospects*. Kano: The centre for Democratic Research and Training.

Ali, Y. (1978). *The Glorious Quran-Translation and commentary*. Leicester: The Islamic Foundation

Aliyu, C.U. (2001). "Islamic perspective on poverty and the way it should be minimized" Paper presented at a seminar organised by Development Research and Projects Partners-dRPC, Kano. September 1st.

Aliyu, R.Y. (2009). "Kano tops unemployment index in Nigeria." Daily Trust Newspaper,p.25, April 8. Media Trust Nigeria Ltd., Abuja

Amin, A.G. (1999). "Kwamitin gyaran tarbiya da kyautata auratayya-Madogara da fitilar ayyukan kwamiti".Kano: Safinatul Khair Foundation

Ammani, A.A. (2009). "Street begging: Exposing the bankruptcy of blatant paying of lip service." Retrieved October 12, from http://www.gamji.com

Asian Development Bank (2008). Participatory Development. Retrieved October 6, 2009. www.adb.org

Awqaf S. A. (2008). "What is Waqf". Retrieved June 3, from http://www.awqafsa.org.za/waqf.htm

Barau, A.S. (2006). *An account of the high population in Kano*: Kano Concern Groups for Justice and Fairness

Bonfigloli, A. (2003) Empowering the poor-local governance for poverty reduction. United Nations Capital Development Fund. New York. Retrieved October 6, 2009, from http://www.uncdf.org

Bremer, J. (2004). "Islamic philanthropy: Reviving traditional forms for building social justice" Retrieved December 24, from http://www.islam-democracy.org

Chapra, M.U. (1992). Islam and the economic challenge: Herndon. The International Institute of Islamic Thought

Dan-Asabe, A. U. (2000). "Biography of select Kano merchants, 1853-1995" in Abba, I. A. Ed. FAIS Journal of Humanities B.U.K. Vol.1 No.2, November

Douara, D. (2007). "Philanthropy and development conference present new research, calls for waqf revival". Retrieved October, from http://www.dailystaregypt.com

Falex (2009). Hutchinson encyclopedia about Kano. Retrieved October 16, from http://encyclopedia.falex.com

Faruqi, I.R. (1982) Tawhid: Its implication for thought and life. Pennsylvania the International Institute of Islamic Thought

Future Fund (2006). Working towards a better future. Retrieved January 13, 2008, from http://www.islamic-relief.com

Garba, A. (2006) 'Alleviating Poverty in Northern Nigeria" Retrieved July 6, 2009, from http://www.nigerdeltacongress.com

Gill, I. (2008) ABD Report finds that poor communities welcome participatory approach to development Retrieved August 30, 2009, from http://www.adb.org

Ilallah, M. (1990) "*Kano Foundation and it's Kind of Education*"
The Triumph Newspaper, Kano, p.6, June 6 .Triumph Publishing Co. Kano.

Innerarity, F. (2002). "Social capital formation in poverty reduction: Which role for civil society organisations and the state?" UNESCO/MOST and CRP/ISSC Retrieved August 6, 2009, from http://www.unesco.org

Islamic-World (2006). Waqf. Retrieved from http://www.islamic-world.net/economic

Jennings, R. (2000) "Participatory development as new paradigm: The transition of development professionalism". Retrieved May 30, 2009, from http://www.usaid.gov

Kahf, M. (1998).Financing the development of awqaf property. Retrieved October 11, 2006, from http://www.islam.co.za/awqafsa/sorce/library

Kano Forum (Inuwar Jama'ar Kano) (2005) *Annual Report & Accounts*, Kano

Kano State Zakat and Hubsi Commission, *Brief Report for the Year 1425 AH/2004*: Kano, Triumph Publishing Co. Ltd.

Kano State Zakkah and Hubusi Commission Law (2003). Kano State of Nigeria Gazatte No.7.Vol.35.

Khaliq, S. (2009). "CBN frowns at low microfinance activities in Kano" Retrieved October 23, from http://businessworldng.com

K-SEEDS (2005). *Policy Framework and Projects Summary*, Kano State Government

Kusumaningrum, D. (2007) Repacking participatory approach as an option for rural development? Retrieved June 6, 2009, from: CAPSA Flash Vol. 5 No.2 http://www.uncapsa.org

Lucas, J. (1994) "The State, Civil society and regional elites: A study of three associations in Kano, Nigeria" *African Affairs* [Online] Vol. 93 pp21-38 Retrieved May 7, 2008, from http://afraf.oxfordjournals.org/cgi/content/citation/93/370/21

Mamman, A. (2008) *Entrepreneurship development and poverty alleviation in Nigeria.* Kaduna: Joyce Graphic Printers Publishers.

National Bureau of Statistics (2008). 2006 Population Census. Retrieved June 15, from http://wwwnigerianstat.gov.ng

Neareast (2009). "The role of waqf in development." Retrieved October 8, from http://www.neareast.org

NEEDS. (2005). *National economic empowerment and development strategy.* Abuja: National Planning Commission of Nigeria.

NGO (2009) "Nigeria. 30% of Northern Youths are *almajiris*" Retrieved July, 6, from http://www.elomah.com

One world (2008). Poverty in Nigeria. Retrieved September 30, 2009, from http://uk.oneworld.net

Oyen, E. (2002). "Social capital formation as a poverty reducing strategy." UNESCO/MOST and CRP/ISSC Retrieved August 6, 2009, from http://www.unesco.org

Prakash, S. (2002). "Social capital and the rural poor: What can civil actors and policies do?" UNESCO/MOST and CRP/ISSC Retrieved August 6, 2009, from http://www.unesco.org

Ruxton, F.H. (1914). *Maliki law-A summary from French translations of the Mukhtasar of Sidi Khalil*. Cairo: Elnahar Press

Soludo, C.C. (2007). "Nigerian economy: can we achieve the vision 20:20S0?" Paper presented on 8th January, Central Bank of Nigeria.

Special Adviser (2008). Comprehensive list of registered NGOs/CBOs/CSOs with the Office of Special Adviser NGOs, Kano State

Spellberg, D.A. (2009). Waqf. Retrieved September 12, from http://www.answers.com

Suleiman, H.B. (2002). Contributions during presentations on "Strategies towards strengthening the poverty eradication programme in Nigeria." in Jega, A.M. and Wakili, H. (Eds.) *The poverty eradication programme in Nigeria problems and prospects*. Kano: The centre for Democratic Research and Training.

Thinkers Forum (2009). Campaign for the poor-Working to establish a social welfare system. Retrieved August 27, from www.thinkersforum.org

Tofa, B.S.D. (1999). "Child Prostitution in Kano: An exposition" Seminar paper, Faculty of
Social and management Sciences, Bayero University, Kano, May.

Tomlinson, M.D. (2002) "Poverty reduction strategy in Nigeria: An assessment" in Jega, A.M. and Wakili, H. (Eds.) *The poverty eradication programme in Nigeria problems and prospects*. Kano: The Centre for Democratic Research and Training.

Umoren, A. (2009) "Nigeria, Mexico Partnership boosts global fight against poverty" Retrieved September 3, from http://www.ngrguardiannews.com

UN-HABITAT (2005) "Islam, land and property research series" Paper 7: waqf (Endowment) and Islamic Philanthropy Retrieved December 31, 2007, from www.unhabitat.org

Wambai, A. I. K. (1991). "Islamic endowments and their situation in Kano State" Unpublished M.A. Thesis, Islamic Studies Department, Bayero University, Kano

Zara, B.Z.U. (2006). "History of the establishment and growth of kola nut market in Mariri in the 20th century." Unpublished B.A.Thesis, Department of History, Bayero University, Kano

MANAGEMENT AND DEVELOPMENT OF THE AWQAF ASSETS

Dr. Abul Hassan
Coordinator,
Islamic Economics Unit
The Islamic Foundation,
Ratby Lane, Markfield
Leicestershire LE67 9SY (UK)
Tel: 0044 1530 244945 Ext. 260
Fax: 0044 1530 244946
E-mail: abul.hassan@islamic.foundation.org.uk

and

Mr. Mohammad Abdus Shahid,
MA(Economics)
Independent Consultant
16 Cotes Street
Loughborough
Leicestershire LE11 1JD
UK

MANAGEMENT AND DEVELOPMENT OF THE AWQAF ASSETS

Abul Hassan
Mohammad Abdus Shahid

ABSTRACT

While the millions of awqaf[1] throughout the world varied, the majority of endowments fell into the five basic welfare categories of food, housing, health, education and religion. Unfortunately vast waqf properties and their institutions are ill-managed. The best waqf buildings, with tremendous commercial potential, are not getting basic repairs and maintenance. The inevitable consequence is much dilapidation and disrepair. The archival sources of awqaf are quite rich; however, the development issues of awqaf has not yet been explored at the stakeholders' theory perspectives. This study is concerned with examining the current situation of the awqaf (singular waqf) assets through secondary sources. In order to revitalise the institution of awqaf, this paper argues that there is need to introduce stakeholders' principles into the body of the institutions of awqaf. The professional business management technique will undoubtedly create many positive opportunities for quality improvement of the institution of awqaf and internal delegation of responsibility. For developing the vast under-used properties of the awqaf, this paper considers that, if institutions awqaf is to fulfil its social purpose, there is needed to create sources of funding for re-construction of aqwaf buildings by creating cash waqf fund and by issuing musharakah sukuk. The returns from this initiative will be significant and more beneficiaries will be benefited.

1. Introduction

Waqf is a form of continuous charity (*sadaqah jariah*). The rewards for this type of charity continue even after the donor's death—for as long as people continue to benefit from the *waqf*. The Prophet Muhammad (peace be upon him) said in the well known hadith, *"When a human being dies, his work for God comes to an end except for three: a lasting charity, knowledge that benefits others, and a good child who calls on God for His favour."*(Muslim).

Waqf refers to gift of money, property or other items of charity, which have been held and preserved for the confined benefit of certain philanthropy. The *waqf* property is prohibited from being used or disposed of outside of the specific purpose for which it is held. Since the definition of *waqf* implies a perpetual nature, *waqf* applies to non-perishable property whose benefit can be extracted without consuming the property itself. This type of properties include real estate, stocks, cash money, books, and chattel etc.

[1] *Waqf* is a singular and *awqaf* is plural word

Generally, *waqf* revenues are most frequently spent on mosques. This includes salaries of the Imam, teachers of Islamic studies, and maintenance of the mosque properties. Since the beginning of Islam, education has been financed by *waqf* and through voluntary contributions; therefore, education in general is the second largest recipient of *waqf* revenues. *Waqf* financing of education usually covers libraries, books, salaries of teachers and other staff. The third largest beneficiary of *waqf* is the needy those with very low income, needy orphans, persons with disabilities, the elderly and so on.

In view of the above fact, the idea of *waqf* is entailed generous applications in the direction of developing the non-profit, non-governmental sector and increasing the quantity of welfare services that aim at improving the socio-economic welfare of a society. This provides a strong justification for a detailed study of the potentiality of the application of *awqaf* and the development of their assets for the welfare of the *Ummah* (community) and humanity.

The present situation of *waqf* institutions are undoubtedly unsatisfactory. They can be fairly said that in many areas there has been a calamitous collapse of *awqaf*. The *awqaf* institutions are not given proper attention and therefore, vast *awqaf* properties are ill-managed. The inevitable consequence is much dilapidation and disrepair. Even the best *wqaf* buildings, with tremendous commercial potential, are not getting basic repairs and maintenance (Ahmad and Khan, 1998). Indeed there is a general feeling that *waqf* properties, some originally of the highest quality, is now some sort of cheap commodity, available in the commercial market. On top of which the virtual collapse of institution of *awqaf* has resulted in a vacuum which, in most Muslim countries have failed to fill in the gap. The reasons for this include:

- legislative lacunae,
- administrative lapses,
- lack of political will,
- indifferent attitude of the management committee of the *awqaf,*
- lack of honesty and integrity.

Since deteriorating situation of the institution of a*wqaf* needs urgent attention and should not be left to go further backward, therefore, it makes sense to look in the opposite direction – forward – and to re-think the situation particularly in respect of the use of existing *waqf* assets. Indeed the current reappraisal of the role of the *waqf* offers opportunities to learn from the mistakes of the past and to move for managing the *waqf* assets in a professional way within a modern administrative framework.

Broadly, in order to achieve this, two things are essential. First, existing endowments or *awqaf* must be better managed and used for enhancing security of tenure, and for the interest of the needy community. Second, future endowments awqaf must be used to help resource redistribution and strengthen civil society.

In order to address these two issues. Firstly, there is needed to examine the relevance of the business management principles by applying the stakeholder theory in the *awqaf* sector. Secondly, in order to undertake revitalization programme for *waqf* assets, the paper proposes the two important sources funds - cash *waqf* and

musharakah sukuk which may be suitable as contractual vehicles for providing the financial needs of the development of *waqf* properties development.

The rest of the paper is divided into five sections. Section 2 discusses about the legacy and development strategies of the institutions of *awqaf*. Section 3, discusses why should this study introduces the business management principles into the institutions of awqaf, which by its origin and mission has already a strong social dimension? Section 4 provides a comprehensive discussion on investing in the *awqaf* development for generating social return through two types of contractual vehicles for providing the financial needs of *waqf* properties for development of its projects. Section 5 draws conclusion

2. Legacy of Awqaf and its Development Strategies

An *waqf* institution holds a certain assets and preserves it for the benefit of the beneficiary. It prohibits to use other than for the specified objectives. Therefore, *waqf* is to retain the real asset with an implied ownership of the almighty God and to devote its utilization for the benefit of mankind. Hence a *waqf* asset is considered a trust asset where the role of the trustee is to look after the asset and ensures its perpetuity for the beneficiaries.

There are different ways to make a *waqf* but generally two type of *awqaf* are popular: (i) bequests[2] and (ii) charitable gift annuity[3]/cash *waqf*. In other word, *waqf* assets can be classified into fixed assets and movable assets. Both have the potential to generate benefits for the public and contribute towards wealth and prosperity.

Evidences say that the majority of immoveable *awqaf* assets belong to real estate/properties are permanent in nature; come under the category of security of the act of 'continuous charity', which is one of the main characteristics of *waqf* (Kahf, 2004). The permanent nature of a *waqf* resulted in the accumulation of waqf properties all over the Muslim lands and the variety of its objectives provides support for widespread religious and philanthropic activities. *Waqf* assets are employed for repeatedly extracting its usufruct for the benefit of an objective representing righteousness/philanthropy. Hence, as long as its principal is preserved, the *waqf* is a continuously usufruct-giving asset. Preservation of principal may result from its own nature as in land or from arrangements and conditions prescribed by the *waqf* founder. These assets cover perpetual *waqf* and the *waqf* that remains as long as its asset lasts, i.e., for the beneficial life of the assets.

On the other hand, cash *waqf* had two forms. First, cash was made into *waqf* to be used for free lending to the beneficiaries and second, cash was invested and its net

---

[2] One of the most common and easy to execute planned gifts is a bequest, which is also known as a *wasiyyah*. A bequest is a special provision in a donor's will, whereby an individual or organization is designated to receive property at the time of the donor's death, for a charitable purpose.

[3] A charitable gift annuity is a simple contractual agreement between a donor and the non-profit organization whereby the non-profit organization agrees to pay a fixed annual income for life to the annuitants in exchange for money or assets transferred to the non-profit organization. A charitable gift annuity provides a guaranteed fixed amount of income for the rest of the annuitant's life.

return is assigned to the beneficiaries of the *waqf*. For example, some of the generous wealthy people established charitable cash endowments (*waqf*) which was lent to various borrowers during Ottoman period. The Ottoman courts approved these endowments as early as the beginning of the 15th century. By the end of the 16th Century they had reportedly become extremely popular all over Anatolia and the European provinces of the Empire (Cizakca, 2004). While ownership of houses of borrowers were transferred as collateral, they would continue to stay in them and pay rental to the waqf. When the capital was returned the ownership was reverted to the borrower. The rent collected or profit was distributed into three parts. A third of the profit was used to cover administrative costs, a third for charitable purposes for which the *waqf* was created, and the remaining third was added to the original endowment to protect the real value from inflation.

It may be pointed out that the *waqf* makes its assets cumulative while application to the principle of perpetuity in *awqaf*. Therefore, as per *Shari'ah* rules, the *waqf* assets may not be sold or disposed of in any form. It means that a *waqf* asset remains in the *waqf* domain perpetually and any new *waqf* may be added to that domain, implying that *awqaf* assets can only be increased but can not be sold. In this sense the *waqf* is not only an investment, but also a cumulative and compounded investment (Kahf, 1998).

In view of the above fact, the conception of the *waqf* has wider socio-economic goals and it has influenced the development of Islamic socio-economic and political history. After the death of the Prophet Muhammad (peace be upon him) during the period of Caliph Umar, the Companions of the Prophet Muhammad (pbuh) invented a kind of philanthropy that was directed toward family members and offsprings, and they started establishing *awqaf,* that included land, buildings and palm trees, for the objective of distributing their net revenues to the family and offsprings of the founder. This *waqf* has the same characteristic as other philanthropic *waqf* in a sense that the assets themselves are preserved from being disposed of, and the usufructs are distributed in a repeated manner (Kahf, 1998). In this way, one of the applications of a concept *waqf* which comes within broad norms of *Shari'ah* that providing for sustenance and welfare of donors and their family members, neighbors and friends, is an expression of righteousness and an act of philanthropy.

Expressing its economic content the *waqf* can be explained as diverting resources from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups of individuals. The surplus income of *awqaf* can be put into operation that combines the act of saving with the act of investment together. It consists of taking certain resources off consumption and simultaneously putting them in the form of productive assets that increase the accumulation of capital in the economy for the purpose of increasing future output of services and incomes.

A *waqf* asset is considered a trust asset, where the role of the trustee is to look after the asset and ensure its perpetuity for the beneficiaries. All the fixed *waqf* assets have the potential to generate benefits for the public and contribute towards wealth and prosperity. Furthermore, the establishment of an Islamic *waqf* is very close to the establishment of a business corporation whose life span is unlimited. Therefore, the *waqf* is a developmental process by virtue of its definition as it involves the

accumulation of productive wealth through present investment that favours future generations since the *waqf* gives its beneficiaries future benefit in cash or kind without any fee or charge. Naturally, the *waqf* implies a sacrifice of a present consumption opportunity for the benevolent purpose of providing income and services for the future generations.

2.1 Mismanagement of Awqaf Properties

With the enactment of *Waqf* Acts/regulations in the mid of the nineteen century, many countries have been administering the awqaf assets by appointing *Waqf* Administrators or *Waqf* Commissioner (Ahmad and Khan, 1998). A *waqf* administrator plays the role of line manager of the *Waqf* Managers (*Mutawallis*). Despite the promises of better use of *awqaf* assets by the *waqf* administrators, they failed to bring any fruitful result. It is known that 'reforms' of awqaf that took them within the public sphere of government have squandered valuable material and human resources. A few studies (Sait and Lim, 2005; Cizacka, 2000; Mahmood, 1998) point out that the eclipse of the *waqf* has left a vacuum in the arena of public services, which has not been filled in. The imam of the Mosques, students of Islamic studies, health patients, homeless, travelers, poor are only among the category of vulnerable people who have lost cover of the *waqf*, because of the lack of funds and lack of proper management of the awqaf assets.

Baskan (2002) argues that the solutions for awqaf need to be privatised by returning their assets to private management by creating *waqf* boards of trustees independent of the Government Ministry. By transferring the management of *waqf* to the independent board or body will help to manage the assets of *awqaf* in a professional manner. The traditional *waqf* model contains within it methods by which the endowment can finance or refinance itself. These include creating a new waqf to add to the old one, and using the mechanism of a long lease with a large advance lump sum and rent at par market rate. There is also need to provide sufficient checks and balances on the *awqaf* managers without allowing the *awqaf* management to fall in the lap of the corrupted political leaders. Alternatively if the endowed lands are to remain within the public sphere, the integration of information regarding state awqaf lands is necessary if they are to be transparently managed and factored into general development.

2.2 Requirement of Innovative Development Strategies

The institutions of a*wqaf* have been recognized as a third sector and law to govern the waqf has been developed under the *Shari'ah* law through out the centuries. In order to manage the waqf assets in a professional way, there are vast opportunities to formulate innovative Islamic legal and administrative framework based on *ijtehad* (Abu Saad, 2001). On the other hand, there is also a need for a complete revitalization of the management of *awqaf*, especially, immovable assets of the *waqf*, in order to fulfill two objectives: (i) to increase the efficiency and productivity of the *awqaf* properties; and (ii) to minimize fraudulous practices and corruption by the *mutawalli / wqaf* managers. Furthermore, there is also a need to provide a new style of management that suits the *awqaf* institutions, keeping in mind that their properties are not owned by those who manage them.

A few studies argue (Sait and Lim, 2005; Mahmood, 1998; Basar, 1987) that there is no reason why a new modern responsive doctrine of *waqf* cannot emerge in the light of the Islamic jurisprudence which are confluence of foundational Islamic principles and modern management techniques. Suggestions of revitalising the *waqf* for serving the needy community have been made by various scholars. In his in-depth study in respect of socio-economic development within the Islamic political economy, Choudhury (2003) highlights the mutually dependent and interactive ways in which social capital (*waqf*) and intellectual capital co-evolve. For any socio-economic development needs, he describes four variables, namely, participatory political economy; appropriate technological change and Islamic financial instruments of economic participation and cooperation of the people each other.

Cizakca (2004) suggests a model in which the concept of cash *waqf* can be used in contemporary times to serve the social objectives in the society. Similarly, Elgari (2004) proposes establishing a non-profit financial intermediary, the *qard Hassan* bank that gives interest free loan to finance consumer lending for the poor. The capital of the bank would come from monetary (cash) *waqf* donated by wealthy Muslims. Kahf (2004) and Ahmed (2003) propose establishing a microfinance institutions based on *zakah*, *awqaf*, and *sadaqat*. They suggest that the returns from *awqaf* and funds from *sadaqat* can be used to finance productive social enterprise at subsidized rates. Zarqa (2007) points out that there are various institutions and structures that Islam has instilled to redistribute income and wealth for the fulfilment of the basic needs for all in the society. The institutions include, among others, *zakah, waqf* and *qard hasan*. On the other hand, Malaysian Islamic capital market of the Security Exchange Commission(SEC) has developed a model of *musharakah sukuk* to generate funds for development of the *awqaf* properties.

There are two obvious implications of this renewed focus on the *waqf*. Firstly, existing *awqaf* will be able to manage and to use better ways for enhancing security of tenure, and also for poor section of the people. Secondly, future *awqaf* will be able to help in the resources redistribution and to strengthen civil society. Given the apparent support for the idea of the *waqf* at the local, national and international level among Islamic communities, the institutions of *awqaf* should act as a non-governmental organization (NGO) by employing Islamic business management ethics so that proceedings of the *waqf* assets may be used for the socio-economic and educational development of the of Muslims community(*ummah*).

3. The Managerial Responsibility Dilemma

The Islamic ethical system is balanced, fair, just, and benevolent, and seeks to respect the rights of both primary and derivative stakeholders without allowing for exploitation, nepotism and other human ills(Beekun and Badawi, 2005). Islam advocates a tiered, multi-fiduciary stakeholder approach so that the various stakeholders of a business receive in proportion to their inputs. The responsibility of each stakeholder is morally anchored since it is based on the concepts of trust (*amanah*), equity, balance and fairness (‘*adl* and *qist*), benevolence and excellence (*Ihsaan*).

The core of the Islamic business ethics literature has some similarity with the modern stakeholder theory. The normative function of the stakeholder theory is to internalize

the concept of social responsibility into the definition of the firm (the firm as a social contract) and into the managerial practice. But question may be raised that why the business management approach is introduced into the management of *awqaf* -a non-profit sector, which by its origin and mission has already a strong social dimension? Answer of this question is addressed in the following paragraphs.

3.1 Consequential and Fiduciary Responsibility

In Islam, the fact that a firm is a fictitious entity does not diminish the responsibility of its owners (shareholders) or their representatives (managers) for its actions. Al-Qaradawi (1997) writes that "God loves, when one of you is doing something, that they do, it in the most excellent and socially responsible manner'' (p.26). For example, it will be assumed that someone is socially responsible when some body has due regard for the rights of other people and has consequences of their acts. The minimum threshold of behavior in Islamic manner is not to cause damage to others. Children who are not able to assess the consequences or potential damage of their actions are thus not considered to be responsible. If a person in one way or another creates damage or problems to third parties or society as a whole this will subsequently have to be put right, for example by paying compensation.

What applies to people also applies in a derived manner to firms and other responsible institutions. According to Islam, the social responsibility of a firm or Islamic financial institution means the liability of a firm or institution for the consequences of its actions. The more concern there is for the harm that a firm/institution causes rather than the good that it does, the more likely the manager of the firm or institution will be called to account. This is done by using a social cost-benefit analysis which forms the basis of public opinion and government regulation. For example, a special ministry was established for awqaf in the Ottoman Empire and the laws of *awqaf* were enacted for managing the awqaf institutions in a professional manner. The most important among them was the Laws of *Awqaf* of 29th November, 1863. These lawz remained in application in several countries such as Turkey, Syria, Iraq, Lebanon, Palestine, Saudi Arabia etc for many years after the dismemberment of the Ottoman Empire in 1918(Baskan, 2002). Under these *Awqaf* laws, in principle, responsibility of a *waqf* manager or *Mutawalli* was to administer the *waqf* property to the best interest of the beneficiaries. The first duty of *waqf Mutawalli was* to preserve the property then to generate revenues for the beneficiaries (Basar, 1987). A *waqf* document usually mentions how the *waqf Mutawalli* was compensated for this effort and if the document did not mention a compensation for the *waqf Mutawalli*, then it was presumed that they might had worked either volunteer basis or sought assignment of compensation from the court.

In view of the above, norm of Islamic behaviour refers to the firm the social liability of persons and institutions. This approach is mainly external to the firm, and is in consequentiality and socio-political orientation of the stakeholders. Being given responsibility means being given a job to do. Responsibility in this sense does not so much refer to the consequences, but rather to something that precedes the activity and which orients and directs the actions (Freeman, 1984). The substance of assigned responsibility is much firmer than with the general social liability for the consequences of stakeholders' actions. It also rests on a more direct relationship of trust between the person who delegates the responsibility and the person given the

responsibility. This may be called in the language of management theory- a principal-agent relationship for the betterment of the community (Donaldson and Preston, 1995).

The person assigned with responsibility for making policy gets a specific mandate, authority and power upon being appointed. But the person is in due course accountable to the principal for that persons' own acts. Main authority of a non-profit-making institution like a *waqf* institution is *waqf* management board. The *waqf* manager (*mutawalli*) is responsible for the day to day function of a *waqf* and accountable to the *waqf* management board, with "fiduciary" responsibility. The message from 'agency theory' is that the internal objectives of *waqf* form the primary responsibility of the *Mutawalli*. The wider social liability in this respect is secondary and functional. When social liability is over-regulated by government, it is viewed as obstructive and irksome, an infringement of individual responsibility and self-regulation (Freeman, 1984).

3.2 Managing the Responsibility Dilemma

The *waqf Mutawall(s)* continuously intersects of the above two forms of responsibility. Their prime responsibility is towards their principal. The *waqf* management board, from whom *Mutawalli(s)* received the appointment and whose trust they enjoy. Furthermore, some Muslim jurists argue that right of the ownership of a *waqf* belongs to God. On the other hand, waqf belongs to beneficiaries and therefore, a *Mutawalli* is to face accountability before beneficiaries as well to the *waqf* board for the consequences of the policy. Therefore, board of management of the *waqf* and its beneficiaries together may be called the "stakeholders" of a *waqf*. All groups (e.g. *waqf* board members, beneficiaries, and *Mutawalli* of the *waqf)* who in one way or another experience the effects of the activities of such an institution and who are therefore considered to be involved parties (Beekun and Badawi, 2005).

But the area of tension between fiduciary responsibility towards shareholders and socio-consequential responsibility towards stakeholders is known in business management ethics as the stakeholders' paradox (Goodpaster 1991). The various solutions to this paradox are not simply the result of analytical arguments, but rather stem from different normative ideas that vary from radical libertarian, through moderate liberal to social-democratic (Goodpaster, 1991). Here a question may be raised that; is there a similar tension between fiduciary and socio-consequential responsibility in the *awqaf* institutions? On first sight it would appear not, and with good reason. If it is looked into the matter of the *awqaf* institutions, it may be observed that *waqf* provides support for widespread religious and philanthropic activities. With regards to use of *waqf* revenues, the most frequent purpose is spending on mosques, schools, orphan houses, poor, travelers. This also includes salaries of imams, salary of the other staff and Islamic *dawah* workers (preachers) etc. The educational sector in general has been the second largest user of waqf revenues. *Waqf* financing of education usually covers libraries, books, salaries of teachers and other staff and stipends to students. Therefore, the object of *awqaf* institutions is social from start to finish. In this way the content of fiduciary responsibility is not the private profit of shareholders but a social profit. Thus, there cannot be any question of a conflict between fiduciary and socio-consequential responsibility.

3.2.1 Stakeholder Theory in Perspective of Waqf

It is true that a non-profit institution like *waqf* has a social and selfless purpose as its primary mission. But this social goal is of a very specific nature. It is, at least in the case of a private initiative, linked to a particular social perspective, the perspective of the formation of *waqf* (the organizational authority) and is oriented towards a specific target group (for example, support philanthropic activities such as providing support for mosque or *madrasa* education). This particular and specific goal is the direct and prime purpose of the of institution of *awqaf*. However, the *awqaf* institutions indirectly realize many other goals and expectations. These other social objectives include are to generate benefits for the needy and contribute towards wealth and prosperity, socio-economic development of the community and social progress etc. This complex web of social interests and expectations can grow and have even been supported by government regulation to settle the dispute when a conflict arises between the original social objectives and the derived social significance of the institutions *awqaf*.

The conflict can be explained in yet another way. One of the main purposes of a *waqf* institution is to make a 'social profit'. Here 'social profit' means the cost-efficient use of the available capital in such a way that the social objective as defined by donors (*waqif*) is achieved to its best. But on the other hand, the added social value that the institution creates is also determined by the many socio-economic effects and benefits that the *waqf* institution creates. There is an added social value or profit. Consequently there can be a conflict between the added social value that the institutions of *awqaf* pursue and the added social value that other group or stakeholders have in mind. In addition to the general objective of striving towards social profit, there is also a struggle surrounding the distribution of the social profit and the determination of its content.

3.2.2 Replication of Stakeholder Theory in Waqf

The stakeholders' theory may be a helpful tool to analyze and manage the responsibility dilemma of the nonprofit organisations (Freeman, 1984). The starting point of the stakeholders' theory of the firm in Islamic perspective is that firms have a social contract between several stakeholders or involved parties in its memorandum of understanding (MOU). This concept of firm in Islamic perspective may be replicated at the non-profit organisations (such as *waqf*) so as to make the network of stakeholders quite widely interpreted. If stakeholder theory is applied to an *waqf* educational institution of orphan for example, it means that the institution can be considered (at least implicitly) as a social contract between different groups such as the original founders who set up the institution on the basis of a certain inspiration, those in need of care who trust in the institution, those who provide the care who invest their work and talent in it, the government who regulates the sector by laws, the philanthropists who co-finance it. The purpose of the social contract is not only to create a social profit but also to fairly distribute it among the stakeholders (Freeman, 1984). All stakeholders are co-principals. They co-determine the identity of the institution and in this way the relationship with stakeholders' changes from an instrumental relationship to a relationship of mutual responsibility or partnership.

3.3 The Impact of Competition

If Islamic business ethics is seen from a micro point of view, it may be called that this is a way to manage the responsibility dilemma. But from a macro perspective, the replication of Islamic business ethics can be seen as a response to new forms of competition. Present-day competition is just as much, if not so more, quality competition as it is price competition. Quality competition compels firms to give due regard to ecological, social and Islamic ethical considerations. In this new type of socio-ethical competition, Islamic business ethics will play a role of an agent for strategic and market orientation of the firm in ethical way. It is an attempt to at least partially internalize external social responsibility into the objectives and mission of a firm. As it is known fact that introducing social responsibility makes the firm morally reliable (Freeman, 1984).

The impact of the macro-developments on the non-profit-making sector like *awqaf* is enormous. The political regulation is making way for increased market operations. With the adoption of globalization and liberalization policies by Muslim world, the governments are withdrawing somewhat and allowing more room for the independent policy of institutions. As a result of this, the importance of a non-profit as well as non-governmental organisations and their self-determined mission statement and the role of management as the implementer of this mission increases (Beekun and Badawi, 2005). Market elements such as quality competition, cost-efficiency, contract financing, customer-orientation and organizational structure, etc., all form part of the management of institution of *awqaf*. This undoubtedly creates many positive opportunities for quality improvement of the institution of *awqaf* and internal delegation of responsibility.

3.4 Practice of Social Responsibility

The social responsibility is a core responsibility of the non-profit sector like *awqaf*. But all the non-profits do not follow same level of social responsibilities. Some of causes are:

(i) Poor Ethical structure

Institutions that build in institutional elements of ethical care such as codes of ethics, social-ethical training is based on stakeholder theory. Evidence says that the formal Islamic ethical structure in the awqaf institutions is poorly developed.

(ii) Ethical Climate

The more the organization has a regulatory climate; the weaker is the social responsibility of the organization. This is also a true fact in the case of most of the *awqaf*.

(iii) Organizational structure

An institution of *waqf* consists of a highly structured hierarchy – a bureaucracy – is unfavorable for social responsibility. The professional organisation with

characteristics such as a high degree of specialisation, little centralisation, small status differences, personal contact and high commitment is the most favorable for a policy of social responsibility.

In addition to organizational characteristics of *awqaf*, the characteristics and vision of the *waqf mutawalli(s)* should play a significant role. The literature on *awqaf* management quite strongly emphasizes the personal role of the *mutawalli* as the guardian of the *waqf*'s mission. The factors such as a professionally committed *mutawalli* of waqf, practicing religious conviction, and a vision of society oriented towards open and direct democratic consultation (*shura*), should exhibit a significant positive effect on the social responsibility into the institutions of *awqaf.* Salih (1999) notes that "one of the operational tasks needed to facilitate development of awqaf, is related to the challenge of adapting modern management techniques to the prevailing economic relations among societies where *waqf* exists" (p.77). In this way, the *waqf* management structures may be made more efficient, transparent and responsive by introducing the principles of stakeholders' theory into the day to day functioning of the *awqaf.*

4. Mobilisation of Funds for Developing Awqaf Assets

The concept of *waqf* indicates that the Islamic economy recognizes the role of the non-profit sector in social and economic development and provides the necessary legal and institutional protection for this sector (Rashid, 2003). Historically the institution of *awqaf* rendered exemplary welfare services in the area of health care, education, social welfare, environmental and other community based programmes (Bearman et all; 2002). Consequently the Muslim society expects that the *awqaf* should take over more responsibilities to meet the social problems of today. But majority of the *awqaf* institutions are lacking the essential resources they need.

There are vast un-managed assets of awqaf in the world where Muslims also represent a huge amount of social wealth. In the development process, these can be combined to produce necessary facility of social services especially for the poor people (Bellhachmi, 2004).

There is no doubt that the institution of *awqaf* could play a better role in the process of social and economic development. In order to achieve this stage, there is a need to give special attention to the development of the vast under-used *awqaf* properties to reactivate its functions and ability to provide those important services they used to carry out in the past. One of the major problems in relation to reviving *awqaf* is a lack of funds for regenerating the productivity of the *waqf* land/properties as well as other moveable and immovable assets.

To address this problem, this study proposes to create two type of financing vehicles that can be used to finance for the development of *awqaf* properties: (i) establishment of cash *waqf* fund, and (2) through the issuance of *sukuk*; offer an alternative investment. The details of these two sources of funding for the development of *awqaf* institutions are discussed below.

(1) Cash Waqf Fund

The concept of cash *waqf* is a philanthropic foundation. Generally this fund is established with money to support services to mankind in the name of God. Cash *waqf* fund may be opened for soliciting cash *waqf*. The donors (*waqifs*) of this fund will give their cash money for the purpose of financing the development of awqaf land/building/properties. The *waqf mutawalli* will manage this fund and the fund will be utilized for providing revolving loans for development of *awqaf* properties. This loans that are payable to the fund, to be utilized again for financing other *awqaf* properties. Since this fund will be generated out of cash *waqf* contributions solicited from individuals and institutions including the government, therefore, its administrative expenditures will be covered from the service charges which are permissible in *Shari'ah* as long as they represent the actual cost of administering a loan.

On the other hand, the cash *wqaf* fund may also be utilized on *Mudarabah* or *Musharakah* mode of finance basis and its profit will then be utilized for a philanthropic objective such as helping the poor while preserving the principal of the *mudarabah* and *musharaka*h characteristics intact.

Furthermore, this cash waqf fund may also receive special cash *waqf* contributions which may be utilised for the development of specific *waqf* assets or properties. In this case, the cash may be transformed into a material addition to the *waqf* as building, equipment, furniture, etc. Alternatively this cash may be transformed to a special cash *waqf* fund for development of certain kinds of *waqf* such as for financing the development of educational institution or hospital.

There might be people who are also willing to help in the development of *awqaf* properties with their available financing resources for certain period of time. In order to do this, they may like to retrieve their principal of the cash *waqf* funds at the end of that time. It is exactly similar to loans as defined in *Shari'ah* that is an act of charity in which the lender sacrifices the benefit of using his/her cash during the period of the loan (Abu Saad, 2001).

(2) Musharakah Sukuk

Many *wqaf* institutions simply do not have the funds to develop new capacity while keeping their existing work going on. *Waqf* assets, through the issuance of *Sukuk* (Islamic bond), offer an alternative investment. Therefore, *sukuk* can be used as a tool to finance for development of the *waqf* properties. The main objective is to provide long term support with a focus on building capabilities and showing results.

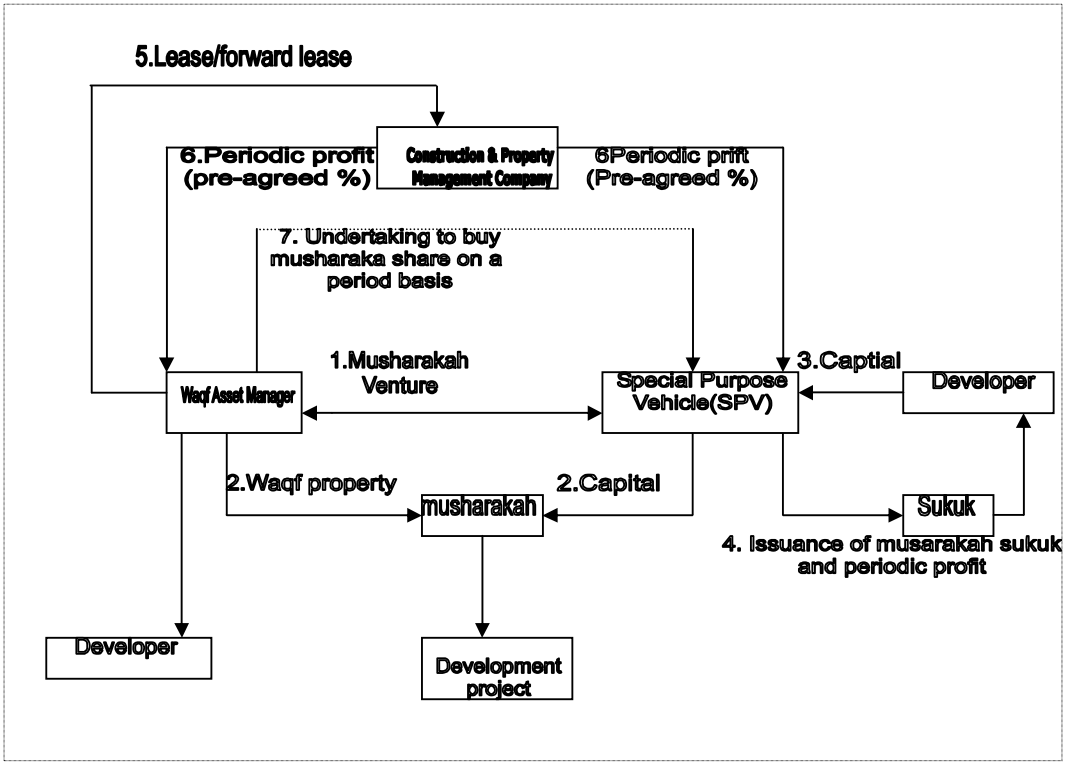
Sukuk is an Islamic financial certificate that complies with *Shari'ah*. The issuer of a *sukuk* sells this certificate to an investor or a group who then rents it back to the issuer for a pre-determined rental fee. The issuer also makes a contractual promise to buy back the *sukuk* at a future date at par value. Most important point is that *sukuk* as a product is linked the returns and cash flows of the financing to the assets purchased, or the returns generated from an asset purchased. This is because trading in debt is prohibited under *Shari'ah*. Therefore, the primary condition of the issuance of *sukuk* is the existence of assets on the balance sheet of the government, monetary authority,

corporate body, banking and financial institution or any other entity which wants to mobilise financial resources through *sukuk*. The essential underlying concepts of *sukuk*:

(i) transparency and clarity of rights and obligations.
(ii) that income from securities must be related to the purpose for which the funding is used, and not simply comprise interest.
(iii) those securities should be backed by real underlying assets, rather than being simply paper derivatives.

There are several types of *sukuks* but two, *ijra sukuk* and *musharakah sukuk,* are most popular in the real estate financing and for creating funds for construction of new complexes. The development of *waqf* assets through the issuance of *sukuk* may be most suitable by using the *musharakh* financing principle. *Musharakh sukuk* is an important vehicle because firstly, it represents new source of funds on basis of profit and loss-sharing. And secondly, it is vital to developing *awqaf* lands. There is a great deal of surplus cash sitting in Islamic financial institutions waiting to be tapped by new financial instruments. *Musharakah sukuk* can allow this pot of gold to be unlocked to benefit not only the *awqaf* sector but also whole economy.

Figure 1: Structure of Musharakh Sukuk for Developing Waqf Assets



A *musharakah* venture can be established to facilitate the issuance of the *musharakah sukuk* from time to time. The parties in *musharakah* venture are:

(i) the Company (Issuer);
(ii) the Lead Arranger/Facility Agent;
(iii) the Investors (*musharakah* partners); and
(iv) the Trustee.

Musharakah transactions involve partnership arrangements entered into by *musharakah* partners comprising sukuk holders or both *sukuk* holders and the obligors. The issuer of *sukuk musharakah* typically acts as the *wakeel*[4] for the *sukuk* holders, or acts as one of the *musharakah* partners. The *musharakah* venture may entail cash investments or participation in kind (deemed as capital contribution) by the *musharakah* partners. Arising from the partnership arrangement, the *musharakah* partners will enter into a profit and loss-sharing arrangement whereby profits will be shared according to pre-agreed profit-sharing ratio and losses will be shared according to each *musharakah* partner's capital contribution.

Musharakah sukuk represents an undivided proportionate ownership interest in an asset with the corresponding right to the islamically acceptable income streams generated by the asset. In order to develop the *waqf* assets into quality assets through issuance of *musharakah sukuk,* a descriptive model of developing *waqf* assets through issuance of *musharakah sukuk* has been structured in the line of the Malaysian model (MICM, 2007), using the *musharakh* mode finance, which illustrated in Figure 1.

As shown in the figure 1, the *waqf* management board creates a *musharakah* venture. *Waqf* management board also will also appoint a *Waqf* Asset Manager as an agent to develop the land in consultation. In order to mobilise the fund through *musharakah sukuk*, generally the following process are adhered to:

(i) The *waqf* asset manager and special purpose vehicle (SPV) enter into a *musharakah* venture to develop *waqf* land for a period, e.g. say five years, profit-sharing at a ratio determined at 70:30.
(ii) The *waqf* asset manager enters into a two-year forward lease agreement with a Construction and Property Management Company.
(iii) On behalf of the *waqf* management board, waqf asset manager contributes land to the *musharakah* venture.
(iv) The SPV contributes cash as capital to build commercial building on the *waqf* land.
(v) The waqf asset manager may appoint a developer to construct the building and when it is leased, the returns will be distributed according to a predetermined ratio. The waqf asset manager will undertake to buy at a pre-agreed price, the *musharakah* shares of the SPV on a periodic basis and at the end of five years, the SPV will no longer have any share in the *musharakah.*

In order to initiate for issuing musharakah *sukuk* for the development of *waqf* lands into quality assets situated at different places in the town, cities and rural area, above model may be replicated to generate funds. After developing in modern complex or

[4] Wakala is an agency agreement and wakeel is an agent in wakala relationship

new building on the *waqf* lands, the return from newly constructed buildings will bring significant benefit to the beneficiaries.

Sukuk is a proven *Shari'ah*-compliant financial product which has been used in Malaysian as well as in the other Muslim countries to finance for the development of the *awqaf* properties or a specific economic activity permitted by *Shari'ah*. Service apartments in Saudi Arabia were also built with *waqf* assets using *sukuk intifa'* on the basis of time-share ownership of property.

5. Conclusion

The word *waqf* is used in Islamic law which means to hold a certain asset and preserve it for the benefit of the beneficiary. Therefore, it prohibits using other than for the specified objective. In other words, *waqf* is to retain the real asset with an implied ownership of the God and to devote its utilisation for the benefit of mankind. Hence , a *waqf* asset is considered a trust asset, where the role of the trustee is to look after the asset and ensure its perpetuity for the beneficiaries. Generally, *waqf* assets are classified into fixed assets and movable assets or funds. They all have the potential to generate benefits for the public and contribute towards wealth and prosperity. However, *waqf* properties or lands *for* developing quality assets at strategic locations require a large amount of capital.

Despite its role as a welfare mechanism, it has been argued that *waqf* institutions, being resistant to market forces, created evolutionary bottlenecks locking vast resources into unproductive organisations for the delivery of social services. Hamza (2002) envisages for improving the institution *waqf* by adopting modern business management techniques so as to make the *waqf* into a transparent and responsive institution. The *waqf* should be seen as a welfare institution in a civil society through providing public space, thereby capable of promoting democratization and good governance. It is true, that the idea of *waqf* has not lost its appeal, despite its official eclipse, for several reasons. An increasing number of NGOs, socio-political group and corporate entities are using *waqf* model for soliciting and managing funds, cashing in on the appeal of authenticity of the idea.

The core of business management literature is based upon the stakeholder theory of the firm. The normative function of this theory is to internalise the concept of social responsibility into the definition of the firm and participative management. For professionalising the management of the *awqaf*, this study has emphasized that there is need to introduce stakeholders' principles into the body of the institutions of *aqwaf*. Hence an answer has been given why it has been suggested to introduce the business management principles into the body of the *awqaf*, which by its origin and mission has already a strong social dimension? In this regard, this study argues that the stakeholders' theory may be a helpful tool to analyse and manage the responsibility dilemma of the *awqaf*. One of the main purposes of a *waqf* institution is to make a 'social profit'. In addition to the general objective of striving towards social profit within the institution of *awqaf*, there is also a struggle surrounding the distribution of the social profit and the determination of its content. Therefore, introducing stakeholders' theory into the system of *awqaf* will undoubtedly create many positive opportunities for quality improvement of the institution of *awqaf* and internal

delegation of responsibility. To those cases where funds for *awqaf* are insufficient, the capital increase method may used by either increasing the amount of money endowed or implementing a price increase similar to the capital increase system applied by modern firms.

There are several mode of financing for development of *awqaf* lands such as issuing output share, partnership share, leasing etc. This study proposes for establishment of 'cash *waqf* fund' and for *waqf* assets, through the issuance of *sukuk*, offer alternative investment. In order to develop awqaf projects, creating cash *waqf* fund and *skukuk* mode of finance will build up trust between investors, depositors and the awqaf institutions for enhancing the financial benefit. It is expected that these two sources of Islamic investment funds will allow the Muslim *ummah* to invoke *waqf* contributor's motives by financing into the awqaf projects so as to fulfill the objectivities of the *awqaf*. Furthermore, the proposed two sources will give attention to such type of project of the awqaf institutions which will replace despair and hopelessness with the prospect of a brighter future, rekindling ambition and achievement where it has been lost in the Muslim communities. When today's unemployment problems are taken into account, if the *awqaf* institutions are managed professionally by implementing the revitalization schemes discussed in the study, establishments like a*wqaf* will provide employment opportunities for the people and will contribution to the economy.

REFERENCES

Abu Saad, M.S (2001), "Shair'ah and Juridical Personality of Waqf." *AWQAF*, No.1 Year 1, November 2001, pp 7-23

Ahmad, H.(2007), "Waqf Based Microfinance: Realising the Social Role of Islamic Micro-finance" Paper written for the International Seminar on "Integrating *Awqaf* in the Islamic Financial Sector" Singapore , March 6-7, 2007

Ahmad, H and A. Khan (1998), "Strategies to Develop Waqf Administration in India." (Research Paper No.50), Jeddah: IRTI-IDB

Ahmed, H.(2003), "The Role of Islamic Financial Institutions in Financing Microenterprises: Theory and Practice", paper presented at the Forum on Islamic Economics and Finance held in Amman Jordan during September 27-29, 2003 organized by The Arab Academy for Banking and Financial Sciences.

Baskan, B (2002), "Waqf System as a Redistribution Mechanism in Ottoman Empire." A paper presented at 17th Middle East History and Theory Conference, May 10-11, 2002, Center for Middle Eastern Studies, University of Chicago

Basar, H (1987), "Management & Development of Awqaf Properties." Jeddah: Islamic Research and Training Institute of the IDB

Bearman, P.J; Bianquis, T; Bosworth C.E.; van Donzel, E and. Heinrichs, W. P. (2002), "The Encyclopedia of Islam." (Edited)Vol. XI, Fascicules, pp.59-99, Leiden
(The Netherlands): The E.J.Brill

Beekun, R and Badawi, J (2005), "Balancing Ethical Responsibility among the Multiple Organisational Stakeholders: The Islamic Perspective." *The Journal of Business Ethics*, Vol. 60, pp.131-135

Belhachmi, Z. (2004), "Revealing al-Waqf as a Systemic Cultural Policy of Governance.", *WAQF*, No. 7, Year 4, November 2004, pp.5-35

Chapra, M. and Ahmed, H. (2002), *Corporate Governance in Islamic Financial Institutions*, Occasional Paper No. 6, Islamic Research and Training Institute, Islamic Development Bank.

Cizakca, M (2004), "Cash *Waqf* as Alternative to NBFIs Bank", paper presented in the International Seminar on Nonbank Financial Institutions: Islamic Alternatives, March 1-3, 2004, Kuala Lumpur, jointly organized by Islamic Research and Training Institute, Islamic Development Bank and Islamic Banking and Finance Institute Malaysia.

Choudhury, M.A. (2003), *World System- A Study in Polity-Market Interaction*, London: Routledge Curzon

Cizakca, M.(2000), "A History of Philanthropic Foundations: The Islamic World from the Seventh Century to the Present" Working paper; Istanbul: Bogazici University

Cizakca, M (2004), "Cash *Waqf* as Alternative to NBFIs Bank", paper presented in the International Seminar on Nonbank Financial Institutions: Islamic Alternatives, March 1-3, 2004, Kuala Lumpur, jointly organized by Islamic Research and Training Institute, Islamic Development Bank and Islamic Banking and Finance Institute Malaysia.

Donaldson, T. and Preston. L E. (1995), "The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications." *Academy of Management Review*, Vol. 20(1), pp. 65–91.

El-Gari, M. A. (2004), "The *Qard Hassan* Bank", paper presented in the International Seminar on Nonbank Financial Institutions: Islamic Alternatives, March 1-3, 2004, Kuala Lumpur, jointly organized by Islamic Research and Training Institute, Islamic Development Bank and Islamic Banking and Finance Institute Malaysia.

Freeman, E. R. (1984), "Strategic Management: A Stakeholder Approach." Boston, MA: Pitman

Goodpaster E. (1991), 'Business Ethics and Stakeholder Analysis', *Business Ethics Quarterly*, Vol.1, 53–71

Hamza, M (2002), *Land Registration in Bahrain: Its Past, Present and Future Within an Integrated GIS Environment* (Unpublished thesis: UEL)

Kahf, M.(1998), "Financing the Development of Awqaf Property", a paper presented at the seminar on Development of Awqaf organised by IRTI-IDB, Kuala Lumpur, Malaysia, March 2-4, 1998.

Kahf, M. (2004), "Shari'ah and Historical Aspects of Zakah and Awqaf", background paper prepared for Islamic Research and Training Institute, Islamic Development Bank.

Mahmood, S. T. (1988) 'Islamic Family Waqf in Twentieth Century Legislation: A Comparative Perspective' *Islamic and Comparative Law Quarterly*, Vol. 8(1), pp. 1-20

MICM(2007), "Developing Waqf Assets", *Malaysian ICM*, Vol. 2 (3), pp.2-3

Rashid, S.K. (2003), "Current Waqf Experience and the Future of Waqf Institution." WAQF, No. 5, Year 3, October 2003, pp.5-19.

Qaradawi, Y. (1997), "*Al Halal wa al Haram fi al Islam.*" Indianapolis (US): American Trust Publication Inc

Sait, S and Lim, H (2005), "Waqf (Endowment) and Islamic Philanthropy." Working paper, The Hague: United Nations Human Settlements Programme.

Sahih Muslim Hadith (The Book of Faith, hadith number, 20.) translated into English by Abdul Hameed Siddiqi(1982), Lahore: M. Ashraf Publisher.

Salih, S A. (1999), *The Challenges Of Poverty Alleviation In IDB Member Countries*, Jeddah: Islamic Development Bank

Zarqa, M. A. (2007), "Leveraging Philanthropy: Monetary Waqf for Microfinance", paper presented to a symposia on "Towards an Islamic Micro-finance" ,April 14, 2007 , Islamic Finance Project, Islamic Legal Studies Program, Harvard Law School.

WAQF ESTATES IN BANGLADESH – ANALYZING SOCIO-ECONOMIC PROFILE AND EXPLORING POTENTIAL BUT UNEXPLORED EXPENDITURE OPTIONS

Muhammad Fazlul Karim
PhD Candidate
Ahmad Ibrahim Kulliyyah of Laws (AIKOL),
International Islamic University Malaysia (IIUM),
Jalan Gombak, Kuala Lumpur, Malaysia
E-mail: mf_karim@hotmail.com

WAQF ESTATES IN BANGLADESH – ANALYZING SOCIO-ECONOMIC PROFILE AND EXPLORING POTENTIAL BUT UNEXPLORED EXPENDITURE OPTIONS

Muhammad Fazlul Karim

ABSTRACT

The religion of Islam does not only encourage the Waqf institutions to build mosques or orphanages but authorizes them accomplishing the total development in terms of their social, cultural and economic viability and religious, moral and spiritual supremacy. Thus, besides pursuing religious and philanthropic objectives it is also inherent for every Waqf institution to accomplish broader socio-economic objectives. This study is an effort to empirically analyze socio-economic profile and explore potential but unexplored expenditure options of the Waqf institutions in Bangladesh. The issues relating to expenditure are discussed alongside the discussion on socio-economic profile with the view to examine whether or not the current socio-economic profile of the Bangladesh Waqf estates is compatible with potential expenditure options. With data collected from several sources this study first analyses the socio-economic profile of the Waqf estates in Bangladesh. Several issues of the Waqf estates such as their number, registration type, beneficiaries, mode of management, properties, income and expenditures are mainly discussed in this section. The study then discusses and recommends some potential but unexplored expenditure options for the Bangladesh Waqf estates. It is expected that the empirical findings of this study would be useful for the appropriate authorities in their efforts to operate and manage the Waqf estates in an efficient and sustainable way.

Keywords: *Waqf estates, socio-economic profile, expenditure options, and Bangladesh.*

1. INTRODUCTION

Bangladesh is predominantly a Muslim country, which has the third largest Muslim population in the world. Eighty seven percent of the total population in the country is Muslim. *Waqf*, as an institution, has been in existence in the country for centuries. Generally *awqaf* properties in Bangladesh consist of Mosques, *Madrasah*, *Eidgahs*, Graveyards, *Dargahs*, *Mazars*, Pharmaceuticals, cultivable agricultural lands, barren lands, forests, hillocks, urban lands and real estates. Recent years have seen the emergence of a new trend of making *waqf* of intellectual properties, and of money in cash.

Awqaf properties in Bangladesh came under direct government supervision when The Bengal *Waqf* Act 1934 was passed during the British rule.[1] According to the Act an autonomous *Waqf* Board was created which was administered by a *Waqf* Commissioner. During the Pakistan period, the *Waqf* Ordinance 1962 governed *awqaf* in the then East Pakistan. After independence the government of Bangladesh retained and adapted the *Waqf* Ordinance 1962 as such[2] in accordance with Article 5 of the Adaptation of Existing Bangladesh Laws (PO48 of 1972), which is currently in force in the country. Presently *waqf* administration in Bangladesh is under the Ministry of Religious Affairs (MRA), and is headed and run by an Administrator of *Waqf* who is assisted by a total of 85 officers and employees.[3]

The total number of waqf estates in Bangladesh is close to 150,000[4].The number of employees that look after the waqf administration of the whole country is less than 100 people[5], which seem inadequate for proper administration and management of such a huge number of *waqf* estates in the country. Bangladesh has 64 administrative districts. Due to lack of manpower, 24 districts offices are managing *waqf* estates of all 64 districts. The divisional offices of Dhaka, Khulna, Rajshahi and Chittagong Divisions have been brought under direct control of the Head Quarter.[6]

Hundreds of *waqf* related cases are waiting for years to be adjudicated by the various Courts and the *Waqf* Administrator's office.[7] This number is increasing everyday. The statutory set up of *waqf* administration in Bangladesh is empowered to look after *awqaf* and to administer *awqaf*. But in many instances *mutawallies* bring the *waqf* cases to the Court where every trick is employed to get them decided in accordance with the convenience of parties. Neither the Courts nor the waqf administration has the means to make proper investigation into the affairs of *waqf* estates and has to go by records that are alleged to be tempered, and evidences given by purported hired witnesses. The *waqf* administration is thus sidelined.[8] However, sadly enough, the *waqf* administration is also accused of giving less than impartial and just decisions, and complaints of bribery against the *waqf* officials are not uncommon.[9] In many cases, the integrity of the *waqf* officials is questioned. The statutory checks imposed to check corrupt practices are found to be inadequate and the amount of autonomy granted to the *waqf* administration is one of the causes of cover-ups.

---

[1] Sadeq, A.H.M. 2002.
[2] Dhaka Law Reports, *The Waqf Ordinance 1962*, Dhaka, 1998, p. 1.
[3] Rahman, S., *Waqf Shompotti Proshonge* (An appraisal of *waqf* properties) an article published in six installments from 17.06.2003 to 24.06.03 in The Daily Sangram (a Bengali news paper published daily from Dhaka), see http://www.dailysangram.com
[4]The Waqf Census of 1986, p.
[5] See http://www.waqfbd.com/
[6] Ibid, also see Sadeq
[7] *Ibid.*
[8] *Ibid.*
[9] *Ibid.*

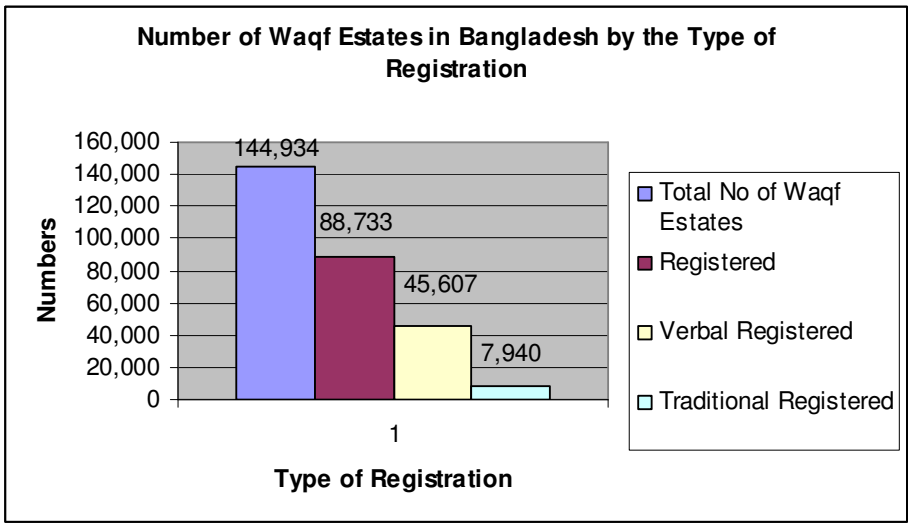
2. SOCIO-ECONOMIC PROFILE OF THE WAQF ESTATES IN BANGLADESH

This section briefly analyses the socio-economic profile of the Waqf estates in Bangladesh. Several issues of the Waqf estates such as their number, registration status, beneficiaries, mode of management, properties, income and expenditures are mainly discussed in this section. It is expected that the analysis of socio-economic profile of the Waqf estates would provide a clear and overall picture with regards to their operation and management in Bangladesh.

2.1 Number of Waqf Estates by Type of Registration

This study found that there are currently 144,934 Waqf estates in Bangladesh and all they are registered and hold primarily three different types of registration (Figure 1). A total of 88,733 (62%) Waqf estates are found to be registered while 45,607 (32%) are reported to be verbally registered. Six percent (7,940) of all the Waqf estates in Bangladesh was also reported as traditionally registered.

Figure 1: Number of Waqf Estates in Bangladesh by the Type of Registration.[10]



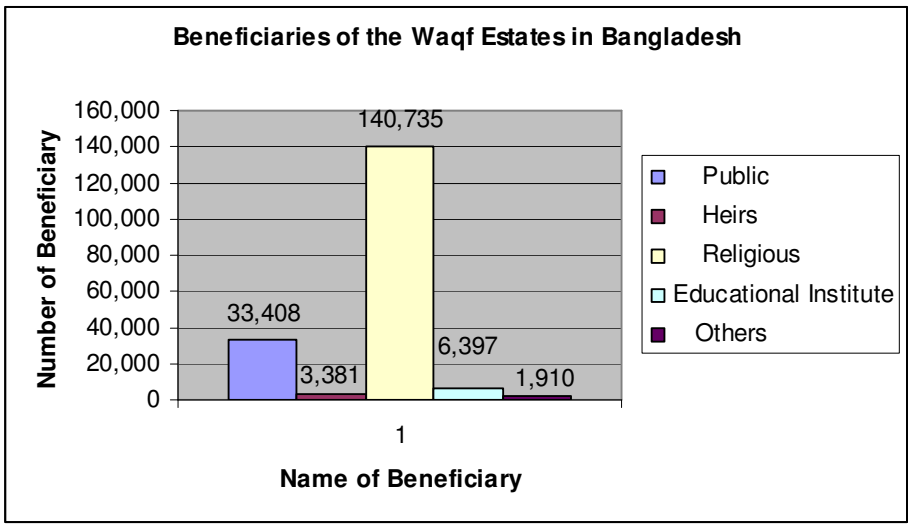
The above scenario clearly reveals that there is no mandatory implementation of registration process required by section 47 of the Waqf Ordinance 1962 for the Waqf estates in Bangladesh and thus they can still be registered both verbally and traditionally. If there is no obligatory implimentation for the Waqf estates to be formally registered it is very likely that the administration and management of awqaf will become a great challenge in the country.

[10] All the data used in the diagrams (Figure 1 till Figure 12) in this paper is obtained from the *Report on the Census of Waqf Estates1986,* published by Bangladesh Bureau of Statistics, Government of Bangladesh in 1987.

2.2 Beneficiaries of the Waqf Estates

The beneficiaries of the Bangladesh Waqf estates include public, heirs, religious organizations / institutions, educational institutions and others (Figure 2). Among the beneficiaries the religious institutions/organizations (orphanage, moktob, madrasa and so on) are significantly benefited from the operation of the Waqf estates in Bangladesh. For example, there are currently 140,735 (76% of the total beneficiaries) religious institutions benefited directly from the operation of the Waqf estates in Bangladesh. Moreover, a total of 33,408 (18% of the total beneficiaries) public institutions are also benefited from the Bangladesh Waqf estates while a total of 6,397 (3% of the total beneficiaries) educational institutions are found to be the third largest beneficiaries of them. However, the fourth and fifth largest beneficiaries of the Bangladesh Waqf estates include heirs (3,381 or 2% of the total beneficiaries) and others (1,910 or only 1% of the total beneficiaries), respectively.

Figure 2: Beneficiaries of the Waqf Estates in Bangladesh.

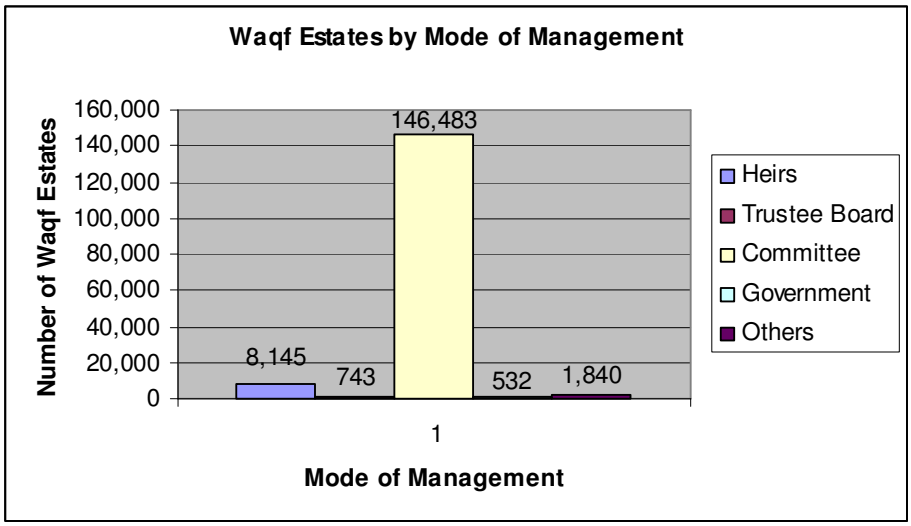


It is thus apparent from the above diagram that the Waqf estates in Bangladesh are being operated with the view to primarily benefit the religious institutions, as mentioned above. It is also apparent here that the educational institutions such as school, college are not benefited much from the Bangladesh Waqf estates. This is actually consistent with traditional objective of formulating a Waqf by its Muslim donor as he/she is bearing the religious principal/value in his/her mind. Waqf estates usually form/appear with the view to benefit the poorest group of people residing in any particular area and thus the heirs of the Waqf donor/s are reasonably excluded from such beneficiaries. This study found an alarming finding that a considerable number of heirs is also benefiting from the Waqf estates donated by their family predecessor/s. This certainly raises the question whether the Waqf estates in Bangladesh are operated efficiently without any interventions from the heirs of their donors.

2.3 Mode of Management of the Waqf Estates

This study found that the Waqf estates in Bangladesh have five different modes of management and they are mainly managed by heirs, trustee board, committee, government and others. Most Waqf estates (146,483 or 94% of all the Waqf estates) are currently managed and operated by the respective committees while only 8,145 (5% of all the Waqf estates) are managed by the heirs of the Waqf donors (Figure 3). There are still considerable number of the Waqf estates that are managed by the trustee board, government and others. For example, a total of 1,840 (1% of all the Waqf estates) are managed/operated by others, which include management personals not officially authorized to manage the Waqf estates and they could be someone other than the first four management group/committee. Even though a total of 743 (about 0% of all the Waqf estates) Waqf estates are managed by the trustee board and 532 (also about 0% of all the Waqf estates) are managed by the government, but such modes of management appear to be not significant in comparison with other modes of management.

Figure 3: Number of Waqf Estates by Mode of Management.

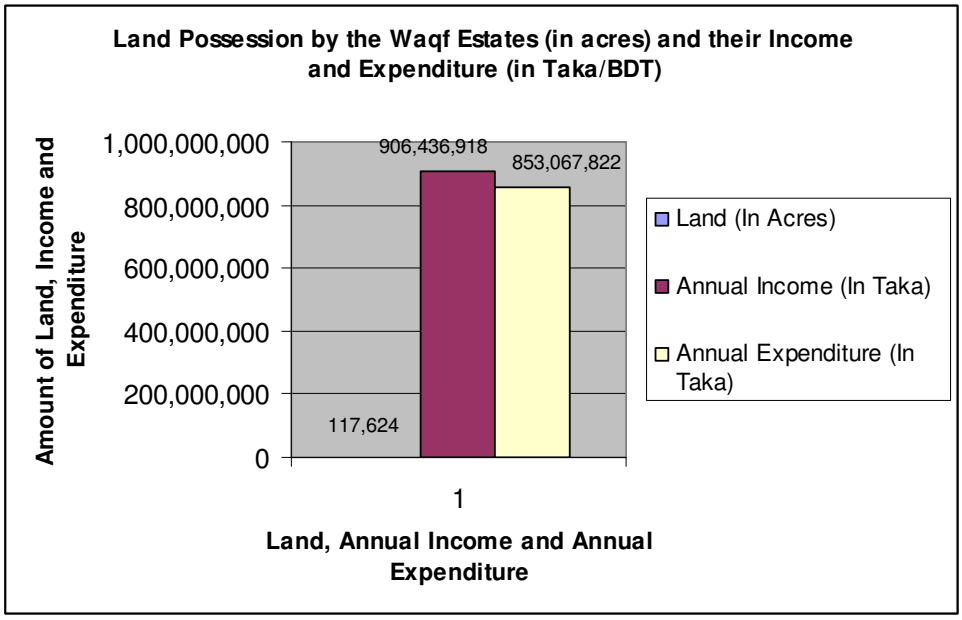


The above findings are highly anticipated as almost all the Waqf estates in Bangladesh are managed by an established committee. In fact, the management of the Bangladesh Waqf estates by their heirs is very much unanticipated due to the fact that inheritance of those heirs may bring an impediment to their competitive, smooth and efficient operation/management. But question still remains whether or not the management/operation of the Waqf estates by the committee is efficient and worthy.

2.4 Land Possession, Income (in Taka/BDT) and Expenditure of the Waqf Estates.

The total land under possession of all the reported Waqf estates in Bangladesh is equivalent to 117,624 acres (Figure 4). The available data gathered from various sources also reveal the income and expenditure of all the Waqf estates in the country. The following figure reveals that all the Waqf estates in Bangladesh are currently having a total annual income of Taka 906,436,918 while their corresponding total annual expenditure is estimated to be Taka 853,067,822. This just indicates an overall net balance credit (equivalent to Taka 533,69,096) enjoyed by all the Waqf estates in the country. This finding is really worth noting in the sense that with limited social and humanitarian services provided to the poorest groups the Waqf estates in Bangladesh are not running out of necessary income, which is vital for their constant service provision and operational sustainability.

Figure 4: Land Possession by the Waqf Estates (in acres) and their Income and Expenditure (in Taka/BDT).

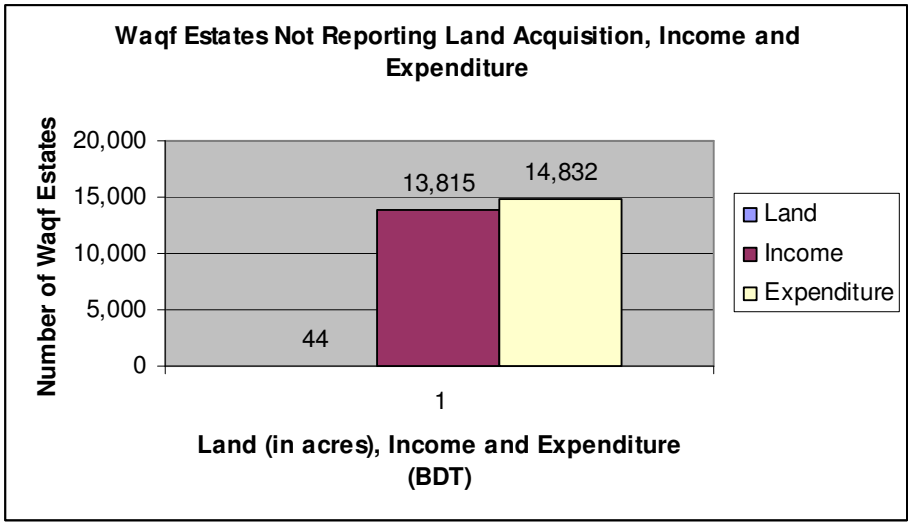


Nevertheless, analysis of income and expenditure of all the Waqf estates in Bangladesh must be done with caution as the sources of such income and expenditure have not yet been analyzed in terms of their operational and management efficiency. As analysis continues the other part of this chapter intends, among others, to analyze the operational and management efficiency of the Waqf estates with regards to their income and expenditure.

2.5 Waqf Estates Not Reporting Land Possession, Income and Expenditure

The previous section has already discussed the land possession, income and expenditure of all the Waqf estates in Bangladesh. This study, however, found a significant number of Waqf estates in Bangladesh are not reporting such information. The following figure (Figure 5) reveals that a total of 44 Waqf estates are not reporting how many acres of land they possess. Moreover, a total of 13,815 Waqf estates are not reporting their annual income while the annual expenditure is also found to be not reported by a total of 14,832 Waqf estates in the country.

Figure 5: Waqf Estates Not Reporting Land Possession, Income and Expenditure.

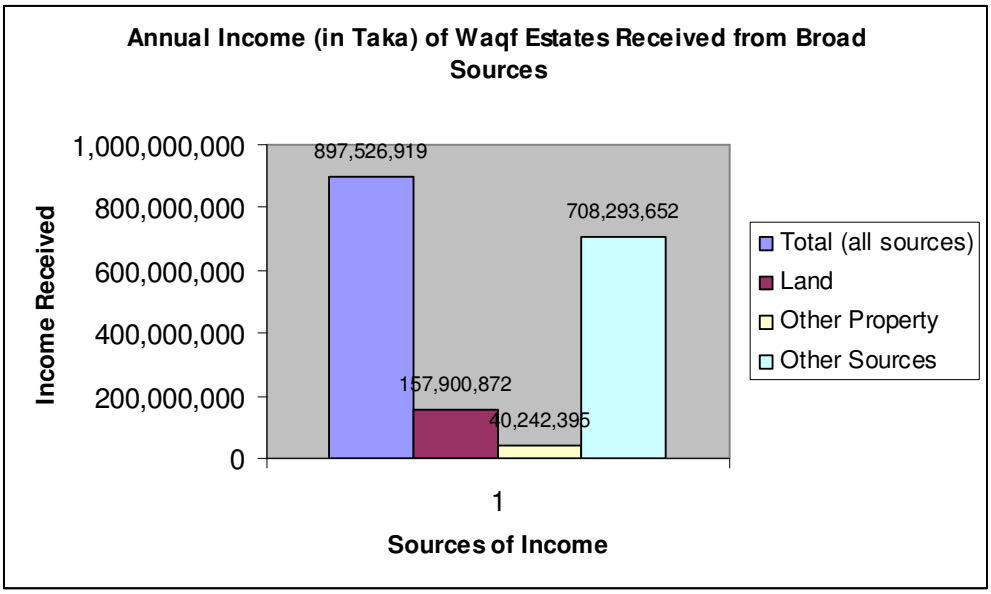


This is not particularly known why these Waqf estates have kept information on their land possession, income and expenditure a secret. This could primarily be the fact, among others, that these Waqf estates do not maintain any formal record on their land possession, income and expenditure and thus it was not possible to collect such information from them. In addition, these Waqf estates are also assumed to be very new in their operation or they are very small in size.

2.6 Income Received by the Waqf Estates from Broad Sources

The broad income sources of the Bangladesh Waqf estates include land, other property and other sources. It has been estimated that all the Waqf estates in the country is currently receiving a total income of Taka 897,526,919 from all broad sources (Figure 6). The data estimation also reveals that the most income of all the Waqf estates is received from their other sources and that such total income is equivalent to an amount of Taka 708,293,652 (79% of the total broad income). The land income of all the Waqf estates stands as the second highest with an amount of Taka 157,900,872 while with a total income of Taka 40,242,395 (4% of the total broad income) the other property stands as the third highest source of their broad income.

Figure 6: Annual Income Received by the Waqf Estates from Broad Sources.



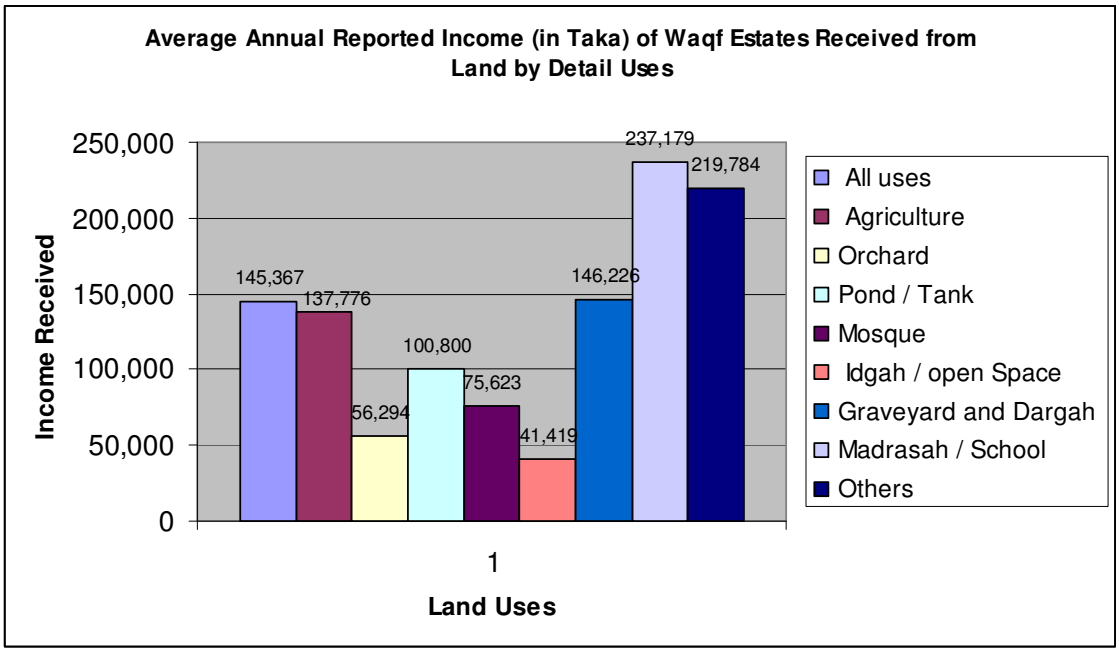
This study has already revealed that all Waqf estates in Bangladesh hold possession of a considerable amount of land (117,624 acres as mentioned earlier). But the above figure clearly indicates that only 17% of the total income received by all the Waqf estates is coming from their land possession. With a total population of about 160 million and an area of 55,598 square miles Bangladesh offers a very competitive land price and every square feet of Bangladesh land is thus considered to be very valuable as well as productive. Since the Bangladesh Waqf estates are not earning a considerable amount of income from their land possession it is very likely that either these lands are not used efficiently or they are being used as orphanage, madrasa, moktab, mosque, ponds, graveyard, dargah, and so on. There is nothing wrong with the uses of Waqf lands in such purposes as these land are devoted by the Muslim people with strong religious belief and devotion. But if the Waqf lands are just unused without any productive future plan it is really an efficiency loss to the whole society, which must be resolved for the survival of the Waqf estates in this very competitive world.

2.7 Annual Reported Income Received by the Waqf Estates from Land Uses

The major sources of annual reported income received by the Waqf estates from land uses include madrasah/school, others, agriculture and all uses. The estimation of available data reveals that the highest land use related annual reported income (Taka 237,179 or 19% of the total land use related income) received by all the Bangladesh Waqf estates comes from madrasah/school, followed by an annual reported land use related income of Taka 219,787 (18% of the total land use related income), which comes from some other land sources. Graveyard and dargah are jointly reported to stand as the third highest source (Taka 146,226 or a bit higher than 13% of the total land use related income) of land use related income while all uses are found to have been reported as the fourth highest income (Taka 145,367 or about 13% of the total land use related income) received by all the Waqf estates from their land uses. All

these Waqf estates are also receiving a considerable amount of income from some other land uses. For example, the following amounts of income are received from the following land uses: (1) Taka 137,776 (or about 12% of the total land use related income) is received from agricultural lands, (2) Taka 100,800 (or 9% of the total land use related income) from ponds/tanks, (3) Taka 75,623 (or 7% of the total land use related income) from mosques, (4) Taka 56,294 (or 5% of the total land use related income) from orchards, and (4) The least amount of income (Taka 41,419 or only 4% of the total land use related income) is received from idgahs/open spaces.

Figure 7: Average Annual Reported Income Received by the Waqf Estates from Land Uses.



In the economically developed countries religious learning institutions (like madrasa in Bangladesh) and schools are fully subsidized by the local or federal governments and thus the question of earning incomes from such institutions is completely out of question. This is because providing basic education (religious/traditional) to the citizens is one of the five fundamental and foremost objectives of the governments in economically developed countries. This study reveals that the Bangladesh Waqf institutions can earn their highest income from such learning institutions instead of providing free religious and traditional education to the poorest groups in the country.

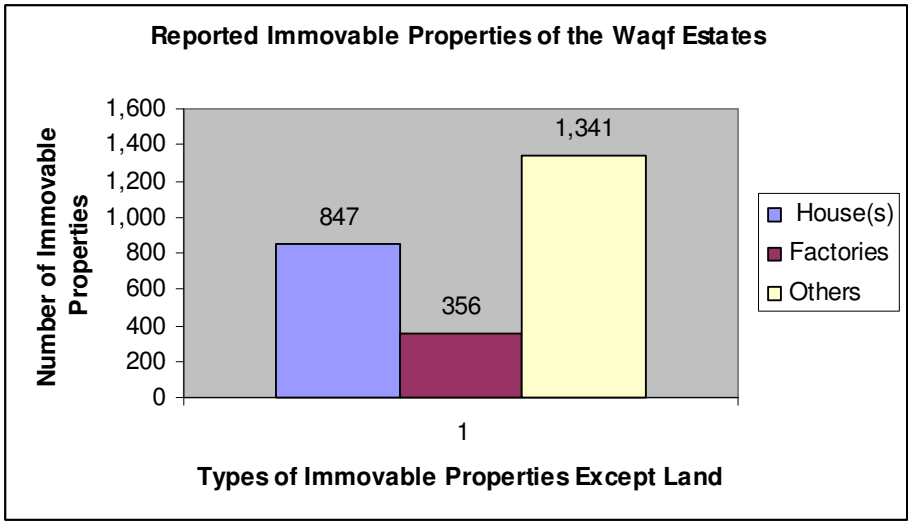
Thus question arises: Do the Bangladesh Waqf estates properly and efficiently manage their available assets and properties? As mentioned in the previous part that land is very valuable asset in Bangladesh and thus any land possessed by the Waqf estates in the country should never be used inefficiently. Land must be utilized in the way that its worth is always at the highest value. If not, Waqf estates will incur loss of a substantial portion of income due to this mismanagement. The Waqf lands can also be used as partial financing contributing to the cost of a project. The price of the same land can further be used in the exercise of securitization thereby enabling the Waqf estates to contribute substantially to the costs and own a larger share in equity. Since Waqf is a permanent dedication of both movable and immovable properties for

religious or charitable purposes recognized by Islamic law, it is obligatory for them to deal with the religious, social and economic life of Muslims, supporting not only mosques, dargahs, madrasahs, schools, idgahs, graveyards, but also colleges, universities, hospitals, and micro-credit facilities to the poorest groups in the country. In fact if Bangladesh waqf lands and properties are well managed then no Muslim in the country may have to live below the poverty line income.

2.8 Reported Immovable Properties of the Waqf Estates

The main immovable properties of the Bangladesh Waqf estates include houses, factories and others. The following figure (Figure 8) depicts that most immovable properties held by the Waqf estates in the country are others. It should be noted here that other properties include mosques, dargahs, madrasahs, schools, idgahs, graveyards, ponds, and so on. The estimation based on available data also shows that all the Waqf estates own a total of 1,341 other immovable properties (53% of the total number of immovable properties). Housing estates stand as the second most immovable properties (A total of 874 or 33% of the total number of immovable properties) held by the Waqf estates while factories stand as the third highest with a total of 356 (14% of the total number of immovable properties).

Figure 8: Reported Immovable Properties of the Waqf Estates.



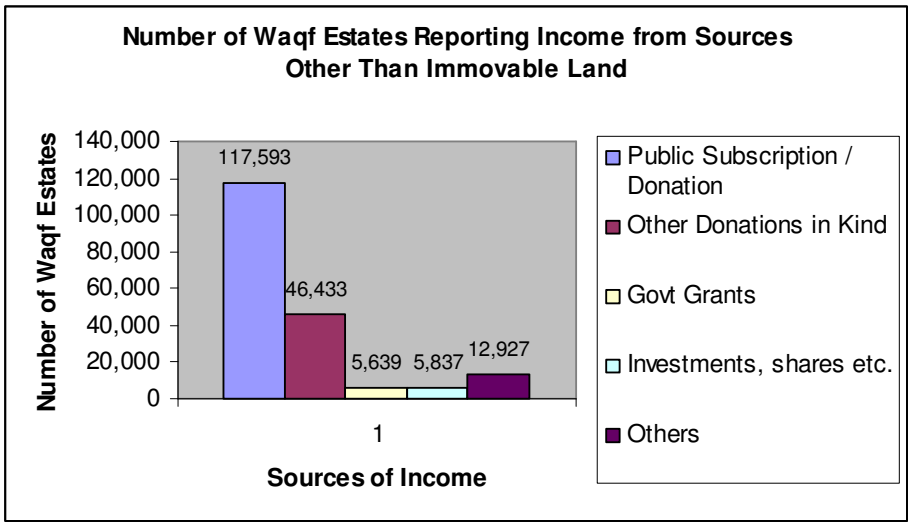
It is observed that Waqf properties in Malaysia, Singapore, and Saudi Arabia and in some other countries of the gulf region have been developed substantially and profitably by applying creative and innovative solutions to their immovable properties. In fact, these countries have had used, among others, the concept of time sharing bond or Sukuk Al-Intifaa. For example, Zam Zam Towers utilized this concept, where the Towers are constructed in Mecca utilizing a 28 year BOT (Built, Operate and Transfer) contract structure. Under this contract structure, purchasers bought the units based on a 28 years leased period (a specific time) in a specific complex of the Zam Zam towers, and in return, the purchasers will give revenue stream to the authority of the complex (the Waqf estate) based on the return the complex generated. The Bangladesh Waqf estates could, however, also apply such creative business model to some types of their immovable properties. There are also

many other creative solutions being applied in the development of immovable properties held by the Waqf estates. For example, in current properties investment, Islamic Real Estate Investment Trust (IREIT) instrument is a popular route to owning properties as the structure is highly attractive particularly to the Muslim investors. In order to earn constant and higher income earnings and then spending them for socio-economic development of the poorest groups in the country the Bangladesh Waqf estates can also explore and apply this business model to develop their immovable properties efficiently.

2.9 Reported Income of the Waqf Estates from the Sources Other than Land

Most Waqf estates in Bangladesh earn their movable income from public subscriptions or donations. A total of 117,593 Waqf estates in the country have had earned income from such sources followed by 46,433 Waqf estates who have had earned income from other donations in kind. The third highest number of Waqf estates received income from others is 12,927 while their fourth highest number is 5,837 and all they have had earned income from investments, shares, and so on. The least number of Waqf estates (5,639) is reported to have had earned income from government grants.

Figure 9: Reported Income of the Waqf Estates from the Sources Other than Land.

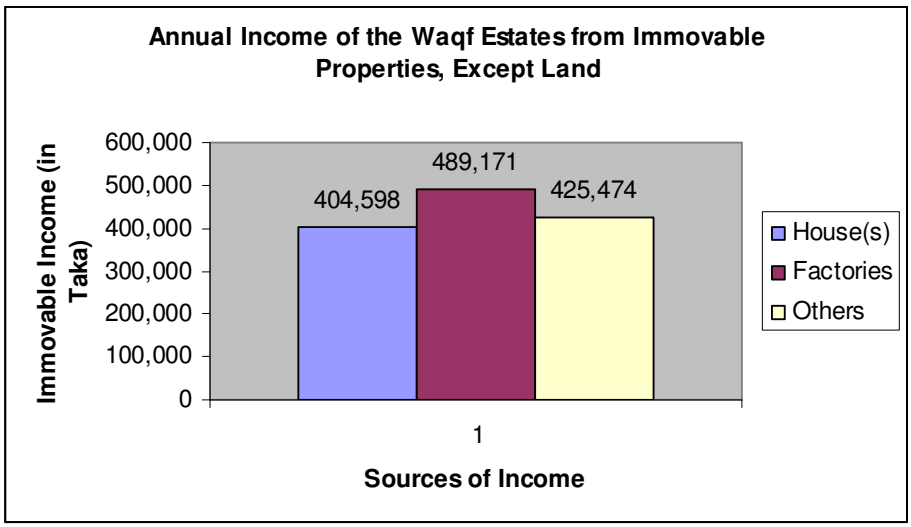


Since Waqf is the permanent dedication by a Muslim of any movable or immovable property for any purpose recognized by the Muslim Law as pious, religious and charitable, it is very likely that the most Waqf institutions would receive their movable income mainly from public subscriptions or donations and other donations in kind. So the above findings from Bangladesh are found to be consistent with the universal Waqf framework.

2.10 Reported Annual Income of the Waqf Estates from Immovable Properties except Land

The key sources of immovable property related annual income of the Bangladesh Waqf estates include factories, houses and other immovable properties. In fact, the total annual immovable income for the above each category varies, but not significantly. The Figure 10 shows that the highest immovable income of the all Waqf estates comes from their factory businesses and worth an amount of Taka 489,171 (37% of the total immovable income). The second highest immovable income of the Waqf estates comes from their other properties and worth an amount of Taka 425,474 (32% of the total immovable income), while the third and least immovable income comes from house rents and worth an amount of Taka 404,598 ((31% of the total immovable income).

Figure 10: Reported Annual Income of the Waqf Estates from Immovable Properties, Except Land.

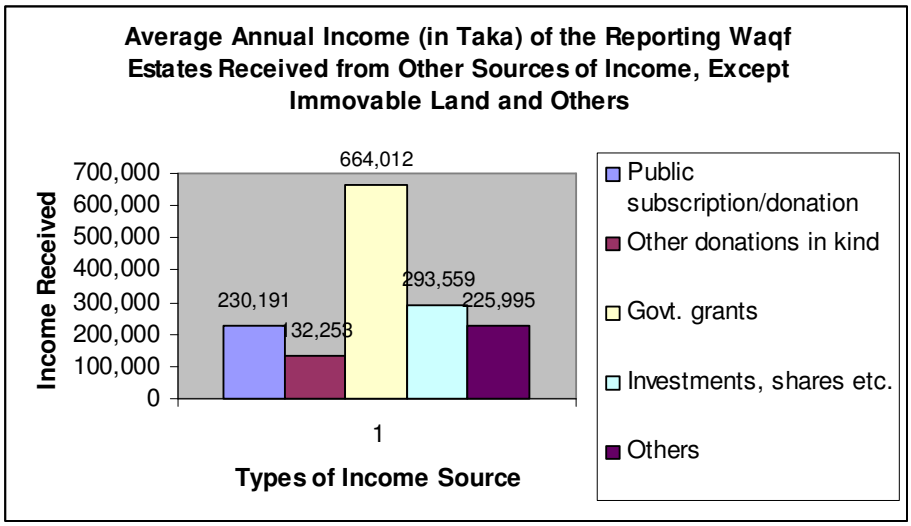


It has been mentioned earlier that other immovable properties of the Waqf estates include mosques, dargahs, madrasahs, schools, idgahs, graveyards, ponds, and so on and the present study has empirically found that the above institutions have been earning their second highest immovable income from such properties. In fact, business is the key to survival of any institutions, particularly in the long run. Even though the Waqf institutions have not universally been formed with such business goal, but these institutions in Bangladesh are proven to have been earning the highest immovable income from their factory businesses. Such a finding is certainly interesting and also important to the policy and decision makers in their efforts to enable the global Waqf institutions to survive in long-run.

2.11 Reported Annual Income of the Waqf Estates from Other Sources, Except Immovable Land Properties

Government grants have been found to be the highest source of annual income received by all the Bangladesh Waqf estates from the sources other than their immovable land properties (Figure 11). An amount of total Taka 664,012 (42% of total such income) is reported to have annually been received by all the Waqf estates from such source. The second highest of such income is received from the source of their investments, shares, etc. with a total amount of Taka 293,559 (19% of total such income). Both public subscription/donation and other subscription/donation have been found to be contributing almost equally to Bangladesh Waqf institutions' such income category with total incomes of Taka 230,191 (a bit higher than 15% of total such income) and Taka 225,995 (about 15% of total such income), respectively. Other donations in kind have been reported by all the Waqf estates to be contributing the least to such of their income with a total amount of Taka 132,253 (9% of total such income).

Figure 11: Reported Annual Income of the Waqf Estates from Other Sources, Except Immovable Land Properties.

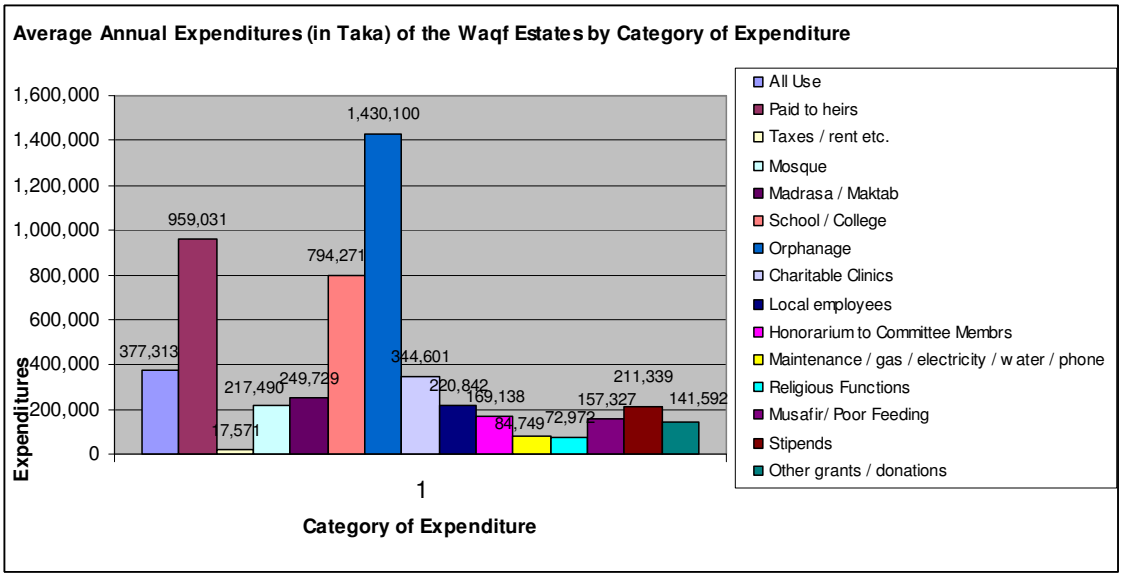


The prospect of receiving government grants continually is very low in the real world scenario as the governments, regardless of their economic status, often experience economic recession and/or depression. With such economic uncertainties affecting the countries in the world the receipt of government grants by the Waqf institutions remains uncertain. Rather than depending much on government grants/donations the Bangladesh Waqf instititutions must look for potential and greater income earnings from their investments and share businesses. This will enable them to operate efficiently and sustainably.

2.12 Reported Annual Expenditure of the Waqf Estates

It is apparent that the Bangladesh Waqf estates spend a large amount of their income for the establishment/maintenance of orphanages followed by the payments given to heirs. The Figure 12 depicts that a total amount of Taka 1,430,100 (25% of total expenditure) has been spent (in the reported year) by all the Waqf estates in the country for the purpose of either establishing new orphanages or maintaining the existing ones. The second largest amount of expenditure of all the Waqf estates is reported to have been spent as the payments given to heirs with an amount of Taka 959,031 (18% of total expenditure). As much as Taka 794,271 (15% of total expenditure) have also been spent by all the Waqf estates in the reported year to establish new schools/colleges or to operate/maintain the existing ones. However, the other expenditures of the Waqf estates for all other categories (as shown in Figure 12) are not individually found to be significant or higher than 7% of their total expenditures. For example, the total expenditure in all use is only found to be 7% with an amount of Taka 377,313, while the percentage of expenditure for all other categories ranges individually between less than 1% (Taka 17,571) for taxes/rents etc. to 6% (344,601) for charitable clinics.

Figure 12: Average Annual Expenditure of the Waqf Estates (by Category of Expenditure).



It is vital for the Bangladesh Waqf estates to initiate efficient, returnable and sustainable expenditure methods in order for them to ultimately be sustainable in their operation. An impression has been developed from the above analysis of socioeconomic profile that the working authorities of the Bangladesh Waqf institutions are really ignorant of the broad scopes of such institutions. Even though a detailed and attention-grabbing correlation analysis among all the expenditure categories of the Bangladesh Waqf estates has been put forward in another part of this chapter the next part has thus been devoted to briefly analyze the potential but unexplored scopes of these institutions with regards to their expenditure options.

3. POTENTIAL BUT UNEXPLORED SCOPES OF THE BANGLADESH WAQF INSTITUTIONS WITH REGARD TO EXPENDITURE OPTIONS

The permanent nature of the Waqf institutions resulted in the accumulation of donated movable and immovable properties all over the Muslim countries. The common objectives of such institutions provide support for extensive religious, social, and philanthropic activities. But the most working authorities of the Waqf institutions and Muslim communities around the world are really ignorant of the broad scopes of such institutions. Qaradawi, Y.A. (2000) has thus stated "I see millions going to umrah every year in Ramadan and other months, and others making hajj for the tenth or even twentieth time. If they saved the money they spent on this nawafil, they would accumulate thousands of millions of dollars. We have been running around for many years trying to collect one thousand million dollars for an Islamic philanthropic institution, but have not collected a tenth, even one twentieth or one thirtieth of that amount If you ask those performers of supererogatory umrah and hajj to give you what they would spend on their voluntary journeys so that you may direct it to resisting Christianization … in Asia and Africa, or to combating famine here or there, they will not give anything". In fact, Muslims around the world donate for building mosque, one after the other, but they are reluctant to donate money to set up an international broadcasting channel like ABC, BBC and CNN that can answer western misinformation about Islam and Muslims and disseminate the true teachings of Islam. This is possibly the fact that Muslims are not well aware of the broad scopes of the Waqf institutions and their Waqf property uses. The empirical findings obtained from the analysis of recent data reveal that Muslims in Bangladesh repeatedly donate cash money and other movable and immovable properties to build mosques in places where there is already a mosque. The religion of Islam does not only encourage the Muslims to build mosques or orphanages but authorizes them accomplishing the total development in terms of their social, cultural and economic viability and religious, moral and spiritual supremacy.

Perhaps, the most Muslims in Bangladesh do not know that Waqf institutions can spend money to fight illiteracy, alleviate property, provide shelters to disastrous people, give assistance to distressed women and oppressed persons in prison, feed those without food particularly those children suffering from malnutrition, and provide healthcare to the sick and handicapped. The Bangladesh Grameen Bank, widely known for its micro credit program of investment among the rural poor, recently introduced *Shakti Doi*, a yoghurt product on non-profit basis, to improve the malnutrition condition in the rural areas in Bangladesh. The Bangladesh Waqf institutions can also undertake such benevolence businesses on non-profit basis in order to benefit the poorest groups in the country.

The most Muslims in Bangladesh are motivated to utilize the Waqf properties primarily as the mosque, but they are also ignorant of scopes of such holy institution. During the time of the Prophet Muhammad (pbuh), Masjid Al Nawawi was not only the place of ritual prayer- Salat, but used to play diverse purposes. Mosque was then used as the secretariat of the government, the war council, center of learning and library for the advance of knowledge, court of justice, and so on. The Prophet used to receive foreign representatives in the mosque. Mosque was then used as center for giving shelter to the wayfarer and those injured in the war and were sick. Mosque was

also then used as the community center where all social functions including marriage ceremonies and the post bridal receptions were arranged. Unfortunately, mosques in Bangladesh and many other Muslim countries in the world do not currently play all the above functions and thus these functions have been taken over by some other independent institutions. The Bangladesh Waqf institutions can also use the income received from their properties to establish the institutions that have taken over the functions of the mosque. Since mosques are no more used for giving shelter to the wayfarer and sick the Bangladesh Waqf institutions can also utilize the income of Waqf properties to establish rest houses and hospitals throughout the country's important and business places.

Bangladesh has been recognized as one of the hubs for Islamic Banking and Finance in Asia and the Pacific and the Islami Bank Bangladesh Limited has been repeatedly proven as the leading institution in this Islamic banking and finance system in the country. Islami Bank Hospitals (under the Islami Bank Foundation) are run on no-loss no-profit basis. Likewise, with their available Waqf properties the Bangladesh Waqf institutions can initiate/establish more such low-cost hospitals for the benefit of the poorest and low-income groups in the country. The poorest patients in the country are currently treated in public hospitals, which lack necessary equipments, medical doctors, nurses, patient beds and important and life-saving medicines. Besides establishing/maintaining orphanages, mosques, madrasas, schools, colleges, universities, and so on, part of expenditures/profits of the Bangladesh Waqf properties can also be diverted to public hospitals so that these hospitals can utilize such funds to provide better facilities and free Medicare to the poor and needy patients. There is no doubt that this must be initiated under strict monitoring and constant supervision by all the concerning parties.

Likewise, there are some other potential areas where the Bangladesh Waqf institutions could offer their services to the poorest Muslim communities in the country. For example, most people in the rural areas of the country lack facilities for pure drinking water. They often experience the problem of arsenic contamination in the tube-well water. The collective objective of the Waqf institutions would never prohibit them from working on this social and environmental catastrophe issue and providing water purifying resources to the poorest rural communities in the country. Moreover, tin-shaded or straw-shaded houses in rural Bangladesh are damaged or destroyed every year because of storm, hurricane, cyclone, tornado and flood. In the coastal areas houses are destroyed because of cyclones and tidal waves. The Bangladesh Waqf institutions can also spend income from their properties to repair or build houses damaged or destroyed by natural calamities and build multi-story buildings in the on-shore and off-shore areas to provide shelter to the affected communities. The Waqf properties

In Bangladesh, many people are lacking financial ability and therefore cannot defend them in the court. For example, many married women are being abused by their husbands and they need to go to court to defend them. Due to the lack of available money to be spent in the process of their cases in the court these women do not get justice and are deprived of fundamental right. The Bangladesh Waqf institutions can also use their available financial resources to resolve such heinous social problems. Financial assistance is also sought by the many Bangladeshi poor

and credit-burden parents to let their wed-eligible daughters/sons get married. Hence, the Bangladesh Waqf institutions can also use their available financial resources to resolve such deep-rooted social problems.

4. CONCLUSION

The religion of Islam does not only encourage the Waqf institutions to build mosques or orphanages but authorizes them accomplishing the total development in terms of their social, cultural and economic viability and religious, moral and spiritual supremacy. As well as pursuing the religious and philanthropic objectives it is also inherent for every Waqf institution to accomplish broader socio-economic objectives. Hence, Waqf should be socially-based rather than religiously-based institution for the poor and the needy. The Waqf institutions should enhance their activities to setting-up banks (offering Islamic schemes), supervisory investment institutions, Insurance (takaful) and Micro-finance to provide financing and loans to the needy. With such decision and subsequent implementation, the Waqf Institutions could ultimately avoid fragmentation of their revenues and incomes and pursue their charitable purposes including the reduction of poverty, fulfilling the needs of the aged, sick and distressed, and advancement of religion and education and other purposes beneficial to the community. Moreover, Waqf can be an effective system for poverty alleviation by improving the non-income aspects such as housing, education, health, employment, and infrastructural facilities in the highly underdeveloped areas. There is no indemnity that the Waqf estates will continuously be receiving public subscription and donation resulting in their sustainability in question. This may particularly happen during both short-run and long-run economic downturns and natural, political, and social adversaries. Therefore, with their current and available properties/assets (movable/immovable), the Waqf estates must have to find alternative sources of constant as well as increasing revenue/income in order for them to sustain and play an active role in poverty alleviation and socio-economic development of the country.

REFERENCES

Rahman, S. (2003). *Waqf Shompotti Proshonge* (An appraisal of *waqf* properties) an article published in six installments from 17.06.2003 to 24.06.03 in The Daily Sangram (a Bengali news paper published daily from Dhaka), see http://www.dailysangram.com

Sadeq, A. H. M. (2002). *Awqaf in Bangladesh*. In: Syed Khalid Rashid's *Awqaf Experiences in South Asia,* (ed.), Institute of Objective Studies, New Delhi, p.161.

Syed Khalid Rashid, *Awqaf Experiences in South Asia,* (ed.), (Institute of Objective Studies, New Delhi, 2002

A Brief outline of Waqf in Bangladesh, Office of the Administrator of *Waqfs* (Dhaka,n.d.)

The *Waqf* Ordinance I of 1962, Government of the Peoples Republic of Bangladesh.

Report on the Census of Waqf Estates 1986,1987, Bangladesh Bureau of Statistics, Government of Bangladesh.

Md. Azharul Islam, '*Waqf* Mosjid, Mondir O Majar Bebosthapona Proshongey'(On the Management of *Waqf* Mosques, Temples, and Tombs) (Mimeo), Office of the Administrator of *Waqfs*, (Dhaka, n.d.)

Bangladesh Mosque Census, 1983, Bangladesh Bureau of Statistics, Government of Bangladesh.

Waqf Administrator, *An introduction to Awqaf in Bangladesh*, a paper presented at the Seminar on Management and Development of the *Awqaf* properties, held in Jeddah, in August 1984 organised by IDB.

M.A.Mannan, *The Institution of Awqaf: its religious and socio-economic role and implications*, a paper presented at the Seminar on Management and Development of the *Awqaf* properties, held in Jeddah, in August 1984 organised by IDB.

--------, *Structural Adjusments and Islamic Voluntary Sector with Special Reference to Awqaf in Bangladesh*, Discussion Paper No. 12, IRTI, IDB, Jeddah, 1995.

CARE BANGLADESH "*IN PURSUIT OF POWER: LOCAL ELITES AND UNION-LEVEL GOVERNANCE IN RURAL NORTHWESTERN BANGLADESH*". August 2002.

Office of the Administrator of Waqfs, Dhaka, "*Bangladesh Sharkar Kortrik Gothito Waqf Komitir 20-04-95 Tarikhey Onushtitabya Prothom Shobhar Karjopotro"*

Proceedings of International Seminar, Held in May 1999, jointly organized by the Institute of Objective Studies, New Delhi, the Islamic Development Bank, Jeddah, the Kuwait *Awqaf* Public Foundation, Kuwait and *Ta'awun* Trust, New Delhi.

Dr. Sherafat Ali Hashmi, *Management of Awqaf Institution*, a lecture delivered at the Seminar on Management and Development of the *Awqaf* properties, held in Jeddah, in August 1984 organised by IDB.

Anas Zarqa, Modern Means of Financing Development of *Awqaf* Properties – a paper presented at the *Awqaf* Seminar held on 4-16 August 1984,IDB, Jeddah, K.S.A.

Murat Cizakca, 'Relevance of the Ottoman Cash Waqf (*Awqaf al-Nuqud*) for the Modern Islamic Economics', presented at the Third International Islamic Conference held in Malaysia, January 28 to February 2 1992.

---------, A history of Philanthropic Foundations: The Islamic World from the seventh century to the present, Bogazici University Press, Istambul, 2000.

H. A. R. Gibb and J. H. Kramers: Shorter Encyclopedia of Islam, South Asian Publishers, Karachi, 1981.

Hassan Al Amin, *Waqf* in Islamic Jurisprudence, lecture delivered at the Seminar on Management and Development of the *Awqaf* properties, held in Jeddah, in August 1984 organised by IDB.

Abdel Malik al Sayed: The Social Role of *Waqf*, (unpublished) Arabic paper translated into English by Mr.A.Qadir Deria (unpublished) presented at the Seminar on Management and Development of the *Awqaf* properties, held in Jeddah, in August 1984 organised by IRTI, IDB.

Walid Khayrallah, *Al Muqarada as the Basis of Profit Sharing*, a paper presented at the Seminar on Management and Development of the *Awqaf* properties, held in Jeddah, in August 1984 organised by IRTI, IDB.

Abdur Rahman I Doi, *Shariah: the Islamic La*w, London, 1984.

Ashfaq Ali, *Tarikh-i-Awqaf*, Lucknow, 1984, (Urdu).

Ateeque Khan, "The *Waqf* (Amendment) Act 1984: A Plea for Reconsideration", *Islamic and Comparative Law Quarterly*, vol. 5, No.1, 1985.

Ausaf Ahmad, "*Contemporary Practices of Islamic Financing Tech*niques", *Islamic Economic Studies*, vol.1, No.2, Muharram 1415H [IRTI] (Jeddah) (June, 1994).

Dinesh Bhattarai & Pradip Khatiwada, *Nepal India: Democracy in the Making of Mutual Trust*, New Delhi, 1993.

Final Report 1976- Waqf Inquiry Committee, Part I and II, Govt. of India, Ministry of Law, Justice and Company Affairs (Legislative Department), (Govt. of India Press, 1976.

Furqan Ahmad, "The *Waqf* Amendment Act 1984 – An Analysis", Islamic & Comparative Law Quarterly, vol. 5, No. 1, 1985.

Heffening, "*Waqf*" in Encyclopedia of Islam, vol.2, (Old ed.).

Henry Catton, "Law of *Waqf*", in Khadduri and Liebesny (ed.), *Law in the Middle East*, vol. 1, (Washington D.C., 1955).

Management and Development of Awqaf Properties: Proceedings of the Seminar held on 7-19 Dhul Qada, 1404 (Jeddah, Islamic Research and Training Institute, Islamic Development Bank, 1987)

Qazi Kholiquzzaman Ahmad, ed. *Socio-Economic and Indebtedness-Related Impact of Micro-Credit in Bangladesh,* Bangladesh Unnayan Parishad (BUP), Dhaka, January 2007.

Islami Bank Bangladesh Limited, *Instruction Circular No. BCD/836*. 01.06.2004

MANAGEMENT OF ZAKAH: CENTRALISED VS DECENTRALISED APPROACH

Ataina Hudayati
Islamic Accounting Research Group,
Centre for Islamic Economics Development and Studies (P3EI)
Faculty of Economics, Universitas Islam Indonesia,
Condongcatur, Depok, Sleman, Yogyakarta, 55383, Indonesia
Telp. +62 274 881 546
Fax. +62 274 882 589
E-mail: ahudayati@yahoo.com

Achmad Tohirin
Centre for Islamic Economics Development and Studies (P3EI)
Faculty of Economics, Universitas Islam Indonesia,
Condongcatur, Depok, Sleman, Yogyakarta, 55383, Indonesia
Telp. +62 274 881 546
Fax. +62 274 882 589
E-mail: achmad@fe.uii.ac.id

MANAGEMENT OF ZAKAH: CENTRALISED VS DECENTRALISED APPROACH

Ataina Hudayati[1]
Achmad Tohirin[2]

ABSTRACT

Zakah is one among five pillars of Islam that plays a very important role in the life of Moslems, especially due to its 'take and give' nature in the relationship among people. Zakah is as important as prayers (sholah) as it is indicated in the Qur'an that often mention the instruction of sholah followed directly by the instruction of zakah. As it is levied on the wealth of the Moslems, zakah might involves a significant amount of money, accumulated from the zakah payers (muzakki) and distributed into the zakah recipients (mustahik). It involves transfer of wealth from the rich to the poor. The main objective of zakah is to achieve equitable distribution of income in the society so that income gap can be narrowed. Therefore managing zakah funds under zakah institution become very significantly crucial and strategic for the welfare of the ummah. From macroeconomic perspective, there are basically two approaches in managing zakah, the centralised and the decentralised approaches. This paper discusses these two different approaches, by evaluating both approaches to come to conclusion which one is best.

1. Introduction

Zakah is the most important element of financial structure in Islamic perspective. The importance of zakah as integral part of the obligation of Muslim can be seen that there are about twenty places in the Qur'an mentioning the instruction of zakah consecutively with the order to perform prayers (Siddiqi, 1968, p.8). Zakah literally means growth and increase as well as purity (Siddiqi, 1968, p 28 and Zayas, 2003). Growth means that giving of zakah leads to increase of property in this world, development of religious merit in the next. Zakah is leviable on things which have a capacity to grow capital so that no zakah is leviable on instruments, residential

[1] Lecturer of Islamic Accounting, Universitas Islam Indonesia, Yogyakarta, Candidate of DBA at the Graduate School of Business, Universiti Kebangsaan Malaysia

[2] Lecturer of Islamic economics, Universitas Islam Indonesia, Yogyakarta, Candidate of PhD in Islamic Economics at Universiti Kebangsaan Malaysia

houses, clothes, household effects and other objects which are not capable of production or increase (Siddiqi, 1968, p. 10).[3]

Qur'an states that zakah causes the purification of our property and causes purification the prayer from the sins (QS:9:104). Zakah has been defined technically by the Hanafite as 'the giving, as an act of piety, of a legally stated portion of one's property to a poor Muslim who is not of the Hashim family or their client in such a way as to preclude for the giver any short of benefit'.

There is another term having similar meaning with the term of zakah, i.e. 'sadaqah'. It is a more generic term and includes both voluntary and optional 'alms. Thus every zakah can be considered as sadaqah, however only obligatory sadaqah will be included as zakah.

Talking about zakah unavoidably include taxation due to close relationship between these two terms. If zakah is attached to individual religious obligatory, taxation is attached obliged individual citizenship relation with government. The secular taxes are purely civil obligations and free of religious implications (Siddiqi, 1968, p. 172). While the tax rates are designed and modified by the government (mostly in progressive rates), the rate of zakah are based on Islamic law and uses the fixed rates (QS:70: 24-25)[4].

In addition, there are some important similiratities and dissimilarities between zakah and tax as indicated by Hannan (1998). The similarities include; a) zakah is liable to be collected by force like tax if the payer does not pay it willingly. This position is applicable where the state compulsorily collects zakah. The Qur'an and Sunnah states clearly that it is the obligation of an Islamic states which follow Islam to collect zakah; b) Zakah collected in an Islamic state has to be kept in the state treasury, in a separate account, like tax. If zakah is collected by non-government organizations, this fund should be kept safely as in the case of any public fund; c) Zakah, like tax, is paid though there is no direct and equivalent economic benefit is obtained by the payer.

Whereas the dissimilarities between zakah and tax include; a) Zakah is an ibadah (act of worship) which Allah has made compulsory on human being to express gratitude to Him and to obtain Taqwa. Tax is social obligation without having special sense gratitude to Allah. While zakah is essentially a matter between Allah and His

[3] The properly subject to zakah are: a) the zakah of the produce of silver and gold mines; b) treasure trove; c) the spoils of war; d) the zakah of trade; e) domestic animal; f) pasturing horses; g) agricultural produce h)lands and Kharaj land; i) honey and silk; j) zakah al fitr; and k) the zakah of the partnership (Farishta de Zayas, 2003)

[4] The rate of zakah in details are: 1) 2.5 percent per annum on gold, silver or ready money; 2) 10 percent on agricultural produce (land watered by rainfall); 3) 5 percent on agricultural produce (land watered by artificial device); 4) 20 percent per annum on produce mines and on treasure trove; 5) for animals varies depend on animal types (Maududi, 1984, p. 59)

servants, but tax has been primarily a matter between citizens and the states authorities; b) Zakah is based on nisab, any wealth below a limit is exempted from zakah. This is not true in the case of many taxes in modern times; c) Zakah is a permanent and regular system. None can change it in any way. On the contrary, most of the tax undergoes change from time to time.

Another religion has the same concept as zakah namely 'tithe' which is obligated to Christianist. It differs from the tithe in that it is destined wholly to eight classes of beneficiaries and no part of it may go to the state, the function of which is only to supervise, custody and distribution. The tithe on the other hand went to the Church which discharged it as it deemed fit (Zayas, 2003, p. xvii).

Although there is different meaning of the term zakah and tax, some author said that zakah is a type of tax (for example Siddiqi, 1968). He said that zakah is the main tax in Islamic state. Besides zakah, other types of revenue in Islamic State are; 1) fay revenues such as Jizya (collected and spent on the non muslim citizens); Kharaj; custom duty; waqf; 2) the booty revenue such as tax of mines and taxon treasure trove; and 3) property lost and found and the estates left by Muslims who have no heirs or leave only a husband or a wife.
The institutions of zakah have been existed since time immemorial. The Qur'an presents many verses that are addressed to various Prophets, from Adam to Muhammad, telling their people to give zakah, for example Adam (QS:2:37,47); Abraham (QS:21:69, 71-73); Ismael (QS:19:54-55); Moses (QS:7:155-156) and Muhammad (QS:2:277).

1. How to pay zakah?

As stated above, no part of zakah fund goes to the state or goes to zakah institutions instead of going to the eight classes of beneficiaries. So that there is no rule that someone has to pay zakah through zakah institutions. When the zakah is disbursed directly to the needy, the question whether or not the obligation is discharged depends on whether the person to whom zakah was disbursed was a lawful beneficiary of the zakah. If the zakah payeris in doubt he may use his intuition (taharri) to decide. In this regard the following cases are conceivable;

1. The zakah payer gives zakah to persons without doubt at all on their financial condition. In this case the zakah obligation is lawfully discharged.
2. The zakah payer gives zakah to persons with reasonable doubt on their financial condition. In this case the zakah obligation is not lawfully discharged, and must be fulfilled over again.
   Zakah is more than a personal ibadah, it also is a social institution. As a social institution, even in the absence of an enforcement agency like an Islamic state, zakah should be playing a significant role in the society. Consequently, even though there is no ruke that someone has to pay zakah through some institutions, paying zakah individually loses musch of its significance (Siddiqi, 1968, p. 8). Zafree and Amin (1998) also recommended that zakah should be collected and disbursed through state mechanism to remove any overlapping between zakah and taxes.

3. Zakah institutions in the past

3.1. Zakah under the Prophet SAW

The obligation of zakah was received by the Prophet SAW in the 9th year of Hijra. Obeying this order of Allah, the Prophet sent his amils or tax collectors to all parts of Arabia to collect zakah on property, apparent and non-apparent. Animlas were among the apparent one while gold and silver were among the non-apparent property. Together with this amils, he sent amirs who presumably were in command of troops intended to enforce payment (Siddiqi, 1968, p. 192). At that time Islamic administration was the dual control, i.e. the functionaing side by side of two officers, one concerned with the collection of revenues and other being in command of troops and general administration. After zakah was collected, these funds were disbursed among those who were in need of help.

3.2. Zakah under the Khalifat of Abu Bakar

Avoiding zakah, as many of us doing today, is a tendency that revealed itself among us at a very early stage. No sooner that the Prophet die, that the zakah gatherers he appointed were expelled from many Arab tribes. These tribes were willing to remain Muslim provided no zakah was collected from them. Since they were willing to say prayer, to keep fasting and perform Hajj. Hazrat Omar requested the Khalifa not to punish them for this act of apostasy. But Abu Bakar was determined to teach them a lesson which would live in the history of Islam. He believes zakah is integral part of Islam together with shalah, fasting and hajj.
Thus Abu Bakar convinced Omar of the urgency to take action against those who refused to pay zakah. Abu Bakar realized the importance of zakah as a socio-economic factor in a growing society. Though the military and political situation in Arabia was grave, he proclaimed 'By Allah, I shall declare war upon those who will refuse to pay zakah or reduce it even by a string use to tie a camel's leg'. Subsequently, he ordered Khalid bin Walid to collect zakah from the tribes.

3.3. Zakah under the Khalifate of Umar

It was Omar the Great who first reorganised the establishment of the Public Treasury in 15 AH/638AD. During the lifetime of the Prophet, zakah, land-tax, and spoils of war were distributed among people at one sitting. Abu Bakar, following the precedent of the Prophet, maintained no treasury though a house for it did exist. When the accounts of the Public Treasury were checked, the balance amounted to only one dirham.

The importance of Bait-al-Mal, or Public Treasury, was first impressed upon the public by Omar, whose economic planning brought great revenue from newly acquired territories. After one year, Abu Huraira, Governor of Bahrain, deposited into it five lakh dirhams from tax. Omar called the assembly and asked their views concerning the disposal of this large sum of income. Ali was in favour of distributing it among the people but Usman opposed the suggestion, while Walid bin Hisham

suggested the idea of a treasury on the pattern of one he had seen in Syria in which the treasury and the office of accountancy were maintained separately. Omar approved Walid's plan and established the foundation of Bait-al-Mal for the future.

Abdullah bin Arqam, a well versed businessman, was appointed as officer of the treasury and a number of able men were appointed as his assistants. Besides the capital, treasuries were established at provincial headquarters and other central places. For treasuries, Omar built strong and grand buildings. At Kuffah, construction material came from the ruins of various old buildings. To remove the fear of theft, treasuries were often built along mosques. Under Omar, ten crores in land revenue alone was collected from Iraq, while under Ummayads and Abbasides, it never exceeded more than three crores. It was said that there were so much prosperity under Umar domain that often it was hard to find a deserving recipient of zakah.

3.4. Zakah under the Khalifate of Usman

Because it was alleged that zakah-collectors often embarrassed the people while discharging their duty, Hazrat Usman delegated to the donors the power to distribute zakah funds on non-apparent property such as gold, silver and jewels among the needy. Some writer claimed that Hazrat Usman was in favour of the people depositing zakah in the Public Treasury, deducting the amount they had already paid the poor. It appears that the people were given the power to assess the sum due for zakah, make payment to the needy and then deposit the rest into the Public Treasury.

3.5. Zakah under the Umayyads

Omar bin Abdul al-Azis re-established the institution of zakah in its original form. He appointed amils or collectors in different parts of the Muslim world, to gather zakah on apparent (such as animal) and non-apparent (gold, silver) wealth. In broad outlines the provincial administration under the Umayyads was that at the head of the province stood the amir, or wali, who was appointed by the Khalifate and charged with every charge of a monarch (Siddiqi, 1968, p. 194). His charge was the chief officer of the province and sometime combined with the charge of revenue administration.

3.6. Zakah under the Abbasides

Zayas (2003, p. 309-338) explained in details how zakah should be managed. This paper only describes some of her arguments. *First*, institution of zakah should be established in the fold of Muslim society in an organised manner and under the responsible supervision of various Muslim governments or as a special international Muslims supervisory body appointed by governments. *Second*, zakah centers are to be established an all villages, town and cities within Muslim territory. The various zakah centers from a head center to branch center are to be placed in charge of authorised officers directly responsible to the state and to the Muslim public for the proper functioning of their respective center.*Third*, the members of zakah staffs included officers in charge, should preferably be choosen among the local inhabitants, and *Fourth*, zakah funds derived fromany given source must primarily be dedicated to the welfare of those types of beneficiaries actually existing in the said locality. A

reasonable portion of the zakah funds must always be kept in reserve at each branch zakah-center for the use of eventual beneficiaries to whichever class or group (i.e. casual, temporary, or regular beneficiaries) they may belong. *Fifth*, the law of zakah must allow the transfer to deficiency areas of zakah funds from other areas on condition that these be *definitely surplus* to both the regular and casual requirements (i.e. those served by reserve fund). But in no case should all of the surplus at any given branch zakah-center be unnecessarily send elsewhere as, in the case of an unforeseen emergency, such action would result either in the fund in question having to be retained to their place of origin, or in other funds having to be sent to replace them, and those would involve useless labor, expenses and loss of valuable time.

Transfer of zakah fund subject of some disagreement among jurist of Islam (Zafree and Amin, 1998). Maliki and Syafii also Ghazali are averse to the transfer of zakah and allow it only when there is lack of deserving poor persons in the locality where the fund derived. Hanafite school of law supports transfer of zakah fund. This stand fully conforms to the spirit of Islam unity. *Sixth*, in order to coordinate the functioning of the various zakah centers detailed report must be regularly submitted (preferably once a month) to the zakah center.

4. Zakah Institutions in Some Countries

4.1. Pakistan

In Pakistan the system of zakah was introduced through the Presidential Ordinance in June 1980 which provides for assessment, collection, disbursement, inspection, audit and evaluation arrangement (Mannan, 1998). The zakah law applies to all Muslims citizens of Pakistan, but if a person feels that the zakah levies are not in accord to his faith and school of fiqh, he can seek exemption from such levies by filling a declaration on oath, according to a prescribed procedure (Islam and Sarker, 1998).

The zakah and ushr system has a five-tier zakah organization. Three is a Central Zakah Council (the highest policy making), Provincial Zakah Council (one in each province), District Zakah (one in each district), Tehsil Zakah (one in each Tehsil, i.e. a subdivision of district) and Local Zakah Committee (one for each village in the rural areas and one for each Mohallah, i.e. a small residential area in the urban areas (Shirazi, 2003)

The 18-member Central Zakah Council is headed by a judge of the Suprem Court of Pakistan, 10 non-official members including three uleam and two women, and seven official members including the Administrator General of Zakah of Four Provinces. The 10-member Provincial Zakah Council in a province is headed by a judge of High Court, five others non-official members, including three ulema and four official members.

The seven-member District Zakah Committee consists of a Chairman who is non-official, 5 others non-official members and the Deputy Commissioner. The seven-member Tehsil Committee consists of a chairman, the Assistant Commissioner

of the Tehsil and five non-official members. The seven-member Local Zakah Committee consists of a chairman and 6 members who are all non-official.

There are at present about 39,000 Local Zakah Committees working through the country and more than250 thousands persons are voluntarily involved in the working of the system (Shirazi, 2003). The financial institutions involved in the collection do not charge any fee either. The ushr assessment and its collection are free of cost. This volunteer work makes the administrative system of zakah and ushr (agricultural good) unique.

The Government of Pakistan has also set up a National Zakah Foundation, which finances various projects to provide regular income to the deserving people. It has detailed procedures for scrutiny, approval, inspection and monitoring of project (Mannan, 1998). Zakah is deducted compulsory once a year at the rate 2.5 percent on eleven types of assets; saving bank account; notice deposit account; fixed deposit account; saving/deposit certificates; National Investment Trust Unit; Investment Corporation of Pakistan Mutual Fund Certificates; Government Securities; Securities; Annuities; Life Insurance Policies; Provident Fund Credit Balances. In addition there are asset should be paid by self-assessment basis, i.e. gold, silver, and manufacturing products; cash; prizes bonds; foreign currency account; loans receivable; stock in trade; agricultural produce; animal fed free in pastures.

In Pakistan, zakah is distributed among the deserving people through local zakah committees. The Central Zakah Council transfer a certain amount of zakah to provincial government for onward disbursement. Sixty percent of the total amount received from the CZC is distributed directly among the needy people as subsistence and rehabilitation allowances, while 40 percent of the amount is distributed through the Educational Institutions, Islamic Religion School, Health Institutions and Social Welfare Institutions. On average, about 60 percent of the total collected amount was transferred to the provinces and about 40 percent was retained by the CZC. Some of the zakah funds retained by CZC were transferred to the national medical, educational and welfare institutions, baitul mal and some were distributed on emergency grounds among the people affected by flood and other national calamities.

Shirazi (2003) studied the redistributive effect of zakah across the income groups in Pakistan. He classifies income group into three classes. The first group is household as recipient of zakah (low income). The second groups are both recipients and payers at the same time (non-poor group but receive zakah because of misappropriation of zakah transfer). The third group is the zakah payers (high income). The result of the existing zakah system is not encouraging. The annual average income per household in the first income group increased in the range of 0.20 to 1.20 percent. This is due to the halfhearted and partial implementation of the zakah system. The zakah system is not broad-based and the entire asset which should technically subject to zakah is not included. Many exemptions have been granted in the collection of zakah, e.g. WAPDA, Bearer Bond, Special Saving Certificate, Current Account and Foreign Currency Account. Followers of the Al-Fiqh al-Ja'fari (Shi'is) are exempted. Several rich Sunnies are known to have declared themselves as Shi'is in order to evade the payment of zakah. However the potential zakah collection and distribution has a significant effect on the household income in the income group

ranging from 10.63 percent to 19.23 percent. Therefore, zakah has its potential role to play but demands serious efforts on the part of the government. This study used Kahf (1987 and 1989) estimates regarding the potential of zakah collection for Pakistan for the National Income Account.

4.2. Indonesia

Indonesia as the biggest Moslem populous country in the world has different experience in dealing with Zakah implementation. Until recently organizing zakah is being conducted by two types of institution. The first one is the one sponsored by society/community, this is known as Lembaga Amil Zakat (LAZ). The second one is the one sponsored by government which si known as Badan Amil Zakat (BAZ). Salim (2006) recorded that in July 1967, Saefuddin Zuhri as Minister of Religious Affairs, presented a draft Zakat Law to the legislature (DPRGR), but no further discussion from the legislature. In July 1968 Mohammad Dachlan, as Minister of Religious Affairs issued a Ministerial Decree concerning the foundation of the Badan Amil Zakat (the Zakat Agency) which was arranged for a governmental zakat committee to be established at alaa administrative levels across countries. This decree did not last long, when President Soeharto gave speech at the Isra Mi'raj celebration on October 26, 1968 announcing to take over the administration of zakat on a personal basis as a private citizen. The operation of the zakah agency under President Soeharto was maintained for only a few years to end in 1974 by collecting Rp 39.5 million and USD 2,473 for two years time. A number of provincial administrations established government-sponsored zakat agency called as BAZIS (Badan Amil Zakat Infaq dan Sedekah)

Then National Zakah Agency was established in 1996 throughout all provinces in Indonesia. The number of Zakah Agency in 1996 was 277 at district level, and 3160 at sub-district level, and 38177 at village level. (PIRAC, 2002). Meanwhile in 1997/1998 the numbers were 287, 3550 and 48041 for each area level respectively. In term of the volume of zakah funds, in 1997/1998, zakah al maal and zakah al fitr accounted for Rp 187,014,659,053.00 (Kasubdit Zawaib Depag, 2002)

Besides government sponsored zakat agency like BAZIS, there also emerges many private-community-sponsored zakat agencies known as LAZIS (Lembaga Amil Zakat Infaq dan Sedekah or Institutions of Amil Zakah Infaq and Shadaqah). Among these institutions which have license as national zakah agency are Yayasan Dompet Dhuafa (DD), Yayasan Dana Sosial Al Falah (YDSF), Yayasan Darut Tauhid (DT), Dompet Sosial Umul Quro' (DSUQ)/ Rumah Zakat Indonesia, Pos Keadilan Peduli Umat (PKPU), dan Baitulmal Muamalat (BMM). PIRAC (2002) recorded that the funds accumulated by these institutions are Rp 15 billion by DD, Rp 3.5 billion by YDSF, Rp 4.5 billion by DT, Rp 2.5 billion by DSUQ, Rp 3 billion PKPUand Rp 4.2 billion by BMM.

Hafidhuddin (2009) mentioned that in 2006 the collection of zakah at national level amounted to Rp300 billion, and it increased to Rp700 billion in 2007. In 2008, the number rise to Rp 900 billion. There is a consistent rise over time in the collection,

however the number is still not on par with its potential number at Rp 19 trillion per year.

As for the approach applied in Indonesia, it is obvious that the Indonesian case can be categorized into decentralized types, since she allows various zakah institution established by private/community. However, there is also a government sponsored zakah institution (BAZ), which exist side-by-side with community-sponsored zakah institution (LAZ). Recent data as shown in Table 1, suggest that LAZ (represented by Rumah Zakat Indonesia, Dompet Dhu'afa and Pos Keadilan Peduli Umat) even perform better than BAZ (represented by Badan Amil Zakat Nasional), especially if the collectability of funds be used as an indicator.

Table 1: Collection and Distribution of Zakah Infaq Shadaqah and Waqf by Zakah Agencies in Indonesia (in IDR)

1. Rumah Zakat Indonesia	2004	2005	2006	2007	2008	
Collection						
Zakah	3,226,837,816	5,171,371,253	8,216,443,928	14,565,276,604	27,674,349,143	
Infaq	396,374,081	533,122,697	2,192,749,091	6,829,071,947	7,114,154,213	
Waqf	34,442,000	278,664,400	65,045,000	501,556,100	865,517,823	
Total	3,657,653,897	5,983,158,350	10,474,238,019	21,895,904,651	35,654,021,179	
Distribution						
Zakah	1,329,276,147	2,185,123,653	4,522,831,769	21,294,406,673	11,981,717,757	
Infaq	1,746,498,501	4,398,949,923	2,204,404,495	3,785,293,394	4,650,295,569	
Waqf	9,086,813	1,167,000	24,412,600	150,961,375	40,830,825	
Total	3,084,861,461	6,585,240,576	6,751,648,864	25,230,661,442	16,672,844,151	

2. Dompet Dhu'afa	1424H	1425H	1426H	1427H	Ramdhn-Dzulhjh 1429H	Ramdhn-Muharm 1430H
Collection						
Zakah	13,855,762,439	15,316,930,269	18,412,116,845	20,255,341,469	21,990,774,599	23,506,663,650
Infaq	1,776,768,960	2,537,865,830	2,585,580,593	5,119,961,494	2,461,579,434	3,052,088,514
Waqf	369,300,500	637,983,000	517,912,500	1,313,559,280	1,022,073,549	1,174,481,511
Total	16,001,831,899	18,492,779,099	21,515,609,938	26,688,862,243	25,474,427,582	27,733,233,675
Distribution						
Zakah	13,642,687,375	15,720,464,884	17,293,422,280	27,890,564,171	20,931,436,929	23,972,907,453
Infaq	2,746,353,372	3,253,998,614	4,311,371,221	5,756,546,520	7,988,568,043	9,223,404,650
Waqf	38,310,300	11,012,014,900	1,376,712,000	1,207,904,000	559,859,200	605,467,500
Total	16,427,351,047	29,986,478,398	22,981,505,501	34,855,014,691	29,479,864,172	33,801,779,603

3. Pos Keadilan Peduli Umat	2004	2005	2006
Collection			
Zakah	5,886,698,783	7,038,524,001	9,929,756,539
Infaq	579,504,138	1,468,787,545	1,659,535,232
Waqf	11,920,000	187,175,001	30,646,447
Total	6,478,122,921	8,694,486,547	11,619,938,218

Distribution					
Zakah	2,461,432,065	7,648,239,467	7,206,966,929		
Infaq	27,628,420	239,881,500	802,730,787		
Total	2,489,060,485	7,888,120,967	8,009,697,716		
4. Badan Amil Zakat Nasional	**Apr-09**	**May-09**	**Jun-09**	**Jul-09**	**Ramadhan 1430H**
Zakah	1,333,894,416	951,571,626	970,058,460	97,648,396	7,561,654,155
Infaq&Shad	552,279,629	86,532,950	121,057,264	138,785,131	858,347,282
Total	1,886,174,045	1,038,104,577	1,091,115,724	1,046,433,527	8,420,001,437
Distribution	1,325,187,732	861,844,289	650,306,516	351,500,325	2,249,523,417
Accumulated up to	**Mar-09**	**Apr-09**	**May-09**	**Jun-09**	**Ramadhan 1430H**
Collection	4,263,772,892	6,150,455,028	7,352,506,435	8,121,630,545	11,590,901,693
Distribution	3,546,910,322	4,872,098,054	5,733,942,343	6,424,248,859	6,775,749,184

Source: Financial Reports of Rumah Zakat, Dompet Dhu'afa, Pos Keadilan Peduli Umat and Badan Amil Zakat Nasional, several editions

4.3. **Malaysia**

4.3.1. History of the Development of Zakah Institution

Malaysian Constitution has listed zakah under state authority. Though Islam is the religion for the Federation, it does not mean that the Federal Government has the fullest authority in religious affairs. The Malay Ruler or Yang Dipertuan Agong has formed its own Islamic Administrative law that is in line with the constitutional provision to execute its authority over religious matter. Normally provision related to zakah is part of the law.

Zakah institution in Malaysia has been established for the past 70 years. At that time Islamic Religious Council has been concentrating on zakah fitr and zakah on agricultural/zakah on paddy or rice farmers who actually the poorest section on the society. (Mohd Rais Haji Alias, 2004). There is no zakah on other agricultural products such as rubber, palm oil, and cocoa (Mohd Daud Abu Bakar, 1998). Thus serious consideration on the true potential of zakah of property is not given proper emphasis, such as salary earners, the managers and the businessman income.

Before 1991, the institution which has responsibility in zakah administration is Islamic Religious Council (Majelis Agama Islam) of each of the 13 states in Malaysia with the Federal Territory of Kuala Lumpur and Labuan having their own council giving a total of 14 Islamic Council in Malaysia. All matters pertaining the religion is the responsibility of the Islamic Council. Zakah management office under their respective Islamic Council of each state is normally known by various names such as Zakah and Baitulmal Office, Zakah Committee, Zakah Unit or Zakah department.

Apart from collecting zakah on mal/property, individual amil are appointed to collect zakah fitr in Ramadhan. The amil could be imam of mosque, government and private office staff or other officer elected to carry out such duty. This is a very close co-operation between the Islamic Council of the state and the respective state government as shown by the fact that the administrative of the council is provided by the Islamic Department of the respective state. The department is part of the government (Mohd Dahan Abd Latif, 1998).
At the federal level, the Prime Minister's Department, specifically JAKIM (Jabatan Kemajuan Islam Malaysia) is responsible for Islamic affairs administration for the whole country as well as coordinating various states. There are many programs and activities undertaken by JAKIM directly since the respective state government also funds Islamic programs, activities and project using the respective state funds.

In addition, there is a committee at the international level to establish cooperation among South East Asian Countries known as the Religious Council for Negara Brunei Darussalam, Indonesia, Malaysia and Singapore (MABIMS) and Organization of Islamic Countries (OIC) which represents 57 Islamic countries currently chaired by Malaysia (Mohd Rais Haji Alias, 2004).

4.3.2. Corporation Era

On March 8th 1991 a zakah office, the first to operate in a new corporate style in Malaysia, was established. It is known as Zakah Collection Centre-Islamic religious Council of Federal Territory applying corporate management techniques. The objectives of Zakah Collection Centre are:

1. Facilitate payers to perform their responsibility on zakah.
2. Provide information on the obligation on paying zakah through various methods so that those who are qualified would do do.
3. Introduce computerized zakah collection system.
4. Introduce corporate working style in the management of zakah collection

Zakah Collection Center was launched by Dr Mahathir Mohammad who stated that it was appropriate to shift the focus of zakah from the poorer section to those who have steady income such as salary earners and businessman.

The existence of Zakah Collection Centre (ZCC) in the Federal Territory marked a new era in zakah institution as this was the first time a computerized zakah management system is implemented. ZCC operates by giving clear explanation on zakah and its assessment. In addition, new payment counters were introduced for zakah payers.

The new approach includes corporatizing the management and administration of zakah collection by setting up a company under the Islamic Council to separate it from the rest of the administration of Islamic affairs which is very diverse. The company called Harta Suci Sdn Bhd manages ZCC and handles all matter pertaining to the collection of zakah on behalf of the council. All costs of collecting zakah were borne by the company and the council pays the company management fees monthly as an amil. Zakah collection and administration of ZCC was computerized which is

believed to be the first in the world. Online zakah counters were specifically opened to serve the zakah payers.

After Federal Territory, effort to corporatize was followed by other states such as Penang through its subsidiary known as Zakah Management Center (PUS) in 1994 and Selangor Islamic Council through its subsidiary Selangor Zakah Center also in 1994. Melacca followed suit by establishing Computerized Zakah Center in 1995, while Pahang setup its Zakah Collection Center corporatized in 1996. In 1997 Negeri Sembilan Islamic Council was the latest to incorporate its subsidiary known as Negeri Sembilan Zakah Center in 2000.

4.3.3. Evaluation of Zakah Institutions in Malaysia

4.3.3.1. The Development of Zakah Collection

The corporation has proven to be successful with the encouraging increase of zakah collection through the years. The actual achievement of ZCC can be seen from the improvement of zakah collection after its establishment, as indicated in Table 2. From 1995 to 2003 zakah collection increased by 3703 percent in Federal Territory, while in Malaysia, zakah collection increased by 886 percent during 1990-3002. In addition, average payment every year in Federal Territory is RM 34.11053 million and in Malaysia RM 190.2571 millions.

Table 2: Zakah Collection In The Federal Territory and In Malaysia (in RM Million)

	'85	**'86**	**'87**	**'88**	**'89**	**'90**	**'91**	**'92**	**'93**	**'94**
Federal Territory	2.6	3.2	3.8	5.1	6.5	8.8	15	21	26.9	34.4
Malaysia	NA	NA	NA	NA	NA	49	63	78	93.9	112
		'95	**'96**	**'97**	**'98**	**'99**	**'00**	**'01**	**'02**	**'03**
Federal Territory		33.6	42.9	52.8	45.7	36	58.9	70.3	84.5	96.3
Malaysia		124	162	204	198	196	261	320	374	430
Growth	'85-'03 Increase (%)				Average/Year					
Federal Territory	3,703.85				190.26					
Malaysia	886.60				34.11					

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

4.3.3.2. The Efficiency of Zakah Collection and Appropriately Disbursement

Indicators efficiency mostly used to evaluates the performance of tax collection system are: 1) number of tax payers divided by number of employee; administrative costs divided by total revenue collected (World Bank, 2004). This paper argues that these indicators can be used to evaluate the performance of zakah collection. Because of the limitation of the data, this paper only uses administrative cost, i.e. payment to amil divided by total zakah collection and the development of tax payers. We do not have any data concerning the number of employee in each zakah collection centers.

As indicated in Table 3, during 1992-2003 in Federal Territory, the lowest total payers was 19,169 in 1999, and the highest one was 40,653 in 2003. The lowest average payment per payer was RM 1,057 in 1992 and the highest one was RM 2,386 in 2002. In addition, average payment per payer per year during 1992-2003 was RM 1,732.

Table 3: Average Payment Per Year In the Federal Territory

	1992	1993	1994	1995	1996	1997
Collections	21,241,218	26,883,510	34,419,920	33,681,681	42,921,790	52,850,927
Payers	20,098	23,558	25,921	28,066	28,718	29,057
Average	1,057	1,141	1,328	1,200	1,495	1,819
	1998	**1999**	**2000**	**2001**	**2002**	**2003**
Collections	45,770,559	36,019,248	58,921,958	70,301,331	84,533,227	96,380,801
Payers	23,618	19,169	27,257	34,974	35,427	40,653
Average	1,938	1,879	2,162	2,010	2,386	2,371
Average/year	1,732					

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

Table 4 and Table 5 provide data on the percentage of payment to amil (as a proxy of zakah administration costs) to the total zakah collection in Federal Territory and in selected states in Malaysia. Besides considering the percentage of payment to amil to tthe total zakah collection, we also use percentage of payment to Fakir Miskin to Zakah Collection as the first priority among eight asnaf of zakah, as indicated in the Qur'an 'Shadaqah is for the poor and the needy and those employed to administer the funds; for those whose hearts have been reconcile to the Truth, for those in bondage and debt; in the cause of Allah and for the wayfarer. This is ordained by Allah and Allah is the full of knowledge and Wisdom'.

Table 4: Percentage Payment to Amil and Fakir Miskin to Zakah Collection in the Federal Territory (RM Thousands)

Zakah	1992	1993	1994	1995	1996	1997
Collection	21,241.2	26,883.5	34,419.9	33,681.7	42,921.8	52,851.0
Disbursement	17,437.5	29,275.5	21,034.4	33,523.9	48,819.2	50,766.4
Surplus	3,803.7	(2,392.0)	13,385.6	157.8	(5,897.4)	2,084.5
Amil	3,136.9	2,500.9	4,635.0	3,885.7	6,865.0	4,821.4
% Amil to Total Collection	15	9	13	11	16	9

Fakir	292.4	562.4	797.5	1,722.0	1,388.6	2,333.7
Miskin	2,400.1	2,777.7	3,253.2	4,713.2	4,602.7	9,674.0
Fakir+Miskin	2,692.5	3,340.1	4,050.7	6,435.2	5,991.3	12,007.6
% Amil to Fakir+Miskin	117	75	114	60	115	40

Zakah	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**Average**
Collection	45,771.0	36,019.2	58,922.0	70,301.3	84,533.2	96,380.8	50,327.2
Disbursement	30,186.4	20,907.1	46,503.0	71,741.3	63,313.4	86,743.4	43,271.0
Surplus	15,584.2	15,112.1	13,419.0	(1,440.0)	21,219.9	9,637.4	7,056.2
Amil	7,664.5	6,512.1	6,157.2	11.106.5	13,311.4	13,490.5	7,157.3
% Amil to Total Collection	17	18	14	16	16	14	14
Fakir	3,212.5	1,940.4	3,753.2	4,767.2	12,748.9	9,906.3	3,618.8
Miskin	9,018.6	3,521.0	11,749.4	12,793.3	14,437.5	10,591.3	7,460.0
Fakir+Miskin	12,231.1	5,461.4	15,502.6	17,560.5	27,186.4	20,497.6	11,079.8
% Amil to Fakir+Miskin	63	119	53	63	49	65	78

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

Table 4 shows the percentage of amil to the total collection is 9 percent and 18 percent and the average percentage is 14 percent. Payment to amil consists of operational expenditure, fee to amil on Zakah Collection Center and fee to amil on zakah al-fitr. For example, in 2002 the amount of payment to amil is RM 13,311,412 consists of fee to amil on Zakah Collection Center RM 5,844,929; fee to amil on zakah al-fitr RM 463,761, and the rest of the money is for operational expenditures. This amount of administrative cost is quite big if we compare to administrative cost on tax collection as indicated in Table 6. The highest percentage of the administrative cost divided by net revenue collection is about 2 percent.

Another important aspect on Table 4 is the percentage amil to fakir miskin. In our opinion, the first priority of the beneficiaries (asnaf) is fakir miskin so that the amount paid to fakir miskin should be higher than amount to amil. In the Federal Territory case, on average the percentage amil to fakir miskin is 78 percent but for 1992, 1996 and 1999 the payment to amil were higher than the payment to fakir miskin with the percentage of 117, 115 and 119 respectively.

Islamic jurisprudence makes no distinction between zakah and shadaqah. The above verse of the Qur'an specifies the uses of shadaqah including zakah. Therefore there is a considerable difference of opinion on the use of zakah among different groups of the beneficiaries in the list of the relevant verse (Mandal, 1998). Some ulama stand for the direct transfer of zakah to the beneficiaries. However, most

writers prefer to operate the process of administration (collection and distribution) of zakah to increase their beneficiaries. Qardawi argues that zakah revenues has to be transferred directly to those whose hearts are to be won over, the rest of the disbursement being made indirectly. Islahi argues that direct transfer of zakah funds have no basic in the Qur'anic law. Nawfill (1981) as ststed by Zafree and Amin (1998) observed two different views regarding the expenditure on these eight beneficiaries (asnaf) of zakah as stated above. One view is that zakah payer has the choice to pay to any of them. Another view is that he should distribute the zakah money among all eight categories. Another debate also emerges concerning the beneficiaries. For example, some writers have a tendency to interpret in the way of Allah too broadly to include all social services.

Table 5: Percentage Payment to Amil and Fakir & Miskin to Zakah Collection (RM Thousands)

	Federal T.	Selangor	Melacca	Terengganu	Johor	Perak
Collection	251,215.4	226,357.2	37,405.7	101,289.1	95,127.7	62,970.5
Disbursement	221,798.1	204,131.0	30,029.5	74,826.1	79,037.5	50,667.5
Surplus	29,417.3	22,226.2	7,376.2	26,463.0	16,090.2	12,302.9
Amil	39,471.2	26,364.7	5,040.6	6,199.0	11,141.1	5,118.3
% Amil to Collection	16	12	13	6	12	8
Fakir	27,422.4	4,456.7	6,709.5	8,148.7		
Miskin	37,822.1	56,881.4	2,367.1	32,714.6		
Fakir+Miskin	65,244.5	61,338.1	9,076.6	40,863.3	18,197.1	22,552.7
% Amil to Fakir+Miskin	60	43	55	15	61	23

	P. Pinang	Kedah	Kelantan	N. Sembilan	Average
Collection	56,802.3	49,322.1	51,601.0	44,770.0	97,686.1
Disbursement	41,221.4	43,722.6	37,673.2	33,825.8	81,693.3
Surplus	15,580.9	5,599.5	13,927.6	10,944.2	15,992.8
Amil	7,249.0	5,350.8	4,065.8	6,126.3	11,612.7
% Amil to Collection	13	11	8	14	11
Fakir	2,470.2	1,302.0			8,418.2
Miskin	9,905.7	20,905.5			26,766.1

Fakir+Miskin	12,375.9	22,207.5	15,303.1	7,469.2	27,462.8
% Amil to Fakir+Miskin	59	24	27	82	45

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

There is much debate on the zakah disbursement that causes non-uniformity in zakah disbursement in Malaysia. This issue can be seen in Table 5 which indicates the same data as Table 4 except in this case we are talking about the percentage payment to amil in Federal Territory as well as in the selected states during 2001-2003. The percentage of amil to zakah collection in Federal Territory is higher than those in in the selected states. The lowest payment was in Terengganu with the amount of 6 percent.

Table 6: The Percentage of Administrative Cost to The Net Revenue of The Tax Collection in Selected Countries

Countries	2000	2001	2002
Australia	1.11	1.27	1.19
Austria	0.80	0.71	0.72
Canada	1.07	1.08	1.20
Finland	0.60	0.61	0.67
France	1.40	1.41	1.44
Hungary	1.45	1.23	1.35
Ireland	0.81	0.90	0.95
Japan	1.42	1.54	1.62
Korea	0.80	0.85	0.85
Netherland	1.70	1.74	1.76
New Zealand	1.44	1.21	1.17
Poland	0.95	1.06	1.32
Portugal	1.60	1.61	1.68
Slovak	1.30	1.43	1.46
Sweden	0.43	0.44	0.42
Turkey	1.94	2.12	0.86
UK	1.10	1.11	1.15

USA	0.43	0.46	0.52

Sources: Country Survey responses, Annual Report of Revenue Bodies (World Bank, 2004)

4.3.3.3 Empirical Findings of Zakah Researches in Malaysia

The study on the effectiveness of zakah can be classified into two categories. First, study focusing on the internal/individual factor. Study focusing on the external factor (factor on outside individual). Examples of the study on individual factor are study on individual characteristics (Wahid et. al, 2005) and individual perception (Sanep Ahmad and Hairunnizam, 2004). The study on the external factor consists of the effectiveness of zakah distribution (Wahid et. al, 2004) and the role of zakah institution (Sanep Ahmad et.al, 2005; Zyadi and Mariana (1999), and Nor Ghani et.al, 2001) in Sanep Ahmad et.al, 2005). The detailed explanation on those researches is shown in Table 7 as follows.

No.	Researchers	Objectives	Findings
1.	Zyadi and Mariana (1999)	To find empirical evidence on the influence of corporatization and the collection of zakah	Corporatization causes the number of zakah collected to increase, however it also is due to other factors as well.
2.	Nor Ghani Md Nor, Marina Majid, Jaafar Ahmad and Nahid Ismail (2001)	To find empirical evidence on factors influencing the amount of zakah collection	The increased amount of zakah collection is due to the following factors: • Corporatization • Increased number of zakah payers • Increased individual income
3.	Sanep Ahmad and Hairunnizam Wahid (2004)	To find empirical evidence on the perception of zakah payer to the items subject to zakah in Malaysia except Sabah and Sarawak	Positive perception on the possibility to increase the items subject to zakah. These items can be categorised into four: 1. Income from bonds and stocks 2. Agricultural produce such as Palm Oil 3. Domestic animal such as chicken and duck 4. Precious stones such as jewels
4.	Wahid et. al (2004)	To explain the effect of zakah distribution on the quality of life of the asnaf (fakir and miskin) in Jerantut, Pahang, Taiping, Perak, and Sandakan, Sabah, by examining their satisfaction on the zakah they received.	Significant influence found on the two dimensions of the quality of life; • Education, and • Social involvement
5.	Sanep Ahmad et.al (2005)	To study the relationship between individual satisfaction with formal zakah institution on the amount of zakah payment	• 43 percent of respondents is satisfied with the management of zakah collection center and 57 percent is not satisfied. • The variable of individual satisfaction has significant influence on the amount of zakah payment. • The number of individual paying zakah to the formal institutions ranges between 85-90 percent.
6.	Wahid et.al (2005)	To study the relationship between individual	The age and the amount of income are found to have significant influence to the

		characteristics such as gender, marital status, knowledge of Islam, education, income, occupation to the payment of zakah on income	payment of zakah on income

Table 7: Empirical Research on Zakah in Malaysia

4.3.3.4. Evaluation on the Organizational Structure

One problem concerning institutional structure of Zakah Collection Center is the lack of national zakah organization. It makes wider diversity among states in term of zakah collection and disbursement. There is no transfer of funds among states. State with high surplus cannot distribute the surplus to the deficit state. Another problem concerning the absence of national zakah organization is a company which has activities in more than one state faces troubles in paying zakah.

4.3.3.5. Issues Concerning Zakah on Income

The problem concerning zakah on income is caused by different opinions on whether income is subject to zakah or not. There is no specific fatwa at national level on this matter (MOhs Rais Haji Alias, 2004). According to Sanep and Hairunnizam (2004) there are three different opinions concerning zakah on income. First, there is no obligation for zakah on income. Second, the obligation to pay zakah on income is based on the masalih mursalah (extended public interest) consideration. Third, the obligation is based on the concept of analogy (qiyas) from Qur'an through *Ijtihad*.

4.3.3.6.*Future Prospect*

In this paper we suggest two aspects concerning future prospect to increase the performance of zakah institution in Malaysia. The first one is the establishment of zakah investment center, and second is the possibility of the Zakah Collection Center to have activities outside Malaysia through internet system.

4.3.3.6.1. Zakah Investment Fund

Zakah Investment is an economic activity that directs zakah and its supportive funds toward production in order to increase the return for zakah recipients. Zakah Investment is permissible from Islamic law (Abdul Fattah Mohammad Farah, 2004), which states as follows:

1. Hadith Bukhari on the possibility of using milk of zakah camels by the wayfarers (ibnu sabiil). It is possible to apply such permissibility on other similar case. The return of zakah camel is milk. If zakah is in money then the return is its profit from investing it.
2. Acceptability through qiyas (analogy). The Prophet SAW advised for investing the orphan's wealth to compensate for zakah payments. As an

orphan's wealth can be invested by his custodian, a zakah fund can be invested by the ruler to increase the welfare of its beneficiaries.

3. Acceptability through Masalih Mursalah (extended public interest). It is a rule to achieve the goals of the Islamic Shariah (Maqasid al shariah) in order to reach the falah in the world and in the hereafter.
4. Recent fatwa: The Fiqh Council of the Islamic Conference Organization (FCICO) approved Zakah Investment. In order to invest zakah, the FCICO imposes two conditions. First, Zakah Investment can only take place after satisfying the immediate needs of zakah beneficiaries and then to invest the surplus. Second factor as a prerequisite of the permissibility to invest zakah is securing the invested funds from any losses.

4.3.3.6.2. International Activities

There is zakah institutions which conduct their activities through virtual office, i.e. Zakah Foundation of America. That system makes the institution to reach out around the world. The Zakah Foundation of America is an international charity with a mission to bridge the gap between the financially privilege (the donors) and those in financial needs (the beneficiaries). This institution is dedicated to alleviate the immediate needs of the poorest of communities by providing food aid, shelter, and health care by delivering relief in emergencies. Zakah Foundation also provides self-help programs through education and training in order to equip people with skills to help themselves.

Zakah Collection Center in Malaysia has received International Quality Recognition, by achieving MS ISO 9002 on January 25, 2002 and latest version of ISO 9001: 2000 in May 2003. These achievements make it possible for Zakah Collection Center to diversify and extend their activities to other countries.

5. Centralised vs Decentralised Issue

Management of zakah in Pakistan, Indonesia and Malaysia shows different characteristic in term of the approach they used. Pakistan tends to use centralised approach as shown by the existence of Central Zakah Council and she has a five-tier zakah organization. The highest one is Central Zakah Council, followed by Provincial Zakah Council (one in each province), District Zakah (one in each district), Tehsil Zakah (one in each Tehsil, i.e. a subdivision of district) and Local Zakah Committee (one for each village in the rural areas and one for each Mohallah, i.e. a small residential area in the urban areas. The existence of CZC reflects the centralised character of zakah management, especially with respect to policy making.

Meanwhile in Indonesia zakah management tends to follow decentralised approach, as indicated by many zakah agencies, initiated/sponsored by government and community. As indicated in the collection and distribution of zakah, infaq shadaqah and waqf, the community-sponsored zakah agencies (LAZ) seem to outperform the government-sponsored zakah agencies (BAZ). It might imply that zakah payers tend to prefer LAZ to BAZ due to some reasons, trustworthiness among others. BAZ as it is sponsored by government is being shadowed by corruptive

practices under government administration. It hinders its effectiveness in collecting zakah funds. The high number of LAZ in Indonesia with similar area of coverage/operation might create a problem of overlapping, especially on distributing the zakah funds in the absence of a well coordination. In addition it might create a stiff and unhealthy competition among zakah collection centres. However this strong competition can be a positive thing for zakah agencies to compete each other positively, i.e. the creativity to organised fundraising to push the collection and to innovate more interesting way in distributing the funds to enhance further trustworthiness so that zakah payer will come to them.

On the other side Malaysia's experience provides interesting learning in term of zakah management by centralising it at the state level, due to the authoritative power of each Sultan on the religious matter, including zakah. This approach is very positive to make zakah collection effective and efficient. However due to state sponsored institution, this approach might also create problem of ineffectiveness in the distribution. Sometimes the zakah institutions fail to reach those needy people due to lack of information or worse due to absence of creative distribution management. Single entity of zakah in each state causes no competition at all. It might imply serious problem in managing zakah funds. Another potential problem is on how to deal with cross-state collection and distribution. Centralising zakah institution at state level might also be viewed as decentralising at federal level. This unique features of Malaysian experience might be redesigned to accomplished more effective and efficient zakat management to deal with the poor and the needy people and also other groups of people eligibly deserving zakah recipients.

Based on this discussion, it seems instructive to think of a more centralising zakah institutions in Moslem countries. Some strategic factors can be the reasons. To have the effective impact of zakah in dealing with poverty alleviation, zakah should be managed in a way that it can play or support the fiscal policy at national level. To this end it must have a good coordination between zakah institution and national fiscal policy maker, especially with respect to zakah distribution to the poor and the needy people. Similar coordination is also needed in enhancing the collection of zakah funds as the information of tax payers is very well documented under tax office. It might help the zakah institution to identify the potential zakah collection more effectively. Reducing the poverty level is also strategic to push away the social ill such as lowering rates of crime. The welfare of the poor and the needy will be enhanced by increasing their marginal propensity to consume through zakah instrument.

6. Conclusions

From the development perspective of zakah collection, the establishment of Zakah Collection makes a significant increase on the amount of zakah collection. This institution has been approved to get international quality recognition through ISO. In the case of efficiency of zakah administration, the percentage of zakah administration to total collection is quite high compare to the percentage of administrative cost to total tax collection conducted in selected countries.

The important aspect of good management implies the achievement of maximum benefits with the minimum cost of administration. To reduce administrative cost, some possible alternatives can be considered. For example, instead of recruiting highly educated persons from outside, the qualified persons living in the areas from where zakah has been collected should be employed. This helps to avoid unnecessary cost involved in arranging the transport and residential facilities. The second option is to employ part-time workers or to get some part-time volunteers as being practiced in Pakistan.

To achieve the strategic impact of zakah, centralizing zakah management seems to be the only policy option. By having it centralised, coordination between national zakah institution and the fiscal policy maker might be implemented more easily. The zakah concept can also be incorporated into fiscal policy formulated by government. Finally, by having a good and effective management of zakah it is expected that the conversion of zakah recipients into zakah payers can take place to indicate that the welfare improvement of the under-privileged segment is guaranteed.

REFERENCES

Abdul Fattah Mohammad Farrah. (2004). 'Zakah investment as Fiscal Tool' **International Seminar on Macroeconomics from Islamic Perspective: Theory and Contemporary Issue.** International Islamic University Malaysia (IIUM) and Islamic Research and Training Institute (IRTI), Jeddah, Renaissance Hotel, Kuala Lumpur, September 22-24.

Hafidhuddin, Didin. (2009). 'Potensi Pengumpulan Zakat Capai Rp19 Triliun'. ANTARA News Agency Monday, 2 March 2009 16:42 Western Indonesiaan Time.

Hannan, Shah Abdul. (1998). 'Zakah and The Tax System' in Hannan, et.al **Zakah and Poverty Alleviation**, Islamic Economics Research Bureau, Dhaka, Bangladesh.

Islam, M.M. and Sarker M.A. (1998). 'Collection and Utilization of Zakah: The Experience of Pakistan', in Hannan, et.al **Zakah and Poverty Alleviation**, Islamic Economics Research Bureau, Dhaka, Bangladesh.

Maududi, S. Abul A'la. (1984). '**Economic system of Islam**' Islamic Publication Limited, Shah Alam Market, Lahore.

Mandal, M.S. (1998). 'Sources and Uses of Zakah Fund', in Hannan, et.al **Zakah and Poverty Alleviation**, Islamic Economics Research Bureau, Dhaka, Bangladesh.

Mannan, M.A. (1998). 'Public Sector Management of Zakah', in Hannan, et.al **Zakah and Poverty Alleviation**, Islamic Economics Research Bureau, Dhaka, Bangladesh.

Mohd. Dahlan Abd Latif. (1998). 'Zakah Management and Administration in Malaysia: Collection and Disbursement', Seminar on Zakah and Taxation: Accounting and Management Integration Towards the Next Millenium, IIUM, June 8-9.

Mohd Rais Haji Alias. (2004). 'Efficient Zakah Collection System', Seminar on Non-Bank Financial Institutions: Islamic Alternative', Islamic Research and Training Institute of IDB Jeddah, and Islamic Banking and Finance Institute Malaysia. Renaissance Hotel, Kuala Lumpur, March 1-3.

Pusat Pungutan Zakah, Majelis Agama Islam ilayah Persekutuan Kuala Lumpur, **Laporan Zakah**, Tahun 1999-2003.

Sanep Ahmad and Hairunnizam Wahid. (2004). 'Persepsi dan Kesedaran terhadap Perluasan Sumber Zakah yang Diiktilaf', **Prosiding Seminar Halatuju Zakah Korporat di Alaf Baru**, Kumpulan Kajian Zakah Universiti Kebangsaan Malaysia.

Salim, Arskal. (2006). 'The Influential Legacy of Dutch Policy on the Formation of Zaskar (Alms) Law in Modern Indonesia', *Pacific Rim Law & Policy Journal*, Vol. 15, No. 3, pp. 683-701.

Sanep Ahmad, Hairunnizam Wahid, Adnan Mohamad. (2005). 'Penswastaan Institusi Zakah dan Kesannya terhadap Pembayaran Secara Formal di Malaysia', **Prosiding Seminar Ekonomi dan Kewangan Islam (SEKI '05): Pengukuhan dan Transformasi Ekonomi dan Kewangan Islam**', Jabatan Ekonomi Awam dan Kewangan, Fakulti Ekonomi, Universiti Utara Malaysia, Ogos 29-30.

Shirazi, N.S. (2003). 'Distributive Effects of Zakah in Pakistan: Some Empirical Evidence' **KENMS Occasional Paper**, No. 1, IIU Malaysia.

Siddiqi, S.A. (1968). **Public Finance in Islam**, S.H. Muhammad Ashraf, Lahore, Pakistan.

Syeikh Ahmed Abdulhamid Mayat. **Some Socio-Economic Aspects of Zakah**.

Wahid, Hairunnizam, Sanep Ahmad, and Mohd Ali Mohd Noor. (2004). 'Kesan Bantuan Zakah terhadap Kualiti Hidup Asnaf Fakir dan Miskin', **Proceedings National Seminar in Islamic Banking and Finance (iBAF)**, Kolej Universiti Islam Malaysia, March 2-3.

Wahid, Hairunnizam, Sanep Ahmad, and Mohd Ali Mohd Noor. (2005). 'Kesedaran Membayar Zakah Pendapatan di Malaysia', **Prosiding Seminar Ekonomi dan Kewangan Islam (SEKI '05): Pengukuhan dan Transformasi Ekonomi dan Kewangan Islam**', Jabatan Ekonomi Awam dan Kewangan, Fakulti Ekonomi, Universiti Utara Malaysia, Ogos 29-30.

World Bank, (2004). **Tax Administration in OECD Countries: Comparative Information Series**, Centre for Tax Policy and Administration.

Zafree, M.K. and Amin, M.H. (1998). 'Administering Zakah: State of the Art and Looking Beyond', in Hannan, et.al **Zakah and Poverty Alleviation**, Islamic Economics Research Bureau, Dhaka, Bangladesh.

Zayas, Farista G. (2003). **The Law and Institution of Zakah**, The Other Press, Kuala Lumpur.

www.dompetdhu'afa.or.id

www.baznaz.or.id

www.pkpu.or.id

www.rumahzakat.org

ZAKAT MANAGEMENT IN BRUNEI DARUSSALAM: A CASE STUDY

Rose binti Abdullah
INSTITUTE TECHNOLOGY OF BRUNEI – UNIVERSITY
rose.karim@itb.edu.bn

ZAKAT MANAGEMENT IN BRUNEI DARUSSALAM: A CASE STUDY

Rose binti Abdullah

ABSTRACT

The zakat institution is very important elements in Islamic socio-economics. This paper will study the zakat institution in Brunei Darussalam in general and focus on the usage of zakat fund to finance economic activities or projects run by the poor and needy as a long term rehabilitation programme. This is in line with the Government of Brunei Darussalam's objective to achieve zero poverty by year 2035. It studies about the needs of the recipients, their motivational factors and factors lead to success or failure of the projects.

The increasing number of zakat recipients and accumulated applications for zakat assistance, large amount of accumulated zakat collections and the small number of capital assistance recipients are among the evidences that the zakat management in Brunei Darussalam needs improvement. The agency which manages the zakat fund needs to be empowered to be able to not only handle the large numbers of applicants but also to reach out to those who really need help in the society. Empowerment needed in the organizational structure, establishing better cooperation and coordination with other agencies and organizations, more trained and experienced staff, involving volunteers, non government organisations and other government or private organizations, implementation of computerise system, and publicity and awareness creation activities.

The accumulated amount of zakat collections should not be kept if the asnaf are still exist in the society. However, MUIB has to make sure the receivers are really eligible persons according to the Shariah. It is the duty of MUIB to ensure that every zakat dollar is well-spent. The capital assistance from the zakat fund is fulfilling the purpose of zakat fund disbursement. However, there is evidence that the recipients of the capital assistance scheme had not been monitored properly after receiving the assistance. As a result, this study found that there was more failure than success cases of recipients' projects.

It is recommended that a special unit or division be formed to manage and look after this very important programme. It is also recommended that benevolent loans from the zakat fund be provided to those who are eligible to receive zakat assistance.

1.0 INTRODUCTION

The objectives of this study are to examine the system of *zakat* management in Brunei Darussalam and to study the needs and progress of the poor and needy after receiving

financial help. It also studies the factors that lead to either the success or the failure of the micro businesses of the recipients of the capital aid from the *zakat* fund.

The data collected were secondary and primary data. Primary data was obtained through personal interviews with *zakat* recipients who received business capital from 2001 until 2005. The respondents are from the Brunei/Muara District only. The Brunei Muara District was selected because it has the highest population density and the highest number of *zakat* recipients among the four districts in Brunei Darussalam.

The samples were selected on the basis of convenience, that is, only those who could be contacted and interviewed during the survey were selected as respondents. This method of selecting respondents was utilised due to difficulties in contacting the respondents as most of them do not have telephones. The researcher also had to make multiple visits to the respondents as some of them were not available during the initial visits.

There are forty seven (47) *zakat* recipients for business capital (from 2001 until 2008) in the list of the Islamic Religious Council of Brunei Darussalam. Only thirty one (31) out of forty seven (47) of the recipients' addresses managed to be traced due to the lack of staff at the Council and time constraints in searching for the required files. Among the thirty one recipients, twenty six (26) are from the Brunei Muara District, four of them had moved and the new addresses were not known and another one had passed away.

A study which covers general zakat recipients in a bigger sample size and covers all districts is a potential research. This may enable an insight into the potential entrepreneurs among the *zakat* recipients and the attitude of *zakat* recipients in getting out of poverty by running small businesses through the capital aid of the *zakat* fund. The detail information is needed to help the government in preparing a comprehensive long-term rehabilitation program for the poor and needy in Brunei Darussalam.

2.0 LITERATURE RIVIEW

The literature review showed that throughout the history of Islam, governments played an important role in implementing the z*akat* management. When the *zakat* is managed properly and in the right way according to the *Shariah* it can alleviate poverty. Many researchers are now investigating *zakat* disbursement for long term rehabilitation programmes. *Zakat* funds are distributed in the form of business capital to the poor and needy in order to generate economic activities that can help them to earn some income.

Neither the Qur'an nor the *ahadith* of the Prophet (peace be upon him) specified how to distribute the *zakat* amongst the eight groups and about the portion of the *zakat* received by each group (Al-Abdin, 2002). Al-Shafi'i is of opinion that *zakat* should be distributed to all the eight categories if they exist, otherwise to those who are available of them. Some of the Hambalites agreed with the Shafi'i point of view but Malik and Abu Hanifah said it is not necessary to cover all groups. Abu Ubayd narrated an opinion of Ibn Abbas which says that *zakat* can be given even to one group of the eight (ibid).

Shahatah, Shawki Ismail (2000) quoted Abu Ubaid (in al-Amwal) to be said that the Prophet (peace be upon him) initially mentioned only one category to receive *zakat* in his hadith: *"The zakat is to be collected from the rich and paid back to the poor"*

However, when the Prophet received more money/wealth, he mentioned another category that was "*those whose hearts are to be reconciled*". Further, when more and more money received, he added another category that was "*those who are in debt*".

Following this discussion, Abu Ubaid stressed that the distribution of the *zakat* fund is to be left to the discretion of the ruler to manage it.

Al-Qardawi (2005) is of the opinion that the funds of *zakat* should be distributed to all eight *asnaf* if the funds are in abundance and the degree of their needs is similar. The share of each one should not necessarily be equal but should be according to their number in society and conditions of need. Al Qardawi mentions that Imam Abu Ubayd held a similar view. He urged that since equality of dividends is not necessary, the biggest share should go to the poor because it is clear that the emphasis of the Qur'an and the traditions of the Prophet (peace be upon him) are in favour of the poor[1]. Al Qardawi also quoted that Ibn Shihab al-Zuhri advocated the same when he said "The most deserving of them (to be given *zakat*) is the greatest in number and the most in need". The aim of *zakat* according to Muhammad b. Hassan al-Shaybani, the famous Hanafi jurist, is to satisfy the needs of the poor and his family. If the fund of the *zakat* is not enough, the Imam should take from other sources of treasury to satisfy them.

As most scholars are of the opinion that preference should be given to the poor in distributing the *zakat* fund rather than covering all the deserving categories, it is found that most countries give a greater percentage of the *zakat* fund to the genuine poor group of people. For example, Al-Abdin (2002) mentioned that the Pakistani *zakat* law gives 90 percent of the collected fund to the poor and the government pays the salaries of the employees from its own resources. The Sudanese *zakat* law adopts the view that *zakat* should be distributed to all the eight groups but the *zakat* administrator's organisation has decided to give priority to the poor and needy by giving 50 percent of the whole revenue to the poor and needy. In Kuwait, more than 85 percent of the *zakat* fund is distributed to the poor and needy.

The earlier scholars were in favour of direct payments to the recipients. However, many cases have shown that direct payments dampen the incentive to work and end up adding to the army of beggars (Akhtar, 2002). Although the contemporary scholars allow direct payments, they recommend that utilization of payment be undertaken through projects owned by the recipients (ibid).

Therefore, many Muslim countries have adopted an approach of combining a long-term rehabilitation to enable the poor to possess a source of continuous income in addition to an immediate but limited amount (Al-Abdin, 2002). For example, The Central Zakat

[1] Abu Ubayd, as cited in Al Qardawi, 2005

Council of Pakistan has provided that not less than 45% of *zakat* fund should be given to poor families as a permanent rehabilitation grant while another 45% should be given as a monthly subsistence allowance to poor persons. Similarly, in Sudan, 65% of the *zakat* fund is distributed as direct transfer payment to the poor and the remaining 35% is distributed for purchasing means of production, to be transferred to needy families. This practice is similarly adopted by the Zakat House in Kuwait and the Nasir Bank in Egypt.

A popular *hadith* of Prophet Muhammad (peace be upon him) regarding the way he provided a solution to a beggar was narrated by Anas Ibn Malik. "A man of the Ansar came to the Prophet (peace be upon him) and begged from him. He (the Prophet) asked: Have you nothing in your house? He replied: Yes, a piece of cloth, a part of which we wear and a part of which we spread (on the ground), and a wooden bowl from which we drink water. He said: Bring them to me. He then brought these articles to him and he (the prophet) took them in his hands and asked: who will buy these? A man said: I shall buy them for one dirham. He said twice or thrice: Who will offer more than one dirham? A man said: I shall buy them for two dirham. He gave these to him and took the two dirham and giving them to the Ansari, he said: Buy food with one of them and hand it to your family, and buy an axe and bring it to me. Then he brought it to him. The Apostle of Allah (peace be upon him) fixed a handle on it with his own hands and said: Go, gather firewood and sell it, and do not let me see you for a fortnight. The man went away and gathered firewood and sold it. When he had earned ten dirham, he came to him and bought a garment with some of them and food with the others. The Apostle of Allah (peace be upon him) then said: This is better for you than that begging should come as a spot on your face on the Day of Judgment. Begging is right only for three people: one who is in grinding poverty, one who is seriously in debt, or one who is responsible for compensation and finds it difficult to pay[2].

Evidences found in the report on SME in Brunei Darussalam (Rafiqul Islam, at el, 2002) that SMEs face difficulties in terms of both availability and access to finance. This was due to difficulties in meeting the requirement of the financial institutions in rendering the loan such as collaterals and guarantor. The difficulties are more for the poor and needy who are not having asset to be used as collateral in order to get the loan. The current banking system is not in favour of helping the poor and needy without security or collateral in paying back the loan. The current banking system is set-up to support the capitalist system which is more on protecting the depositors and shareholders' money. Therefore, *zakat* fund should play important role in providing the capital for them either as *zakat* disbursement or as benevolent loan.

The Shariah ruling regarding the use of *zakat* fund for benevolent loan can be referred to the discussion took place in Egypt in 1950 in answering the question by the government of Pakistan on this matter[3]. The answer was as follows:

[2] Sunan Abu Daud, *Book 9, Number 1637*
[3] Abu Zahrah, Mohamed, Liwaa Al-Islam magazine (Question No. 29) Issue No.11, Vol.IV, April, 1951, p 838 as cited in Shahatah, Shawki Ismail, (2000).

"If a debtor died and his heirs are not capable to repaying his debt, it is possible that the debt be repaid from zakat funds. To Malik, Al-Shafi' and Ahmad, the balance of the debt must be paid from his property of funds left his death. If the inheritance was sufficient, the debt is duly paid, otherwise, it becomes a bad debt. Under Islam, fair debts are to be paid back from zakat fund. In this matter, Islam has been by far the forerunner of all other faiths. It suffices to know that in some states the Roman Law had given the creditor the right to take the debtor as a slave. But the Law of Allah, the Subtle and Aware, ordains that the debt of an insolvent should be paid by the state on his behalf. In so doing, people are encouraged to do more acts of benevolence and chivalry and to grant more of riba free loans. Since the fair debts are paid back from zakat funds, loans may be granted from the zakat funds so that they may be repaid later".

3.0 ZAKAT MANAGEMENT IN BRUNEI DARUSSALAM

Poverty in Brunei Darussalam

In Brunei Darussalam, there is no extreme poverty but rather the problem is with relative poverty. Absolute or extreme poverty is defined as the inability to purchase the very basic of daily necessities. In Brunei Darussalam every member of the population has access to safe water supply. Services like health and education are provided free by the government. Welfare assistance is also given to various categories of the population in this country. However, relative poverty happens when a household earns less than 50 percent of the average income of the population[4]. It happens due to high living standard of Brunei Darussalam. Major factors that contribute to poverty are unemployment, low education, drug abuse, and divorce (Hjh Rose Abdullah, 2009).

The Responsible Agency and Authority on *Zakat* Management

In Brunei Darussalam, the management of *zakat* is governed by the Islamic Religious Council of Brunei Darussalam (MUIB), under the Ministry of Religious Affairs. MUIB is given the authority by the Laws of Brunei, 1/1984, Religious Council and *Kadi* Courts, Chapter 77, Section 114, to collect and distribute the *zakat* fund on behalf of His Majesty according to Shariah.

This role of managing the *zakat* fund is the responsibility of the Division of *Zakat* Collection and Disbursement under MUIB. This division has eighteen staff and is divided into four units namely the Administration Unit, Collection Unit, Application and Disbursement Unit and Meeting Secretariat. The Application and Disbursement Unit involves in the process of receiving the applications, investigating the applicants and in making the necessary recommendation for submission to the higher committee for their approval and subsequent the disbursement of the *zakat* fund.

It is important to note that the Application and Disbursement Unit has limitations in processing the applications. The staffs are multi tasking, doing several jobs at a time (Hjh Mahani Hj Musa, 2007). The shortage of staff has resulted in the accumulation of more than one thousand applications (since 2006 until 2008) yet to be processed (as at

[4] Sobrina Rosli, 2008

January 2009). The findings from the interview showed that the staffs are not assigned to be responsible to specific area. This caused lack of sense of responsibility among the staff to make sure their clients are progressing as all the staffs are sharing the same clients and areas to be visited and investigated.

However, since February 2009, new initiative has been introduced to speed up the applications process. The tasks given to the staffs are reduced so that they will be more focus. However, the same procedures still applied. The staff commented that although they are speeding up the process, the new applications received about the same number with the number of applicants being visited.

During the period of this study, MUIB is in the process of implementing the computerized *zakat* collection system. The system will allow direct communication between *amil* (including banks) and MUIB's district offices with the main office. The use of the computerized *zakat* collection system will enable the involvement of wider range of the community, which is expected to be more secured and will provide improved monitoring mechanism. The use of the computerized system in processing the applications for *zakat* assistances is very crucial that it could speed up the processing time and can filter the multiple application forms from the same applicants either for the same assistance or for different kinds of assistance.

Eligible *Asnaf* to Receive *Zakat* in Brunei Darussalam

In Brunei Darussalam, there are six *asnaf* (categories of people who are eligible) to receive *zakat* assistances. These categories are:

- The poor: The poor are those who have no source of income or wealth or having income but cannot fulfill even half of his and his dependent family member's basic needs.
- The needy: The needy are those who have only little income or wealth which can only cover half or more but cannot fulfill all his and his dependent family member's basic needs.
  However, in the practice of distribution, the poor is not differentiated from the needy category. Both are given *zakat* based on what they have or earn per month and what is the different amount from what they entitle to get as minimum needs.

- *Amil:* The *Amil* are people who appointed to collect *zakat* on behalf of MUIB.

- *Muallaf:* The Mualaf are people who converted to Islam.

- *Al-gharimin:* The *Al-gharimin* group is normally those who have run into debt on building projects for the public such as the construction of mosques or schools. An issue on the definition of *Al-gharimin* was raised up by His Majesty recently to consider those who are in debt for basic necessities such as in debt for purchasing government houses[5].

[5] The Brunei Times, 15 January 2009

- *Ibn al-Sabil* (the wayfarer): People who are travelling for purpose not against Shari'ah and in need of help due to not enough money available at that time.

There are another two *asnaf* mentioned in the al-Qur'an; the slaves and those who struggle in the cause of Allah. According to the *Mufti's fatwa* (reference number: 14 MKB 3/1969, dated on 1st September 1970), these groups do not exist in Brunei Darussalam. However, a Think Tank Committee to review the position of the two *asnaf* has been formed under the Ministry of Islamic Religious Affairs in 2005.

Types of *Zakat* Assistances

Assistances provided specifically for people living in poverty are fundamental needs such as basic food necessities, education and accommodation (rental, repair and construction), medical assistance, higher education institution's fees, disaster relief and assistance to others who are entitled to *asnaf zakat*.

The guidelines applied by MUIB for the poor and needy are as follows:

Monthly basic needs:

i. $200.00 for the head of family
ii. $100.00 for the wife
iii. $65.00 per head of family members (for food)
iv. $60.00 per head (for children's school expenses)

Accordingly, the need of a family with five members (the husband, wife and three children who are still schooling) will be calculated as follows:

i. Husband		- $200.00
ii. Wife		- $100.00
iii. Food ($65.00 X 5)		- $325.00
iv. School ($60.00 X 3)		- $180.00
	Total	- $805.00

If the family's total earning is $500.00, this family is considered poor and can receive $305.00 from the *zakat* fund.

Annual assistance:

i. The head of family	- $1,300
ii. Dependent family's member	- $ 380.00 per head

Since 2005, this annual assistance is no longer given in lump-sum amount but divided into 12 month. This is due to many reported cases where the *zakat* recipients spent the money unwisely for unnecessary things or expenses.

Accommodation for the poor, needy and *muallaf*:

Zakat fund is also being used to help those without houses. They will be provided with rental payments of not more than $500.00 per month including electricity and

water bills. If the *zakat* recipients have a piece of land, a suitable house could be built for them. Other aids given are in the form of repairing their houses or providing the materials and equipment required to improve their housing conditions.

This type of assistance is very important for the *muallaf* (converts) as if their decision to convert is not accepted by their family, they need accommodation for protection.

Education:

Assistance is also provided in the form of payments for education fees, stationery, text books and transport to the school. This is in addition to the sum of $60.00 per head for the children's monthly school expenses.

Capital for business:

The capital aid for businesses are provided in the form of machine and equipment such as a fishing boat complete with the fishing equipment, taxi boat and engine, sewing machine, equipment and materials for cultivation, equipment for food processing, inventory and other equipment needed for businesses.

Emergency relief (for victims of fire, natural disaster etc.)

Emergency relief is provided for victims of fire and natural disasters such as strong winds, floods and landslides in the form of cash of $200.00 per head in addition to school uniforms, stationery, books and others necessities.

Health:

The assistance on health expenses covers health services fees. For those who requires overseas medical attention, air tickets for the patient and the accompanier, accommodation, transportation and pocket money of $30.00 per person per day are provided to finance the duration of their stay abroad.

The same guideline is being used by Welfare Department. The only difference is that the rate for the wife is BND$200.00 under JAPEM and only BND$100.00 under MUIB. It seems that this rate has been used since 1998. Given the inflation on the price of food, the rate of monetary assistance should be urgently increased to help the poor and needy in their everyday needs.

Collection of *Zakat*

There are two types of *zakat; zakat* on wealth and *zakat fitrah*. *Zakat* on wealth mentioned in the Laws of Brunei, 1/1984, Religious Council and Kadi Courts, Chapter 77. *Zakat* on wealth collected in Brunei Darussalam are *zakat* on savings, business, gold and silver. *Zakat* on paddy was introduced in 2008. The *zakat fitrah* is paid according to the market value of 2.268 kilograms of rice. In Brunei Darussalam, there are two types of rice normally consumed as staple food; fragrant rice and Siamese rice. For year 2008, the market value of the rice is equivalent in cash of $2.84 for fragrant rice and a $1.93 for Siamese rice.

Amils are selected individuals who can be imams, the members of the mosque committee, or those are known within the community such as army personnel, well known person in remote villages and those working in Islamic financial institutions. The payment of *zakat* can also be made directly to the Division of *Zakat* Collection and Disbursement, MUIB. The depositors of Brunei Islamic Trusted Fund (TAIB) and Brunei Darussalam Islamic Bank (BIBD) can pay their *zakat* through their financial institutions respectively.

The number of *zakat* payers on wealth increased drastically in 2002 to 3,454 persons as compared to the year 2001 was only 956 persons (Table 1). The amount collected also doubled during these periods. The number continued increasing gradually until 2005. The increase is due to the participation of the bank's depositors of the Islamic financial institutions in the country. However, the data for 2006 and 2007 showed a sharp decline in the number of payers and the amount collected.

The sharp decline in the number of payers and the amount collected was due to the postponement of *zakat* payment from two Islamic Financial institutions that are BIBD and TAIB. The changes in the administrative structure caused the *zakat* payment for 2006 and 2007 postponed until 2008[6] both for the banks' *zakat* and the depositors' *zakat*. The *zakat* payer from the two Islamic financial institutions for 2006 was 3824 (about BND$2.447 million), 2007 was 4241 (around BND$2.588 million), 4151 depositors (BND$2.918 million) in 2008[7]. The exclusion of the depositors from these banks caused a sharp depression in the number of *zakat* payers in those years.

The decrease in *zakat* collection also has some relation to the slow growth in the economy which affecting the profit of businesses. The lower the businesses' profit, the less would be the *zakat* being paid. For example the number of depositors of IBB who paid *zakat* in 2003 and 2004 was 37 persons increased to 55 persons but the amount paid was around BND$34,000 increased to around BND$39,000 only during the respective years.

Disbursement of *Zakat*

There is a drastic increase in the number of *zakat* recipients since 2004 (Table 3). The total number of *zakat* recipients for both monthly and annually assistances increased considerably from 3,347 persons to 13,298 persons in 2004. This drastic increase came from the number of dependent family member category which for example increased at about 300%, from 491 persons to 1,520 persons. Whilst for the annual assistance category, the head of family increase from 2,595 persons to 2,718 persons (4.7%) but the dependents increased from 50 persons to 8,645 persons (17,190%). This drastic increased was due to changes in the format of assessment. Before year 2004, priority of assistance (especially annual assistance) was given to the breadwinners and not all of the dependents were given the assistance. The policy has changed to include all the dependents as recipients. This change in policy made the number of recipients increased by about 10,000 recipients.

[6] Mohd Khairul Azrin, Shariah Officer, BIBD, 2009
[7] Mohd Khairul Azrin, Shariah Officer, BIBD and Awg Azlani, The Operation Officer of TAIB, 2009

The total amount of *zakat* distributed also increased in line with the number of *zakat* recipients (Table 4). A large percentage of the total *zakat* disbursement went to the poor and needy. For example, in 2006, a sum of BND$13.5 million (73% of total BND$16.4 million) was distributed to this group. *Zakat* recipients received the *zakat* cash disbursement through their bank's account. During 2008, a total of $11.6 million of *zakat funds were* distributed to about 16,000 people living in poverty throughout the country, consisting of 3,728 breadwinners and 12,258 of their dependents[8].

Since there is a reduction in the total collection of *zakat* in 2006 (Table 5), the total collection was lesser than the total disbursement. Total collection in 2006 was about BND$9.6 million while the disbursement was about BND$16.4 million. The figures in 2007 showed similar trend between the amount collected and disbursed.

Capital Assistances Programme under MUIB

Besides monthly and annual assistances, MUIB also gives assistance in the form of capital for business. This capital assistance is also handled by the Collection and Disbursement Division. There is no specific unit being formed under MUIB to take charge of this significant programme. Therefore, no proper monitoring and guidance programme were given to the recipients. Monitoring is only carried out as and when the need arises.

From 2001 until 2008, 47 persons received different forms of capital assistance (Table 6). 23 (49%) of them were given fishing boats and fishing equipment, 16 (34%) persons received capital for business, 4 (9%) were given boats to be used as taxi boats, 3 (6%) were given grass cutting machines and one person (2%) received assistance in the form of seeds, fertilizer and pesticide for agriculture.

The total amount of about $309,000 was disbursed under this program. This amount is very small compared to the potential of this approach in uplifting the poor and needy from poverty.

The Accumulated *Zakat* Fund and Investment

The accumulated *zakat* fund since 1956 until December 2007, is about BND$262 million.[9] The accumulated *zakat* fund is being invested at Islamic financial institutions like TAIB and BIBD. The profit income from this investment was around BND$6.5 million to BND$8.3 million each year from 2000 to 2007.[10]

His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam raised his concern over the state of *zakat* affairs in the country during the MUIB annual meeting in January 2009. He referred to the 2004 figure of accumulated zakat fund, in which the amount stood at $239.6 million. His Majesty is of the opinion that *zakat* is collected as a means to be distributed to the existing *asnaf*. He further expressed that if *zakat* was distributed in a more systematic way, problems such as "*the fear of (fund) depletion would not arise*"

[8] The Brunei Times, 26 Sept., 2008
[9] Islamic Religious Council, Brunei Darussalam
[10] Islamic Religious Council, Brunei Darussalam

as this will boost the public confidence to be more consistent in giving *zakat*[11]. It is implied here that public would be reluctant to pay *zakat* if they do not have the confidence that the *zakat* fund has been properly managed in terms of collection and disbursement.

In respond to this, MUIB has taken step to disburse about BND$90 million of the zakat fund by distributing it to more than 4,000 recipients in October 2009 and declare them free from poverty[12].

Special Committee

In 2005, a committee was created to consider ways of utilizing the accumulated *zakat* fund. This special committee is divided into three other committees namely;

- Think Tank Committee to review the two *asnaf* which are not considered available in Brunei Darussalam
- Think Tank Committee on poverty line and
- Working Committee to plan the assistance programmes for the poor and needy in the form of providing skills training and job opportunities to overcome poverty. This working committee is lead by Permanent Secretary of the Ministry of Islamic Religious Affairs. This Committee had come up with Empowerment Zakat Recipients Programme.

Empowerment of *Zakat* Recipients Program

The Empowerment *Zakat* Recipients Programme has been launched on 5th November 2007. The objective of the programme is to provide training for the poor and needy to get skills and have the opportunity to get jobs with the attachment employer or start their own business. They will be assisted to start the business and to get capital from the *zakat* funds. The program is organised in collaboration with the Youth Development Centre of Ministry of Culture, Youth and Sport.

The participants should be the poor and needy *asnaf* groupings and must be willing to develop and improve their standard of living. The training is a three month duration plus six month of work attachment. The participants are offered skills in using computer and office administration, baking cakes, pastry, cooking and catering, saloon and hair dressing, car repairing and welding and basic sewing and embroidery. Facilities provided are transportation, allowance for stationery, uniforms, training equipment, refreshment allowance and pocket money allowance. A sum of $1.1 million has been allocated for this program to cover a five year period commencing from 2008 to 2012[13].

The finding shown that the respond from the participants were not encouraging as only 18 participants registered out of 102 candidates being approached to joint this programme. It is noted that introductory programme to set the right mind-set is needed for them. These people are facing difficulty and hardships in life. They need to be exposed to the outside environment and led to see the opportunities.

[11] The Brunei Times and Borneo Bulletin, 14 January 2009
[12] Islamic Religious Council, Brunei Darussalam
[13] The Brunei Times, September 26, 2008

It is important to observe that this programme is separately from the capital assistance scheme handled by MUIB. A survey has been done with the participants of the capital assistance scheme and the findings are discussed next.

4.0 SURVEY AND DATA ANALYSIS

The survey is aiming to study the needs, the problems and progress of the poor and needy after receiving financial help. It also studies the factors that lead to either the success or the failure of the micro businesses of the recipients of the capital aid from the *zakat* fund.

The data collected were secondary and primary data. Primary data was obtained through personal interviews. The survey involved fifteen respondents who had received capital assistances in 2001 (60%), 2002 (20%), 2004 (7%) and 2005 (13%). The recipient in 2006 and the latest were not included in this survey as the shorter period of receiving assistance may not give significant result of assessment. Furthermore, there was only one recipient in 2006, no recipient in 2007 and one recipient in 2008. The respondents are from the Brunei/Muara District only as the Brunei Muara District has the highest population density and the highest number of *zakat* recipients in Brunei Darussalam, compared to other districts.

The interviews were conducted using structured and semi structured questionnaires; both close-ended and open-ended. The primary data gathered were analysed using EXCEL software due to small number of respondents.

The samples were selected on the basis of convenience, that is, only those who could be contacted and interviewed during the survey were selected as respondents. This method of selecting respondents was utilised due to difficulties in contacting the respondents as most of them do not have telephones. The researcher also had to make multiple visits to the respondents as some of them were not available during the initial visits.
There are forty seven (47) *zakat* recipients for business capital (from 2001 until 2008) in the list of the Islamic Religious Council of Brunei Darussalam. Only thirty one (31) out of forty seven (47) of the recipients' addresses managed to be traced due to the lack of staff at the Council and time constraints in searching for the required files. Out of the thirty one (31) recipients, twenty six (26) are from the Brunei Muara District. Four of these twenty six (26) recipients, had moved and the new addresses were not known and another one recipient had passed away. The study covers less than half of the total number (forty seven) of *zakat* recipients.

Demographic Information of the Respondents

The respondents consisted of 87% (13) males and 13% (2) females. Their ages ranged from 35 to 56 years old. More than 93% of the respondents were considered fit and healthy with only 7% having health problems. Only 13% of the respondents were not working due to poor health and cannot find suitable job. However, from the researcher's point of view, the one that claimed cannot find suitable jobs was probably due to the

dependency mindset, that is, to depend on assistance and donations from rich or high-ranking people. This conclusion was made based on the conversations during the interview where by the respondent mentioned that he was trying to elicit help from high-ranking government officers and from His Majesty himself. This conclusion was supported by the headman of the village where the respondent lives.

About 40% of the respondents had less than 5 dependents while nearly half (47%) had between 6 to 9 dependents. 13% had more than 10 dependents. The majority of the respondents were married before they received the assistance (87%), 6.6% were widowed while 6.6% were divorced. Both sets of single parents consisted exclusively of women who were unemployed.

The information on the respondents' educational level shows that 47% had a primary school education while 53% had a secondary school education. Out of the 47% of respondents who had a primary school education, only 13% had specific skills such as carpentry and making boats. The rest often had to resort to becoming fishermen or fish mongers due to lack of skills in other areas. The respondents who had a secondary school education had different reasons for being poor. At least 13% of them had form five education but they were not working. They needed assistance from the *zakat* fund after becoming single parents (widowed and divorced). The rest who had a secondary education up to form four were once employed but had lost their jobs due to a number of reasons including drug abuse, habitual job hopping and business downsizing. One respondent lost his business after bad reputation being alleged not paying loan and sued in the court although finally he was found not guilty.

The Current Status of the Respondents' Small Businesses Initiated with the *Zakat* Fund

More than half of the respondents (53%) had continued doing business but 47% had ceased their business operations. Several reasons were given to account for ceasing their business operations such as poor health, had obtained a job and had preferred to be a salaried worker. Two respondents (13%) had sold their fishing boats in order to settle their outstanding debts. Three respondents (20%) talked about insufficient cash capital for buying raw materials for various enterprises such as cake making and maintaining costs of fishing boat engines.

Those who were given the fishing boat, equipment and engines mentioned that these assistances did help them to earn enough for their family's daily needs but the amount earned was insufficient for maintenance costs which were often very high what more to buy new equipment or engines.

For those who are staying on land, some of them were having problem to get suitable transport for towing their boats. Most of them had old and unreliable cars and could not afford to buy newer second-hand cars. Often they had to sell their boats and equipment and practice fishing by following their friends or relatives to sea and sharing the catch.

Recipients Still Receiving Assistance

About 67% of the respondents admitted that they are still receiving assistance either from MUIB or the Welfare Department or from both of these agencies. 33% did not receive any assistance anymore. This was due to a number of reasons including businesses deemed as successful (6.6%) and adult children grown-up and no longer dependent (6.6%). Another 20% had never received any monthly assistance once given the capital assistance although they still need it.

The Main Problems Faced by the Respondents in Running their Businesses

The majority of those who are still running their small businesses either on a full-time or part-time basis, are facing difficulties. Some of the difficulties are as follows:

- Insufficient Cash for Stock of Materials: The boat maker has not enough cash to buy the stock of materials and could not make boat prior to any order. The materials especially suitable quality woods for making boat are limited in supply and the buyers have to pay a deposit to ensure that they get the materials they need. Without cash in hand, this respondent has to depend on the deposit from his client to buy the materials. He can only do business with clients who can wait and do not need the boats urgently.
- Declining Market Size: The taxi boat business is facing a declining market as the population at the Water Village is declining. The respondent concerned could not take the opportunity to taxi tourists as this will require things such as insurance for the clients, complete safety equipment etc. These requirements make it difficult for small taxi boat entrepreneurs to participate in this niche market.
- Insufficient Cash Capital: A respondent received assistance in the form of equipment for making cakes and pastries. The problem faced by this family is insufficient cash to buy raw materials. The initial cash capital of BND$200.00 ran out after some period of time. The only way to continue his business is by taking a deposit from his clients to buy the materials or just take a service charge for baking cakes and pastries.
- No Saving for Replacing the Old Machine: A fisherman is now using a friend's engine boat when his old one broke down and he had no money to buy a new one. He could not go far out to sea with his friend's boat so the income he gets from catching fish and small prawns is barely sufficient for his daily needs. He is reluctant to get a loan from the private sector as the interest is very high.
- Consultancy Services: About 93.4% of the respondents informed the researcher that they had never been given any consultancy, guide or advice in any form after receiving the assistance. Only 6.6% had some form of advice and guide from the Agricultural Department when they bought seeds, fertilizers and pesticides at subsidised prices. The officers at the MUIB admitted that there was no consultancy or specific monitoring program provided to the recipients due to the lack of skilled manpower among the staff.

The Needs of Respondents on Capital Assistance

This study looked at the respondents' needs in order to restart their businesses that had ceased operations or to expand their existing businesses. At least 67% of the respondents mentioned that money is the main obstacle they faced currently. The other 33%

respondents talked about the need for labour quotas for foreign workers to work full-time, licenses for selling vegetables and a market channel for the products produced by single parents collectively.

This case study further investigated the respondents' reactions to the use of loan facilities if it was made available to them. The results showed that 40% of the respondents firmly stated that they prefer not to commit themselves to any loan. The main reason given was that they are afraid of not being able to repay their loans as some already had existing debt commitments. However, they hoped that they will be given another form of assistance, similar to the previous one they had received.

However, 13% of the respondents said that they would not mind a loan if it was an interest-free loan or a benevolent loan. They will also have to consider other terms and conditions of the loans such as repayment rate, period of repayment, necessity of a guarantor etc. The remaining 47% of the respondents stated a preference for a loan.

The Success and Failure Factors of the Recipients' Businesses

Failure cases factors

- Negative Cash Flow Due to Insufficient Capital for Raw Materials: The recipients were given assistance in the form of capital goods and equipment. They were not given cash to avoid abuse of the fund. However, the funds afforded by MUIB were inadequate to meet the financial needs of the recipients' businesses. Due to insufficient capital for buying materials, the poor and needy who received this form of assistance often faced problems maintaining their businesses. A sufficient cash flow is very important for the survival and success of a small business. The small amount of cash capital received can easily run out especially for the poor and needy who often get just enough for their daily needs only.

- No Skill and Experience: A case was found that the respondent was recommended a not suitable business. A respondent who had no skill and experience in going out to sea was given a boat, engine and equipments for fishing with advice from MUIB officer. However, this could be an isolated case because 93% of the respondents were given capital assistance according to their skills and experience. However, it is important to note that there is a respondent who mentioned that he was given a big boat and engine instead of the smaller one that he had requested. This created a problem as his old car could not tow the big boat and he could not do any fishing at a narrow part of the river which he aimed to do.

- The Assistance Given Only Once: Another respondent was given equipment and materials for making cakes and 'Malay kueh'. The materials were destroyed due to floods just a few days after receiving them. Yet another respondent ceased to do business because he did not get approval from the authority concerned. By looking at his house, the hygiene matter could be one possible reason why he could not get permission to sell processed food anymore. The respondent

switched to being a fish monger by using an old car sells fish to workers at construction sites.

- Other Debt: Another factor was other loan burden. About 13% or two of the respondents mentioned that they had to sell their boats and engines to settle their debts. The burden from old debts forced them to sell the capital assistance given and in the process, losing the trust from the agency concerned.

- Dependency Attitude: On the other hand, there is one extreme case. One of the respondents who sold his boat and engine just within one month he received it. The reason given for selling the boat was that he was under pressure to settle his debt. Prior to the visit to this respondent, the researcher got information from the village headman that this recipient always trying to borrow money from anyone he could but never make effort to pay back the loan. In the interview with this respondent, he mentioned that he was trying to elicit help from high-ranking government officers. He kept on saying that he needs a lot of money to start business in big scale as a small scale will not be economical. He did manage to get some donation from high-ranking government officers but not enough for starting the big project he wanted to do. Although he applied the capital assistance for taxi boat business but actually he himself was saying that this business has limited market as number of water village population is getting smaller. He is still receiving monthly assistance from MUIB and JAPEM. The researcher concluded that this respondent's attitude is to depend on assistance and donations.

  However, this one extreme case should not over shadow the other respondents' cases.

Success case factors

- Persistent and Opportunity: Only one out of fifteen respondents can be deemed as a successful entrepreneur. The tailoring shop business which started in 2005 had expanded which resulted in the owner opening another branch in 2008. A divorced single mother had received monthly *zakat* assistance for about seven years to raise her four children. She has a better academic qualification than the other respondents (up to form five education). Besides better academic qualifications, she has other distinctive characteristics which differentiated her from the other respondents. She is the only divorcee case in this survey, has tailoring skills and she is used to being independent as she grew up in a big family of twelve siblings. She does not like to work for others but prefers to run her own small business.

  She got the opportunity to open a small tailoring shop with a foreign partner. She applied for capital assistance from MUIB and was willing to stop receiving the monthly assistance. However, it was not easy for her to convince the MUIB officers about her seriousness and ability to run a business. She had to prove it by starting the business with BND$600.00 to pay the rental deposit for the premise,

two old sewing machines, a table made from unused wood, old chairs and a little stock of materials required for tailoring work. After she started this small business, only then did she gain the trust from the MUIB officers. She was then given three brand new sewing machines. Without cash to buy materials and paying a deposit to hire foreign workers, she had to continue her business slowly. Her hard work and determination to achieve a higher standard of living and a desire not to receive anymore assistance enabled her to open another branch and three foreign workers after three years.

5.0 CONCLUSION

Several agencies are, at the moment, providing assistance to the destitute people such as The Community Development Department (JAPEM), The Sultan Haji Hassanal Bolkiah Foundation (YSHHB), DANA Pengiran Muda Mahkota al-Muhtadee Billah and Brunei Islamic Religious Council (MUIB). However, all the various kinds of assistance by different agencies need to be coordinated because there are some duplications of the types of assistances given as some are given to the same group of people. For example, some recipients received monthly basic needs assistances from MUIB and received children school's assistance from JAPEM. It happens when the recipients found that the assistance they received was not enough and they find out that they can get other kinds of assistance from other agencies. It will be more efficient if the recipients can get all the assistances from the same agency in terms of administration costs, focus of services, reduce the number of applicants to each agencies and so on.
The current agency which manages the *zakat* fund needs to be empowered to be able to not only handle the large numbers of applicants but also to reach out to those who really need help in the society. MUIB needs to be improved in terms of structure and establishing better cooperation and coordination with other agencies and organizations. MUIB has a limited number of staff and the staff needs suitable training to enable them to render the best services. The lack of experienced staff can be circumnavigated by involving volunteers, non government organisations and other government or private organizations.

The current system of processing applications will not be in the position to handle increasing numbers of applications in addition to processing existing accumulated applications since 2007. There is evidence that a computer system needs to be implemented as soon as possible. It also seems that MUIB has to improve its publicity and awareness creation activities to educate the public about *zakat* and who are actually eligible to receive *zakat*. This will prevent ineligible people from applying which accounts for the large number of applications received by MUIB. Insufficient assistance and delays in processing applications are other factors which have caused the number of applications to increase as the same applicants are reapplying for the *zakat* fund assistance.

The accumulated amount of *zakat* collections need to be addressed urgently and properly, according to the Shariah. However, MUIB has to make sure the receivers are really

eligible persons according to the Shariah and to ensure that every *zakat* dollar is well-spent. It should be used to help to improve the living standard of *zakat* recipients so that in the long run they can be self-reliant.

The capital assistance from the *zakat* fund is a good scheme and in fact fulfills the purpose of *zakat* fund disbursement, as was taught by the Prophet (peace be upon him). The accumulated amount of *zakat* collection can be used for this purpose. Those who are fit to work but cannot find jobs should not just stay idle and continue to receive the monthly assistance. A proper system of establishing criteria must be observed in the selection of the participant. In addition, the committee needs to understand what the applicants' real needs.

Their task should not stop at the selection of the participants but should continue even after the financial assistance is given. The agency needs experienced and knowledgeable staff to provide consultancy services and financial management advises which is really important. Sufficient research and feasibility studies should be carried out to understand the projects proposed for the poor and needy and their needs. Similarly, it is also pertinent to understand the nature of the projects or the businesses suggested by the applicants so that the amount of capital given would be sufficient, the recipients' interest and needs would be understood well by the agency.

6.0 RECOMMENDATIONS

The findings of this research showed that the *zakat* management in Brunei Darussalam can be improved in some ways and MUIB should be empowered in order to fulfill their tasks.

Organisation/Management Structure

It is recommended that MUIB introduces some changes to the organizational structure by forming several divisions or units in addition to the existing structure such as follows:

- Research and Development Division – responsible to do research on all aspects of *zakat* in this country and find ways to improve the management. Alternatively, the agency can get the involvement of universities to do research on different aspects of *zakat*. It is also important to do feasibility studies on different kinds of businesses which are suggested to the recipients. This should include the most important part, the cash flow of the projects. Information on the cash flow and other aspects of the projects concerned will help MUIB in their decision making in approving the capital assistance, what are the requirements and on how much is sufficient for the poor and needy to start and survive in their income-generating activities.
- International and Public Relations Division – responsible to create public awareness on the responsibility to pay *zakat* and provide publicity on what the agency concerned are doing in order to gain the trust of public. It can be done through many activities such as *zakat* clinic, road show, seminars and conference,

exhibitions, publicity, and printed media such as pamphlets, brochures, books etc. At the international level, it is highly recommended that Brunei joins the international *zakat* body as this will help to strengthen the administration of *zakat* in this country by sharing the experience of other countries in combating the poverty problem.

- Capital Assistance and Monitoring Division – This division is to look after the use of *zakat* fund in assisting the poor and needy in the form of capital for small businesses so that the poor and needy can have their own economic activities to generate income. It is also important to monitor the progress of the capital recipients, provide trainings, guides and consultancies. Other responsibilities of this division may include providing information about business links, marketing, supply of materials and others.
- Data Base and Statistics Division – This division is to gather and compile data of *zakat* applicants and recipients in a significant manner and easy to be used for any purposes especially when information is needed to render the relevant services.
- HRM and Training Division – This division can be made to be responsible to arrange and organize training for the staff of MUIB, capital assistance recipients and the general *zakat* recipients. It also should be involved in the recruitment of suitable staff, social workers or volunteers.
- Outreach Division - To reach out to the deserving people that are usually hard to reach because of their humbleness and desire to avoid public attention despite needing help. It is necessary that the *zakat* committee members keep an eye out for those who may be in need but do not openly ask for help. This can be achieved by employing male and female social workers to do the task. This method has been practiced successfully by the Nasir Bank's management[14]. Alternatively, the outreach programme may involve the NGOs or volunteers under MUIB's coordination.

  It cannot be denied that some non-eligible people may take advantage and apply for help. Recently, MUIB received more than 5,000 applications for *zakat* assistance under *al-gharimin* category immediately after His Majesty's speech urged MUIB to consider the possibility of using *zakat* fund to help people who need to settle their debts on necessities such as government housing loans. The disbursement of *zakat* fund must be made very carefully because only those truly deserving people should be given *zakat*. In the literature review, those who are not eligible to receive *zakat* were defined and begging is forbidden except for three reasons as mentioned earlier. Therefore, it is necessary to go out and reach the deserving people.

Public Awareness

The recommended division of International and Public Relation will play an important role to create public awareness about the responsibility to pay *zakat*. One of the activities that can be created by this division is a z*akat* clinic to help people understand and pay their *zakat*. The *zakat* clinic would require individuals who are qualified, know the *fiqh*

[14] Kahf, Monzer, 2000, p. 39

of *zakat* and are well-versed in local financial matters to answer questions and help in calculating the *zakat*. A qualified Islamic scholar can train trustworthy persons who are familiar with local financial matters about *fiqh* of *zakat* to become '*zakat* counselors'. '*Zakat* councelors' will work to help people in matters relating to *zakat* such as calculating their *zakat* payment, giving information about *zakatable* items, the minimum *zakatable* amount (nisab), the *zakat* rate, who should pay *zakat* and etc. Both scholars and *zakat* counselors need to be present at the *zakat* clinic according to schedule.

The public needs to be educated about the role and importance of *zakat* in Islam. It must be explained in a simple and straightforward way. This could be done in a workshop format, so that participants can have a hands-on experience of calculating *zakat* by using examples of various situations in which *zakat* is due on a person. For those who are not ready to admit their ignorance of *zakat*, or not willing to share details of personal assets and expenses with *zakat* counselors, a forum for anonymous questions and answers about *zakat* can be provided. Alternatively, questions and answers could be asked to the scholars on a slip of paper to ensure anonymity of the questioner.

The other way of disseminating information about *zakat* is by selling books about *zakat* and software relating to *zakat* calculations. Free information can also be given out in the form of pamphlets, articles and general handouts.

Application Processing

There is evidence that the current processing procedure in approving the application for *zakat* was not able to cater for the increasing number of applications. It is recommended that the use of computerized systems be given top-priority and implemented as soon as possible. This is in line with the e-government initiatives. A computerized system will help make the processing procedures easier and faster. Duplicating applications can be traced easily and this will reduce the time of screening first-time applications. It can monitor the submission of multiple application forms from the same applicants either for the same assistance or for different kinds of assistance. It is also helpful in filtering the applications of husband and wife who submit their forms separately.

By using the computerized system, all *zakat* payments will be entered into the computer and computer-printed receipts will be issued. The system will compile, process all information and produce reports according to the user's instructions. All *zakat* distributions will also be recorded in the computer and payment vouchers will be issued in the form of computer print-outs. All information will be compiled and processed by the system which will enable reports to be produced at any time. This system will enable the Collection and Disbursement Section to supply the information to the Data Base and Statistic Division.

To understand the needs of the poor and the needy, the committee has to place themselves in the shoes of those who are seeking help and treat them with the respect and compassion that they deserve. In other words, there should be no lengthy bureaucratic processes. The process should be made as simple and as fast as possible.

Data Base

The use of a computerized system will help in collecting information for a database of the *zakat* recipients. There is a need to have a database of the *zakat* recipients as it can provide information about the right candidates for the capital assistance programmes. The information needed include educational qualification, physical fitness, skills, experience, interest in doing business, type of business preferred, location, vision, problems they have to pursue their business plans etc.

The database is also to collect information on the recipients' assistance needs such as capital, knowledge on business management, know-how skills, training, links and supports etc. The information on training can include the training need analysis, training recommendations and work or business placements for younger recipients.

The report about the educational progress of the recipients' children can also be compiled so that those who are capable of furthering their studies to a higher level can be given scholarships.

Besides information about recipients, this division also can provide information regarding payers, potential payers, estimation of *zakat* payment, report on the *zakat* payments; daily, weekly, monthly or annually and etc.

Package of Services

The assistances programmes should be a comprehensive and holistic package which includes training, consultancy, guidance and monitoring as well as to the extent of solving their personal problems like education, housing, debts and others.

Education

Education is an important means to help lower-income families break out of the poverty cycle. Involvement of volunteers in giving free tuition services to the poor and needy children whether in the urban or rural areas are very significant in helping them to progress in education. The children's success in education will help to uplift the standard of living of their family.

A different scholarship policy should be applied to the children of the poor and needy. Scholarships should not be given for top students only but also for the children of the poor and the needy who meet the requirements. Meeting the minimum requirements is sufficient to help them to pursue their education to a higher level. For this purpose, the *zakat* fund can be used to finance the education of the children of the poor and the needy.

Housing

Having a decent accommodation is also an important basic need. It is highly required by the poor and the needy as well as some *muallaf*, most of whom cannot afford to pay rent. Staying with relatives or parents with many families under one roof can create unhealthy social problems. Providing houses for the poor and needy is cheaper than paying rent in long term. For example, a rent of $500 per month will mean a total rent of $6,000 per

year. In ten years time, the total rental payment per family will be $60,000. This amount is more than the cost of building a low-cost house.

It is recommended that the government provide a low-cost housing scheme for the poor and the needy in this country. It may cost less than $50,000. For those who have land, the low-cost houses can be built on their land while for those who have no land; the low–cost houses can be built on state land.

Alternatively, the low-cost housing scheme can be built at specific areas provided for the poor and the needy. It is recommended that the area should be suitable for cultivation activities as well so that farming can be one of the income-generating activities. This idea may have its advantages and disadvantages. The advantages include easy management, easy to provide collective infrastructure, facilities, guide and training. Specific programmes for the poor and needy can be organized and the monitoring process will be easier. On the other hand, this suggestion also has some disadvantages which include the possibilities of social problems among the scheme participants, lack of sense of neighborhood due to different backgrounds of the participants etc. However, management will be easier in-terms of providing training programmes which can be offered within the same area and ability to gather the target group. There will be less transportation and communication costs.

Cooperation between MUIB, Mosque and Other Agencies

The implementation of computerized *zakat* systems will enable the involvement of non-government organizations (NGOs) in the collection and disbursement of *zakat* with supervision and coordination from MUIB. It is suggested that MUIB involve the other agencies, NGOs and volunteers in conducting activities such as reaching out to the poor and needy, training and consultancy, monitoring, and giving guidance to the poor and needy.

Both the government and private organizations can also be jointly involved in providing various training and coaching programmes. The examples of training institutions are vocational schools, youth development centres, technical schools, and incubation centres of primary resource centres. On the side of the private sector, successful local entrepreneurs can become mentors to the groups' projects. The established entrepreneurs can contribute in terms of information on sources or supplies of machines and equipment, raw materials, provide attachment training, links with other businesses etc.

It is important to note that the poor and the needy have different needs and capabilities compared to others in the community. Most of them could not fulfill the entry requirements of ordinary government training institutions which need higher qualifications. They need a simpler procedure to join the programmes. The training must be hands-on in nature, in order for them to gain skills.

Besides NGOs, the mosques can also be strategic partners who can leverage on their congregation and network of members to reach out to people who need help and refer them to relevant agencies, while providing friendship and support. The involvement of

mosques will make the poor and needy people close to the mosques and encourage them to practice the Islamic way of life. Mosques are natural hubs of the community. They are well-placed to play an active role in strengthening family and community life. Perhaps members of mosques could visit and get to know Muslim families living in their vicinity as a means of outreach.

Mosques can be used as centres for providing assistance and programmes for youths and family members of the poor and needy (from *zakat* fund). Educational programmes to inculcate understanding about Islam can be provided. Volunteers can be gathered to help with the implementation. Disbursement of funds through bank accounts can be implemented for safety reason because it has become a heavy responsibility for the person in-charge to carry large amounts of cash to distribute the *zakat* fund to the recipients. However, the information about application and approval of the assistances and the continuous guidance programmes can be done through the mosques as a condition for future help.

However, to involve the private sector in managing the *zakat* collection and disbursement needs legal support.

The Minimum Income Line

Calculation on house, electricity, water and transportation costs should be included in the monthly assistance. The current policy is providing $200 to the husband and $100 to the wife. $300 is for other expenses like house, electricity, water, transport, clothes etc. Those who have no houses were given assistance in the form of house rental payments. Those who have house but were still paying the monthly installment were not taken into consideration. Most of them are those who are staying at government housing schemes. The monthly payment is $150 per month. However, for those who have accumulated debts when they failed to meet the monthly payments, the rate will be more than $150. If the breadwinner uses the $300 for housing payments, he will have only $150 left for other needs.

It is recommended that all the basic needs expenses, including accommodation and transportation costs, be considered when determining the amount of *zakat* assistance.

***Zakat* to be Deducted from Tax**

Islamic scholars agree that governments can levy taxes to finance development projects. However, when taxes are collected together with *zakat*, the Muslim owners of companies have to pay both *zakat* and tax. In order to encourage the payment of *zakat*, the relevant law of Brunei Darussalam should allow that *zakat* payments be deducted from tax requirements, as practiced in Malaysia.

For example, according to the Shariah officer of BIBD, previously, when the rate of corporate tax was 30%, the 2.5% *zakat* was allowed to be deducted from this 30% tax. However, when the corporate tax was reduced to 27.5%, BIBD was required to pay both *zakat* and corporate tax separately. As a result, the Islamic banks and other companies are not getting the benefit of reduction in the corporate tax rate.

The payment of tax does not release one from the responsibility of paying *zakat* but it should be made possible for the *zakat* payment to be deducted from the tax payment.

Long term Rehabilitation through Capital Assistance

There are some issues that need attention regarding the capital assistance from the *zakat* fund. Recommendations will be given to cater to these issues such as selection of participants, group projects, sufficient capital, guidance and monitoring, recruitment of suitable workers, marketing, single mother and benevolent loan.

Selection of Participants

Selection of the right participants is crucial to ensure the success of the capital assistance programme in uplifting the poor and needy from poverty. A thorough investigation must be done to get information about the applicants' source of income and the working household's members. The applicants should be informed about the terms and conditions and the eligible criteria for the capital assistance. Village headmen and mosque committee members, who are authorised to make recommendations regarding the applications, must also be familiarized with the eligible criteria.

The participants must meet certain criteria such as:

- Fitness
- Has interest in specific area of activity and skill.
- Has high desire to uplift standard of living.
- Desires to be independent.
- Hard working and persistent attitude.
- Willing to learn and attending suitable training if required.

Besides visiting the applicants' homes, it is very important to conduct an oral interview when the application forms are received in order to ensure that correct information is given. Most of the poor and needy are illiterate. Oral interviews will help them to express their needs and problems more effectively.

Group's Project

It can be more effective if the projects are done in groups of about 3-5 members, depending on the type of businesses/projects. The group can share problems and experiences through the *shura* (consultation) concept. The courage to be persistent in running the business would be coming from the peer pressure, peer support, mentoring system, and support from the group leader. It will create a sense of belonging or *assabiyah*, which is essential for forming a strong group (Hj Mahmud Saedon Othman, 2004). The group normally will find members who can be trusted, having desires to develop themselves and persistence to achieve success.

A package of services and aids such as capital, management, business chains, financial management, technology know how, marketing, supplies of raw materials, business links, information, training, monitoring and other facilities will be easier and economical to render if the capital recipients undertake the project in groups. The project can be

monitored by officers, social workers or volunteers. The officer helps to identify potential businesses according to the participants' interest, skills, and location. For example, fisheries activities are for water villagers while agriculture is for those staying on land. Small businesses such as tailoring and food processing such as producing crackers can be undertaken by both water villagers and those on land. However, some recipients who are staying on land now may have originated from the water village before and may only have skills in fishing. They would normally prefer to go to sea to earn a living for their family. In such a case, the size of the fishing boat and engine provided must be suitable with the transport that they possess for towing the boat.

Sufficient Capital Assistance

There is a consensus of opinion among the capital recipients that the capital assistance provided did help them to earn some income for their family. However, some recipients were facing problems to pursue their small businesses even after receiving the capital assistance, due to insufficient working capital. A simple feasibility study which includes cash flow must also be conducted to know the sufficient amount of capital needed for the business. Capital assistance without sufficient working capital is like leaving the recipients with problems to be solved before being able to benefit from the capital assistance. This will cause the equipment to be idle and the recipient has to find ways to get money for working capital while struggling to support his family at the same time.

To avoid mismanagement of working capital, the assistance can be released stage by stage. The participants need to be guided and educated to manage their finance to ensure the survival of the project.

Guidance and Monitoring

One of the weaknesses of the current programme is that there is no guidance and monitoring provided after the poor and needy received the capital assistance. This was mentioned by the officers concerned that they do not have enough staffs that are knowledgeable and experienced to perform the tasks such as guiding their business management, helping in the process of getting all the legal requirements, monitoring the progress, giving motivation, training and consultancy. Such tasks must be done by competent and experienced professionals. The committee must be ready with feasibility studies on common projects suggested or applied by the *zakat* recipients such as fishing boat, tailoring, making traditional 'kueh' business, agriculture farm, and so on. Only viable projects should be given assistance.

It is also important to note that a counseling and motivational program should be provided to the poor families before starting the entrepreneurship programmes. The best target is the youth group. The young members of the families with low qualification will find difficulties in finding jobs and the poverty problem will continue to the next generation of the families. Therefore, it is very important to tackle the youth group of the recipients to be involved with suitable hands-on training from time to time in the form of workshop or work attachment.

Assistance in the form of a consultancy and a monitoring service are seen as vital factors to minimize the mismanagement of funds by the recipients. Consultancy and advice can be provided by experts from different government departments, especially those responsible for promoting small and medium enterprises.

Workers

It is pertinent to have a team of dedicated and motivated staff in collecting and distributing the *zakat* fund to the right people according to the Shariah. The staffs, workers or volunteers are going to supervise the recipients' projects regularly. They must be people who really understand the life and problems of the poor and the needy. It is recommended to have the following stages in recruiting the staffs:

- A thorough interview - This is to make sure only those who believe in social justice in Islam and those who feel that helping the poor and destitute people is near to their heart, be taken as social workers or staffs.
- After the interview, the candidates should undergo training to provide them with a theoretical understanding about the life of the poor and needy people.
- The candidates should undergo an attachment to the village or even stay with a poor and needy family for a certain period of time to learn and understand their life.
- The candidates come back to the head office and prepare a report on what they have learned and consider whether they still want to be the staff or social worker with MUIB.

For the existing staffs, motivational training may help to promote the staff's motivation. Other than training, the staff may also gain some knowledge and experiences by visiting other *zakat* institutions in other countries.

Marketing

A feedback from a respondent highlighted the need for business premises to sell their products and a marketing agency to make sure that their products reach the market. A marketing agency could take the form of a cooperative with members consisting of the poor and needy themselves, with help from government agencies. Successful local entrepreneurs can be invited to contribute, on a voluntary basis, to help with the marketing of this group's products. Establishing business networks is one of the recommendations. Cooperation and collaboration are required to achieve objectives that each may not be able to achieve independently. The alliances will reduce costs and risks, provide access to needed technology and distribution, and foster acceptance of new technology.

Competition among the small and medium enterprises is quite high due to the small size of the domestic market. The way forward is to explore export markets and this requires skills, experiences and exposures, export quality products and large quantity for exports. Guidance and coordination by the government agency concerned is highly needed for the poor and needy to participate in this challenging business world.

Single Mothers

Women, who become poor due to being divorced or widowed and who have to look after small children and cannot go out to work, need help in other ways. One way of helping them is by giving them opportunities to do home-based businesses like making cakes or biscuits or tailoring, or handicraft businesses if they have the skills. If they do not have the skills, training can be provided. Their products can be marketed through the marketing agency.

Using *Zakat* Fund for Benevolent Loan

It is recommended that the poor and needy that are able to work and willing to do businesses or economic activities to generate income may be given benevolent loans from the *zakat* fund. Those who are able to work or are currently working but do not earn enough to meet their family's needs are eligible to receive *zakat* in the form of direct transfer payments. However, giving him a chance to conduct a small business which can help increase his income and lift him from poverty is seen as more important and meets the purpose of the *zakat* itself.

It is important to note that the benevolent loan from the *zakat* fund is only for those who are eligible to receive the *zakat*. If the poor and needy are not able to repay the loans due to genuine economic problems, their loans can be considered as repaid by the *zakat* fund. A benevolent loan may also be for those who have received assistance before and need further capital assistance for the second time or to settle their other debts to avoid the possibility of selling the equipment given. Feedbacks from some respondents, who received fishing boats and equipment, showed that they were happy with the assistance given because they can earn enough to support the family but they could not afford to save money for buying a new one to replace the old one that could not be used anymore. As the policy of MUIB is not to give assistance for the second time, a benevolent loan from the *zakat* fund is highly recommended.

REFERENCES

Book and Seminar Papers

Al Abdin, Al-Tayib Zein, (2002), 'The Distribution of Zakat', *International Training Seminar On Zakah Management,* May 20-23, 2002, International Islamic University, Islamabad, Pakistan and Islamic Research and Training Institute (IDB), Pakistan.

Al Qardawi, Yusuf, *fiqh al zakah (volume i): a comparative study of zakah regulations and philosophy in the light of qur'an and sunnah,* Translated by Dr. Monzer Kahf, (2005), Scientific Publishing Centre, King Abdulaziz University, Jeddah, Kingdom of Saudi Arabia. The Malay translation – Al-Qardawi, Yusuf, (1988), *Hukum Zakat – Studi Komparatif Mengenai Status dan Filsafat Zakat Berdasarkan Qur'an dan Hadis*, translated by Salman Harun, Didin Hafidhuddin and Hassanuddin, Pusataka Nasional Pte. Ltd. Singapore.

Akhtar, M.Ramzan, (2002), 'Role of FinancingMicro Projects Through Zakat Funds In Developing Islamic Countries', *International Training Seminar on Zakah Management,* May 20-23, 2002, International Islamic University, Islamabad, Pakistan and Islamic Research and Training Institute (IDB), Pakistan.

Kahf, Monzer, (2000), *Zakah Management in Some Muslim Countries,* Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia.

Mahani Hj Musa, Hjh, (2007), *The Delay in Processing the Application For Obtaining the financial Aid from Zakat Fund – A Case Study*, Master's Thesis, Faculty of Business, Economic and Public Policy of University Brunei Darussalam.

Mahmud Saedon Othman, Hj., (2004), Characteristics of Islamic Management; Principles and Implementation, Civil Service Institute, Brunei Darussalam.

Rafiqul Islam, Hjh Rose Abdullah, Hjh Noor Maya Hj Mohd Salleh, (2001), *Report on Small and Medium Enterprises in Brunei Darussalam*, Institut Teknologi Brunei, Brunei Darussalam.

Rose Abdullah, Hjh, (2009), Zakat and Its Socio-economic Roles in Brunei Darussalam: A Case Study, Master's Thesis, Faculty of Business, Economic and Public Policy of University Brunei Darussalam.

Shahatah, Shawki Ismail, (2000 second edition), 'Limitions on the Use of Zakah Funds in Financing the Socio-Economic Intrastructureof Society', *Management of Zakah in Modern Muslim Society, seminar proceeding,* Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia, p 57.

Government of Brunei Darussalam's Publication

Brunei Statistical Year Book 2006*,* Department of economic Planning and Development, Brunei Darussalam.

Internet

Azlan Othman (2008, 5 March), Brunei targets zero poverty, Sultanate News, Retrieved 26 September, 2008 from http://www.sultanate.com/news_server/2008/5_mar_1.html.

Azaraimy HH, January 14, 2009, Sultan queries zakat distribution's balance, *Borneo Bulletin*, Retrieved 15/1/09 from http://www.brunei-online.com/bb/wed/jan14h1.htm

HM_Calls_for_Effective_Zakat_Distribution, (2009), *The Brunei Times,* Retrieved 15/1/09 from http://www.bt.com.bn/en/en/home_news/2009/01/14/

Sobrina Rosli, March 11, 2007, Councilmen take up housing issues, *The Brunei Times,* http://www.bt.com.bn/en/en/classification/news/home_news/2007/03/11/councilmen_take_up_housing_issues

Sunan Abu Daud, Book 9: Zakat, Number 1637: March 11, 2008, retrieved 11/12/08 from http://abudawudshareef.blogspot.com/2008/03/book-9-zakat-kitab-al-zakat.html

'*Zakat* Recipients Urged to Acquire Employment Skills', (2008), The Brunei Times, Retrieved 15 Dec 2008 from http://www.bt.com.bn/en/ home_news/2008/09/26 /zakat_recipients_urged_to_acquire_employment_skills

Appendix 1

Table 1: Collection of *zakat fitrah* and *zakat* on wealth from 2001 to 2007

Year	*Zakat Fitrah*		*Zakat* on Wealth		Total Zakat Amount (BND$'000)
	Zakat Amount (BND$'000)	No. of Payers	*Zakat* Amount (BND$'000)	No. of Payers	
2001	692	251,421	5,784	956	$ 6,476
2002	789	255,855	10,271	3,454	$11,060.4
2003	1,407.6[15]	260,205	11,375	3,556	$12,782
2004	765	276,116	13,478	4,112	$14,243
2005	781	281,504	18,956	4,569	$19,737
2006	804.5	289,929	8,815	971[16]	$ 9,620
2007	809	290,920	11,182.4	953	$11,992

Source: Islamic Religious Council, Brunei Darussalam [17]

Table 2: Ratio of *zakat* collection to GDP from 2002 to 2006

Year	Total of *zakat* Collection* (BND$'000)	Gross Domestic Product** (BND$'000)	Ratio
2002	$11,060	$10,463,100	0.11%
2003	$12,782	$11,424,200	0.11%
2004	$14,243,	$13,305,800	0.11%
2005	$19,737	$15,864,100	0.12%
2006	$ 9,620	$18,370,200	0.05%
2007	$11,992	-	

Source: * Islamic Religious Council, Brunei Darussalam

**Brunei Statistical Year Book 2006

[15] The amount doubled due to '*eid al fitr* which happened two times in this year.
[16] The bank's depositors are excluded from the number of payers in year 2006 and 2007.
[17] Note: The figures for 2001- 2004 have been audited and 2005- 2007 have not yet been audited.

Table 3: Number of *zakat* recipients from 2001 – 2007:

Year	Monthly			Yearly (for '*eid ul fitri*)			Total
	Head of family	Dependent members	Total	Head of family	Dependent members	Total	
2001	228	690	918	2,457	168	2,625	3,543
2002	209	527	736	2,683	212	2,895	3,631
2003	211	491	702	2,595	50	2,645	3,347
2004	415	1,520	1,935	2,718	8,645	11,363	13,298
2005	598	2,116	2,714	3,780	12,926	16,706	19,420
2006	865	3,010	3,875	2,991	9,885	12,876	16,751
2007	869	3,107	3,976	2,885	9,349	12,234	16,210

Source: Islamic Religious Council, Brunei Darussalam

Table 4: Disbursement of Z*akat* in *Asnaf* Grouping from 2000 - 2007 (BND$)

Year	Poor & Needy (BND$'000)	*Amil* (BND$'000)	*Mu'allaf* (BND$'000)	*Gharimin* (BND$'000)	*Musafir* (BND$'000)	Total (BND$'000)
2000	4,158	340	1,283	211	1.3	5,992
2001	4,607	352	1,706	122	0.350	6,787
2002	4,569	347	1,577	1,212	1.4	7,705
2003	5,530	406	1,686	2,820	0.863	10,442
2004	10,669	473	2,069	1,600	-	14,811
2005	4,854	348	1,848	1,497	0.863	8,547
2006	13,545	142	1,400	1,284	-	16,371
2007	13,000	69	1,553	789	1.0	15,411

Source: Islamic Religious Council, Brunei Darussalam

Table 5: Total Collection and Disbursement of *Zakat* BND$

Year	Total Disbursement (BND$'000)	Total Collection (BND$'000)
2001	6,787	$ 6,476
2002	7,705	$11,060,
2003	10,442	$12,782
2004	14,811	$14,243
2005	8,547	$19,737
2006	16,371	$ 9,620
2007	15,411	$11,992

Source: Islamic Religious Council, Brunei Darussalam

Table 6: Capital Assistance from 2001 until August 2008:

Year	Number of Recipient for Capital Aid	Total Amount (BND$'000)	Types of aid
2001	22	151	Capital for business – 6 persons Fishing boat and equipment – 13 persons Taxi Boat – 3 persons
2002	9	44	Capital for business – 4 persons Fishing boat and equipment – 2 persons Grass cutting machine – 1 person Taxi Boat – 1 person Seeds, fertilizer and pesticide – 1 person
2003	1	13	Fishing boat and equipment – 1 person
2004	2	16	Fishing boat and equipment – 1 person Grass cutting machine – 1 person
2005	11	71	Capital for business – 5 persons Fishing boat and equipment – 5 persons Grass cutting machine – 1 person
2006	1	10	Fishing boat and equipment – 1 person
2007	None	Nil	
2008	1	4	Capital for business – 1 person
Total	47	309	

Source: Islamic Religious Council, Brunei Darussalam

THE POWER OF ZAKAH IN POVERTY ALLEVIATION

Dimas Bagus Wiranata Kusuma, SE
Assistant Lecturer of Airlangga University, Shariah Economics Department
Candidate Master of Economics
International Islamic University Malaysia
Email : dimas_economist@yahoo.com
Phone : +62-85645337945/+60-169026445

Raditya Sukmana, SE, MA
Lecture of Airlangga University, Shariah Economics Department
Candidate Doctor of Economics
International Islamic University Malaysia
Email : momyadit@yahoo.com
Phone : +62-811315561/+60-166534090

THE POWER OF ZAKAH IN POVERTY ALLEVIATION

Dimas Bagus Wiranata Kusuma
Raditya Sukmana

ABSTRACT

During the 20th century, developing economies of the world have been facing two contrasting phenomena. Some countries economies have to achieve remarkable economic growth and improved their economic well being, but on contrary many countries have to alleviate poverty who tend to increase year by year. Whereas, all countries have agreed to eradicate extreme poverty and hunger half by 2015 since approved in United Nations Meeting in 1990.

According to this issues, Muslim countries have to combat it by using religious institution and culture. In this case, the role of Zakah, as traditional Islamic institution in tackling of poverty is very relevant and important. Zakah is supposed to be an important to investigate and provide much needed social service to the poor effectively. Then, in order to know the role of Zakah in poverty alleviation, it need to comprehend the type and causes of poverty. Having explained type and cause, also this paper is going to discuss how to design the structure of Zakah in order to maximize role of Zakah. So that, Zakah is supposed to mitigate poverty significantly. Therefore, this paper ultimately intend to build several ways and means to collect and disburse funds effectively and some policies should be stipulated to attain goals of Zakah, namely to mitigate and promote dignity of Muslim Ummah

Key Words*: Zakah, Poverty alleviation, policies, Muslim Ummah*
JEL : D63, I32, I38

1. INTRODUCTION

Zakah is important institution in the socio-economic framework of Islam. It is taken place as one's of five pillar on which the Islamic code of life is founded. As matter of fact that the injunction of Salah is frequently followed by the obligatory to release of Zakah. The obligatory of Zakah has been ordained and enforced since the advent of Islam brought by Prophet (pbuh), and continued by his wise successors until his companions. Historically speaking, Zakah disbursed by Islamic state in the past had spread out the welfare and proved the cohesive in the area of community building in the light of shari'ah rulings.

Islam as way of life live, has regulated a certain rule in such a way in order to make society to be favorable. Since the advent of Islam, certain rule has been stipulated and tried to be implemented fairly, such as managing income and wealth. Islam does not strictly prohibit in a way people holding some of property. However, Islam is firmly forbidden a such wealth or income is extremely concentrated and centralized in a certain people or individual ownership. To some extend of ownership, the assets should be equitable distributive around community evenly. This approach instructed is to guarantee that income and wealth are able to fulfilling the mashalah and justice principle. Thus, the issues established are how to achieve its distributive goals by utilizing "institutional approach"? Institutional approach mentioned here is in such a way institutions that are categorized as divinely-ordained and not subject to

political or social manipulation, and of course it should be backed up by Shari'ah rules and regulations. This institutional features could be including Zakah institution

Zakah is originally developed in some extent to mitigate social inequalities incurred as a result of economy activities. The glaring of Zakah is of distributing and collecting its self. The problems raise in terms of the amount of Zakah disbursement and the optimal zakat collected in certain community or particular Zakah payer. The endeavor in Zakah management arises as the fact that in such a way, it is concerned to be buffer fund in uplifting the fulfillment of basic needs, particularly for the poorest and destitute. as matter of fact, admitted or not, they are categorized as disable, and in turn finally trapping into poverty incident.

Poverty incident that have been facing in recent world, happen to be one of core of attention whereby need to be eliminated immediately. Therefore, poverty alleviation remains the most important challenge before policy makers in recent Islamic world. Tragically, poverty occurs in several Islamic countries that indirectly has been encouraging low productivity and promoting less competitiveness. Poverty incident occurred has been incurring due to the inequality to access economic resources and utilize it to particular productive economy activity. In other word, poverty is not making because of human incapability, but the system accorded already opened up the possibility to inequitable asset distribution evenly. So that, we are finding that inequality asset ownership clearly incurs enormously. Let's put the several example regarding poverty incident around the world, specifically in many Muslim countries. In Indonesia alone, with recognized as world's largest Muslim population account for over half of population-about 129 million are poor or vulnerable to fall into poverty trap with incomes generated less than US$ 2 a day. Likewise, Bangladesh and Pakistan record roughly 122 million respectively. Recently, IRTI has completely done a study that reveals only five of the member countries, namely Indonesia, Bangladesh, Pakistan, Nigeria, and Egypt which account for over half a billion, approximately 528 million, of the world's poor with incomes below $2 a day or certain poverty line. The table below provides clearly information regarding the growth the poverty incident in Indonesia, both rural and urban areas, since 1976 to 2006.

Some economist and many Islamic Scholars are seemly worried regarding poverty incident that appear to be common phenomena and latest, it has transformed to be great disaster on recent world. The specified about how important poverty alleviation is, refer back to effect created behind it, namely (1) a poor household are unable to participate in the development process and also automatically exclusion from financial system, (2) the poor and destitute people will tend to fall into poverty trap cycle that encourage them to be less competitive and backward in knowledge, (3) Poverty will create low aggregate income level and slow down the economic growth, (4) Economic growth which is created as result of economic progress is able to change in income distribution because of income distribution initially is shared on initial stage of development, but after it is achieved the income only will be fully distributed around groups who dominant in a certain economy area

TABLE 1.1
INDONESIA POVETY LINE AND POVERTY INCIDENCE, 1976-2006

Year	Percentage of People below the poverty line			The Number of people below poverty line		
	Urban	Rural	Urban+Rural	Urban	Rural	Urban+Rural
1976	38,8	40,4	40,1	10,0	44,2	54,2
1978	30,8	33,2	33,3	8,3	38,9	47,2
1980	29,0	28,4	28,6	9,5	32,8	42,3
1981	28,1	26,5	26,9	9,3	31,3	40,6
1984	23,1	21,2	21,6	9,3	25,7	35,0
1987	20,1	16,1	17,4	9,7	20,3	30,0
1990	16,8	14,3	15,1	9,4	17,8	27,2
1993	13,4	13,8	13,7	8,7	17,2	25,9
1996	9,7	12,3	11,3	9,6	24,9	34,5
1998	21,9	25,7	16,7	17,6	31,9	49,5
1999	19,4	26,0	23,5	15,6	32,3	48,0
2000	14,6	22,4	19,1	12,1	25,2	37,3
2001	9,8	24,8	18,4	8,5	28,6	37,1
2002	14,5	21,1	18,2	13,3	25,1	38,4
2003	13,57	20,23	17,4	12,2	25,1	37,3
2004	12,6	19,5	16,7	11,5	24,6	36,1
2005	12,05	18,7	15,97	11,6	23,5	35,1
2006*	13,4	20,8	17,8	12,9	26,2	39,05*

Sources : Statistic Indonesia, BPS, Various Publication

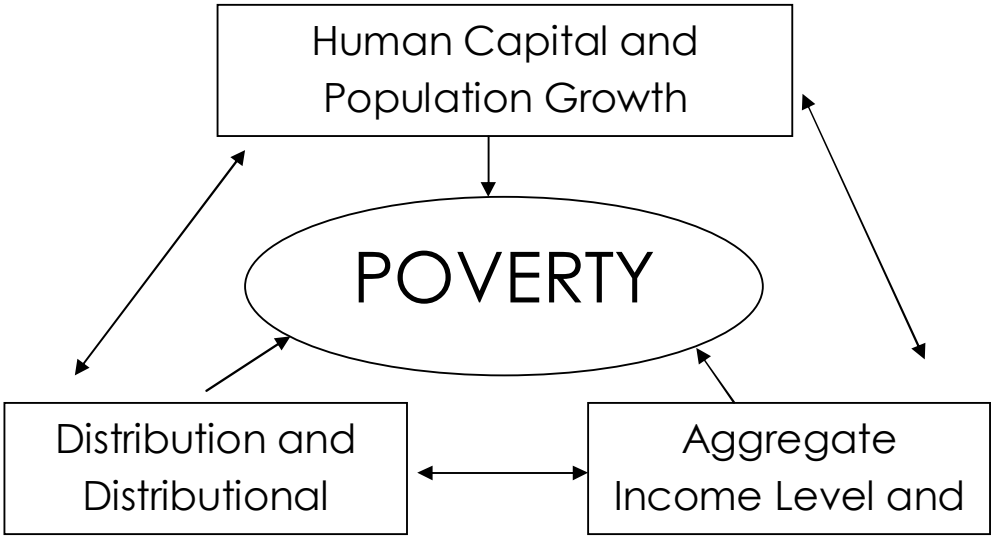


FIGURE 1.1
POVERTY GROWTH INEQUALITY TRIANGLE
Note : Adapted from Bourguignon (2004) and Iqbal (2002)

In addition, poverty incident incurred theoretically is able to solve by inducing income approach framework. Generally speaking and some of macroeconomics textbooks argue that the preservation and maintained in terms per capita income growth is a such a way able to mitigating income inequalities. The lower level growth of income, basically will determine the effect of growth on poverty level in an economy. Therefore, distribution of income evenly based on growth theory is able to have poverty reduction in reasonable time. In other word, poverty alleviation or poverty reduction enable to be cut-off if the growth of income based on economic growth concept is concerning to be implemented as well.

However, the theory mention above are talking about distributive aspect in the light of modern economy, but do not pertain n terms of distributive comprehensively. In Islamic point of view, distribution is discussing about property ownership on which its belong to public and its must be according to Al Quran injunction. Distribution in Islam, to some extent is including the stage of distributional scheme procedure. Hence, in terms poverty alleviation, we are avoiding discussion on functional distribution which is proved could not display an effective poverty reduction strategy. Therefore, distributional concept in Islam should be concerning about Pre-Production Distribution, post-production distribution, and redistribution its self.

Islam concerns about how the poor and destitute, who justified as the less privileged groups to really start on equal footing. So that, distributional in Islam has to count and assure that they have equal opportunity in terms of exchange, need, power, and social values. The notion of mention above has being actually thrown out and absolutely separated in modern economic even in area of economic though recently. The implication of its separately concept in distributional scheme apparently appears in looking at the relationship between per-capita income and Gini coefficient, both Indonesia and Malaysia, as shown below

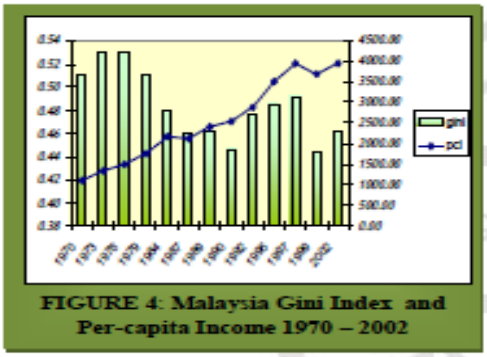


FIGURE 4: Malaysia Gini Index and Per-capita Income 1970 – 2002

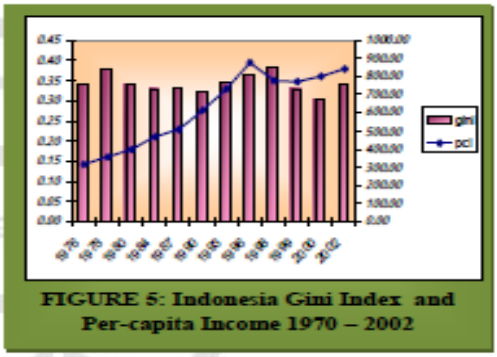


FIGURE 5: Indonesia Gini Index and Per-capita Income 1970 – 2002

Sources: World Bank, PovcalNet, 2006, WDI online, 2006, IHDR, UNDP, 2005

GRAPHIC 1.1
MALAYSIAN AND INDONESIA GINI INDEX PER CAPITA INCOME, DURING 1970-2002

Regarding to figures above show that there is negative link between high growth and inequalities. Whereas, Kuznets (1955) thought that the increase 1% in income will automatically tends to promote economic growth in amount of 1%. It means that the Kuznetsian Hypothesis absolutely is rejected due to during economic growth incurred in both countries, apparently tend to raise up the inequality as well. In a nutshell, hypothesis given by modern economic could not solve and create a welfare

state society, moreover it has been coming up with additional problems and averting from its basis problem, particularly in terms of poverty incident alleviation.

Finally, through this paper, we would like to convey and confirm that Zakah happens to be institutional of Islam that has been proved widely since prophet (pbuh), and wise successor, until his companions that it can be an effective tolls equipped by God to promote social welfare, particularly Muslim society today, either in theory perspective or empirical perspective. Therefore, to make sure the paper understandable and easy to follow, we divide this paper into 4 sections, namely: Introduction in section I, Literature Review in Section II, Findings in Section III, and Policy Implications in Section IV, Conclusions and Suggestion in Section V.

2. LITERATURE REVIEW

2.1. The Poverty Definition

Poverty is usually meant to be deprivation of wellbeing, and basically there are many factors that cause it and various approaches to explain the concept. Basu, 1984 stated that poverty is close to the condition whereby poor are weak and vulnerable to hostile factors and events beyond their control. Again, poverty is characterized to be persistently in what referred to as the vicious circle of poverty.

Actually, There are many definitions of poverty. Levitan (1980) defines poverty as the lack of goods and services which are needed to reach the proper standard of living. According to Schiller (1979), poverty is incapability to have proper goods and services to fulfill limited social needed.

Emil Salim gives similar definition; poverty is the lack of income to fulfill the proper standard of living (Ala, 1981: 1-3) Robert chambers (1987) clearly explain about the complete definition of poverty according to the reality and conceptually. The point of poverty is deprivation trap, it is consists of five aspects, they are physical weakness, exclusion or isolation level, susceptibility, and desperation.

From those aspects, susceptibility and desperation should have more attention. Susceptibility is considered as the capability of the poor family to prepare something in emergency reaction and usually make poverty rackets. Desperation is analogized as pressing and cheating for the authority's interest to the poor family and its usually seemed as help.

Gunawan Sumodiningrat (1998) said poverty is classified to five kinds; they are two kinds based on income level and three kinds based on the causal factor, namely :

First, absolute poverty is described when income level in under poverty line or the amount of income is not enough to fulfill the minimum life needed. Thus, absolute poverty is counted by incapability to prepare daily needs, food and clothing, healthy, and education. The real consumption quantitatively based on the base year is declared with currency so that World Bank decide the poverty line is $50 per capita per year (village) and $75 (city)

Second, relative poverty is described when income level is over the poverty line, but still poorer than any other society group. It is declared with national income presentation, which is earned by population with certain income degree and compared with population proportion and other income proportion.

Third, natural poverty is the poverty that is caused by natural factor such as the different of, age, healthy, geographical location. They do not have proper resources, both human resources, natural resources, and other developing resources.

Fourth, cultural poverty is the poverty that is caused by the different of custom and tradition, work ethics, etc. it is referredt to the individual's behavior that is caused by life style, life habitual and culture. This society is difficult to participate to raise their standard of living, to make a changing and to develop.

Fifth, structural poverty is the poverty that is caused by human brand factors such as inequitable of productive distribution asset, discriminatory of economic policy, collusion – corruption, and economy arrangement which beneficial to the certain society group. Sometimes it is called pauperization, because it is caused by intentionally factors.

2.1.1. The Characteristics of Poverty

Looking at the factors to determined the groups of the poor so that the economists classify the society according to the poverty line. The characteristics of poverty are:

First, they do not have their own production factor such as land, capital, and skill so that they have a limited incoming ability.

Second, they do not have possibility to earn their own production asset.

Third, they have low education level.

Fourth, many of them who are living in the village and do not have their own land (if there is any usually small land.

Fifth, many of them who are living in the city have not enough skill ability and education.

2.2. The Definition of Zakah

Zakah is "that portion of a man's wealth is designated for the poor" (Sayyid sabiq, 1991, p.1). it is also defined as, " a compulsory levy imposed on Muslim so as to take surplus money or wealth from the comparatively well-to-do members of the Muslim Society and give it to the destitute and needy" (Zaim, 1989, p.101). again, economically, Zakah in theory will result in economic prosperity as Zakah is paid from those who have surplus , to the poor. So that, this will improve and enhance the poor's purchasing power which may lead to a higher demand on goods (Ahmad, 1977,p.80).

The fact that the main objective of Zakah is the achievement of socio-economic justice is not disputed (Kahf, p.2). Metwally (1983) also stated that the Zakah disbursement has the ability to increase consumption since the marginal propensity to consume of the Zakah payer is lower than the Zakah recipient, so that increasing the purchasing power parity of the poor. Consequently, in Islam transfer payment, from the wealthy to the poor for the purpose of redistribution of wealth and income in the society has been taking a central principle in building the Ummah. Furthermore, redistribution concept is also established that the Quran and the Prophet act (Sunnah) do have overwhelming evidences which indicate that Islamic system do not recognize and like any form of concentration of wealth or income in a few hands.

Zakah has several meanings according to literary term; it means blessing, growth, development, purity, and neatness. The scholars of Islam (ulama) define Zakah as the part of property with certain requirement that Allah SWT requires to the

owner to give to the proper person to have it with certain requirement (Anshori, 2002).

According to Lisan al Arab the term Zakah is pure, grow, and laudable, this term is used in Al Qur'an and Hadist (Qardhawi, 1999:34). Zamakhsyari said in Al Faiq chapter 1 page 536, Zakah based on fiqh term is certain amount of property, which is obligated by Allah to be distributed to the right people beside the obligation to distribute the property in certain amount (Qardhawi, 1999:34). According to Chapra (2000: 270), Zakah has literary meaning as purification (*thaharah*), growth (*mana'*), blessing (*barokah*), and praise (*madh*), in fact Zakah is a Moslem's financial obligation to pay their some net property or agricultural produces, if those properties exceed the *nishab* limit (certain degree) it is paid as the part of religion obligation.

2.2.1. Zakatable Assets

In implementing the obligation of Zakah, Muslim are recommendable to understand about Zakatable wealth that required to be fulfilled, so that Zakah disbursed is considerably commensurate with syariah point of view. So that, it is important to define the condition of Zakatable assets as in the following sections :

a. Undivided and absolute right of ownership, it means that all items subject to Zakah, it must be owned by the potential payer themselves. This ownership must be absolutely owned so that it enables to give the owner the right and power is entitled by law. Therefore, the obligation of Zakah is talking about levied items owned by the potential payer. Accordingly, these are several items that exempted to be subject to Zakah, namely some properties of the state for it belongs to the Ummah and no one could access also has a right of ownership over them
b. Growth, it means that Zakatability is that wealth must either be actually growing or have the potential for growth. Again, growth means something that provides the owner with profit and benefit. Actual growth means is the increase by Genetic or business reasons. Potential growth is when the assets can increase if it is used properly for that particular purpose. Basically, the wealth actually grow since growth by reproduction, through business, animal breeding, or seed planting. In short, as long as such asset is considering to subject to Zakah after growth has happened.
c. Reaching the minimum for Zakatability. Islam is truly administered in terms of Zakatable assets and including a minimum required for Zakatability, which is called among jurists "nisab". The condition of nisab for Zakatability is agreed upon among scholars, except in the case of crops, fruits, and minerals. The rational of nisab requirement is very obvious. Zakah is a due on the rich to relieve the poor and to share in the expenses for common interest to Islam and Muslims. Zakah is levied to them who accord and achieve certain nisab required. Therefore, there are several set certain minimum for different items and exempted for everyone who has items below the minimum of the payment of Zakah
d. Excess above essential needs. Some jurists add to the condition that is, nisab must be accompanied by in excess of basic needs of the owner. If the person who owns the assets need them for essential necessities, they are not considered rich, nor would such a person like to sacrifice anything of what they own for the payment of Zakah. According to The prophet (pbuh) says, " Pay Zakah on your wealth with your hearts willing and pleased". The need is

to some extent related with basic needs, namely designated for providing food, clothing, shelter, or medical care for the owner and their household. If this condition is furnish, hence assets owned are treated as non-existent from the point of view Zakatability

e. The passage of a year. These are some items which subject to Zakah in a yearly obligation. Twelve full lunar months should pass from the beginning of ownership, or past due date of Zakah, for Zakah to accrue again on assets. It is reported from Ibn'Umar that the Prophet (pbuh) said : "There is no Zakah on an asset a year has passed". Why did He obligate it once every year? As matter of fact that Zakah is an expression of the utmost justice, so that the ruling has been prevailing like that due to it would have heavily burdened the rich, but if it were made once in a lifetime, it would not have satisfied the need of the indigent. So that, the best and wise way is to make it once every year. However, there are several items that should be subjected to Zakah when they are obtained regularly, such as monthly salaries, and crops. They are excluded from the passage of a year is concerned because of they themselves are income

2.3. Integrating Between Zakah and Poverty

To make sure that Zakah is able to solve poverty incidence, hence this paper is offering the basic assumption. The assumption lay Zakah as expenditure part in order to be able to generate its potential effects on the distribution. In other word, the power of Zakah is clearly described and depicted.

First assumption, Zakah proceeds are sufficient to cover Needs. It means that the implementation of Zakah shall be based upon the Shar'iah rule so that enables the proceeds to be high to be directed to the disbursement allocation target of poverty alleviation

Second assumption, Government is responsible in collecting and distributing Zakah. The benefit of this is, firstly, Zakah is preserved by legal law so that it has a power to enforce everyone who are considered as rich and deserve to fulfill their obligation, secondly, it allows government to directly supervise the mechanism and patio of Zakah distribution so that Zakah is able to fulfill the desired objective of poverty alleviation

Third assumption, The government has an authority to regulate the methods and approaches of Zakah disbursement. In this case, the government may instruct to Zakah payer in terms of Zakatable assets, whether it can be done in cash, kind, or by means of consumer goods, producer goods, or equities.

Fourth assumption, The costs of Collection and Disbursement are minimized. This assumption is concerned to be important due to the objective of Zakah is allocated to poor as main priority. Thus, Zakah management is insisted to be well-organized and considering effectiveness principle as main role of conduct in organizing Zakah.

Fifth assumption, Zakah does not create economic injustice (distortion) in terms of equity and it does not reduce other government revenues as well. It means that Zakah which is imposed only for Muslim while non-Muslim are required to pay tax, also Zakah implementation does not incorporate a deduction of the amount paid as Zakah by the Zakah payer from their otherwise due income and or property tax.

3. FINDINGS AND ANALYSIS

3.1. The Effect of Zakah from Macro Model Perspective

3.1.1. Zakah and Consumption Aggregate

According to Susanto (2002), to begin the analysis it should be reputed that situation are; first, Zakah was subjected to all investment and wealth commerce of Moslems. Second, a commerce Zakah payer has large enough business and dominates one part of national income. Third, religious movement and Zakah awareness is well succeeding so every Moslem has Zakah obligation (Muzakki). Fourth, Zakah proportion to be paid is constant. Fifth, the collected Zach is shared to the mustachio (people who is deserved to receive Zach). Sixth, mustachio's MC>Musky's MPC. Seventh, in one hand Zach is counted as the alleviation taxable income component and in the other hand Zach is untamable for mustachio.

C = a + b Y ……..……(1).

On macro scale in Islam economic, there are two objects: mustachio and musky, the formulas are:

$$C1 = a + bYd; Yd = (bY - aY)(muzakki) \quad \text{.....(2).}$$

$$C2 = dY; Z = aY(mustahiq)$$

$$\rightarrow = d\left[(1-b)Y + aY\right]$$

$$C = C1 + C2 \quad \text{.....(3).}$$

$$C = a + b(b(bY - aY) + d\left[(1-b)Y + aY\right]$$

a = rate of Zakah that is paid.

However, those formulations could not count about the tax that must be paid by Muzakki, whereas Mustahiq have not the duty of paying Zakah. Hence, we consider by as Zakah payment income which dominate one certain part of national income; and the rest (1-b) is Mustahiq income. The macroeconomics formulations except Zakah variable are:

$$C1 = a + b(\beta Y - t\beta Y)$$

$$C2 = \delta\left[1-\beta)Y - t(1-\beta)Y\right]$$

$$sehingga: C = C1 + C2$$

$$C = a + b(\beta Y - t\beta Y) + \delta\left[1-\beta)Y - t(1-\beta Y\right] \quad \text{.....(4).}$$

$$C = a + b\beta Y - bt\beta Y + \delta Y - \delta\beta Y - \delta tY + \delta t\beta Y$$

Average propensity to consume (APC) and marginal propensity to consume MPC with tax could be written:

$$APC = \frac{C}{Y} z \rightarrow 0 = \frac{a}{Y} + b\beta - bt\beta + \delta - \delta t + \delta t\beta; \quad \text{.....(5).}$$

$$MPC = \frac{dC}{dY} z \rightarrow 0 = b\beta - bt\beta + \delta - \delta t + \delta t\beta \quad \text{.....(6)}$$

The commerce agreement for aY, in one hand will reduce Muzakki taxable income, in other hand it does not include as untaxable object for Mustahiq. Hence, the formulations are:

$C1 = a + b(\beta Y - \alpha Y - t(\beta Y - \alpha Y)$

$C2 = \delta[(1-\beta)Y + \alpha Y - t(1-\beta)Y]$, so that :.....(7).

$C = C1 + C2$

$: C = a + b(\beta Y - \alpha Y - t(\beta Y - \alpha Y) + \delta[(1-\beta)Y + \alpha Y - t(1-\beta)Y]$ .....(8)

$C = a + b\beta Y - b\alpha Y - bt\beta Y + b\alpha Y + \delta Y - \delta\beta Y - \delta tY + \delta\alpha Y + \delta t\beta Y$

For APC and MPC value is asserted :

$$\text{APC} = \frac{C}{Y}, z > 0 = \frac{\alpha}{Y} + b\beta - b\alpha - bt\beta + bt\alpha + \delta - \delta\beta - \delta t + \delta\alpha + \delta t\beta \quad \text{.....(9).}$$

$$MPC = \frac{dC}{dY} z > 0 = b\beta - b\alpha - bt\alpha + \delta - \delta\beta - \delta t + \delta\alpha + \delta t\beta \quad \text{.....(10)}$$

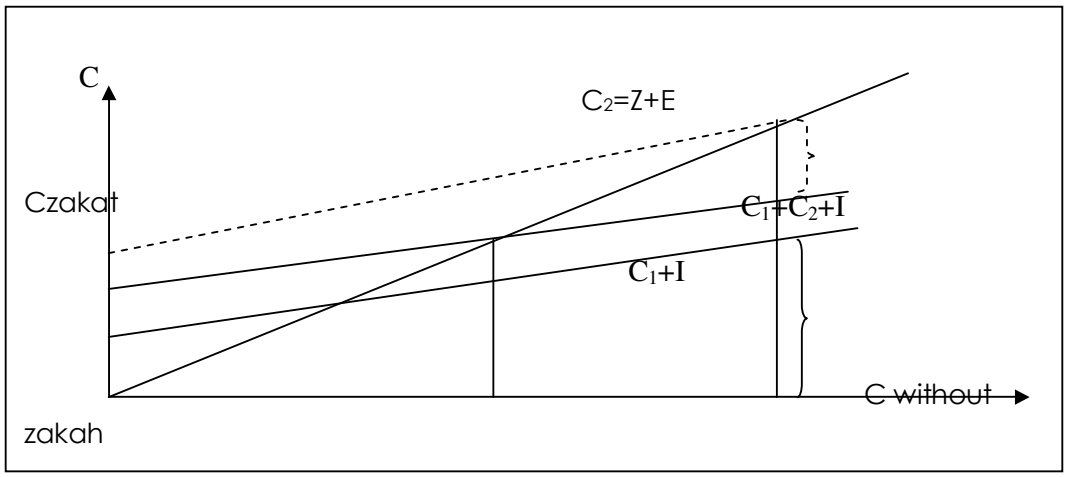


FIGURE 3.1
INCOME DETERMINANT IN ISLAMIC AND NON ISLAMIC ECONOMY
Source : Eko Suprayitno (2005)

The graphic above shows that income determining process on two economic systems. When there is not Z and E, in non-Islam economic, consumption is C. investment as I is showed by C_1+I. the condition under Islam economic where C_1+C_2+I shows Islam aggregate outcome. Where c1 is the consumption outcome of Zakah payer (Muzakki) and c2 is Mustahiq consumption outcome with assumption there is no other income except Zakah. Generally it could be compared that Zakah concept could raise consumption proportion of the poor.

Therefore, the more Zakah disbursed by Muzakki, the more in increasing the amount of aggregate consumption created into economy. In spite of in Islamic economic system, Zakah payer will transfer their excess income or wealth to Zakah recipient which indirectly will promote the higher propensity to consume of Zakah recipient. In contrast, in the Zakah payer side, they will reduce the consumption, and turn into saving/investment activities. However, finally it also will create real economy through investment project financing or credit instrument.

TABLE 3.1
EFFECT OF INTRODUCTION OF ZAKAH AS A TAX ON SHORT-RUN SAVINGS AT DIFFERENT LEVELS OF MARGINAL PROPENSITY TO CONSUME

MPC before introduction Zakah (a_1)	Value of F_1 (MPS after Zakah)	Value of ($1-a_1$) MPS without Zakah	F1S of ($1-a_2$)	% decline in MPS as the result of Zakah (a_2)
1,00	0,000	0,00	0,00	0,0
0,90	0,1998	0,10	99,8	0,2
0,80	0,1990	0,20	99,5	0,5
0,70	0,2977	0,30	99,2	0,8
0,60	0,3960	0,40	99,0	1,0
0,50	0,4938	0,50	98,8	1,2
0,40	0,591	0,60	98,5	1,5
0,30	0,688	0,70	98,3	1,7
0,20	0,784	0,80	98,0	2,0
0,10	0,8802	0,90	97,8	2,2
0,00	0,9756	0,00	97,0	2,5

Source : Islamic Development Bank (1997)

The table below shows net effect from Zakah from Zakah payer and moderation on MPC in Islamic economy system. Analyzing in terms of Muzakki's both MPC and MPS is to show that they will discourage to increase their desired consumption and in contrast, they are force to store their income as productive fund in investment purposes. According to the table above shows that there is a distinction between MPS after and without Zakah. The MPS after Zakah initially shows in such a way larger than MPS without Zakah. However, since MPC is 0,8, MPS without Zakah is larger. But, when MPC is 0, MPC without Zakah shows 0 as well, but MPS with Zakah indicates 0,97. It means, in Islamic Economy, although MPC of Muzakki is spent out all, they are still keeping a small of MPC and promote larger amount of MPS. So that, Islamic economy is always keeping in mind a balanced-economy-concept.

And then the impact of Zakah toward poor is describes as follows. Zakah must be given as a direct transfer payment to the poor. The hope is the poor are sufficient enough to take care of their basic needs. Accordingly, they are able to establish their own means of livelihood, utilizing a combination of their own human and material resources by Zakah given. The Zakah distribution, therefore, at raising not only the income of the poor and their capital but also raising their ability to make responsible decisions concerning the use of their income. Improvement income of the poor means increase their consumption of goods and services, and raising their opportunity to access educational facilities, health, nutrition, and in general, improvement in the welfare of poor families. These improvements are commonly a major requirement in increasing the productivity of the poor. Fogel (1994) stated that fulfillment of the basic needs of lower income classes tend to increase their productivity. Productivity level is measured by (1) an increase in labor force contribution (increasing the amount of working hours and days) as a result of health and nutrition improvement, (2) improvement physical, psychological, and spiritual abilities of the poor, which is called "intensity of work per hour". So that, the poor have abilities to make better efficiency to convert energy into work output.

3.1.2. Zakah and Investment

We try to analyze with the Zakah distribution method and hopefully it can help the government to reach the target with Islamic macro approach. In Metwally's theory of investment (1995: 73), the function of investment is formulated with: I = ώ(r,Za,Zp,m)
And r=r(*SI/SF*)
Where,

I	= investment demand
R	= expected profit rate
SI	= investor financial loss/ profit share
SF	= debtor financial loss/profit share
Za	= Zakah rate of undeveloped asset
Zp	= Zakah rate of investment profit
m	= other outcome except Zakah of undeveloped asset

But, because of Za=Za and Z=Zp (Zakah rate is constant) so the formulation is:
I = ώ (r,m), where $\frac{\partial I}{\partial r} > 0, \frac{\partial I}{\partial \mu} > 0$

According to the formulation the investment demand will increase if

a. The unexpected profit increase
b. Premium rate of undeveloped asset increase

After studying Islamic investment philosophy, the relevance to affect the poor income through Zakah instrument is
$Y = C + S;...(1)$, $Y = C + I;....(2)$, hence,
$S = I$ ……..……..(13).

So : $S = I = Y - a + b(\beta Y - \alpha Y) + \delta[(1-\beta)Y + \alpha Y]$……..……..(14).
Where, a = the Zakah that must to be paid.

But in that formula has not count tax that must be paid by Muzakki yet and Mustahiq is not obligated to pay tax. bY is considered as Zakah payment income which dominate one part of national income and the rest (1-b)Y is Zakah receiver income. If government transfer is zero and tax (Tx=tY), the investment formulation without commerce Zakah variable: (Ausaf Ahmad, 1987)

$I = Y - a + b\beta Y - bt\beta Y + \delta Y - \delta bY - \delta tY + \delta t\beta Y$;
whereas……....(15).

$$API = \frac{I}{Y}, z = 0 = 1 - \frac{\alpha}{Y} + b\beta - bt\beta + \delta - \delta t + \delta t\beta$$
$$MPI = \frac{\partial I}{\partial Y}, z = 0 = 1 - b\beta - bt\beta + \delta - \delta t + \delta t\beta \quad \text{……(16).}$$

If Zakah variable is put into the zY in the equation, it will decrease taxable income of Muzakki and it does not include tax object for Mustahiq. So the formulation is needed to rewrite.

Based on this analysis, the investment function in Islamic economy is as follows

$$I = Y - C$$

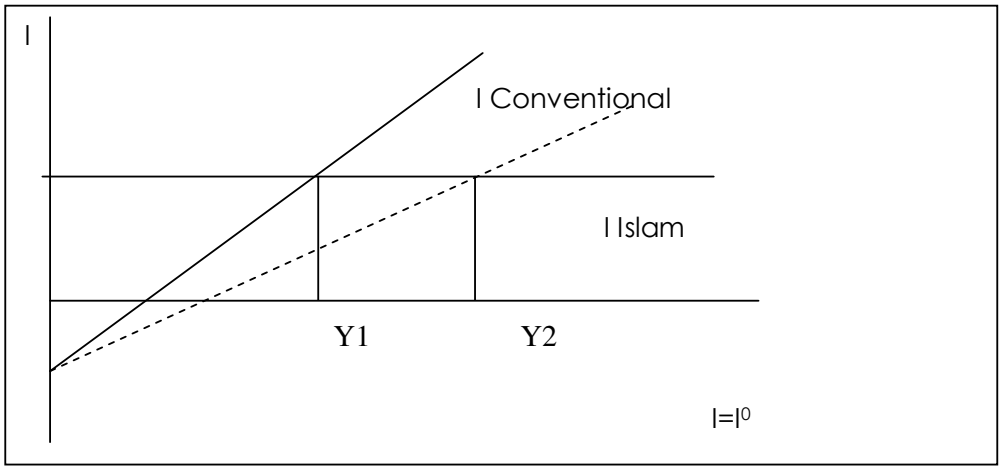
$$I = Y - C\ 1 - Z - E$$

$$I = -\alpha + (1 - z - \gamma)(1 - b)Y$$

$$Y = \frac{1}{(1 - z - \gamma)(1 - b)}(\alpha + I)$$

…….....(17).

Where, z = the sum of Zakah collecting in economic system
E = the wholly infak and sodaqoh payment



PICTURE 3.2.
INCOME DETERMINATION VIA INVESTMENT IN ISLAMIN AND NON-ISLAMIC ECONOMY

Source : Supriyanto (2005)

The income determination process in Islamic economy could be tested with a diagram. It is expected that economic condition is in the close economy system, aggregate investment is counted at the vertical line and consumption aggregate at the horizontal line. In the picture above the investment slope in Islamic economy is smaller or flatter than conventional. It means that the slope in Islam has the elastically elasticity, that is the change in incoming rate has the high sensitivity toward the variable changing investment. It means in the Islamic concept, if the population income is in the proper rate it will accelerate investment movement and cause the income balance in the higher level.

3.1.3. Zakah and Tool of Economy Policy

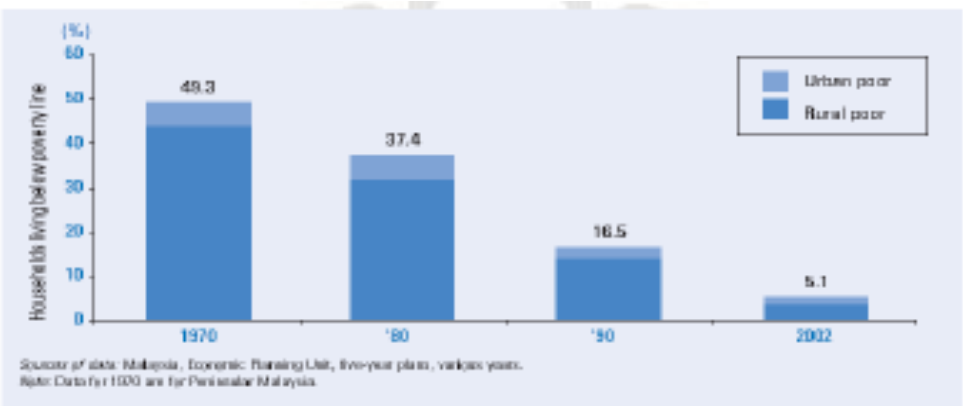
Keeping in mind as mentioned above regarding with particular assumption stated that government has power to determine whether Zakah paid in cash or in kind. Of course, government cannot change the rate of Zakah, nor the exempted items. However, the Islamic Government can use the collection as a means of influencing the economics activity in their society. The same thing applies to Zakah distribution. The principles is that the method most convenient to the poor. For instance, if the government aims to enhancing production and employment, so that Zakah may be

collected in kind, because this reduce the inventories of Zakah payers, and induces producers to replenish their shelves. On the other hand, if government would supply the liquidity in the economy, or attract market signal for a rise in income and output, it may collected and disbursed in cash. Finally, Zakah could be used as fiscal policy and instrument to influent the economy. However, keeping in mind that it will be powerfully implemented if the amount of Zakah proceed is assumed not to be negligible as a percentage of GNP.

3.2. The Picture of Poverty

3.2.1. Poverty Profile in Malaysia

Poverty in Malaysia is predominantly happening in rural area. Rate of poverty, particularly who work in agricultural sector are considerably higher. Therefore, Malaysian Government has emphasized several strategies to mitigate poverty such as agricultural development program, export of labor-intensive manufactured goods, public investment in Education, Health, and infrastructure improvement. Figure below shows the incidence of Poverty in Malaysia over last three decade between 1970-2002. According to the figure, Government seemly is successfully in mitigating the rate of poverty until more than 40 percent over three decade.



GRAPHIC 3.1

INCIDENCE OF POVERTY, MALAYSIA, 1970-2002

Source : Malaysia's Millennium Development Goals, 2005

To gauge the profile of poverty in Malaysia, this paper is also trying to convey several parameter that is able to indicate the poverty measurement and performance, as follows the " poverty gap index" which indicates the distance between the average income of the poor and the poverty line. Table 3.1 below clearly provides details information about the poverty gap (P1) and squared poverty gap (P2) based on World Bank Poverty line (US1$ per day). According to the figure, the average gap between the standard of living of poor households and the poverty line continued to decrease during 1995 and 1997. Thus, it can be justified that Malaysian's Government is considered significantly successful in terms of reducing the number of poor people.

TABLE 3.2.
POVERTY MEASUREMENT, MALAYSIA, 1984-2004

Survey Year	Means$	PL	H(%)	PG(%)	SPG(%)
1984	241,67	38,0	3,22	0,66	0,23
1987	233,14	38,0	2,39	0,36	0,09
1989	228,00	38,0	1,91	0,29	0,08
1992	253,06	38,0	1,62	0,14	0,02
1995	263,29	38,0	2,08	0,26	0,05
1997	328,17	38,0	0,54	0,05	0,01
2004	204,31	38,0	0,54	0,06	0,01

Source : PovcalNet, World Bank, 2006, www.worldbank.org

3.2.2. Poverty Profile in Indonesia

As matter of fact that the economic crisis obviously has a significant effect such as production volume reduction that affect in the increasing of the termination of employment. According to the Department of Labor's expectation, the number of unemployment in 1998 reached number 15,4 million or approximately 17,1 % of 90 million people, moreover World Bank expect for about 21 %. This increase causing the raise of the poverty number because it makes the society purchasing power per capita decline.

Later, Central Bureau of Statistics (BPS) informed the number of poverty population in Indonesia in the middle of 1998 reached 79, 4 million or 39,1% from 202 million total population (table 1.1). It shows that the number of poverty population absolutely increase for 56, 9 million since 1996 (the last susenas)[1]. In 1996, the number of people under poverty line is 22, 5 million, which 7, 2 in the city and 15,3 in the village. But in 2006 the poverty level[2] increased to 17, 75% or about 39, 05 million. From this number, it could be predicted that the number of poor household is 19, 1 million which include 2,8 million is very poor, 8,2 million is poor and 6,9 million is close by poor. This increase is presumed as the cause of the effect from the cutting of refined fuel oil subsidy[3].

The above condition basically is contrast in terms of the concession made that has resumed in MDGs (Millennium Development Goals) program. As we know that in 1990, United Nations declared "Millennium Development Goals" MDGs which should to be reached by 191 countries, include Indonesia, for next 15 years (in the end of 2015)[4], and the one of the target is poverty and extreme starvation alleviation. It could be realized by SBY when he succeeds to make the declining of poverty level from 16% (2005) to 8, 2% in 2009 (Hadar, 2007)[5]. In spite of that condition, Indonesia has developed some programs as feedback and implementation of that international commitment, such as declaring the national movement of housing development, poverty trust fund, transmigration, and open the opportunity for worker as Indonesian blue-collar worker (TKI). However, having evaluated extensively in

2008, poverty reduction program is not significantly reducing the rate of poverty. The information details provides below according to Minister published by National Mass Media, as follows :

TABLE 3.3
MDGS EVALUATION IN ALLEVIATION POVERTY SECTOR

MDGs	Notes
1	- Poverty increased in 2006 - Children malnutrition: update condition 26%, target 18%,worse status : high and increase - Insufficient calorie consumption: update condition 64%, target 35%, status: no advance: high and static

Source: Kompas (May 30, 2007)

The measurement of poverty also has been done by World Bank that stated the poverty gap rose slightly after crises. Although after crises the poverty measurements are going to be better off, but the severity of poverty tends to increase because of economic turbulence over post crises in the mid 1997. Table below shows the poverty measurement in Indonesia since 1987-2002,

TABLE 3.4
POVERTY MEASUREMENT, INDONESIA, 1987-2002

Survey Year	Means$	PL	HL (%)	PG(%)	SPG(%)
1984	36,72	38,0	65,20	9,88	9,88
1987	34,75	38,0	70,54	10,18	10,18
1990	40,50	38,0	57,12	6,03	6,03
1993	39,84	38,0	58,14	6,18	6,18
1996	46,06	38,0	46,73	4,20	4,20
1999	41,24	38,0	53,42	5,12	5,12
2002	52,53	38,0	33,35	1,98	1,98
2005	62,79	38,0	24,01	1,61	1,61

Source : PovcalNet, World Bank, 2006, www.worldbank.org

Therefore, the poorest became poorer, and among the poor, the absolute and relative poverty is more significant after the financial crisis seems to have reduced inequalities at other income levels. After 1999, there was a decrease in poverty rate, even in 2002 the poverty gap and severe poverty gap reached the lowest point in observation (0.91% (P1) and 0.18% (P2)). There will usually be a group of more permanent „hardcore poor, while others drift in and out of poverty. It is important therefore to consider not just those who are currently poor, but also those who are vulnerable to poverty – capable of falling below the poverty line at any point. This is a much larger group of people – variously estimated at between one-third and one-half of the population (Islam, 2002). These are people vulnerable to many different kinds of shock, such as sudden price increases, or the loss of employment, or family sickness. Women appear to be the most vulnerable because they already earn less than

men also those working in agriculture – both men and women – also tend to be in a more precarious position (UNDP et al., 2004).

3.3. The Potential of Zakah in Poverty Alleviation

In order to assess potential Zakah in alleviating poverty, we need to quantify in terms of the number of the poor in an economy. Subsequently, we need to calculate the funds required to uplift the poor out of poverty. Then, we would calculate the potential amount Zakah than can be collected in the economy. Finally, the scope of Zakah for alleviation poverty could be looked at comparatively from the funds needs for poverty alleviation and the possible Zakah proceeds over particular term. According research done by Habib Ahmed (2004) that he came out within cross-country analysis and trying to measure poverty through a certain poverty line. Thus, a simple method has taken to estimate the minimum amount needed to bring the poor above the poverty line. So that, Ahmed has divided into two groups, namely the poor in group one, receiving 1US$ per day and assuming it directly would be transferring to individuals in that group. Likewise, the difference treatment is given to the another group, group 2 which is transferred 2 US$ in order to bring it up poverty line. Accordingly, to make clear that how far generating income is able to mitigate poverty, we also need to compute the percentage of GDP required. Table below will show the effect of income distributed to GDP required needed as much as I US$ per day

TABLE 3.5
POVERTY GROUPS AND PERCENTAGE OF GDP REQUIRED TO RAISE INCOME BY US$1 IN MALAYSIA

Year	GDP Per capita (US$)	Group 1 (%Pop<US$/day	Group 2(%Pop<2US$/day)	Percentage of GDP Required for poverty Alleviation		
				Group 1	Group 2	National
1984	2160,84	2	14,97	0,15	0,95	
1987	2106,82	2	14,69	0,14	1,17	
1989	2398,93	2	13,92	0,13	0,88	
1989	2398,93					0,98
1992	2881,58	2	13,84	0,11	0,75	
1995	3510,15	2	13,97	0,09	0,65	
1997	3938,13	2	9,25	0,10	0,46	

Source : Karomah (2009,p.26)

According to the table we can see that there was considered steady trend of reducing the percentage of the poor, however the income per capita tended to steadily increase overtime. Regarding with required GDP seemed to be less enough because still less than 1 percent.

Unlike in Malaysia, the poverty performance in Indonesia reveals a different thing. According to the table, Zakah will be effective as an alternative to eradicate poverty if the Zakah collected was equal with at least 3.1 percent of national GDP. So that, by utilizing these funds, it is fully expected that the number of poverty is able to be enormously mitigated. Accordingly, the GDP required tends to raise if poverty line stated is higher 1 US$ to 2 US$ (approximately 21,6% of GDP). Unfortunately, the problem incurred in Indonesia is not much different as compared with Malaysia,

namely less than 1% per annum. Table below clearly shows the poverty groups and percentage of GDP required to raise income 1US$ per day

TABLE 3.6
POVERTY GROUPS AND PERCENTAGE OF GDP REQUIRED TO RAISE INCOME BY US$1 IN INDONESIA

Year	GDP Per capita (US$) (Constant 2000 US$)	Group 1 (%Pop<US$/day	Group 2(%Pop<2US$/day)	Percentage of GDP Required for poverty Alleviation		
				Group 1	Group 2	National
1987	510,75	28,15		20,12	61,61	
1993	730,26	17,39		8,69	32,08	
1996	877,75	13,93		5,79	24,66	
1996	877,75		15,7			6,53
1999	772,63		27,1			12,80
2000	800,64	55,38		3,28	25,27	
2002	844,30	55,42		3,10	21,64	

Source : Karomah (2009,p.26)

Having seen the profile of number of poverty incurred based on a certain measurement, now we are moving up to look at the scope and potential of Zakah in reducing poverty. It means that the desired total amount of Zakah that can be collected as compared with the Zakah rate applicable at the GDP level is needed. According to Salama (1982) and Al-Thahir (1997), the appropriate estimates vary from 2% up to 14%. This paper is trying to use approach developed by Kahf (1987), whereby he used the average of several opinions and determine it to 1,8% and 4,3%. This paper is attempting to utilize it in a such case for Malaysia.

Table below will show you in terms of the number of poor who's income supposed to be increase by 1US$ per day as impact transferring Zakah to individuals. Accordingly, according to the table, the amount of poor people enormously are affected by calling on Zakah as instrument of distributive income. These conditions are probable incurred under a certain assumption that Zakah collected as a proportion of GDP exceed the minimum required of poverty reduction. The table in detail provides apparently information that by using 1,8% and 4,3% of Zakah collection, absolutely 100% poor people are able to uplift their income by 1 US$ per day.

TABLE 3.7
PERCENTAGE OF POOR WHO'S INCOME CAN BE INCREASED BY 1US$ THROUGH ZAKAH

Year	Zakah Collection by 1,8%		Zakah Collection by 4,3%	
	Group 1	Group 2	Group 1	Group 2
1984	100,00	100,00	100,00	100,00
1987	100,00	100,00	100,00	100,00
1989	100,00	100,00	100,00	100,00
1992	100,00	100,00	100,00	100,00
1995	100,00	100,00	100,00	100,00
1997	100,00	100,00	100,00	100,00

Source : Karomah (2009,p.26)

The another table below shows the potential Zakah in poverty alleviation in cross-countries. According to table, the percentage of the poor is going to increase as much as the larger amount of GDP percentage proportion toward Zakah proceeds. Niger, Mali, Burkina Faso, Mozambique, Gambia, the revenues generated only enable to lift up their poor's percentage less by US$1 per day less than 10% both using Zakah rate 0f 1,8% and 4,8%. On the contrast, Morocco, Jordan, and Tunisia record that almost 100% the percentage of poor whose income can be increased. The effectiveness of Zakah rate portion as compared with GDP also is determined by capacity building in terms of establishing accountability in Institutional Framework, promoting the professionalism in administration, and keeping strong commitment among each other to gather poverty alleviation.

TABLE 3.8
PERCENTAGE OF POOR WHOSE INCOME CAN BE INCREASED BY US$1 PER DAY BY ZAKAH TRANSFERS

Country	GDP per Capita (US$)	Zakah Collection by 1,8%		Zakah Collection by 4,3%	
Niger	208	1,7	1,2	4,0	2,9
Mali	292	2,0	1,6	4,7	3,8
Burkina Faso	250	2,0	1,4	4,8	3,4
Mozambique	213	2,8	1,3	6,6	3,2
Gambia	382	3,2	2,3	7,6	5,4
Bangladesh	386	6,5	2,4	15,6	5,8
Pakistan	517	8,2	3,0	19,7	7,2
Mauritania	502	8,7	3,6	20,7	8,6
Yemen Rep	316	9,9	3,5	23,7	8,2
Cameroon	696	10,3	5,3	24,5	12,7
Senegal	629	11,8	4,6	28,2	10,9
Cote d'lvoire	715	28,7	7,1	68,4	17,0
Uganda	355	60,3	5,6	100	13,5
Turkmenistan	1587	64,7	17,8	100	42,5
Indonesia	1034	66,3	9,2	100	22,0
Uzbekistan	512	76,5	9,5	100	22,8
Azerbaijan	460	100	23,6	100	56,5
Egypt	1229	100	11,5	100	27,5
Morocco	1436	100	94,4	100	100
Algeria	1616	100	52,8	100	100
Jordan	1639	100	100	100	100
Kazakhstan	1712	100	55,2	100	100
Turkey	2873	100	76,1	100	100
Tunisia	2562	100	100	100	100

Sources : World Development Indicators, World Bank, 2002,2003

Unfortunately, results from the potential Zakah collection above to alleviate poverty is not suppose to be very promising, while looking at the actual collection are underestimated and more discouraging. As shown in table 3.8 below that Zakah collected in Egypt and Jordan during 1986 relatively small, namely are 0,02% of GDP. While Saudi Arabia recorded only 0,01% during mid-1970s. Then, Kuwait and Malaysia accounted for as much as in terms Zakah calculation,0,08% respectively.

Even in Indonesia, in 2009 indicated around 0,02%. Among countries listed above, Pakistan, according to Kahf estimation calculated as the largest in terms of Zakah collection, roughly 0,30%.

TABLE 3.9
ZAKAH COLLECTIONS AS A PERCENTAGE OF GDP

Country	Zakah Collections (as percentage of GDP)
Egypt[a]	0,02
Jordan[a]	0,02
Indonesia[d]	0,02
Kuwait[a]	0,08
Pakistan[a]	0,3
Saudi Arabia[b]	0,01
Malaysia[c]	0,08

a. Kahf (1993) for the year 1985
b. Salama (1982) for the year 1975/1976
c. Estimated from 2001 data on Zakah collections and GDP
d. Syauqi Beik, Irfan (2009)

4. POLICY IMPLICATION

Given the above discussion, the important policy that should be issued by government is the notion and action to promote the level of income, either the productive household that lack the means and opportunities to earn decent income levels, or the non-productive household that lack resources and entitlements. The power of Zakah can be simultaneously done by incentive policies, macroeconomic policies, and regulatory policies. All of these are eventually formulated into poverty reduction strategies coverage by Zakah transferred. Appropriate sectors need to develop, such as improvement of fiscal, monetary, sectoral policies, external vulnerability whereby ultimately affect to enhance income of Zakah payer (calculated as proportion of GDP) and growth of an economy. Again, policy redistribution through distribution of opportunity and income should be brought up as priority orientation as well. In spite of promoting opportunity, facilitating empowerment, and enhancing security for the poor are considered as Zakah oriented-public policy to optimalize the Zakah's objectives. Finally, Zakah should be an alternative policy to create opportunities in enhancing entitlements of the house hold or generating capacity building, such as increasing trade capacity by providing the poor financial capital to acquire the necessary inputs, improving production ability based on training in terms of human capital, and establishing own-labor productivity based on skill and knowledge.

In addition, having mention above that the power of Zakah in poverty alleviation or reduction is regarding to the amount of Zakah collected as proportion of GDP. In short, generating the amount of Zakah collected seems to be a priority and main concern. However, lower Zakah collected is merely because of the small number of Zakah payer imposed Zakah. The problems, issues, are related also with the Zakah administration which is naturally going on in terms of assessment, coverage, collection, and so on.

a. Fiqh Related Problems. It seems to be a source of problem in the administration of Zakah. The fiqh problem, for instance, the scope or Zakatable assets which are imposed Zakah because each countries tends to follow the rules set by their traditional fiqh literature or local scholars. In Sudan, Zakah is

not imposed on financial assets, and while in Saudi Arabia fixed business assets are excluded from Zakah. If the unresolved fiqh do not deal yet, it may affect to introduce the institution of Zakah, and in turn reduce the potential Zakah collected from the Zakah payer

b. Coverage of Zakah. Different perspective in Zakah administration has impacted the Zakatable resources for Zakah collection. for instance, in Saudi Zakah is only imposed to "Zakah al-mal" excluding bank accounts and cash assets. Moreover, in Malaysia every state has their own law for administration of Zakah because of depending to the religious affairs which are under the state of religious departments. For example, in the state of Kedah, Zakah collection is only collected from paddy, and not other agricultural crop (Othman et al 1990. P.20).
c. Zakah Payment Through Non-Official Channels. One important issues which is related with Zakah collection is Zakah payment to non-official channels. For instance in Kelantan State which is only two-third of total Zakah are to paid to the official channel (Othman 1990,pp.17-18). In Malaysia, the reasons for payment of Zakah through non-official channels include (Sadeq, 1994) : (1) inconvenience of going to the council's office which collects Zakah, (2) inefficiency of the council's collection efforts, (4) satisfaction received by giving Zakah to known people, and also (5) political factors behind (Ghazali 1998,p.17). Meanwhile, sometimes, the Zakah payers believe that it is more religious to pat and disburse by themselves rather than giving to the state (Salama 1990,0.4).
d. Administration cost. The portion of administration cost determines how efficient the administrators is. The spirit of disbursement Zakah to amil is to administer the Zakah distribution in order to achieve the Zakah's objectives. In the case of Malaysia, the Zakah employees received 34% of the total disbursement in the state of Perlis in 1985 as compared to 14% for Fakir/Miskin. Again, the administrative cost was even higher in the Sate of Negeri Sembilan during 1978-1982, which was 52% of Zakah disbursement (Hasan, 1987,p.87). therefore, a need to develop an efficient and effective mechanism of Zakah administration needs to be thought in order to optimalize the redistribution of income from the rich to the poor.

TABLE 4.1
DISBURSEMENT OF ZAKAH ACCORDING TO BENEFICIARY TYPE IN THE SATE OF NEGERI SEMBILAN (2002) (IN MILLIONS OF RM)

Beneficiary Type	Amount of Zakah Disbursed	Percentage of Zakah Disbursement
Poor and Needy (Faqir and Miskin)	2.573	21,3
Administration (Amil)	2.709	22,4
New Converts (Muallaf)	0,902	7,5
Bonded Persons (Riqab)	3.424	28,3
Indebted Persons (Gharim)	0,018	0,1
In The Path of Allah (Fisabilillah)	2.313	19,1
Wayfarer (Ibnu Sabil)	0,141	1,2
Total	12.082	100

Source : Baitumall, Negeri Sembilan Documents

5. CONCLUSIONS AND SUGGESTIONS

CONCLUSIONS

Poverty happens to be acute diseases of social development, particularly to promote welfare state and welfare societies. The another reason why poverty have to be alleviated because of poverty is usually meant to be deprivation of wellbeing, and basically there are many factors that cause it and various approaches to explain the concept. Basu, 1984 stated that poverty is close to the condition whereby poor are weak and vulnerable to hostile factors and events beyond their control. Again, poverty is characterized to be persistently in what referred to as the vicious circle of poverty

Islam provides Islamic tool that has completely proved in combating poverty. Institutional of Zakah has played important role in taking out Muslims from poverty trap. Keep in mind the fact that the main objective of Zakah is the achievement of socio-economic justice is not disputed (Kahf, p.2). Metwally (1983) also stated that the Zakah disbursement has the ability to increase consumption since the marginal propensity to consume of the Zakah payer is lower than the Zakah recipient, so that increasing the purchasing power parity of the poor. Consequently, in Islam transfer payment, from the wealthy to the poor for the purpose of redistribution of wealth and income in the society has been taking a central principle in building the Ummah. Furthermore, redistribution concept is also established that the Quran and the Prophet act (Sunnah) do have overwhelming evidences which indicate that Islamic system do not recognize and like any form of concentration of wealth or income in a few hands.

Therefore, the power of Zakah to poverty alleviation could be looked from theoretical aspect and empirical evidence. The impact of Zakah could be regarded in terms of consumption variable and investment variable. Thus, the more Zakah disbursed by Muzakki, the more in increasing the amount of aggregate consumption created into economy. In spite of in Islamic economic system, Zakah payer will transfer their excess income or wealth to Zakah recipient which indirectly will promote the higher propensity to consume of Zakah recipient. In contrast, in the Zakah payer side, they will reduce the consumption, and turn into saving/investment activities. However, finally it also will create real economy through investment project financing or credit instrument.

The power of Zakah toward poverty alleviation can be observed by looking at the scope and potential of Zakah, namely comparatively calculate the desired total amount of Zakah than can be collected as compared to the the Zakah rate applicable at the GDP level is needed. Whereby, Kahf (1987) had stated his opinion to utilize the average of several opinions and determine it to 1,8% and 4,3% of GDP. Unfortunately, results from the potential Zakah collection above to alleviate poverty is not suppose to be very promising, while looking at the actual collection are underestimated and more discouraging because of the Countries's Zakah percentage of GDP are less than 1% of GDP.

Given the above discussion, the important policy that should be issued by government is the notion and action to promote the level of income, either the productive household that lack the means and opportunities to earn decent income levels, or the non-productive household that lack resources and entitlements. The policy implication are both internal improvement and external improvement within Zakah Institution its self.

Incentive policies, macroeconomic policies, and regulatory policies are policies that are needed to promote and encourage Zakah collection. However, The others issues and problems that need to be considered in to consideration are regarding Zakah administration, namely

a. Fiqh Related Problems.
b. Coverage of Zakah.
c. Zakah Payment Through Non-Official Channels.
d. Administration cost.

SUGGESTION

The suggestion in this paper is related to the Power of Zakah distribution poverty alleviation are as follows:

1. Government and Social Community should promote about Zakah in order to enhance the awareness to the Moslem in terms Zakah as medium of poverty reduction.
2. It should optimalize the role of ulama' *(fuqaha)* to help amil to administer Zakah particularly regarding with the law of Zakah as regulated in Qur'an and Hadits
3. Zakah should be administered with Government regulation, and Zakah is considered and stipulated as compulsory or mandatory payment to all Muslim in order to maximize the Zakah transferred from the roch to the poor

REFERENCES

Al Qur'an

Abu Bakar, Nur Barizah (n.d), A Comparative Study of Zakah and Modern Taxation, International Islamic University Malaysia, Kuala Lumpur

Ahmad, Ausaf (n.d), A Macro Model of Distribution in An Islamic Economy, Islamic Research and Training Institute, Islamic Development Bank

Ahmed, Habib, (2004), Role of Zakah and Awqaf in Poverty Alleviation, Occasional Paper, No.8, Islamic Research and Training Institute, Islamic Development Bank

Ahmed, Habib (2004). Zakah, Macroeconomic Policies, and Poverty Alleviation : Lesson from Simulations on Bangladesh. Journal of Islamic Economics, Banking and Finance

Akhtar, Muhammad Ramzan (2000), Poverty Alleviation on a Sustainable Basis in the Islamic Framework, The Pakistan Development Review 39 :4 Part II

Beik, Irfan Syauqi (2009). Refleksi Ekonomi Syariah dan Outlook 2010. Slide Presentation Prepared for Weekly Discussion, Islamic Economic Forum For Indonesia Development (ISEFID), Kuala Lumpur

El-Ashker Fattah, (1995), Institutional Framework of Zakah ; Dimensions and Implications, Seminar Proceedings No. 23, Islamic Research and Training Institute, Islamic Development Bank

Haneef, Aslam (2009). Distribution. Slide Presentation Prepared for Teaching Class Material, International Islamic University Malaysia, Kuala Lumpur

Kahf, Monzef (1997), Potential Effects of on Government Budget : IIUM Journal of Economics and Management 5, No 1 : 67-85, International Islamic University Malaysia Press, Kuala Lumpur

Kahf, Monzef (1993), Zakah Management in Some Muslim Societies, Background Paper No 11, Islamic Research and Training Institute, Islamic Development Bank, Jeddah

Kahf, Monzer (1989), "Zakah : Unresolved Issues in the Contemporary Fiqh", Journal of Islamic Economics, 2(1),pp.1-22

Karomah, Umi (2009). Islamic Alternative to Poverty Alleviation : Comparative Study between Indonesia and Malaysia. Paper Presented on Islamic Economics and Economies of the OIC Countries 2009, International Islamic University Malaysia, Kuala Lumpur

Mohsin, Mohammad, (1995), Economics of Small Business in islam, Visiting Scholar Research Series, No 2, Islamic Research and Training Institute, Islamic Development Bank

Mustapha, Nik (1987), Zakat in Malaysia-Present and Future Status, Journal of Islamic Economics, Vol.1 No.1, Kuala Lumpur

Nuraihan, Muhammad (2009), Zakah Management in Singapore Collection, Distribution, and Investment, Paper Presented on Islamic Economics and Economies of the OIC Countries 2009, International Islamic University Malaysia, Kuala Lumpur

Obaidullah, Mohammed (2008). Role of Microfinance in Poverty Alleviation, Lesson From Experiences in Selected IDB Member Countries. Islamic Research and Training Institute, Islamic Development Bank

Qaradawi, Yusuf (n.d). Fiqh al-zakat –A Comparative Study of Zakah, Regulations and Philosophy in The Light of Quran and Sunnah, Kingdom of Saudi Arabia, Jeddah : King Abdul Aziz University

Sadeq, Hasan (2002), A Survey of The Institution of Zakah : Issues, Theories, and Administration, Discussion Paper No.11, Islamic Research and Training Institute, Islamic Development Bank

Wiranata, Dimas et. all (2009). The Analysis of Zakah Distribution and Its Impact Toward The Aggregate consumption and the Structural Poverty Alleviation in Indonesia. Paper Presented on Islamic Economics and Economies of the OIC Countries 2009, International Islamic University Malaysia, Kuala Lumpur

Yusoff, Mohammad, (2009), An Analysis of Zakah Expenditure and Real Output : Theory and Empirical Evidence, Paper Presented on Islamic Economics and Economies of the OIC Countries 2009, International Islamic University Malaysia, Kuala Lumpur

Zubair, Hasan (1990), Zakah, Moderation, and Aggregate Consumption by Munawar Iqbal : Comments, MPRA Paper No.3224, International Islamic University Malaysia, Kuala Lumpur

----------, (2009), Zakat dan Pembangunan : Era Baru Menuju Kesejahteraan Ummat, PEBS FEUI dan CID, Jakarta

SOME INFLUENCE FACTORS OF ZAKAH-INFAQ-SHADAQAH COLLECTING (CASE IN SURAKARTA-CENTRAL JAVA-INDONESIA)

Mujiyati
Bagus Rudhiyoko
Muhammad Sholahuddin
Economics Faculty, Muhammadiyah University of Surakarta (UMS)
Jl. A. Yani Tromol Pos 1 Pabelan, Kartasura, Sukoharjo, Central Java-Indonesia
e-mail : didinsolo@yahoo.com, ko246_us@yahoo.co.id

SOME INFLUENCE FACTORS OF ZAKAH-INFAQ-SHADAQAH COLLECTING (CASE IN SURAKARTA-CENTRAL JAVA-INDONESIA)

Mujiyati
Bagus Rudhiyoko
Muhammad Sholahuddin

ABSTRACT

This study aims to find out the factors which are affected the collection of Zakat, Infak and Shodaqoh (*ZIS) on charity management institution. The result of analysis is expected to become inputs in making the work program to improve the collection of ZIS at their institution. Hypothetical test in the research is using double linier regression analysis with the t test, F test and determination coefficient (R^2). The type of this research is a quantitative research. Based on the results of the research for Solo Peduli Surakarta known that only net number of variables and moment which has significant influence to the acceptance of ZIS, while the promotion variable doesn't have significant influence to the acceptance ZIS. The receipt ZIS in Solo Peduli is influence by variation of promotion, number of network and moment of 50,5%. While the rest of 49,5% has explained by other factors which are not observated. The result of the observation on Lazis Al Ihsan-Central of Java has known that only moment variable which has significant influence the acceptance ZIS, while promotion and number of network are not significantly influence to the acceptance of ZIS. Promotion, number of network and moment are all together significantly influence the acceptance of ZIS in Lazis Al Ihsan-Central of Java. Acceptance of ZIS in Lazis Al Ihsan-Central of Java has influence by the variation of promotion, number of network and moment of 85,2%, while the balance of 14,8% has explained by other factors which are not observated.*

Key words: *promotion, number of network, moment, acceptance of ZIS*

A. BACKGROUND

Poverty is the biggest problem of Indonesia nation. The poverty has been occurring for long time and it will remain become a reality of life. A prolonged economic crisis of 1997 had doubled number of poor people. According to Avenzora (2003: 1), cited from BPS, in 2002 (February), number of Indonesian poor people was 38.4 millions that distributed in urban areas (14.5%) and rural areas (21.1%). Poverty depth index of urban areas increased from 2.55 in 1996 to 4.35 in 1998 (in the crisis period), and of rural areas was 3.55 to 4.51. While, the poverty severity index of urban areas increased from 0.71 to 1.27 and of rural areas was 0.96 to 1.48. The increased indices indicated that the economic crisis had deepen and made worst for poverty in Indonesia.

In addition to substantial poverty problem, Indonesian economy is facing a high rate of unemployment. According to BPS that cited by Sunarsip (2003: 75), number of job seekers had increased for last five years from 4.3 millions individual in 1996 to about 8 millions individuals in 2002. If criteria of unemployment includes people who have work hours of less than 35 hours a month, so number of unemployment is estimated about 28 millions individuals. Added with new job seekers, so total number of unemployment in 2002 is estimated about 36 millions people.

Zakat has a great possibility to use as alternative resources in order to eliminate poverty. Sabahadin Zaim cited in Tahir (2004: 253) said that functions of *zakat* on welfare, among the others, are to ensure redistribution of income. *Zakat* may be used to enhance people's income and, at the same time, it is an effective instrument of even distribution of prosperity. Therefore, *zakat* has a function as an instrument of fiscal policy.

As a country with greatest number of Moslems in the world, potency of *zakat* is very substantial. However, estimations about *zakat* potencies are still rough valuations. Most of the estimations that had been conducted are limited to minimum potency estimation. The smallest number obtained from several estimations was Rp. 5.1 billions. According to State Islamic University of Jakarta, the potential of zakat in Indonesia on 2008 was Rp 19 billion. To date, there is no study estimating specifically potencies of every type of *zakat*. In other side, realization of *zakat* is far less from available potency.

B. PROBLEM STATEMENT

Based on explanation above, there is a problem in *zakat* management, namely, a wide gap exists between potentials of *zakat* and realization of zakat collection by institutions of zakat managements. Starting from the problem, a study about what factors are affecting collection of *zakat, infaq*, and *shodaqoh* (ZIS) of *zakat* management institutions is conducted.

C. LITERATURE REVIEW

Viewed from histories written in Qur'an, in fact, the *zakat* obligation had been introduced to Prophet Ibrahim a.s, Prophet Yakub a.s (QS 21 : 73), Prophet Ismail a.s (QS 19 : 54), Bani Israil people (QS 2 : 83), Prophet Isa a.s (QS 19 : 31), and scribers in general (QS 98 : 5). Through Prophet Muhammad s.a.w (the last prophet until the end of world), Allah SWT confirms perfectly the commands about *zakat* obligation to followers of Prophet Muhammad s.a.w. Allah explains all His commands in His decrees that written in Qur'an. Then, Prophet Muhammad s.a.w provided clear and detailed examples about implementation of *zakat* obligation that was managed professionally.

1. Understanding of *Zakat*, Infaq, Shodaqoh

Viewed from language aspect, the word '*zakat*' has several meanings, namely, *al-barakatu* (blessing), *al-namaa* (growth and development), *ath-*

thaharatu (pureness), and *ash-shalahu* (well-done), (Didin H. 2002 : 7, cited from Majma Lughah al 'Arabiyyah, al Mu'jam al Wasith). In other side, M. Umer Chapra (2000 : 270) stated that the meaning of *zakat* based on its language is *madh* (praise). While, viewed terminologically, *zakat* means a proportion of assets, with specific conditions, that Allah SWT obliges the owner to give it to person who has a right, with specific conditions, to receive it. Technically, according to Chapra (2005), *zakat* is a financial obligation in which Moslem should make some payment for his or her net assets or harvest if the asset or harvest exceeds *nishab* limits, an established amount of net asset or harvest that *zakat* should be paid as a part of obligation that must be performed. Correlation of two understandings of *zakat* above is very obvious and close, namely, wealth that its *zakat* has been paid will be become a blessing, growth, develop, purified and well-done as well as praised.

2. Regulation of Zakat Management

Regulation of *zakat* is all governmental policies written in legislation in order to regulate *zakat* management system of the country. According to Imitiazi (1985: 27), in several Islamic countries or countries with majority of their residences are Moslem, the governments are always paying attention to *zakat* management. In Indonesia, regulations of *zakat* management are written in Act No. 38/1999. The Act No. 38 0f 1999 was released at 13 October 1999 because government has obligation to protect, to guide, and to service *muzak*, *mustahik,* and *amil zakat* (article 3).

There are three important principles in the legislation: First, the legislation regulates about organizations of *zakat* management that permitted to perform *zakat* management activities, namely, *zakat* management is performed by Badan Amil Zakat (BAZ) and Lembaga Amil Zakat (LAZ) that assigned by government. Badan Amil Zakat is established by government, whereas Lembaga Amil Zakat is founded by community. Second, *zakat* as a deduction for taxable income. Article 13 subsection 3 of the Act states *zakat* paid to badan amil zakat or lembaga amil zakat is reduced from taxable retained profit/income of the taxpayers according to applied legislation. *Zakat* as a deduction for taxable income is confirmed legally with establishment of Act No. 17/200 about Income Taxes. The regulation is established in attempts of providing an incentive to taxpayers, namely, deduction of taxable income. Third, penalties are also provided to an institution of *zakat* management that does not perform its duties properly.

3. Factors affecting ZIS collection

To date, there has been no any theory that explains specifically about factors affecting ZIS collection in Indonesia. Logically, factors affecting ZIS collection consist of macro and micro factors. The macro factors is people welfare that measured by GDP. However, countries with an advanced management of *zakat* such as Pakistan had ratio of *zakat* to GDP was less than 1.5% (Kahf 1993: 45). According to Kahf (1993 : 47), Ali (1998 : 56), and Hafidhuddin (2002: 143) *zakat* collection could be improved by developing counting mechanism and finding new *zakat* payers. Other macro factor is policies or regulation established by government.

Micro factor is Moslem's understanding about *zakat*. They have very limited understanding of *zakat* than that of shalat and fasting. Consequently,

the less understanding about *zakat* causes less implementation of the *zakat* (Ali, 1998 : 56). Other micro factor is confidence to collecting institutions. It is consistent with results of PIRAC survey (2002). The survey said that, in addition to religious awareness, motives of paying *zakat* consisted of merciful feeling and trust to institutions that manage it. Incredulity to institution was also reason that some respondents of the survey (41%) rejected to provide contribution.

While, based on research of donor potency mapping and consumer satisfaction (2004), determinant factors of a *muzaki* preferred an institution of *zakat* management were convenience (57%), transparency (15%), institution's image (10%), institution's services (8%) and type of programs offered.

4. Previous Study

Hamidiyah's study (2005) provides a conclusion that 75.8% of factors affecting collection of *zakat*, *infaq* and *shodaqoh* in Dompet Dhuafa Republika were explained by promotion cost, number of networks, regulation, and moments of Ramadhan and Dzulhijah months. Promotion cost, network, and moments in religious months had significant and positive effect on collection of *zakat*, *infaq* and *shodaqoh*. While, regulation factors was not significantly affecting collection of *zakat*, *infaq* and *shodaqoh*.

D. RESEARCH METHODOLOGY

1. Frame of Thinking

A detailed, clear and careful frame of thinking is necessary to depict about organization of the study. The frame of thinking can be depicted as follow:

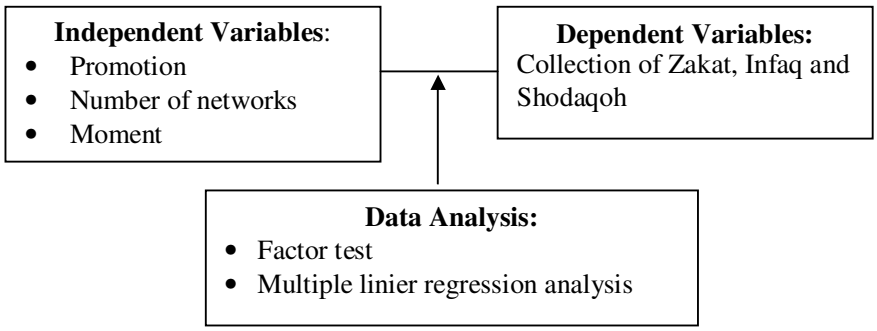


Figure III.1 Frame of Thinking

2. Hypotheses

The study posits hypotheses as follow:

Factors affecting collection of *zakat*, infaq, shodaqoh and wakaf of institutions of *zakat* management are: (1) promotion cost, namely, there is a significant and positive correlation between promotion cost and collection of *zakat*, infaq and shodaqoh (ZIS). (2) Number of networks, namely, there is a significant and positive correlation between number of ZIS service offices and

collection of *zakat*, infaq and shodaqoh (ZIS). (3) Moment, namely, there is a significant and positive correlation between Ramadhan and Dzulhijjah months and collection of *zakat*, infaq and shodaqoh.

3. Data and Sources of Data

The research is a quantitative one. Analysis of factors affecting collection of *zakat* uses time series data, namely, data of *zakat*, *infaq* and *shodaqoh* (ZIS) collection of *zakat* management institutions in Surakarta. The data is obtained from Financial Reports of 1427H-1428H, monthly report of fund receipts and promotion cost data of 1427H – 1428H, Annual Report, and fund receipts report.

4. Operational Definition of Variables

Dependent Variable

Collection of *zakat*, *infaq* and *shodaqoh* (ZIS) of *t* period, it means amount of rupiahs that successfully collected every month by two institutions of *zakat*, infaq and shodaqoh (ZIS) management in Surakarta.

Independent variables:

1) Variable of promotion cost for *t* period per month in rupiahs spent by two SIZ institutions of Surakarta.
2) Variable of promotion cost for *t-1* period per month in rupiahs spent by two ZIS institutions of Surakarta.
3) Variable of number of networks. It means number of partner institutions that cooperate per month in collecting ZIS with the two ZIS institutions of Surakarta.
4) Variable of moment. It means dummy variable that assigned with value 0 for ZIS collection in usual months and with value 1 for ZIS collection in Ramadhan and Dzulhijjah.

5. Data Analysis Method

1) Factor Analysis

Kaiser Meyer Okli (KMO) method is used to test conformity of factor analysis use. KMO is an index to compare between magnitude of an observation's correlation coefficient and that of partial correlation coefficient.

Measure of Sampling Adequacy (MSA) is used to determine whether sampling is adequate or not. Low value of MSA is a consideration to eliminate a variable in next analysis phase.

2) Multiple Linear Regression Analysis

In the study, the two independent variables are numerical variables, whereas one independent variable is a categorical variable that generally called as a dummy variable (Nachrowi & Usman, 2002 : 187). The dummy variable is used because regulation and moment are qualitative variables, so they should be categorized by numerical notation such as 0 and 1 or 1 and 2.

In this study, dependent variable refers to current time (t) and independent variables, especially promotion refers to past time (t-1). Based on the result, so Distributed Lag Model is used (Nachrowi & Usman, 2002 : 330).

The Distributed Lag Model can be formulated as follow:

$$Y = \alpha + \beta_1 X_{lt} + \beta_2 X_{lt-1} + \beta_3 X_2 + \beta_4 X_{l3} + \mu$$

Where:

Y = ZIS collection for t period
α = Intercept
β_{1-4} = Constant
X_{lt} = Promotion cost for t period
X_{lt-1} = Promotion cost for t-1 period
X_2 = Number of networks
X_3 = Moment, in which
X_3 = 0 : usual month
X_3 = 1 : Ramadhan and Dzulhijjah months
μ = Standard errors

Statistical testing by using t-test, F-test and determination coefficient (R^2) are performed in attempts of knowing significance of effects of promotion, number of networks and moment on collection of *zakat*, Infaq and shodaqoh.

E. RESULTS AND DISCUSSION

1. Descriptive Statistical Analysis

A statistical descriptive analysis of the study is used to know situation of a *zakat* institution "Solo Peduli" and a *zakat* institution (LAZIS) "Al Ihsan" of Central Java based on amount of promotion cost, number of network and amount of ZIS collection. The results are described in Table 4.1:

Table 4.1
Descriptive Statistical Data of Solo Peduli of 2006-2007

Variables	Minimum	Maximum	Mean	Std. Deviation
Promotion	1,003,000	1,980,000	1,372,166.67	278,180.68
Number of network	7	9	8	0.722
ZIS Collection	3,674,100	2,051,076,595	184,155,079.79	502,209,675.88

Source : Processed secondary data, 2009

Based on table 4.1 above, it can be known that averaged promotion cost that had been spent by Solo Peduli for 2006-2007 was Rp. 1.372.166,67; whereas number of networks were 9 institutions and it was successfully collecting an averaged amount of *zakat*, infaq and shodaqoh of Rp 184.155.079,79. Next, data of statistical description of LAZIS "Al Ihsan" of Central Java.

Table 4.2
Descriptive Statistical Data of LAZIS Al Ihsan of Central Java 2006-2007

Variables	Minimum	Maximum	Mean	Std. Deviation
Promotion	1,272.000	5,923,000	2,238,750.00	1,309,501.90
Number of network	14	16	14.83	0.702
ZIS Collection	615,000	115,394,600	25,240,277.08	29,911,191.59

Based on results of calculation of descriptive statistical analysis contained in table 4.2 above, it can be known that Lasiz AL Ihsan had spent Rp. 2.238.7500,00 in average for promotion cost of 2006-2007 period; whereas acquired number of networks were 16 institutions and it could collect *zakat*, infaq and shodaqoh of Rp. 25.240.227,00 in average.

2. Data Analysis

Results of the study in "Solo Peduli" *Zakat* Institution and "Al-Ihsan Jateng' *Zakat* indicated:

a. Results of t-test

1) Promotion (X_1) was not significantly affecting on receipts of *Zakat*, *Infaq* and *Shodaqoh*.
2) Promotion t-1 (X_2) was not significantly affecting on receipts of *Zakat*, *Infaq* and *Shodaqoh*
3) Number of network (X_3) had a significant effect on receipts of *Zakat*, *Infaq* and *Shodaqoh*
4) Moment (X_4) had a significant effect on receipts of Zakat, *Infaq* and *Shodaqoh*.

b. Results of F-test

Results of F-test proved that promotion, number of network and moment were simultaneously affecting significantly on receipts of Zakat, Infaq and Shodaqoh of Solo Peduli.

c. Determination coefficient (R^2)

Determination Coefficient (R^2) of "Solo Peduli" Zakat Institution and "Al Ihsan" Zakat Institution indicated that 50% of variances in Zakat, Infaq and Shodaqoh receipts of Solo Peduli were affected by promotion, number of network and moment, and it was 85.2% for "Al-Ihsan" Zakat Institution. While, other unobserved factors accounted for rest of variances.

F. LIMITATIONS OF THE STUDY

Limitations of the study are as follows:

a. The study was performed only in two institutions of Zakat, Infaq and Shodaqoh, namely, "Solo Peduli" Zakat Institution of Surakarta and Al-Ihsan Zakat Institution of Centra Java.
b. Observation period of the study was limited for 2006-2007 period only.

G. CLOSING

Poverty is a big problem for Indonesia nation. Therefore, zakat is very possible to use as an alternative fund resource to reduce the poverty. According to Sabahadin Zaim in Tahir (2004 : 253), functions of zakat on people welfare, among the others, are: to ensure redistribution of income. Zakat can be applied to

enhance people income and, in the same time, it can be used as an effective instrument to distribute welfare evenly. In such way, zakat can function as a fiscal policy instrument.

Author provides suggestions as follow:

a. It is hoped that Zakat, Infaq and Shodaqoh institutions should make promotions frequently or publications to enhance zakat awareness among Moslems.
b. Zakat, Infaq and Shodaqoh should be managed professionally by emphasizing transparency in financial report so that the institutions will obtain trust from *muzaki*.
c. Next researchers would be hoped to add more Zakat, Infaq and Shodaqoh institutions in their research object and to add more periods of research.

REFERENCES

Abdurrahim dan Mubarak, MA 2002. *Zakat dan Peranannya dalam Pembangunan Bangsa serta Kemaslahatannya Bagi Umat*. Jakarta. Surya Handayani Pratama. Jakarta

Ali, Mohammad Daud. 1988. *Sistem Ekonomi Islam Zakat dan Wakaf*. Jakarta. UI Press.

Ash Shiddieqy, Teungku Mohammad. 1999. *Pedoman Zakat.* Semarang. PT Pustaka Riski Putra.

Doa, Djamal. *Membangun Ekonomi Umat Melalui Pengelolaan Zakat Harta.* Nuansa Madani. Jakarta. 2001.

Hafidhuddin, Didin. 2002. Zakat dalam Perekonomian Modern. Jakarta. Gema Insani Press.

Hamidiyah, Emmy, 2005, *Analisis Faktor-faktor yang Mempengaruhi Pengumpulan ZISWK di Dompet Dhuafa Republika*, Jurnal EKSIS Vol 1 No. 4 Oktober-Desember 2005, Universitas Indonesia

Hasanah, Uswatun. 1989. *Zakat dan Keadilan Sosial, Studi Kasus Pengelolaan Zakat oleh BAZIS DKI Jakarta*. Tesis.

Imtiazi, 1985. *Introduction of Seminar on Management Zakah in Modern Muslim Society*. Karachi

Kahf, Monzer. 1993. *Zakah Management in Moslem Societies*. Islami Development Bank. Islami Research and Training Institute.

Kartajaya, Hermawan. 2002. *Mark Plus on Strategy*. Jakrta. Gramedia Pustka Utaa.

Kotler, Philip and Gary Amstrong. 1991. *Principles of Marketig. New Jersey*. Prentice Hall International, Inc. Cliff.

Nachwi, D. Nachrowi & Hardius Usman. 2002. *Penggunaan Teknik Ekonometri. Pendekatan Populer dn Prak Dilengkapi Teknik Analisis & Penngolahan Data Dengan Menggunakan Paket Program SPSS*. Jakarta. PT. Raja Grafindo Persada.

Qardhawi, Yusuf. 2002. *Hukum Zakat*. Terj. A. Lira Antar Nusa

Sabiq, Sayyid. 1978. *Fikih Sunnah*. Terj. Jilid 3. Bandung. Al-Ma'arif.

Susanto, Anang Arief. 2002. *Zakat sebagai Kebijakan Alternatif Anti Kesenjangan dan Anti kemiskinan. Jurnal Ekonomi Syariah Muamalah Vol 1*. Shariah Economics Forum Universitas Gajah Mada. Yogyakarta.

Tahir, Palmawati. 2004. *Zakat dan Negara, Studi Tentang Prospek Zakat Dalam Meningkatkan Kesejahteraan Masyarakat Dengan Berlakunya UU No. 38 Tahun 1999 Tentang Pengelolaan Zakat*. Disertasi. Universitas Indonesia. Jakarta.

Undang-undang No. 38 Tahun 1999 tentang Pengelolaan Zakat.

Undang-undang No. 17 Tahun 2000 tentang Pajak Penghasilan.

Paper

Agung, Wahyu Dwi, 2003. *Media Informasi untuk Sosialisasi dan Pencitraan LPZ. Makalah Pada Musyawarah Nasional Forum Zakat*. Balikpapan.

Avenzora, Ahmad. 2003. *Parameter Kemiskinan Dalam Tinjauan Konsumsi & Pendidikan*. Makalah pada Seminar Garis Kemiskinan Indonesia : 2003. Forum Zakat. Jakarta.

Chamsyah, Bachtiar. 2001. *Sambutan Menteri Sosial Silaturrahmi & Rrakornas BAZ & LAZ se Indonesia*. Jakarta.

Laporan Tahunan Badan Amil Zakat Nasional tahun 2003.

Majalah Modal, No. 2/I-Desember 2002.

Public Interest Research and Advicacy Center. 2002. *Pola & Kecenderungan Masyarakat dalam Berzakat*. Hasil survey sebelas kota di Indonesia. Jakarta.

Ramadlan, Samsudin. 2003. *Zakat versus Penguasa Zalim Menyoal Distribusi Zakat*.

Saidi, Zaim 2002. *Membangun Kemandirian Berkarya.* Makalah. PIRAC. Jakarta.

Sunarsip, 2003. *UrgensiAmandemen UU No. 38/1999 tentang Pengelolaan Zakat dalam Konteks Pengentasan Kemiskinan*. Makalah pada Musyawarah Nasional Forum Zakat. Balikpapan.

PENGUKURAN KEBERKESANAN AGIHAN ZAKAT: PERSPEKTIF MAQASID AL-SYARIAH

Rosbi Abd Rahman
Pelajar PhD,
Fakulti Ekonomi dan Perniagaan, 43600 UKM Bangi.

Sanep Ahmad
Prof Madya,
Pensyarah, Fakulti Ekonomi dan Perniagaan, 43600 UKM Bangi

PENGUKURAN KEBERKESANAN AGIHAN ZAKAT: PERSPEKTIF MAQASID AL-SYARIAH

Rosbi Abd Rahman
Sanep Ahmad

Abstrak

Keberkesanan agihan zakat biasanya hanya berdasarkan kepada tahap pendapatan. Sekiranya agihan zakat dapat meningkatkan tingkat pendapatan maka agihan tersebut dikatakan berjaya dan jika sebaliknya maka ia dikatakan sebagai gagal. Penilaian sedemikian sebenarnya kurang tepat kerana walaupun pendapatan tidak meningkat tetapi peningkatan mungkin berlaku kepada aspek lain. Ini adalah kerana keperluan manusia bukan sahaja kepada harta tetapi merangkumi semua aspek yang dikehendaki oleh Maqasid al-Syariah iaitu agama, aqal, nyawa, keturunan dan harta. Oleh itu penilaian sama ada kejayaan atau kegagalan sesuatu agihan perlu dinilai berdasarkan kesemua aspek dalam maqosid al-syariah tersebut. Sehubungan itu kajian ini bertujuan menyelidiki bagaiman penilaian keatas kejayaan atau kegagalan sesuatu agihan zakat boleh dinilai dengan mengambil kira kesemua aspek sebagaimana dinyatakan oleh maqasid al-Syariah. Kajian ini menggunakan teori Maslow dan cuba menyimpulkan menggunakan analisis CAST. Dapatan kajian merumuskan bahawa penilaian menyeluruh keatas prestasi agihan zakat boleh dinilai berdasrakan kesemua elemen dalam Maqasid al-Syariah. Kegagalan meningkatkan pendapatan tidak bermakna kegagalan proses agihan kerana ia mungkin dapat meningkatkan elemen lain seperti taraf agama, aqal, nyawa dan keturunan.

Kata kunci: Keberkesanan agihan zakat, maqasid al-syariah, teori Maslow.

Pengenalan

Keberkesanan agihan zakat kepada golongan fakir dan miskin seringkali menjadi perhatian masyarakat sebagai penanda aras bahawa pusat zakat menjaga kebajikan kedua golongan ini dengan sewajarnya. Ini kerana sesetengah golongan masyarakat merasakan kedua golongan ini masih berada ditakuk lama dan tidak banyak perubahan ketara yang berlaku terutama dari sudut ekonomi biarapun mereka telah diberikan bantuan zakat. Ini menujukkan golongan berkenaan masih jauh ketinggalan dan kebanyakan masih kekal sebagai penerima bantuan zakat. Maka peranan dan kepentingan zakat iaitu untuk merapatkan jurang diantara golongan miskin dengan golongan kaya masih tidak dapat dicapai.

Namun demikian perlu diingat bahawa penilaian yang dilakukan dalam menilai keberkesanan bantuan zakat adalah berdasarkan faktor ekonomi sahaja. Perubahan yang berlakuk dalam aspek ekonomi iaitu tingkat pendapatan digunakan sebagai satu-satunya tanda aras menilai kejayaan atau kegagalan bantuan zakat. Sekiranya pendapatan meningkat maka bantuan dikatakan berjaya dan begitulah sebaliknya.

Isu dan Objektif Kajian

Namun persoalanannya adakah adil sekiranya keberkesanan agihan ini hanya dinilai dari sudut ekonomi terutama penilaian diukur semata-mata berdasarkan tingkat pendapatan. Walaupun tidak dinafikan bahawa penilaian berdasarkan tingkat pendapatan telah diterima umum sebagai kaedah untuk mengukur taraf sosiekonomi seseoarang dimata masyarakat, namun pada hakikatnya masih terdapat ukuran keberkesanan yang lebih menyeluruh untuk menilai kejayaan atau kegagalan agihan zakat itu sendiri. Banyak faktor sepatutnya diambil kira dalam menilai keberkesanan agihan zakat kerana perubahan mungkin berlaku dalam aspek yang lain. Tambahan pula keperluan kehidupan dan kebahagian manusia bukanlah bergantung kepada harta dan pendapatan sahaja tetapi juga kepada aspek sosial yang lain.

Persoalan ini perlu dihalusi dan amat menarik untuk dikaji menggunakan satu ukuran yang lebih menyeluruh bagi mengukur keberkesanan agihan zakat. Mengikut ajaran Islam kehidupan manusia memerlukan lima perkara asas yang disebut sebagai maqosid al-syariah. Maqosid al-syariah itu jugalah yang menjadi tujuan syariah diturunkan kepada manusia maka tentunya bantuan zakat juga mempunyai maksud untuk memenuhi maqosid al-syariah tersebut. Berdasarkan kepada keperluan asas tersebut maka penilain kegagalan atau kejayaan sesuatu tindakan perlulah didasarkan kepada kegagalan atau kejayaan dalam memenuhi maqosid as-syariah tersebut. Oleh itu kajian ini bertujuan untuk membina satu kaedah penilaian bantuan zakat yang lebih komprehensif dengan mengambil kira prinsip maqosid al-syariah. iaitu agama, nyawa, akal, keturunan dan harta.

Kajian Lepas

Peniaian keberkesanan sesuatu program pembangunan dilakukan dengan mengambil kira banyak faktor. Emil J. Pasavac (1992) mengambil kira semua maklumat sosioekonomi komuniti, Ahmad Mahdzan Ayob (1998) pula mengambilkira semua petunjuk ekonomi dan sosial, manakala Zainal Abidin (1992) mangambilkira perubahan pandangan dan gaya hidup. Sesetengah pengkaji menggunakan beberapa petunjuk dalam penilaian keberkesanan mislanya David Hulme (2000) mengambil kira petunjuk ekonomi, petunjuk sosial, petunjuk dan sosial politik manakala Birta Mikkelsen (2005) mengambilkira petunjuk perbelanjaan pendapatan, petunjuk diskrit, petunjuk livehood, petunjuk sumber dan petunjuk pengetahuan.

Parashar Koirala (2005) menggunakan juga faktor lain selain pendapatan seperti kemudahan pendidikan, elektrik, dan jalanraya manakala Jaya S. Anand (2005) mengguna tiga aspek untuk dinilai iaitu aspek ekonomi, aspek politik dan aspek sosial. AKM Ahsan Ullah & Jayant K Routray (2007) menilai dari segi pendapatan, aspek aset produktif dan aset bukan produktif dan Majabean R (2008) pula menggabungkan petunjuk ekonomi dan sosial dalam penilaian.

Kajian keberkesanan agihan zakat hanya mengambil kira sesetengah aspek sahaja. Hairunizam Wahid. et.al (2001) hanya menilai aspek kualiti hidup sahaja, Fuad Johari (2004) melihat kesan dari aspek agihan pendapatan, dan Patmawati Ibrahim (2005) menilai dari aspek kesaksamaan agihan pendapatan. Mijani Tarimin (2005) juga menilai kesan dari aspek pendapatan tetapi kearah pengurusan yang profesional, manakala Ahmad Fuad Mohammad (2006) menilai hanya dari aspek pendapatan sahaja.

Kebanyakan kajian yang lepas berhubung dengan kesan agihan zakat hanya menilai kejayaan atau kegagalan berdasarkan faktor pendapatan sahaja. Ia sepatutnya mengambil kira beberapa faktor lain sebagaimana dilakukan dalam membuat penilianan keberkesanan sesuatu program. Oleh itu kekurangan penilai keberkesanan agihan zakat ialah ia telah mengenepikan banyak aspek lain yang juga penting dalam kehidupan manusia khususnya dari aspek yang telah digariskan oleh maqosid al-syariah. Kesemua apsek yang digariskan oleh maqosid al-syariah perlu diambil kira agar penilaian yang dilakukan menjadi lebih komprehensif dan menepati keperluan kehidupan manusia sebenar.

Ukuran keberkesanan Berdasarkan Prinsip Maqasid al- Syariah

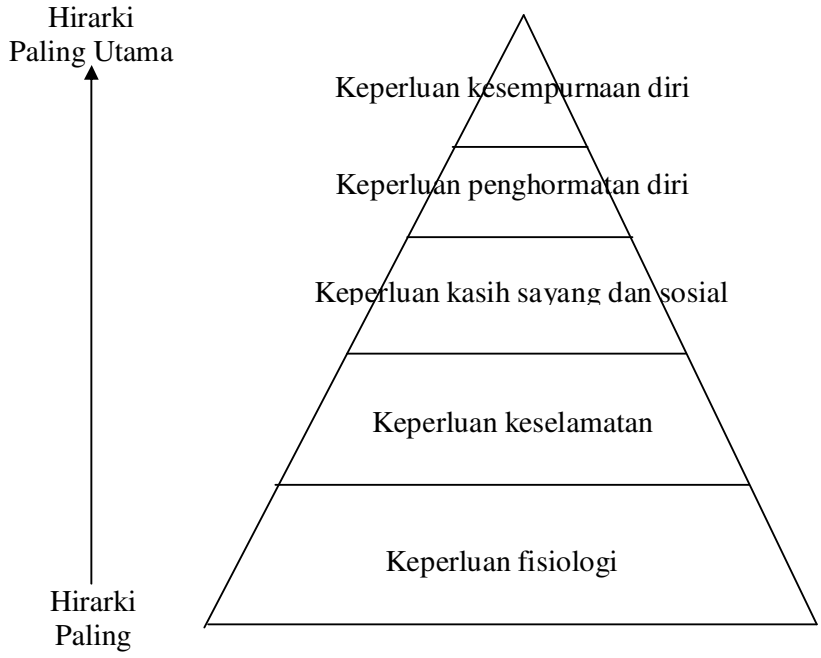
Ukuran keberkesanan agihan zakat kepada golongan asnaf ini seharusnya dilihat dalam konteks yang lebih luas iaitu sejauhmana ia dapat membantu mereka mencapai keperluan yang digariskan dalam maqasid syariah. Prinsip yang dinyatakan dalam Maqasid al-syariat melihat kepada matlamat seseorang individu mestilah memenuhi 5 keperluan yang digariskan iaitu memelihara dan menjaga kesucian agama(al-din), menjamin keselamatan nyawa (al-nafs), menjamin kemuliaan akal dan fikiran (al-aql), menjamin kehormatan dan maruah diri(al-nasb) dan menjamin kekayaan harta (al-mal). Prinsip pertama dalam maqasid syariah iaitu memelihara kesucian agama(al-din) akan dapat memastikan setiap muslim berpegang teguh kepada ajaran Islam dan tidak akan melakukan sesuatu yang bertentangan dengannya. Maka setiap tindakan dan usaha yang dilakukan termasuk dalam mencari rezeki dan memperbaiki taraf kehidupan akan mengikut lunas-lunas ajaran Islam. Prinsip kedua iaitu menjaga keselamatan nyawa(al-nafs) pula akan mendorong individu berusaha keras bagi memastikan mereka berupaya menjaga keselamatan diri dan keluarga. Maka sebarang tingkalaku mereka akan berteraskan kepada menjaga keharmonian dan tidak akan melakukan sesuatau tindakan yang akan mendatangkan bahaya atau merbahayakan nyawa sendiri dan pihak lain.

Prinsip ketiga iaitu memenuhi keperluan menjaga kewarasan akal dan fikiran(al-aql) akan mendorong setiap individu mengunakan kelebihan akal yang ada untuk menimba pelbagai ilmu pengetahuan, kemahiran untuk menjamin kesejahteraan diri, keluarga dan masyarakat. Seseorang individu juga mesti memenuhi prinsip keempat iaitu menjaga kehormatan diri dan maruah (al-nasb), ini bermakna mereka yang mampu menjaga batas-batas kehormatan diri, maruah dan nama baik keturunan secara tidak langsung akan dapat membantu membina masyarakat yang bermarauah disamping diri mereka sendiri akan lebih diterima dan dihormati. Meraka juga akan sentiasa berpegang kepada ajaran Islam dan tidak terdorong untuk melakukan sesuatau yang akhirnya merosakkan maruah diri dan keturunan.

Prinsip kelima pula iaitu menjaga harta(al-mal) ini bermakna ajaran Islam tidak menghalang umatnya mengejar kekayaan asalkan harta yang diperolehi adalah dari kaedah dan sumber yang halal. Seseorang muslim mesti bijak menggunakan peluang yang ada untuk mencari rezeki dan seterusnya menjaga harta benda demi kesejahteraan diri dan keluarga. Maka dapat dirumuskan kelima-lima prinsip dalam maqasid syariah ini adalah merupakan keperluan-keperluan yang perlu dipenuhi oleh setiap individu bagi memastikan mereka membentuk ahli masyarakat yang berpandukan kepada prinsip syariat Islam. Maka disini terdapat kewajarannya bahawa dalam mengukur keberkesanan sesuatu bantuan seperti bantuan modal zakat dari segi keupayaannya mengubah taraf sosioekonomi hendaklah berdasarkan sejauhmana mereka berupaya memenuhi keperluan berdasarkan prinsip maqasid syariah .

Teori Maslow

Teori Maslow yang juga lebih dikenali sebagai teori Heiraki Maslow diperkenalkan oleh Abraham H. Maslow (1954) melihat kepada keperluan bagi individu untuk memenuhi 5 hieraki keperluan dalam hidupnya meliputi keperluan asas, keperluan keselamatan, keperluan kasih sayang,keperluan penghargaan diri dan akhirnya keperluan kesempurnaan kendiri. Rajah 1 berikut menunjukkan rajah berbentuk piramid yang mengambarkan 5 heiraki keperluan berdasarkan Teori Maslow.

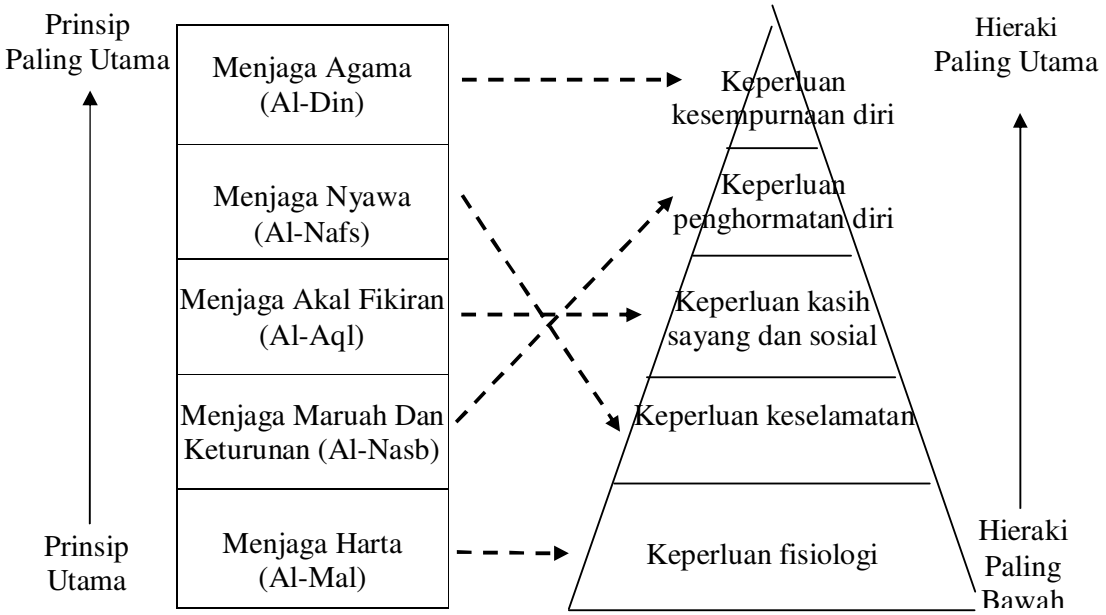


Rajah 1 : Teori Heiraki Maslow oleh Abraham H. Maslow, 1954

Menurut teori Maslow, heiraki paling dasar yang perlu dipenuhi adalah keperluan fisiologi yang merangkumi keperluan asas, diikuti keperluan keselamatan, keperluan kasih sayang, keperluan penghormatan diri dan keperluan kesempurnaan diri. Menurut teori ini kelima-lima keperluan ini memberikan motivasi kepada individu menjalani kehidupan.

Aplikasi Prinsip Maqasid Syariah Ke atas Teori Maslow

Berdasarkan prinsip Maqasid Syariah pula, menurut Iman Syatibi terdapat lima keperluan utama yang dipenuhi dan ianya dirujuk sebagai maqasid dharuriyat (keperluan asas) yang mengandungi lima perkara iaitu menjaga agama (ad-din) yang merupakan keperluan yang paling utama sekali, dikuti oleh menjaga jiwa (al-nafs), menjaga akal (al-aql), menjaga keturunan (al-nasl) dan akhirnya menjaga harta (al-mal). Untuk tujuan kajian ini, kelima-lima prinsip maqasid syariah telah diaplikasikan dan diselaraskan ke dalam kelima-lima heirarki Maslow (Rajah 2).



Rajah 2 : Aplikasi Prinsip Maqasid Syariah ke atas Teori Heiraki Maslow

i. Prinsip Menjaga Kemuliaan Agama (ad-din) & Keperluan Kesempurnaan Diri

Keperluan menjaga Kemulian Agama (ad-din) telah diaplikasikan kepada Keperluan Kesempurnaan Diri dalam Teori Maslow. Keperluan kesempurnaan diri dalam teori Maslow merupakan heiraki paling penting yang menjadi matlamat individu. Ini membawa kepada satu tahap di mana seseorang individu merasa puas dengan apa yang dimiliki dan diusahakan serta menghargai segala bakat dan anugerah yang ada. Manakala berdasarkan maqasid syariah menjaga kemuliaan agama adalah amat penting dan wajib bagi seseorang muslim. Ini bermakna mereka perlu memelihara kesucian agama dalam apa jua keadaan. Segala tindak-tanduk tidak akan bertentangan dengan ajaran Islam. Malahan dalam mencari rezeki hendaklah berdasarkan sumber yang halal. Matlamat utama kehidupan bukan sekadar mengejar keperluan duniawi malahan yang lebih penting adalah mencari keredhaan Allah.

ii. Prinsip Menjaga Nyawa (al-nafs) & Keperluan Keselamatan

Keperluan menjaga nyawa (al-nafs) telah diaplikasikan ke dalam Keperluan Keselamatan dalam Teori Maslow. Ini kerana kedua-duanya mempunyai ciri persamaan dari segi memenuhi keperluan bagi memastikan keselamatan diri dan keluarga terjamin, stabil, jauh daripada rasa ketakutan terpelihara, merasa selamat dan dilindungi berdasarkan kehendak undang-undang dan peraturan. Bagi sebagai seorang individu muslim berhak dan sewajarnya bertanggungjawab bagi memastikan keperluan ini dipenuhi demi kesejahteraan semua dan tidak melakukan sesuatu yang akan mengancam nyawa diri dan masyarakat.

iii. Prinsip Menjaga Akal dan Fikiran (al-aql) & Keperluan Kasih Sayang

Keperluan menjaga akal dan fikiran (al-aql) telah diaplikasikan kepada Keperluan Kasih sayang dalam Teori Maslow. Ini kerana keperluan kasih sayang hanya akan dipenuhi sekiranya seseorang itu mempunyai kewarisan akal dan fikiran yang membolehkan mereka bergaul dan berhubung dengan ahli keluarga dan masyarakat. Tanpa kewarisan akal dan fikiran juga menyukarkan mereka mencari ilmu pengetahuan dan kemahiran yang sewajarnya bagi membolehkan mereka mencari sumber rezeki yang halal. Selain itu tanpa kewarisan akal dan fikiran kemungkinan akan mendorong mereka melakukan kekerasan , keganasan dan hilang rasa hormat menghormati dan rasa kasih sayang yang akhirnya boleh menjejaskan keharmonian semua pihak.

iv. Prinsip Menjaga Maruah dan Keturunan (al-nasb) & Keperluan Penghormatan Diri

Keperluan menjaga maruah dan keturunan (al-nasb) telah diaplikasikan kepada Keperluan Penghormatan Diri dalam Teori Maslow. Ini kerana seseorang muslim akan hanya dapat memenuhi keperluan penghormatan diri sekiranya dari segi maruah dan keturunan mereka terpelihara. Ini bermakna memelihara diri dan keturunan dari sifat-sifat tercela akan membolehkan mereka memperolehi penghormatan dari ahli masyarakat yang lainnya. Malahan sekiranya berupaya membuktikan keupayaan mereka berdasarkan kelebihan, bakat dan usaha akan membolehkan mereka dan keluarga mereka diterima dan diberi penghormatan yang sewajarnya oleh ahli masyarakat.

v. Prinsip Menjaga Harta (al-mal) & Keperluan Fisiologi

Prinsip menjaga harta (al-mal)telah diaplikasikan kepada Keperluan Fisiolgi dalam teori Maslow. Berdasarkan teori Maslow seseorang individu perlu memastikan ia berupaya memenuhi keperluan diri dan biologi seperti menyediakan makanan, minuman, tempat perlindungan dan keperluan tidur dan rehat serta keperluan batin.. Bagi memenuhi keperluan ini sudah semestinya seseorang perlu mempunyai sumber rezeki (harta). Di dalam ajaran Islam sendiri mengalakkan umatnya mencari sumber rezeki dan harta yang halal bagi memenuhi keperluan asas ini yang semestinya harus ada pada setiap individu. Keperluan asas yang lain juga termasuk hak mendapatkan rawatan kesihatan dan pendidikan. Maka prinsip menjaga harta (al-mal) yang terkandung dalam maqasid syariah ini akan diaplikasikan kepada heiraki keperluan fisiologi berdasarkan ciri-ciri persamaan berkenaan.

Ukuran Keberkesanan mengikut 'CAST'Tool

Kaedah `*Change Assessment And Scoring Tool*' (CAST).' akan digunakan untuk mengukur tentang keberkesanan agihan zakat. Kaedah CAST ini digunapakai oleh pengkaji dari Denmark Birtha Mikkelsen (2005) dalam kajian mengenai keberkesanan program-program pembasmian kemiskinan di bawah program DANIDA. Menerusi kaedah CAST ini ukuran keberkesanan diperolehi apabila melihat kepada perubahan yang berlaku kepada responden apabila sesuatu program dilaksanakan., menerusi kaedah ini ukuran keberkesanan ditentukan oleh mereka yang terlibat dalam sesuatau program yang dilaksanakan. Maka dalam kajian ini ukuran keberkesanan akan ditentukan oleh responden yang menerima bantuan modal zakat ini. Pilihan jawapan yang dinyatakan oleh responden akan dikodkan dalam bentuk '*Change Assessment And Scoring Tool*' (CAST). Perubahan ini akan diukur dalam 5 skala iaitu perubahan daripada yang paling positif (nilai 5), perubahan positif(nilai 4), tiada perubahan

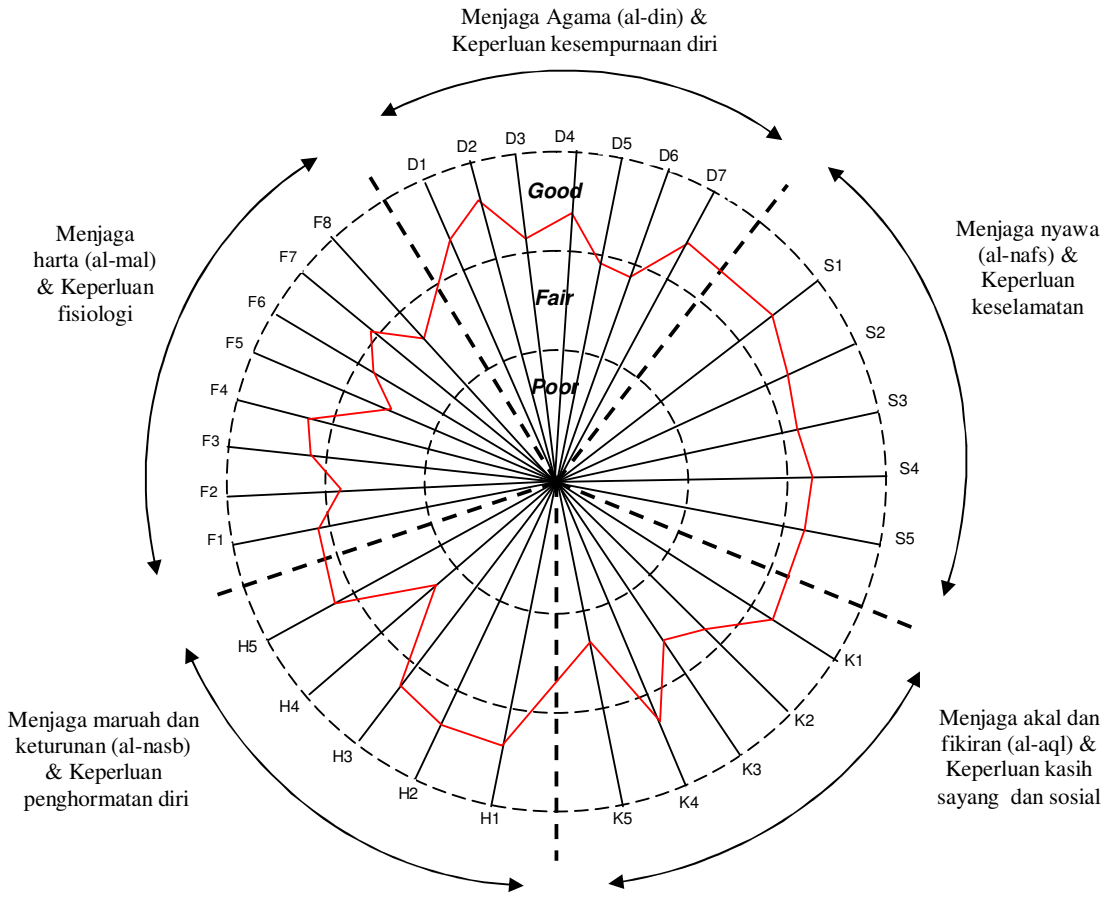
(nilai 3), perubahan tidak positif (nilai 4) dan kepada perubahan yang paling negatif iaitu perubahan sangat tidak positif (nilai 1).

Model asal CAST yang diperkenalkan oleh Birtha Mikkelsen ini melihat ukuran keberkesanan sesuatu program dari 4 aspek/ indikator utama iaitu dari segi *livehood, resources/services, knowledge* dan *human right*. Walaubagaimanapun bagi tujuan kajian keberkesanan bantuan modal zakat ini, 4 aspek tersebut akan diubah suai dan digantikan dengan 5 aspek mengikut maqasid syariah iaitu melihat ukuran keberkesanan dari segi memenuhi matlamat sesorang individu untuk menjaga agama, kehidupan, akal, keturunan dan harta. Untuk mengukur sebarang perubahan yang dialami oleh responden terutama dari segi keupayaan memenuhi 5 aspek yang digariskan dalam maqasid syariah berkenaan, maka di cadangkan menggunakan pendekatan berasaskan teori Maslow.

Maklumat-maklumat yang diperolehi dari kaji selidik mengenai perubahan –perubahan yang berlaku kepada golongan asnaf fakir dan miskin akan dipersembahkan dalam bentuk *Monitoring Whel (rujuk Rajah 3)* untuk melihat sejauhmana keberkesanan program berkenaan dapat mengubah keadaan hidup responden berkenaan ke arah memenuhi keperluan hidup yang telah digariskan dalam kelima-lima prinsip maqasid syariah. Menerusi kaedah CAST ini setiap keperluan yang digariskan akan dinilai samada memberikan perubahan positif atau sebaliknya kepada golongan asnaf.

Keberkesanan atau pencapaian golongan asnaf dalam memenuhi setiap kategori ini akan dikategorikan semula kepada 3 keadaan pencapaian samada baik, sederhana dan lemah. Pencapaian terbaik (pencapaian 75 % keatas bagi aspek-aspek yang dinilai) bermakna pada puratanya kebanyakan golongan asnaf berkenaan berupaya mencapai perubahan kearah yang lebih baik dan bermakna dapat memenuhi keperluan-keperluan berkenaan serta perubahan yang dinyatakan adalah pada 'perubahan yang sangat positif' (nilai 5) atau 'perubahan positif' (nilai 4). Manakala kategori pencapaian sederhana (pencapaian di antara lingkungan 60 % sehingga 74.9 %) iaitu menunjukkan hanya sebahagian kecil mengalami perubahan positif manakala lebih banyak pada kedudukan yang langung tiada perubahan (nilai 3). Manakala kategori lemah (pencapaian di bawah 60%) bermaksud bantuan modal yang disalurkan ini gagal membawa perubahan positif kepada penerimanya malahan sebaliknya membawa kepada keadaan atau perubahan yang semakin teruk iaitu bermakna perubahan negatif (nilai 2) atau perubahan sangat negatif (nilai 1) berbanding keadaan sebelum bantuan zakat diterima. Maka berdasarkan kedudukan ini mana-mana aspek yang didapati berada dalam kedudukan sederhana dan lemah perlu diambil perhatian oleh pihak yang terlibat untuk memperbaiki kelemahan yang sedia ada.

Berdasarkan analisa CAST ini tindakan yang tepat boleh dilakukan kerana ianya memberikan gambaran yang terperinci untuk setiap elemen yang dikaji samada perubahan berkenaan adalah mengalakkan atau sebaliknya, maka kaedah pembetulan dan penambaikan akan dapat dilakukan dengan tepat dan berkesan.



Rajah 3 : *Monitoring Whell* Berasaskan Prinsip Maqasid Syariah dan Teori Maslow

Kesimpulan

Penilaian keberkesanan agihan zakat berdasarkan prinsip maqosid al-syariah dijangkakan akan dapat memberi penilaian yang lebih komprehensif dan saksama. Ia kini mengambil kira semua faktor yang penting dalam kehidupan manusia sebagaimana digariskan oleh maqosid al-syariah iaitu agama, nyawa, aqal, keturunan dan harta.

RUJUKAN

Abraham H. Maslow, 1970. *Motivation and Personality*. Second Edition. New York: Harperv & Row.

Abd. Halim Mohd Noor, Rozman Hj. Md. Yusof & Ahmad Che Yaakob, 2007. Performance Indicator Model for Model for Zakat Institution . *Jurnal Pengurusan Jawhar. Vol 1, No.2,2007*

Abu Bakar Sarpon, 2005. Kajian Pengurusan Baitulmal Malaysia: Faktor- Faktor yang Mempengaruhi Prestasi Petugas Daripada Perspektif Islam.Disertasi Doktor Falsafah, Universiti Utara Malaysia

Abu Elias Sarker & Muhammad Habibur Rahman, 2007.The Emerging Perspective of Governance and Poverty Alleviation: A case of Bangladesh. *Public Organiz Rev (2007)*7:93-112

Abul Hasan M. Sadeq, 2002. *"Waqf,Perpetual Charity and Poverty Alleviation"*. International Journal of Social Economics, Vol 29 No 1/2002.P135-151.

Abu Sufian Abu Bakar, 2006. "Baitulmal dan kemiskinan di Kuala Lumpur: Program Agihan zakat Dalam Bentuk Perniagaan". Dlm Abdul Ghafar Ismail &Hailani Muji Tahir(ed). *Zakat Pensyariatan Perekonomian dan Perundangan.* Bangi : Penerbit Universiti Kebangsaan Malaysia.

Adnan Alias &Mohamed Dahlan Ibrahim,2002. Keusahawanan Islam.Petaling Jaya,Selangor: Pearson Malaysia. Sdn. Bhd

Afzal-Ur-Rahman,1994 (Terjemahan: Othman Ahmad & Mazni Othman) *Doktrin Ekonomi Islam.* Jilid IV. Kuala Lumpur : Dewan Bahasa dan Pustaka

Ahmad B. Saleh,1999. Pelaburan Zakat di Malaysia: Kajian di Baitulmal Majlis Agama Islam Wilayah Persekutuan (MAIWP). Tesis Sarjana Pengajian Islam, Universiti kebangsaan Malaysia.

Ahmad Fuad Mohamed,2006.Zakat Sebagai Mekanisma Pembangunan Usahawan Di Kalangan Asnaf. Kertas Ilmiah Sarjana Ekonomi, Universiti Kebangsaan Malaysia.

Aidit, Jamil, Muhamad Azmi dan Syed Abdul Hamid,1990. "Zakat: A Case Study of Al-Qaradawi, M. Yusof, 1987. *Fiqhuz-Zakat (Hukum Zakat)* terjemahan: Drs. Salman Harun, Drs. Didin Hafidhuddin dan Drs. Hasanuddin. Singapura: Pustaka Nasional, Pte.Ltd.

Al-Qaradawi, M. Yusof, 1998. *Peranan Nilai dan Akhlak Dalam Ekonomi Islam* (terjemahan: Mufti Latib Arsil Ibrahim). Kuala Lumpur: Angkatan Belia Islam Malaysia.

Al- Syatibi , *al-Muwafaqat Fi Usul al-Syariah,* Beirut, Dar al-Ma'rifah, 1416 H/ 1996M Jld 2.

Asmadi Muhamad Naim, 2003. *Maqasid Syariah. Tujuan Akhir Syariat*. Sintok,Kedah: Penerbit Universiti Utara Malaysia.

Bernama.com. Agihan Zakat Perlu impak Besar Dalam Masyarakat. 25 September2007. http://www.bernama.com/bernaam/v3/bm//news_lite.php?id=286883 (di akses pada 31.10.2008)

Chua Yan Piaw, 2006. Kaedah Penyelidikan. Kuala Lumpur: Mc Graw Hill

Emil J. Posavac& Raymond G. Carey,1992. *Program Evaluation Methods and Case Studies.* Fourth Edition. United State of America: Prentice Hall.

Fuadah Johari,2004. Keberkesanan Zakat dalam Mengatasi Masalah kemiskinan di Negeri Melaka. Disestasi Sarjana Syariah dan Ekonomi. Universiti Malaya.

Habib Ahmad.2004. *Role of Zakah and Awqaf in Poverty Alleviation.* Occasioanal Paper No 8, Islamic Development Bank Group, Islamic Research & Training Institute, Jeddah, Saudi Arabia

Hailani Muji Tahir,2009, *Maqasid Syariah dalam Pengurusan Ekonomi, Kewangan dan Pembangunan Negara.* Kertas kerja yang dibentangkan dalam Seminar Maqasid Syariah dalam pentadbiran Negara Peringkat Kebangsaan 2009 ,13 Julai 2009, Kota Bharu Kelantan. Anjuran Jabatan Al-Syariah Kolej Islam Antarabangsa Sultan Ismail Perta(KIAS) dan Jabatan Hal Ehwal Agama Islam Kelantan (JAHEAIK)

Hairunnizam Wahid, Sanep Ahmad & Mohd Ali Mohd Nor,2004. "*Kesan bantuan Zakat terhadap Kualiti Hidup Asnaf Fakir dan Miskin"*. Dlm Muhamad Muda et.al. Proceeding on National Seminar in Islamic Banking & Finance 2004. Petaling Jaya: Intel Multimedia & Publication

Hasan Bahrom & Shawal Kaslam, 2007. Amalan ' Corporate Governance' Dalam Pengurusan Institusi Zakat di Malaysia. *Jurnal Pengurusan Jawhar.Vol 1, No 2,2007. P53-63.*

Imran Ashraf Toor & Abu Nasar,2001. Zakat As a Social Safety Net: Exploring The Impact. *Research Report No 53, Interim Poverty Reduction Strategy Paper (I-PRSP),* Government of Pakistan, November 2001.

Iqbal, Munawar.1998. "Zakat, Moderation and Aggregate Consumption in An Islamic Economy". Dlm Monzer Khaf(ed) *"Lesson in Islamic Economic, Vol.1*. Jeddah: Islamic Research and Training Institute,IDB.

Iqbal, Zafar,2000. "Economic Ratioanale for The State Collection of Zakah," *International Journal of Islamic Financial Services, April- June , Vol 2 No 1.*

Ishtiaq Hossain,2000. Micro- Credit and Good Governance: Models of Poverty Alleviation. *Southeast Asian Journal of Social Science . Volume 28 Number 1(2000):*185-208

Johari Jamain,2004. A secret Receipe; Steps in Entrepreneurial Development Success. *Policy & Development. Volume 1 Number 1/2004(June 2004).*Pg.111-122

Kahf, Monzer.1998. Zakat and Obligatory Expenditures . Dlm Monzer Kahf (ed). Lesson in Islamic Economics. Volume 1. *Seminar Proceedings N0 41.* Jeddah: Islamic Development Bank Islamic and Traning Institute.IBD

M. Fahmi Khan dan Noor Muhammad Ghifari, 1992. ' Shatibi's Objectives of Shari'ah and Some Implications For Consumer Theory'. Dlm Abul Hasan M. Sadeq dan Aidit Ghazali ,eds.Reading in Islamic Thought, Petaling Jaya: Longman. Sdn. Bhd

M.Kabir Hassan& Juanyed Masrur Khan,2007. Zakat, External Debt and Poverty Reduction Strategy in Bangladesh. *Journal of Economic Cooperation,28,4(2007),1-38*

Mabib Ali Al – Jahri,2005. *"Redistributive Justice In A Developed Economy: An Islamic Perspective."*Prosiding Multaqa Sultan Sharafuddin Idris Al-Haj& Seminar Selangor 2005: Model Islam Sebuah Ekonomi Maju.Jabatan Mufti Selangor. P 38-69

Mahmood Zuhdi Abd. Majid,2003. *Pengurusan Zakat* .Kuala Lumpur: Dewan Bahasa dan Pustaka.

Mahmood Zuhdi Abd. Majid,2007. "*Pemantapan Sistem Zakat dan Cukai Ke Arah Kemajuan Ekonomi Ummah."* Ucaputama Persidangan Zakat & Cukai Peringkat Kebangsaan 2007, PWTC .22 Mei 2007

Majlis Agama Islam Wilayah Persekutuan. Laporan Tahunan 2007

Mariani Abdul Majid, Md.Zyadi Md. Tahir & Noorasiah Sulaiman,1999. *Peranan Baitulmal sebagai Agen Pembasmian Kemiskinan Penduduk (umat) Islam Malaysia*. Laporan Penyelidikan, Fakulti Ekonomi dan Perniagaan, Universiti kebangsaan Malaysia

Masyhur, Rifaat Abd. Al-Latif, 2002. Zakat: Sebagai Penjana Pembangunan Ekonomi Islam.(terjemahan: Hj. Abu Mazaya Al-Hafiz)Kuala Lumpur: Al- Hidayah Publishers

Mikkelsen, Britha,2005. *Methods of Development Work and Research. A New Guide For Practitioners.* Second Edition. New Delhi: Sage Publications India. Pvt.Ltd

Mohammed Obaidullah,2008. I*ntroduction to Islamic Microfinance.* International Institute of Islamic Business and Finance. IBF Education and Charitable Trust. India:IBF(Net)(P) Limited .Web.http//www.iiibf.org

Mohamed Yusoff,2006."Fiscal Policy in Islamic Economy and The Role of Zakat" *IIUM Journal of Economic and Management 14,no 2 (2006) 117-145.*

Mohd Arshad Hj Taib,1989. *Kemiskinan dan Penyelesaiannya Menurut pandangan Islam* . Thesis PHD, Fakulti Pengajian Islam , Universiti Kebangsaan Malaysia

Muhamad Loqman &K.M. Golam Muhiuddin,2003. *"Zakat: An Instrument For Alleviating Poverty in Bangladesh: A Case Study of Chittagong District".* Dlm Shah Abdul Hassan (et.al) Zakat and Poverty Alleviation . Dhaka: Islamic Economics Research Bureau

Muhamad Uda Kassim,2005. *Zakat, Teori, Kutipan dan Agihan.* Kuala Lumpur: Utusan Publication and Distribution.

Muhamed Dahlan Ibrahim,2002. *Mengapa Islam Galakkan Keusahawanan Islam.* Petaling Jaya: Pearson Malaysia Sdn. Bhd

Muhammad Yamin Ismail,2007. Pelaksanaan Agihan Zakat Majlis Agama Islam Wilayah Persekutuan (MAIWP). *Jurnal Pengurusan Jawhar.Vol 1, No 2,2007. P45-52.*

Mujani Tarimin.2005 Zakat Menuju Pengurusan Profesional. Kuala Lumpur : Utusan Publication and Distribution

Nasim Shah Shirazi,2006. " *Providing For The Resource Shortfall for Poverty Elimination Through The Institution of Zakat in Low Income Muslim Countries,* IIUM Journal of Economic and Management 14,No 1(2006) P1-27

Nor Ghani Md. Noor, Abd. Razak Dan & Mohd Ali Mohd Nor,2002. *The Contribution of Zakat as an Income Creating Asset ini Selangor and Wilayah Persekutuan Malaysia.* Jurnal Ekonomi Malaysia 36: 69-80

Paramanik, A. Huq,1998. *Pembangunan dan Pengagihan Dalam Islam*(terjemahan: Amar Said) Kuala Lumpur: Dewan bahasa Dan Pustaka

Patmawati Ibrahim, 2005. " *Potential Role of Zakat Distribution in Reducing Inequality Among the Muslim Society'.* Dlm Abdullah Alwi Hj Hassan et al. Teori dan Applikasi Kontemporari Sistem Ekonomi Islam di Malaysia.Kuala Lumpur: Utusan Publications & Distributors Sdn. Bhd

Patrician Sloane, 1999. *Islam, Modernity and Entrepreneurship Among Malay,* London: Macmillian Press Ltd.

Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan. Laporan Zakat 2006.

Rosbi Abd Rahman, Sanep Ahmad dan Hairunnizam Wahid, 2008. *Perlaksanaan bantuan modal zakat : analisis perbandingan.* Kertas Kerja yang dibentangkan pada Seminar Kebangsaan Ekonomi Malaysia 20-22 Ogos 2008,Port Dickson, Negeri Sembilan.Anjuran Fakulti Ekonomi dan Perniagaan, Universiti Kebangsaan Malaysia.

Rosli Mokhtar & Mohd Fikri Che Hussain,2007. *Maqasid al- Syari'ah Hikmah di Sebalik Pensyariatan.* Shah Alam, Selangor. Karya Bestari Sdn. Bhd

Rossi, P.H, Lipsey, M.W & Freaman.H.E 2004. *Evaluation A Systematic Approach.* Seventh Edition. California : Sage Publishers, Inc

Rusdy Hartungi.2007 Understanding The Successful Factor Of Micro Finance Institution in a Developing Country. International Journal of Social Economics Vol.34, No 6(2007).P 388-401

Sadeq, Abu Hassan Muhamed,2003. *Pembangunan Ekonomi dalam Islam* (Terjemahan: Rohani Sulaiman) Kuala Lumpur: Utusan Publication & Distributors Sdn. Bhd

Sanep Ahmad, 2004. *Kepatuhan Bayaran Zakat Kepada institusi Formal Kutipan Zakat.* Laporan Penyelidikan, Fakulti Ekonomi dan Perniagaan, Universiti kebangsaan Malaysia

Shofian Ahmad & Amir Mulia Mohd Nor,2002. "Zakat Membangun Ummah". Kuala Lumpur: Utusan Publication & Distributors

Shukeri Mohamad,2009, *Maqasid Syariah dalam Pengurusan masyarakat majmuk di Malaysia*. Kertas kerja yang dibentangkan dalam Seminar Maqasid Syariah dalam pentadbiran Negara Peringkat Kebangsaan 2009 , 13 Julai 2009 , Kota Bharu Kelantan, Anjuran jabatan Al-Syariah Kolej Islam Antarabangsa Sultan Ismail Petra (KIAS) dan Jabatan Hal Ehwal Agama Islam Kelantan (JAHEAIK)

Syed Othman Al Habsi, 1996. Poverty Eradication From Islamic Perpectives: http://vlib.unitarkll.edu.my/staf.Publications/datuk. (akses pada 11 Ogos 2007)

Syed Othman Al Habsi, 1998. *Zakat di Malaysia. Kesannya Terhadap Pertumbuhan Ekonomi Orang Islam dI Pulau Pinang.* Seminar Zakat dan Cukai Pendapatan 5-6 Nov 1998, Universiti Sains Malaysia

Supardi. 2005. *Zakat Organization and Poverty Alleviation; A Macro Social Work and Community Development Perspectives*. Thesis Master, School of Graduate Studies, State Islamic University Sunan Kalijaga, Yogyakarta, Indonesia

Surtahman Kastin Hassan,1996. *Kemiskinan dan Pembasmian kemiskinan mengikut Perspektif Islam.* Dlm Chamhuri Siwar dan Nor aini Hj. Idris(ed) Kemiskinan dan Pembangunan Ekonomi Malaysia. Bangi: Penerbit Universiti Kebangsaan Malaysia

Wahbah Al-Zuhaily,1969. Nazariyyat Al-daruriyat Al-Shariyyat, (dimashq: maktabat Al-farabiyy, 1969/1389)hlm.49 . Dlm Mohd Arshad Hj Taib,1989. *Kemiskinan dan Penyelesaiannya Menurut pandangan Islam* . Thesis PHD, Fakulti Pengajian Islam, Universiti Kebangsaan Malaysia

Xavier, John Antony. 2000. *Effecive Evaluation: A Practical Guide.* Kuala Lumpur: National Institute of Public Admistration (INTAN)

LOCALIZATION OF MALAYSIAN ZAKAT DISTRIBUTION: PERCEPTIONS OF AMIL AND ZAKAT RECIPIENTS

Hairunnizam Wahid
Universiti Kebangsaan Malaysia, MALAYSIA

Radiah Abdul Kader
Universiti Malaya, MALAYSIA

LOCALIZATION OF MALAYSIAN ZAKAT DISTRIBUTION: PERCEPTIONS OF AMIL AND ZAKAT RECIPIENTS

Hairunnizam Wahid
Radiah Abdul Kader

ABSTRACT

This study attempts to investigate the perceptions of zakat recipients (the end user) and the amil (the implementer) on whether localization of zakat distribution would be a possible solution to address the problem of zakat management in Malaysia. The study is motivated by the findings of previous studies that the Muslim society is still not satisfied with zakat management especially in zakat distribution. Data is collected using a survey questionnaire on a sample of amil and zakat recipients in Peninsular Malaysia and is analyzed using Structural Equation Modeling (SEM). Two questions we address here are: (a) how would amil and zakat recipients perceive the quality of current zakat management especially in the aspect of zakat distribution? and (b) What is the relationship between their perceptions towards zakat management and their views on the implementation of the localization concept? A negative relationship would imply that localization would be a viable solution to overcome the problem of zakat distribution in Malaysia.

INTRODUCTION

Zakat is a Quranic term that signifies the specific obligation of giving a portion of an individual's wealth and possessions for primarily charitable purposes. Literally zakat is derived from the root word in Arabic meaning “that which purifies” and “that which fosters” (Mannan, 1986). It also carries other connotations of "increase" and "virtue," as well as "giving." It is also mentioned in the Quran together with other terms such as *sadaqat* that also carry the connotation of giving and of charity.

Zakat is the pivot and hub of Islamic public finance and covers the moral, social and economic spheres. In the moral sphere, zakat washes away the feeling of greed and acquisitiveness of the rich. On the other hand, in the social sphere, zakat acts as a unique measure vouchsafed by Islam to abolish poverty from the society by making it a social obligation on the rich. Moreover, in the economic sphere, zakat prevents the accumulation of wealth in the hands of a few. It is a compulsory contribution of the Muslims to the state (Mannan, 1986). Zakat is also recognized as a self-help measure adopted with full religious backing to support those poor and destitute who are unable to help themselves so as to alleviate misery and poverty from Muslim society (Chapra, 1992). In addition, the state could also exercise zakat as a vital instrument to fulfill the basic needs in an Islamic economy as well as an instrument of fiscal policy (Ziauddin Ahmad, 1991; Siddiqi, 1996; and Chapra, 2000).

The injunction of zakat as defined in the Al-Quran is not elaborate in detail concerning the collection of zakat but the hadis of the prophet (s.a.w) provides the details of zakat. However Al-Quran has specifically mentioned in detail regarding the distribution of zakat. According to Qardawi (1999), it was not left to rulers or those with personal opinions to decide zakat distribution according to their whims. He added that at the prophet (s.a.w) point in time, some greedy individuals tried to take some proceeds[1] of zakat, but when prophet (s.a.w) did not give way to their attempts, they criticized and censured the prophet (s.a.w). Allah has sent these verses deploring their greed and revealing their hypocrisy and those same verses go on to name the categories of those who deserve zakat. (al-Quran, al-Taubah: 58-60) where Allah (s.w.t) says:

> *"Among them there are who find fault with you concerning the collected of sadaqa. If they are given some of it, they are pleased but if they are not given any, they are angry. If only they had been pleased with what Allah and His Messenger gave them and said, 'Allah is enough for us. Allah will give us His bounty as will His Messenger. It is to Allah that we make our plea'. Collected sadaqa is for: the poor, the destitute, those collect it, reconciling people's heart, freeing slaves, those in debt, spending in the way of Allah and traveller. An Obligation imposed by Allah. Allah is All-Knowing, All-Wise."*

From the verses in Al-Quran, it can be concluded that the distribution of zakat is very significance task and mentioned upon in details. In reality both the economists and sociologists agreed that in taxation systems, the determination of the proceeds is more important than the collection of funds because government have enough sufficient means to collect taxes efficiently and justly. It happened in Malaysian zakat institutions in term of collection every year. However the poor distribution of these funds historically occurs in most cases. (Qardawi, 1999; p. 341). To conclude, it is learnt from the verses of Al-Quran that the distribution of zakat is a vital plan and task by the amil or zakat institution to make sure the proceeds reach the zakat recipients efficiently and wisely.

Principally, as mentioned in Al-Quran Surah at-Taubah: 60, *zakat* funds should be disbursed[2] immediately to the right beneficiaries, i.e. the eight categories of *asnaf* in order to avoid misuse and mismanagement of the *zakat* funds. Should it be disbursed to all eight categories or only disbursed to poor and needy, there are some discussion about that matter (Mahmud Zuhdi, 2000; and Mohamad Uda, 2005). Generally, *zakat* disbursement function lies under the responsibility of the State Islamic Religious Council (SIRC) in most of the states in Malaysia. In several states such as Terengganu and Kedah, it is governed by the Islamic department of the state government (Nazifah Mustaffha, 2007).

The distribution of zakat historically began at the era of the prophet (pbuh). During that time, the collection and distribution of *zakat* was, in principle localized which means that what was collected in an area was also distributed in the same area and none of it was carried to the central gpvernment. There are no reports that any surplus funds existed in any area nor that any *zakat* funds were transferred from one area to another during the life of the Prophet (Khaf, 1999;

[1] zakat fund or collection

[2] Disburse and distribute words can be used interchangeably

p. 17). Since that time the prophet (pbuh), as a head of the state used to send the amil[3] to collect and distribute the zakat to the zakat recipients'. It should also be noted that Madinah at that time, had a small government whose functions could always willingly be fulfilled by a continuous available supply of voluntary manpower and financial contributions from its enthusiastic public of believers (Khaf, 1999; p. 4).

This situation proved that it is an undisputed fact that zakat was collected and distributed by the Islamic state especially in its early period. The state government has the right to take charge of zakat collection and distribution and once the government decrees that payment of zakat must be made to Baitulmal, indeed the majority of *fuqaha*' emphasize that individuals must pay their zakat through government. The main reason behind that argument is supported by many scholars that have agreed Baitulmal could disburse zakat to its proper recipients as mentioned in Al-Quran.

The most interesting point here is the concept of 'localization' that has been applied in the prophet state government as mentioned before. Government revenue has been distributed efficiently in zakat and other taxes. Although it was a small government formed in the various states (including amil), zakat collection has been distributed immediately after collection. Khaf (1999) has also stated it was reported at the time of the prophet (pbuh) many workers often said that they used to come back from their zakat missions empty handed because they had distributed the zakat on the spot. He added that this scenario may indicate that there were sizeable needs for such distribution and little was usually left as spare revenues in the public treasury or precautionary reserves for future expenses. To sum, the localization of zakat has been applied successfully and distributed efficiently during the prophet's life.

The issue concern is could the zakat model during time of the prophet that applied localization be introduced in Malaysia? Actually, there is no reference in classical *fiqh* books that regard voluntary organizations as collectors and distributors of *zakat.* This seems normal since there were no authorized or legal voluntary associations in the era when these classical books were written. It is only among contemporary writers that such references may be found, for instance, Qaradawi (1999; p.608) considers voluntary organizations a good alternative if the government does not carry out its *zakat* responsibilities. In practice, baitulmal is responsible to manage religious matters that are outlined under the jurisdiction of the state government including marriage, waqaf, and zakat as well as inherited properties. Each of these matters is managed by a separate division of the State Islamic Religious Council (SIRC). For instance, zakat is managed by the zakat division or *Baitul-mal* Unit. This division is further divided into sub-divisions, which are *zakat* administration, collection and distribution.

The effectiveness of zakat collection and distribution mainly depends on the good governance of zakat institution. However distribution of zakat is very significant to the Muslim country and

[3] Also known as Zakat workers

community especially to eradicate poverty, improve economic growth and also the quality of life (Mannan; 2003, Wess; 2002 dan Hairunnizam et. al, 2004; Hassan & Khan 2007). However many studies in Malaysia illustrate that zakat management reported incidences of negative perceptions from the zakat payers on the management on zakat funds especially in term of distribution (Mohamed Dahan, 1998; Sanep et. al 2006; Syukri, 2006; and Abdul Halim et. al, 2008). If the zakat institution cannot be addressed properly, it could raise negative impact on the future development of the zakat institution. Indeed, there is a study suggested the zakat institution should apply the concept of corporate governance in its management (Shawal and Hasan, 2008).

Actuality, zakat collection in Malaysia exhibits appreciation in all states every year. **Table 1** showed that zakat collection has increased from RM450 million in 2004 to RM 806.28 million in 2007. It also showed appreciation in zakat collection on average is about 20 per cent every year from 2005 to 2007. The state that has privatized their zakat collection such as Kuala Lumpur Federal Territory and Selangor exhibit the highest zakat collection in Malaysia. Kuala Lumpur Federal Territory has collected about RM 173.82 million in 2007, an increase from RM 147.59 and RM 130.14 million in 2006 and 2005 respectively. On the other hand, Selangor also shows a strong zakat collection especially after 2005 when this state dominates and leads the zakat collection in Malaysia. For instance in 2007, this state has collected RM 202.19 million, an enormous increase compared with the collection of the previous year. Selangor has collected the zakat around RM 159.84 million, RM 133.12 million and RM108.83 million in 2006, 2005 and 2004 respectively. These figures show the strong zakat collection by the zakat institutions in both states. In fact, this situation also happened in other states in Malaysia.

However zakat disbursement performance by zakat institutions is not quite excellent compared with zakat collection. Table 1 shows that on average 26 percent of zakat proceeds were left undistributed to zakat recipients every year or about RM 145 million of zakat proceeds were left in the zakat institution. The most interesting issue is that this negative phenomena also happened in the states that privatized their zakat institutions like Kuala Lumpur Federal Territory and Sarawak and also in other states that did not privatize their zakat collection nor distribution such as Terengganu, Kelantan and Perlis. For instance in Kuala Lumpur Federal Territory, the surplus zakat was 30.3 per cent in 2007 and the same situation occur in previous years. The same happened in other states that have not yet privatized their zakat collection and distribution, for example Terengganu and Kelantan. This negative situation gives a strong signal that the zakat institution is facing a major problem in distributing zakat. Why has this problem happened in zakat institution especially in those institutions that have privatized their zakat collection and distribution? In Malaysia, only Selangor, Pulau Pinang and Sarawak have privatized their zakat collection and distribution. On the other hand, Kuala Lumpur Federal Territory , Negeri Sembilan, Melaka and Pahang are the states that only privatized their zakat collection and the SIRC was given the task to disburse the zakat. The other states not mentioned earlier have not privatized either the zakat collection or the zakat disbursement. The SIRC is the only entity that manages the zakat totally.

Muhammad Syukri (2006) urged that the significant reason for the problem was the connection

gap especially in term of information between zakat institution and zakat recipients. Zakat institutions have been blamed because it cannot recognize exactly the zakat recipients. For instance Pusat Urus Zakat Pulau Pinang (PUZ) cannot accurately recognize the needy and poor who previously received zakat but probably should not receive any zakat now because their economic status has been lifted from poverty. It happened when PUZ discovered the number of needy and poor kept increasing year to year. For example in 2001, the total recipients in the list were 9,600 people but increased to 9,800 in June 2002 (Muhammad Syukri, 2006; p. 216)

Another problem that has been recognized was the rise in the zakat application forms being sold illegally by certain irresponsible individuals to the potential zakat recipients. Besides that, bureaucracy and geographical problems also happened in the zakat the application procedure. (Muhammad Syukri, 2006 p. 214-219). For instance in Kuala Lumpur Federal Territory, those who really need zakat should follow the procedure such as filling the form, must have supporting relevant document and finally will be interviewed by SIRC in a particular zone or place (Zainal Abidin, 2001; p.74). But the problem was the dignity of the needy and poor should be revealed publicly. The SIRC or zakat institution should think and consider the effect of begging by the poor and needy as mentioned by Muhammad Syukri (2006). Furthermore, Khaf (1995a) believed that zakat distribution systems failed to effectively reduce the procedure of zakat application filled by the recipient because it will detract the personal dignity of the poor.

A further possible reason the zakat institution cannot disburse efficiently is the problem to identify the entire eight zakat recipient. For instance, Hairunnizam et. al (2009) urged that the zakat payers were not satisfied with the zakat institution in zakat distribution because the institution was not disbursing to all zakat recipients fairly, including *al-riqab*, *ibn Sabil*, *al-gharimun* etc. Table 2 (see APPENDICES) shows that majority of the zakat collection has only disburse to the needy and poor and *fi sabillillah*. Furthermore, there were a lot of surplus zakat that should be distributed to other zakat recipient but it did not happened. Mujaini (2005b) urged that if the zakat is in surplus, the institution should distribute it to all zakat recipients but the priority must be to the needy and poor. All the tables, show that there are many zakat surpluses every year for every state except for some states in certain years.

Table 1: Collection and Distribution of Zakat in Malaysia 2004 - 2007

State	2007				2006				2005				2004			
	collect (RM Mil.)	Dist. (RM Mil.)	Surplus[1] (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus[1] (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus[1] (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus[1] (RM Mil)	Surplus (%)
Privatized Zakat Institution with collection and distribution																
Pulau Pinang	37.09	30.01	7.07	19.1	30.59	26.25	4.3	14.2	28.00	21.34	6.66	23.8	23.29	20.58	2.71	11.6
Selangor	202.19	174.52	27.67	13.7	159.84	135.65	24.2	15.1	133.12	101.54	31.59	23.7	108.83	100.25	8.58	7.9
Sarawak	23.13	11.61	11.52	49.8	20.55	8.05	12.5	60.8	15.30	6.54	8.76	57.3	15.57	4.63	10.94	70.3
Average	87.47	72.05	15.42	27.53	70.33	56.65	13.67	30.03	58.81	43.14	15.67	34.93	49.23	41.82	7.41	29.93
Privatized Zakat Institution with collection but distributed by Baitulmal																
Wilayah Persekutuan	173.82	121.22	52.59	30.3	147.59	101.55	46.0	31.2	130.14	99.52	30.62	23.5	110.63	56.61	54.02	48.8
Melaka	22.07	17.03	5.04	22.8	n.a	n.a	-	-	17.69	13.82	3.87	21.9	14.24	12.71	1.52	10.7
N Sembilan	29.36	31.19	-1.84	-	25.82	24.72	1.1	4.3	23.10	22.25	0.84	3.7	19.04	15.27	3.76	19.8
Pahang	41.49	37.22	4.27	10.3	35.97	18.55	17.4	48.4	n.a	n.a	-	-	n.a	n.a	-	-
Average	66.69	51.67	15.02	21.13	69.79	48.27	21.50	27.97	56.98	45.20	11.78	16.37	47.97	28.20	19.77	26.43
Collection and distribution by Baitulmal																
Terengganu	51.44	31.76	19.68	38.3	42.87	28.70	14.2	33.1	40.37	28.05	12.31	30.5	36.15	38.10	-1.95	-5.4
Perak	41.28	30.87	10.41	25.2	33.85	24.52	9.3	27.6	27.54	21.54	6.00	21.8	25.72	20.02	5.70	22.2
Johor	73.32	64.82	8.50	11.6	54.73	43.41	11.3	20.7	49.36	37.47	11.89	24.1	38.05	27.55	10.50	27.6
Kelantan	40.20	24.31	15.89	39.5	35.64	21.74	13.9	39.0	29.37	20.21	9.17	31.2	22.44	16.56	5.88	26.2
Kedah	36.69	36.06	0.63	1.7	35.23	27.45	7.8	22.1	30.19	20.21	9.98	33.1	22.21	19.78	2.42	10.9
Sabah	17.51	18.83	-1.31	-	16.65	12.22	4.4	26.6	11.31	8.99	2.33	20.6	7.78	4.90	2.88	37.1
Perlis	16.70	11.60	5.10	30.6	11.87	6.80	5.1	42.7	n.a	n.a	-	-	6.41	5.36	1.05	16.4
Average	39.59	31.18	8.41	24.48	32.98	23.55	9.43	30.26	31.36	22.75	8.61	26.88	22.68	18.90	3.78	19.29
Overall Total	806.28 [23.81]	641.06 [33.66]	165.22 [-3.71]	(24.4)	651.20 [21.61]	479.61 [19.46]	171.6 [28.05]	(29.7)	535.49 [18.90]	401.48 [17.28]	134.01 [24.04]	(26.3)	450.35	342.32	108.03	(24.0)

Note: n.a: data not available

1. Surplus zakat = collection – disbursement

( ) figure in average
[ ] percentage changes from previous year

Source: Zakat Report every year

Muhammad Syukri (2006) also added that this might happened because it is hard to get as much detail information about the needy and poor especially those who live deep in the village. Lembaga Zakat Selangor (LZS) has mentioned in 2002, it has distributed zakat to 7,834 needy and poor but they felt that this figure only covered about 80 percent of them. To solve this problem, it encourages those in need in society to give their names or any information related as soon as possible to LZS. This situation consolidates the matter that a wide information gap exists between the zakat institution and the zakat recipient in the village. Bear in mind that how would the zakat institution find the other zakat recipients besides the poor and needy such as *al-gharimin*, *ibn-sabil* etc when it is too difficult to recognize them. (Muhammad Syukri, 2006; p. 215)

All this management problems will lead to another issue; specifically the Muslim society is not satisfied with the zakat institutions. Many studies revealed that zakat payers were not satisfied with zakat management especially in terms of distribution (Mohd Dahan, 1998; Sanep et. al, 2006; Hairunnizam et. al, 2008 and Hairunnizam et al. 2009) and a group of academicians were also not satisfied with zakat distribution in Kelantan (Anuar Muhamad, 2008). However there is no study focusing on zakat recipients and their perceptions towards zakat institutions. If the zakat institution cannot solve these problems promptly, it would possibly create another problem of payment by the zakat payer through the unofficial channel or in other words the zakat payer is paying zakat directly to the zakat recipients (Aidit, 1989; Muhammad Syukri; 2006; Sanep et. al, 2006; and Hairunnizam et.al 2008). The majority of zakat payers in Malaysia are not satisfied with the way zakat institutions are distributing zakat. They felt the process of distribution is vague and the information regarding zakat distribution is unclear. Many studies also agreed that akat collection should be disbursed immediately to the recipients and also should not be postponed (Nik Mustapha, 1991) and without unwanted delay (Khaf, 1995a and Mujaini 1995b).

What is the practical solution to solve this problem? There are studies that urge the zakat institution to put into practice the concept of localization to resolve the problems (Abdul Aziz, 1993; Khaf, 1995; and Muhammad Syukri, 2006) because it has been practiced since the prophet (pbuh) age. For instance a study by Muhamad Syukri (2006) has suggested that zakat management should be localized in terms of collection and distribution of zakat. However his study is only a concept paper and has not been tested empirically. Muhammad Syukri's (2006) argument was based on several proofs as mentioned in Qardawi (1999; p. 511-513). For example,

> *Abu Juhayfa says, "The zakat officer of the Messenger of Allah (p) came and collected zakat from the rich among us and distributed it to our poor. I was then a minor orphan, so he gave me a she-camel.*

Another example,

> *It is correctly reported that Bedouin Arab asked the Messenger of Allah (p) several questions. Among them was, "By Allah who sent you, is it Allah who commanded you to take sadaqa from*

our rich and distribute it to our poor?' The Prophet (p) answered, "Yes"

From all the Hadiths mentioned, it is recommended that the concept of localization might be implemented in Malaysian zakat institution to solve the problem. Muhammad Aziz (1993) urged that historically, zakat management in Malaysia prior to the colonial period generally was collected and distributed at the village level. He also argued that decentralization of zakat administration is not only consistent with the requirement of *syariah* but under the present political arrangements in Malaysia, it is a feasible alternative that will protect the interests of the poor and the needy and other rightful beneficiaries of zakat (Abdul Aziz, 1993; p. 179).

Could it be possible to implement localization of zakat management in this modern era where ICT and technology is fully operated in all activities? If we agree that zakat management should be localized, which institution should take the responsibility? Some studies suggested that zakat centers should be established in all villages, town and cities within Muslim provinces and the mosque can be considered as a natural landmark to take this responsibility (Zayas, 2003 and Khaf, 1995). However Muhammad Syukri (2006) proposed that the process of localization should be done by local committees according to the hierarchy of existing administration such as district office, penghulu, chief of village, Jawatankuasa Kemajuan dan Keselamatan Kampung (JKKK) or Village Development and Security Committee, the mosque committees and others. Historically, zakat payment in Malaysia during the pre-colonial era was not administrated formally and it used to be guided more by the village tradition of contributing zakat to religious teachers. Abdul Aziz (1993) did mention clearly about the party in charge of the process of localization. He said ideally the management should be managed by JKKK with proviso that the JKKK has the confidence and support of the majority of the villagers in the locality. Conversely if the JKKK is found unsuitable, the second best alternative would be the formation of a separate Village Zakat Committee and this committee should have all the prerequisites as amil and work closely with the JKKK.

On the other hand, Abdul Wahab (1995) urged that such form of zakat payments arose from the high esteem the peasants held for their religious teachers and this tradition still continues in some states today. This shows that the zakat payer is confident of the religious teacher who they believe could disburse the zakat fair and just. In other Muslim countries like Pakistan and Kuwait, committee-based models exist where religious leaders or the committee members are in the best position to reach the poor members of the community (Khaf, 1995; and Ajeel 1995). Furthermore, the positive side of localization is that the members of the community could have positive voice and will participate and actively involved in the village activities (Alatas et al, 2003)

In summary, the present study will address the following questions; Should the zakat institution implement the concept of localization? Localization will involve the amil and what is the perception of the amil as well as zakat recipients towards the zakat institution management and do they agree to implement this concept?

LITERATURE REVIEW

Zakat is the third pillar of Islam and an act of worship to Allah (Qardhawi, 1999). Technically, zakat is defined as determining a share of one's wealth to be distributed among the lawful beneficiaries that are entitled for the wealth as prescribed by Allah in the Holy Quran, (Qardhawi, 1999). On the other hand, from *fiqh* perspective, *zakat* refers to 'a payment of certain portion of certain type of wealth for the benefits of certain groups that have been specified by Allah' (Mahmud Zuhdi, 2003). Since zakat is a kind of wealth contribution, Mohd. Daud (1998) has considered *zakat* as an act of 'monetary worship' to Allah.

Zakat is not a voluntary institution, but rather it is compulsory to be operationalized by the state. It used to be done at the state level during the prophet (pbuh) until the demise of the Islamic rule. There has been discontinuity in this matter for centuries. Lately some of the Muslim countries are beginning to institutionalize the administration of zakat while most of the Muslim countries are yet to come forward to do so. In the former case, zakat administration varies from compulsory to voluntary, and the latter is purely voluntary at the individual level (Sadeq, 2002). According to Sadeq (2002), zakat administration can be divided into two main parts; first, compulsory collection of zakat by the state. Countries having compulsory zakat administration include Pakistan, the Sudan, Saudi Arabia, Yemen and Malaysia. Second, voluntary Zakat administration by the state, for instance, zakat administration in Kuwait, Bangladesh, and Sudan before the year 1983 (refer to Figure 1). In the voluntary zakat administration, the state creates a Zakat fund where the people may make their zakat payments voluntarily through this institution.

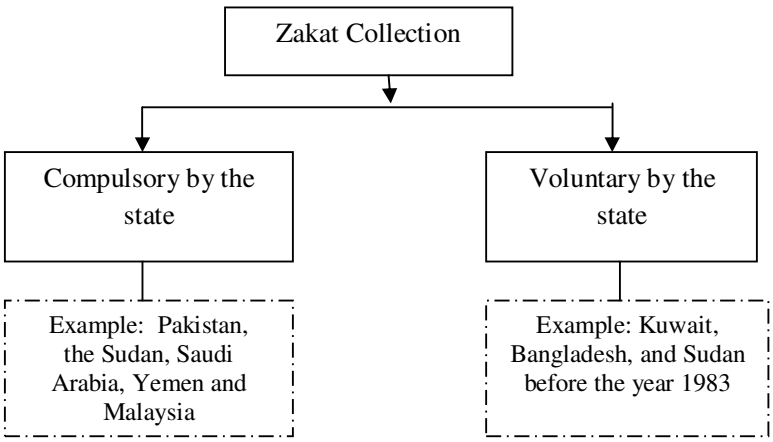


Figure 1: Model of Zakat Collection
Source. Kahf, 1995

There are two types of *zakat* in Islam, that is zakat *fitrah* (*zakat al-fitr*) and *zakat* on wealth' (*zakat al-mal*). The first type is a flat fee imposed on each person to be paid in the month of *Ramadhan* or early *Syawwal* to purify those who pay zakat and to bring enjoyment and cheerfulness to the poor and needy on the Muslim festival day (Qardhawi, 1999). The latter type refers to zakat that is levied on individual's wealth or income.

Zakat is seen to have crucial impacts on the individual Muslim as well as Muslim society. With regards to the impact on an individual Muslim, zakat is purposely ordered to Muslim in order to purify himself/herself in terms of soul and wealth (Hasan, 1980). On the one hand, the implementation of zakat can prevent the payer from being stingy and materialistic. On the other hand, the recipients will purify their hearts from the feelings of envy, jealousy and angry with the wealth of the rich. Additionally, zakat aims to bridge the gap between the rich and the poor (Sadeq, 2002). For instance, the rich contributes a part of their wealth for the poor. In other words, the rich shares the burden and suffering of the poor and the poor enjoys the happiness and the wealth of the rich. Ultimately, this concept of redistribution of wealth will minimize the income gap in the Islamic society (Nazifah Mustaffha, 2007).

Perception towards Zakat Management in Malaysia

Privatization in zakat management in Malaysia has been introduced in states such as Selangor, Kuala Lumpur Federal Territory, Pulau Pinang, Melaka, Negeri Sembilan, Sarawak and Pahang to improve the zakat management and to enhance the awareness of paying zakat. However it is learnt that this establishment only focuses on zakat collection but in terms of zakat distribution, the responsibility is on the SIRC wisdom. It is noticed that only zakat institutions in Selangor, Pulau Pinang and Sarawak manage both the zakat collection and distribution (Zakat Report 2007; p.96) But a question arise, is the concept of privatization similar with localization? Tanzi (2002) urged that privatization should be considered as a possible alternative to decentralization for at least some government activities but the big difference between these concepts is that privatization removes the element of subsidy for part of the decision and activity because users must bear the full costs for their private activities. Furthermore, the usage of the word privatization is not suitable for zakat institutions but rather use the word 'corporatization' (Nazifah Mustaffha, 2007).

Proper implementation management in zakat in a particular state will ultimately improve the socio-economic condition of the Muslim society in that state. For instance, the higher priority of zakat is to eliminate poverty from the Muslim society (Sadeq, 2002). Since zakat re-allocates the resources from the rich to the poor (i.e. zakat deters concentration of wealth in the hands of the rich), it becomes the effective approach to fight against poverty (Sadeq, 2002). Realizing the importance of the implementation of zakat in the Muslim society, proper zakat management is crucial to achieve these objectives. Do the zakat institutions in Malaysia manage the zakat fund efficiently and have they achieved all the objectives? Many studies revealed that there are many problems involved in zakat management especially in terms of zakat distribution. (Mohamed Dahan, 1998; Sanep et. al 2006; Muhammad Syukri, 2006; and Abdul Halim et. al, 2008).

For instance, Abdul Halim et.al (2008) have reported incidences of negative perceptions on the management of zakat funds which if not addressed kindly could raise a negative impact on further development of zakat institutions. They also believed that the zakat institutions should convince the public that the fund collected

is not only distributed in accordance with syariah but also administrated professionally and efficiently. The study has developed and tested the zakat institutions performance using the performance indicator to measure organization effectiveness in collecting and distributing the zakat fund. The performance indicators in the study are output, input, quality and process. However their finding revealed that only pusat zakat Wilayah Persekutuan (PPZ), Lembaga Zakat Selangor (LZS) and Pusat Urus zakat Pulau Pinang (PUZ) were amongst the zakat institution that have been ranked the best performance among the zakat institutions in Malaysia. This study also seemed to confirm the index produce in the model with the perception of the zakat community in terms of performance of participating zakat institutions in Malaysia.

On the other hand, Shawal and Hasan (2008) have suggested the way to solve zakat management problem and tries to introduce the concept of corporate governance in the Malaysian zakat institution. The paper agreed that to implement good governance institution, individual and society should participate in the decision making making by zakat institution. In order to manage the zakat institution, one of the characteristics of good governance is participation from interested party in zakat management. The participation should come from the rulers, the zakat payers, the zakat recipients and also the Muslim society as a whole. The zakat institution should give a space to the public to give their opinions through direct channel prepared by the institution such as e-mail, seminar on zakat, question and answer to the management and others. This study has concluded that some of the characteristics in good governance has not be implemented especially participation from certain parties in assisting the zakat institution in decision making.

What is most interesting is the suggestion by Muhammad Syukri (2006) that urged the zakat institution in Malaysia to practice the concept of localization. His argument is based on several issues. First, the statistics of zakat distribution in Malaysia show deficiency where most of the zakat fund was not fully distributed to the zakat recipients. Only around 70 to 75 per cent zakat fund have been distributed in Malaysia from 2001 until 2007 and almost 25 to 30 percent were left idle (Muhammad Syukri 2006; and Hairunnizam et.al 2009). The significant reasons referring to the problem were the emerging connection gap between zakat institution and zakat recipients. The Zakat institutions were blamed because they cannot recognize exactly the zakat recipients. Another problem also recognized was the rise of the zakat recipient forms being sold illegally by certain irresponsible individuals to zakat recipients. Bureaucracy problems also happen in zakat application procedure and finally is the geographical problem where potential zakat recipients could not be reached and identified by the amil because of their homes were scattered in the village , district or state (Muhammad Syukri, 2006 p. 214-219). A second issue that may arise from this case is the payment done by zakat payer through the unofficial channel or in other word the zakat payer is paying zakat direct to the zakat recipients (Aidit, 1989; Muhammad Syukri; 2006; Sanep et. al, 2006; and Hairunnizam et.al 2008). The majority of zakat payer in Malaysia are not satisfied with the way zakat institutions distributed the zakat; they have felt the process of distribution is vague and the information regarding to the zakat distribution is unclear. Many studies also agreed that the zakat collection should be disbursed immediately to the recipients and also

should not be postponed (Nik Mustapha, 1991) and without unwanted delay (Khaf, 1995a and Mujaini 1995b).

Another problem that has been recognized in Malaysian zakat institutions is the shortage of staff and experts in the *zakat* institutions relative to the numerous tasks under their responsibilities. This limitation may lead to inefficiency and ineffectiveness of *zakat* management performed or in other words under potential performance by the *zakat* institutions (Sadeq; 1995; and Mohamed Abdul-Wahab, et al, 1995). This happened because of several problems including lack of management expertise, lack of commitment, lack of information and legal aspects. This scenario can create dissatisfaction among the society at large with regards to the *zakat* management in Malaysia and subsequently it jeopardizes the reputation of *zakat* institution in the country.

The Concept Of Localization

The word localization is used interchangeably with the word decentralization (Shah and Thompson, 2004; p.2). The issues of fiscal federalism and decentralization that had earlier received little thought on part of political scientists and economists have became the theme of international professional attention by 1990's and have continued to draw attention of the specialists and policy makers ever since. There is a worldwide trend toward increasing transfer of power, resources and responsibilities to the sub national levels of government and decentralization can emerge in form of devolution of major functional responsibilities, major increases in fiscal transfers to sub national governments and in form of more administrative autonomy to sub central or noncentral levels relative to the central control or it can also appear as a shift from appointed to elected sub national governments thereby assigning these levels the political functions of governance such as representation (Sharma 2005). The word decentralization and localization can be used interchangeably because Localization means decentralization of decision making to the local level and can be pursued through political, administrative and fiscal decentralization (Shah and Thompson, 2004)

Decentralization also in fact alters the structure of governance by shifting the structure of local accountability from central to local constituents, and also as mentioned by Aaron Schnider (2003) involved changing the geographical boundaries of political contestation and by altering the relative power of different actors and by changing the location of government interaction with society. From another point of view, decentralization is defined as the devolution by central (i.e. national) government of specific functions, with all of the administrative, political and economic attributes that these entail, to democratic local (i.e. municipal) governments which are independent of the centre within a legally delimited geographic and functional domain

Could the concept of localization be implemented in zakat management in Malaysia? Khaf (1995b) urged that the model of local committees with an effective role of zakat collection and distribution has a significant impact, for instance quickly spreading awareness of the importance and religious rules of zakat. He did mention the Pakistan model where more than 250,000 persons involve in the process (Khaf, 1995a; p. 226). This model could also solve the problem in zakat distribution to recipients because

local committees could find out the conditions of deserving recipients and could disbursing zakat to eligible recipients accordance to the clear instructions. This model also could alleviate the effect of begging as mentioned by Muhammad Syukri (2006). Khaf (1995a) believed that zakat distribution systems failed to effectively reduce the procedure of zakat application filled by the recipient because it will detracts the personal dignity of the poor. Local committees also could notice the families who do not ask for zakat and do not show the sign of need in spite of their poverty.

This concept is also supported by Ajeel (1995) in his study on Kuwait through the Kuwait Zakat House (KZH). In Kuwait public zakat committees have been formed to tackle the poor and needy family's problems through the role of the mosque as the socio-cultural and religious institution (Ajeel, 1995; p. 260). The first zakat committee was formed in 1973 at the Othman Mosque which was inhabited about 7.5 percent of the total population of Kuwait and they work voluntary to achieve the goals. This committees have reach 25 distributed throughout Kuwait because of the good public response to this committee and also its great success in making people aware of the duty of zakat (Ajeel, 1995; p. 260).

The advantages of localization will be divided into several parts.

i- trusted officer or amil. Braun and Grote (2002) argued that localization encourages such positive incentives by increasing the democratic accountability of the state. The basic intuition here is that government is more accountable when it is closer to the people and the people have their voices heard (Shah and Thompson, 2004; and Sharma, 2009). Local government officials are in a better position to judge what citizens want if they represent small constituencies. Citizens can better oversee the behavior of public officials when they live in the same region than when the officials operate from a distant national capital. Muhammad Syukri (2006) added that local trusted amil will create intimate relationship between zakat payer as well as zakat recipients with the amil especially in the same place or village. The officer elected could take full responsibility in their duty and task as well as increase the responsiveness to local needs (Oates, 1972; Khaf, 1995a; and Faguet, 2004). Trusted officer will lead improvement in transparency and accountability as mentioned by many studies (Manor, 1999; Tugrul and Shah, 2002; and Crook, 2003).

ii- Village involvement could happen when the local institution plays its role. For instance Alatas et al (2003) in their study in Indonesia collects data on a sample of household that participate in social activities. In their study, four distinct types of social activities have been classified: socialibility, networks, social organizations and village government organizations. Respondents were asked questions about their village government. The result revealed that positive voice and participation happened in reporting the village involvement. The engagement of village government organizations is generally negative, while the net effect of membership in social organization is more often with the good governance outcomes. The important implication from this study is the existing social organizations such as mosque could have a potentially important role to play enhancing the performance of institutions.

iii- Allocative efficiently. In the case of zakat distribution, localization could create efficient distribution of zakat especially among the poor and needy and also other zakat recipient such as *al-riqab, al-gharimun* etc. The argument is that

allocative efficiency could be achieved by devoting resource and power to local government (Faguet, 2000; Hankla, 2008). Therefore, the process of zakat distribution could be done without any or unwanted delay in time (Nik Mustapha, 1991; khaf, 1995a and Mujaini, 1995) as it has practiced during the prophet life. In addition, if the amil discovers that in his region all the zakat recipients have received the zakat proceed and there is surplus in zakat in baitulmal, the zakat could be transported to another region that facing deficit in zakat distribution. The general principal that should be followed, is that zakat must be distributed in the area where it is collected and the poor and needy in that land have priority over all others since zakat is collected from their neighbors, kin and friend. But scholars agreed that all excess zakat funds may be transported to neighboring areas or to the central government (Qardawi, 1999; p. 513-517). If the excess zakat could be transported to other region, it may reduce inequalities between regions or states. Indeed, many studies agreed that decentralization to local governance might reduce inequalities or disparities and separatism between regions and localities (for instance Crook and Manor, 2000 and Hankla, 2008).

iv- Local governance could provide quality governance when it efficiently and reliably provides citizens with the public goods and services that they desire. It is learnt that the amil or zakat officer could recognize the local needs especially required by the poor and needy to improve their life. Many scholars such as Tiebout (1956) and Oates (1972) used the models assumed that central governments are unable to target different bundles of public goods to different regions (Treisman 2007). Moreover, it is important that local government have an incentive to provide public over particularistic goods in the first place (Breton, 2002) and it must be adherence to local priorities (Sharma, 2005). Tiebout (1956) has argued that local government can improve the efficiency of public goods provision by making it less uniform. Oates (1972) added that finally, the region could achieve the optimum level of decentralization which all the goods and services provided are particularly based on the preferences of the particular society. In zakat situation, localization could improve the life of the poor and needy because the amil know what they should deserve from zakat payment. On the other hand, Khaf (1995a) also added that localization could create local economic activities according to the preferences in particular villages. However, according to Muhammad Syukri (2006), currently, the zakat distribution could not alleviate poverty among the poor and needy as well as their burden in their life. Secondly the amount that was given by the zakat institution is relatively small. Actually the zakat institution should not limit the amount given to poor and needy and make sure they are satisfied after receive zakat. This situation has been practiced during the time of Umar Al-Khattab for instance who directed his amil to deliver the zakat. Umar was once asked what to do with the zakat collected from Bedouin Arabs and he answered, "by Allah, I shall render sadaqa to them until each of them become the owner of a hundred camels, male and female" (Qardawi, 1999; p. 512).

THEORETICAL FRAMEWORK

From the literature discussed, it is reasonable to build the theoretical framework to give a clear depiction about the study. This study will adopt the framework by Mikami and Inoguchi (2008) that studied the cause and effect in political system perceived by the people. This study will start by focusing on the perceptions of zakat recipients towards the zakat institution management as mentioned in **Figure 2.**

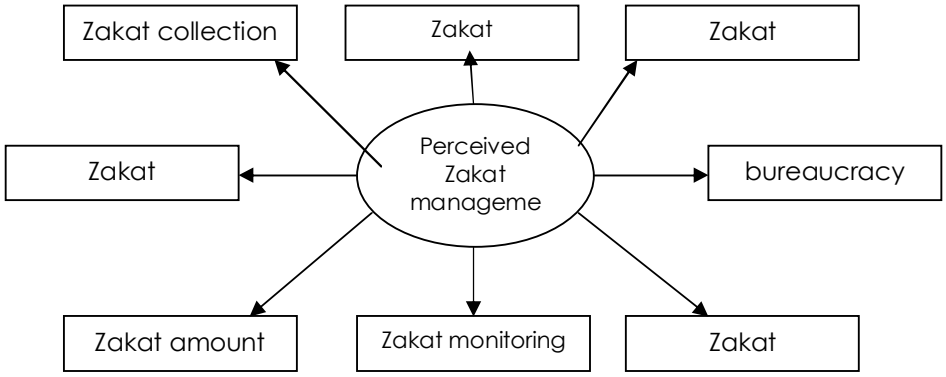


Figure 2: The zakat management perceived

Any perception towards institution is initially begun with the perception on trust to the institution (Eran, 2006; and Mikami and Inoguchi, 2008). Vigoda-Gadot (2006) argued that the first variable to be tested in this context is trust in governance of any institution. The relationship is based on studies that have demonstrated a positive relationship between trust and the public's satisfaction with the services they receive from the government (Van de Walle and Bouckaert 2003; Vigoda-Gadot and Yuval 2003; Welch 2005). It can be illustrated in **figure 3**.

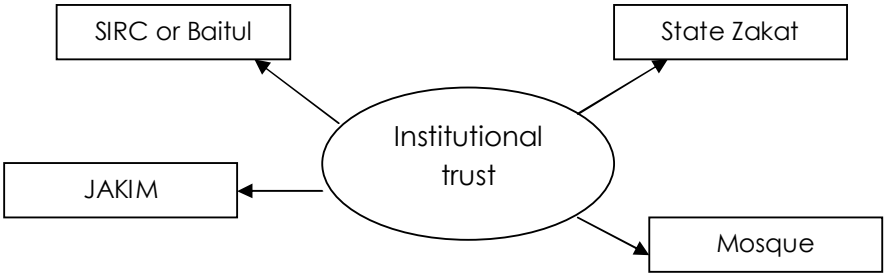


Figure 3: trust to institution involved

Trust to institution could affect the perception to institution (Mikami and Inoguchi, 2008). These two variables could be considered as input factor in the system. After the process happened, in this case the zakat management, the outcome or the effect from zakat distribution should appear to the zakat recipients. The effects of zakat as discussed before are to eradicate poverty, improve economic growth and also the

quality of life (Mannan; 2003, Wess; 2002 and Hairunnizam et. al, 2004; Hassan & Khan 2007). Last but not least, the effect of zakat should tackle the problem of the behavior of the poor whether they want forever the zakat without any effort to change their life or zakat fund could ignite their fortitude to change their life, for instance they wish for the initial capital to become entrepreneur or others. This outcome is illustrated in **Figure 4**.

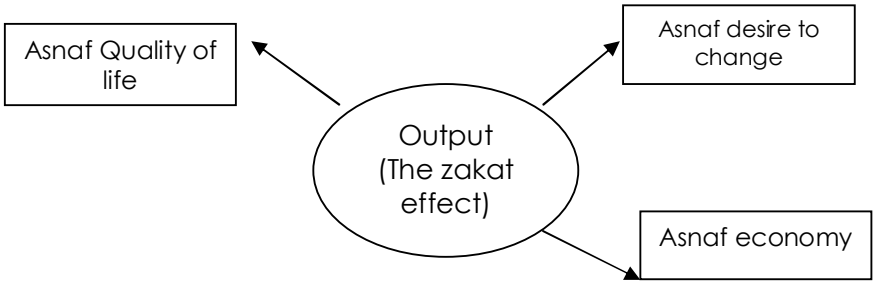


Figure 4: the outcomes expected from zakat management

Finally, if the outcome from zakat distribution and the perception towards zakat management is depressing or negative, probably the localization of zakat could be implemented to solve the problem. As discuss earlier, many studies revealed that localization has many advantages in management, politically and economically. This variable is illustrated in **Figure 5**.

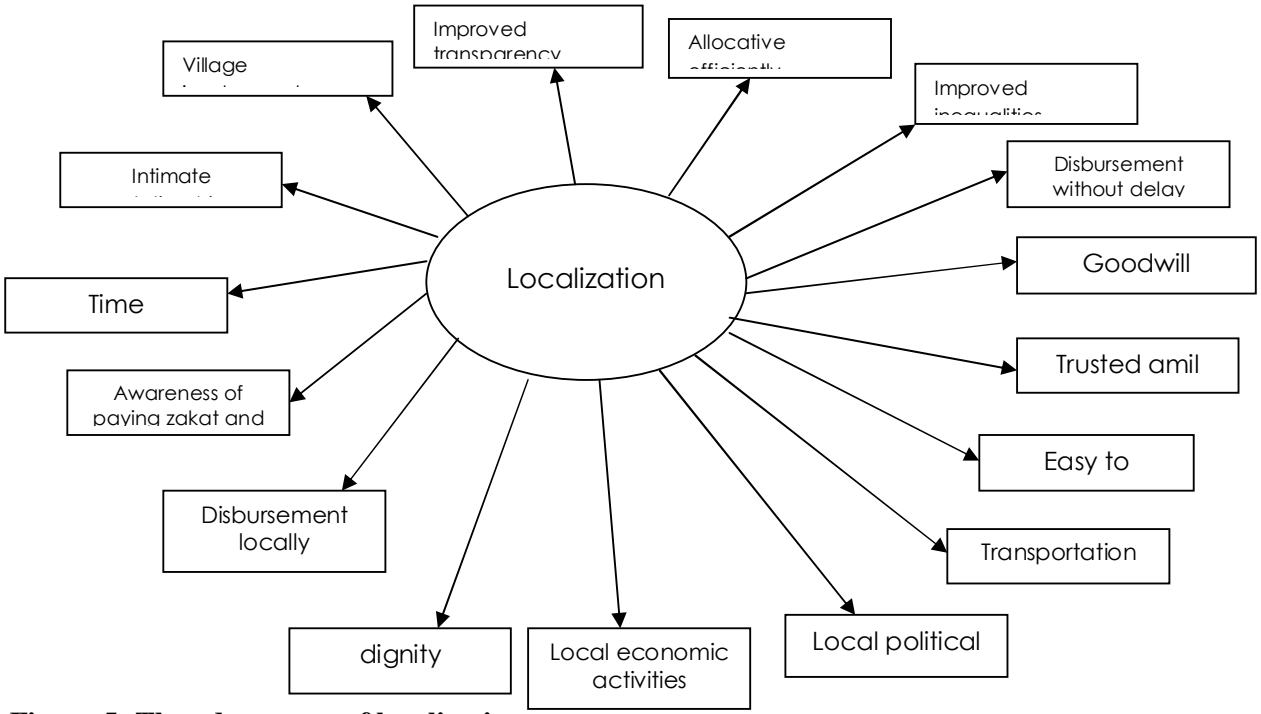


Figure 5: The advantages of localization

All variables are related and dependent from one to others, from the input to the outcome and the solution to the outcome. All these variables are illustrated in Figure 6.

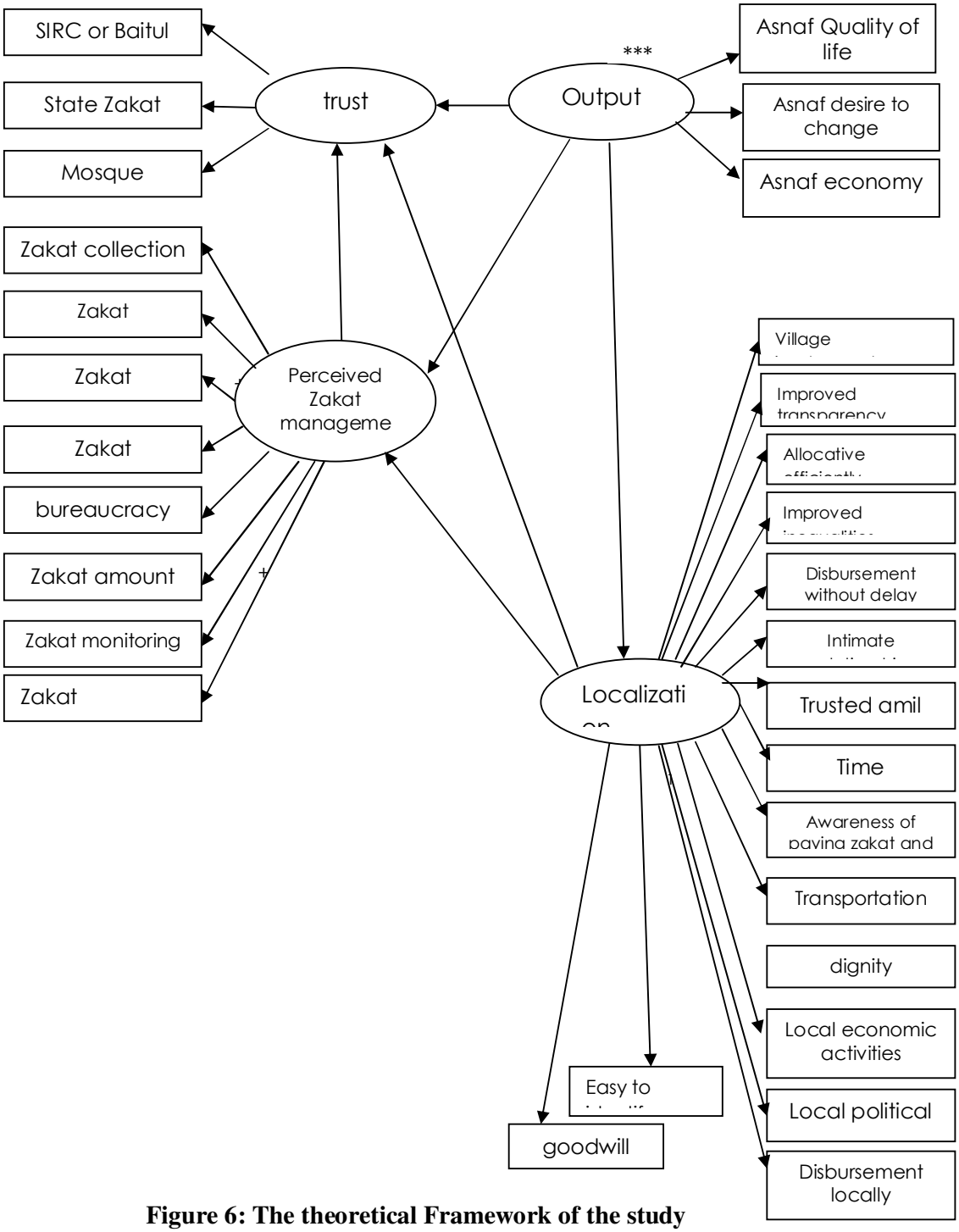


Figure 6: The theoretical Framework of the study

Note: the model adopted from Mikami and Inoguchi, (2008)
*** only zakat recipient to be interviewed

CONCLUSION

Many studies revealed that decentralization and localization has many advantages. The main advantage is the local government could easily distribute the goods and services to the local residents, provides citizens with the public goods and services that they desire, able to target different bundles of public goods to different regions, because they are close to the local people. This advantage could be practiced in zakat management in term of zakat distribution. All the problems as mentioned by Muhammad Syukri (2006) could be solved wisely by the zakat institution. The process of localization in the long run could create another good output such as good governance, leading to higher investment in human capital and social services as the poorest regions of the country chose projects according to their greatest needs, increasing the democratic accountability of the state and others. In terms of zakat management, localization could be implemented by forming the local committees in the villages. The zakat could be distributed closely to the zakat recipients especially the poor and needy group and also other zakat recipients such *as fi sabilillah*, *ibn sabil*, *al-riqab* and others could be recognized. It is learnt that this action could increase awareness amongst the zakat payers and will also increase their satisfaction to make a zakat payment through official channel. This will boost their confidence to pay zakat through zakat institution and finally the zakat collection will be increased year by year. It will give a huge benefit to the zakat recipients in the future.

Many studies urged that to implement the zakat localization as a potential public policy in Malaysia, a consensus must be collected from the particular group that are the zakat recipients and amil village because these two groups are the grass root support to the zakat system. This is one of the good strategies to make sure the implementation could be consistent.

This study is vital to prove that localization of zakat management could be implemented in Malaysia. The perceptions of the zakat recipients are very important because they are the end user of the services (in this case the zakat management). Their voice should be heard by the policy makers as well as zakat institutions. Their consensus is important to perk up our zakat management. The consensus of the amil is also important because they will implement this suggestion if this finding is significant to the zakat institutions to take the first step to recover the 'good will' of zakat institution. The zakat payer will pay zakat through the official channel confidently, the zakat collection will increase and finally it will benefit the zakat recipients through efficient way of distribution. This study hopefully will help the zakat system in Malaysia to progress and become a role model to other Muslim countries around the world.

REFERENCES

Abdul Aziz Muhammad, (1993), *Zakat and Rural Development in Malaysia*. Kuala Lumpur: Berita Publishing.

Abdul Halim Mohd Noor, Rozman Hj Md Yusof & Ahmad Che Yaakob (2008). Performance indicators model for zakat institution. *Jurnal Pengurusan JAWHAR* : 70-84

Abdul-Wahab, Mohamed et al., (1995) "Malaysia" (A Case study of Zakat Management), in: el-Ashker and Sirajul Haq (eds.), *Institutional Framework of Zakat: Dimensions and Implications,*Jeddah, IRTI/ IDB, p. 297-378.

Aidit Ghazali (1989).Fenomenon pembayaran zakat melalui saluran tidak rasmi: satu analisis empirik. Dalam Mohd Ali Baharum (eds.) Zakat ditinjau dari perspektif sosial, undang-undang dan taksiran. Kuala Lumpur: Dunia Press Sdn. Bhd.

Ajeel, Abd Al Qader Dahi (1995). Kuwait. In in: el-Ashker and Sirajul Haq (eds.), *Institutional Framework of Zakat: Dimensions and Implications,*Jeddah, IRTI/ IDB p. 259-295

Alatas V, Pritchett L and Wetterberg A (2003) Voice lessons: Local Government Organizations, Social organizations, and the quality of Local Governance. Policy Research Working Paper 2981 The World Bank. 2003.

Albert B, (2002). An introduction to decentralization failure. In *Managing fiscal decentralization*, ed. Ehtisham Ahmad, and Vito Tanzi. New York: Routledge

Anuar Muhamad, (2008). Perception Of Academicians Toward *Zakat* Administration Particularly *Zakat* Distribution: The Case Of Selangor And Kelantan. IIUM. Unpublished.

Bryne, Barbara. M (2001). Structural equation modeling with AMOS: basic concepts, applications, and programming. New Jersey: Lawrence Erlbaum Associates, Inc.

Braun, V and Grote (2002). Does decentralization serve the poor? In *Managing fiscal decentralization*, ed. Ehtisham Ahmad, and Vito Tanzi. New York: Routledge

Chapra, M.U. (1992). *Islam and the Economic Challenge.* Leicester, U.K.: The Islamic Foundation

Chapra, M.U. (2000) *The Future of Economics: An Islamic Perspective*. Leicester, U.K: The Islamic Foundation

Faguet J.P (2000). Decentralizatin and Local Government Performance: Improving Public Services Provision in Bolivia. Revista de Economia del Rosario, Vol. 3, No. 1, 2000. Available at SSRN: http://ssrn.com/abstract=928531

Faguet J.P (2004). Does Decentralization Increase Government Responsiveness To Local Needs? Evidence From Bolivia. Journal of Public Economics 88 (2004) 867– 893

Faguet, J.P. (2006) Decentralizing Bolivia: Local Government In The Jungle (May 2005). LSE Development Studies Institute Working Paper No. 05-60; Decentralization And Local Governance In Developing Countries: A Comparative Perspective, P. Bardhan And D. Mookherjee, Eds., Cambridge, Ma, Mit Press, 2006. Available At Ssrn: Http://Ssrn.Com/Abstract = 758385

Fuat A,(2007). Local Governance and Participatory. Development (August 20, 2007). Available at SSRN: http://ssrn.com/abstract= 1008249

Gurgur, T and Shah. A (2002). Localization and corruption: Panacea or pandora's box? In *Managing Fiscal Decentralization*, ed. Ehtisham Ahmad, and Vito Tanzi. New York: Routledge

Hair, Joseph F, Black W.C, Babin B.J, Anderson R.E and Tatham R.L (2006). *Multivariate data analysis*. 6th edition. New Jersey: Prentice Hall.

Hairunnizam Wahid, Sanep Ahmad & Mohd Ali Mohd Nor, 2004, Kesan Bantuan Zakat Terhadap Kualiti Hidup Asnaf Fakir dan Miskin, *The Journal of Muamalat and Islamic Finance Research*, **1 (1). 151-166**

Hairunnizam Wahid, Sanep Ahmad and Radiah Abdul Kader (2008). Pengagihan Zakat oleh Institusi Zakat di Malaysia: Mengapakah Masyarakat Islam Tidak Berpuashati? In Abdul Ghafar et.al (penyt) Pascasidang Seminar Kebangsaan Ekonomi Malaysia ke III 2008. p. 804-816

Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2009). Pengagihan Zakat oleh Institusi Zakat kepada Lapan Asnaf: Kajian di Malaysia. Seminar Ekonomi Islam Peringkat Kebangsaan 2009

Hankla C.R, (2008). When is Fiscal Decentralization Good for Governance? *Publius: The Journal of Federalism*, pp.1-19

Hassan M.K & Khan J.M. (2007). Zakat, External Debt and Poverty Reduction Strategy in Bangladesh. *Journal Of Economic Cooperation*. **28** (4) 1-38.

Khaf, Monzer (1995a). Zakat: Unsolved Issues in contemporary Fiqh. In Sadeq et. al (eds.) Development and Finance in Islam. Kuala Lumpur: Zafar Press Pte. Ltd.

Khaf, Monzer (1995b). Applied Institutional Models For Zakat Collection and Distribution in Islamic Countries and Communities. in: el-Ashker and Sirajul Haq (eds.), *Institutional Framework of Zakat: Dimensions and Implications,*Jeddah, IRTI/ IDB p. 197-228

Khaf, Monzer (1999). The performance of the institution of zakat in Theory and practice. International conference on Islamic economics towards the 21st Century, Kuala Lumpur, April 26-30, 1999.

Mahmood Zuhdi Abdul Majid (2003). *Pengurusan Zakat*. Kuala Lumpur: Dewan Bahasa dan Pustaka.

Mannan M.A (1986). *Islamic economics: Theory and practice*. Cambridge : Hodder and Stroughton

Mikami S and Inoguchi T (2008). Legitimacy and effectiveness in Thailand, 2003–2007: perceived quality of governance and its consequences on political beliefs. *International Relations of the Asia-Pacific.* Volume 8 (2008) 279–302

Mohamed Dahan Abdul Latif (1998) Zakat management and administration in Malaysia. Kertas kerja dibentangkan di Seminar of zakat and Taxation di Universiti Islam Antarabangsa Malaysia.

Mohamed Dahan Abdul Latif (2001) Pendekatan Kepada Cara Pengagihan Dana zakat yang Dinamik Sesuai dengan Suasana Semasa. Dalam Nik Mustapha Nik Hassan (*penyt*). *Kaedah Pengagihan Dana Zakat Satu Perspektif Islam*. Kuala Lumpur: IKIM.

Mohamad Uda Kasim (2005). *Zakat Teori, Kutipan dan Agihan*. Kuala Lumpur: Utusan Publication & Distributors Sdn. Bhd.

Muhammad Syukri Salleh (2006). Lokalisasi Pengagihan Zakat: satu Cadangan Teoritis. dalam Hailani & Abdul Ghafar (penyt). *Zakat: Pensyariatan, Perekonomian & Perundangan*. Bangi: Penerbit Universiti Kebangsaan Malaysia.

Mujaini Tarimin (2005a) *Zakat Menuju Pengurusan Profesional*. Kuala Lumpur: Utusan Publication & Distributors Sdn. Bhd.

Mujaini Tarimin (2005b), *Golongan Penerima Zakat: Agihan Dana Zakat Secara lebih Berkesan*.Shah Alam: Pusat Penerbit Universiti

Nazifah Mustaffha (2007) *Zakat* Disbursement Efficiency – A Comparative Study Of *Zakat* Institutions In Malaysia. IIUM. Unpublished.

Nik Mustapha Nik Hassan (1991). Zakat in Malaysia: Present and Future Status. In Sadeq et. al (eds.) Development and Finance in Islam. Kuala Lumpur: Zafar Press Pte. Ltd.

Oates (1972). *Fiscal federalism*. New York: Harcourt, Brace, and Jovanovich.

Qardawi, Y (1999). *Fiqh Az-Zakat: A Comparative study*. London: Dar Al Taqwa Ltd.

Sadeq, AHM. (1995). Ethioco-eco-Institution of Zakat: An Instrument of Self-Reliance and Sustainable Grass-Root Development (Mimeograph)

Sanep Ahmad, Hairunnizam Wahid & Adnan Mohamad (2006). Penswastaan Institusi Zakat dan Kesannya Terhadap Pembayaran Secara Formal di Malaysia. *International Journal of Management Studies* **13 (2),** 175-196.

Shah A and Thompson T (2004). Implementing Decentralized Local Governance: A Treacherous Road with Potholes, Detours and Road Closures. World Bank Policy Research Working Paper 3353, June 2004

Shah, A (2005). Fiscal Decentralization and Fiscal Performance(December 2005). World Bank Policy Research Working Paper No. 3786. Available at SSRN: http://ssrn.com/abstract= 873894

Shawal Kaslam and Hasan Bahrom (2008). Amalan Corporate governance dalam pengurusan Institusi Zakat di Malaysia. *Jurnal Pengurusan JAWHAR* :53-70

Tanzi (2002), Pitfalls on the Roads to Fiscal Decentralization. In *Managing Fiscal Decentralization*, ed. Ehtisham Ahmad, and Vito Tanzi. New York: Routledge

Tiebout (1956). A pure theory of local expenditure. *Journal of Political Economy* 64: 416–424

Van de Walle, Steven, and Geert Bouckaert. 2003. Public service performance and trust in governance: The problem of causality. *International Journal of Public Administration* 26 (8): 891–914.

Vigoda-Gadot, Eran, and Fany Yuval. 2003. Managerial quality, administrative performance, and trust in governance: Can we point to causality? *Australian Journal of Public Administration* 62 (3): 12–25.

Vigoda-Gadot, Eran (2006). Citizens' Perceptions of Politics and Ethics in Public Administration: A Five-Year National Study of Their Relationship to Satisfaction with Services, Trust in Governance, and Voice Orientations. *Journal of Public Administration Research and Theory*. 17:285–305

Welch, Eric W. 2005. Linking citizen satisfaction with e-government and trust in government. *Journal of Public Administration Research and Theory* 15 (3): 371–91.

Wess. H. (2002). Reorganizing Social Welfare among Muslims: Islamic Voluntarism and Other Forms of Communal Support in Northern Ghana. *Journal of Religion in Africa*. **32**(1)

Zainal Abidin (2001) Cara pengagihan Dana Zakat: Pengalaman Wilayah persekutuan. Dalam Nik Mustapha Nik Hassan (*penyt*). *Kaedah Pengagihan Dana Zakat Satu Perspektif Islam*. Kuala Lumpur: IKIM.

Zayas F.G. (2003). *The Law and Institution of Zakat*. Kuala Lumpur: The Other Press.

Ziauddin Ahmad (1991). *Islam, Poverty and Income Distribution*. Leicester, U.K: The Islamic Foundation

THE CASH WAQF FOR EMPOWERING THE SMALL BUSINESSES

Achmad Tohirin
Center for Islamic Economics Development and Studies (P3EI)
Faculty of Economics, Universitas Islam Indonesia,
Yogyakarta, Indonesia
achmad@fe.uii.ac.id
alphtin@gmail.com

THE CASH WAQF FOR EMPOWERING THE SMALL BUSINESSES

Achmad Tohirin

ABSTRACT

This paper discusses the cash waqf model in relation to the empowerment of small businesses. Cash waqf emerges as a financial instrument which combines both economic/profit and social motives. As an Islamic endowment, it carries a distinct character in that the endowment is in the form of money or cash and it will be, managing-wise, kept on the same form perpetually. The denomination of cash waqf through certification can be varied, depend on the targeted donator. The potential of mobilizing this fund might be tremendous, as well as its important roles to contribute to the community development. This potential can be imminent with respect to the empowerment of small businesses. Most small businesses have no access to the formal financial institutions due to the lack of collateral, or fail to fulfil a bankability requirement. However, their important roles are often irrefutable, for example their ability to provide jobs for many unemployed workers. Due to its strategic role, the small businesses might be empowered through the cash waqf model available under Islamic financial system. This paper focuses on this matter.

Introduction

Improvement of society's welfare is an endless effort that can be implemented through various ways and methods. It is always an important agenda that need to be addressed in the formulation of the concept of development, which includes various aspects such as legal/laws, political, social, and economic aspects. As a result, to achieve the improvement of the society's welfare, many developing and least developed countries have been formulating, and implementing various models of development. Nevertheless, the outcomes of the development have more frequently been unsatisfactory, especially the development in the developing and least developed countries. Those countries implementing various development concepts oriented to growth have resulted in different outcomes. One important and obvious result is that the equitable distribution of income rarely follows the successful growth achieved. Hence, it is quite difficult to improve the welfare of the society as a whole.

United Nation Development Program (UNDP) in 1995 reported that more than three-fourths of the world's peoples lived in developing countries, but they enjoy only 16% of the world's income, while the richest 20% have 85% of global income (Todaro, 2000). This fact tells that at international level there exists a serious problem of inequitable distribution of income, and implicitly resources. In Indonesia, the same problem is latently prevailed, for example, the fact that economic resources, especially financial resources, are mostly concentrated in the Java Island only. This causes many problems in the national economic development. The same trend might be seen in Malaysia by comparing developing gap between Peninsular Malaysia and East Malaysia (Sabah and Sarawak).

One important institution in current development is banking sector. As a highly regulated industry due to its trust-based service provider, banking industry has been growing enormously to support the economic growth and development in all countries around the world. The main role for banking institutions to play is as a financial intermediary in the economy. This role includes double-arm sides, in one hand it mobilizes idle funds from all economic sectors and on the other hand it allocates the acquired funds to the investment sectors in the economy. Due to its highly regulated nature it is understandable that in implementing its function the banks apply relatively stringent rules and requirements especially to allocate the funds available. The 5 C's rules (collateral, capacity, character, credit and) is a very common requirements understood by almost all business sectors.

On the other side, current banking system also carries its weaknesses especially when dealing with lower income group within a community and small and medium enterprises (SME). It is not that easy for banking sector to deal with this group due to formal requirement and regulation that have to be fulfilled by banking institution, especially related to advancing loans/financing. The SME as parts of the business players in an economy also plays very important roles in the other functions. This sector has its advantages and weaknesses as compared to the other sector, especially large corporations. One very important merit of SME is its capability to absorb a relatively huge numbers of labour forces. It is also meant that this SME's helps reducing the number of unemployment in the economy. In addition the SME's sector is also consisting of a huge numbers of enterprises with various types of entities. It is also believed that the SME's sector has a character of mobility in its type of business, in other word it has a certain flexibility to move from one type of business to another following the opportunities come up in the economy.

It is also a fact that the mainstream banking and financial industries seem to less-effective to reach out the SME's sector due to some problems persisted such as difficulties in providing collaterals, scale of business involved, etc. Many SME's enterprises fail to gain access from banking/financial institutions. It is a fact that prevailed in many countries in the world, even in the developed countries. For example, it is estimated that as many as 60 to 70 million adults in the U.S. do not have any type of bank account (Rowe, Jr., 1993). Members of this group are likely to be poor and must pay for all of their financial transactions, from telephone bills to car payments, in cash. In addition, people without bank accounts are typically denied access to simple consumer credit services that others with bank accounts often take for granted. Lack of a bank account generally precludes one from being granted access to simple bank loans, credit cards, and other forms of consumer financial services (Lewison, 1999)

In addition Lewison (1999) quoted further that maintenance of a bank account is no guarantee of financial enfranchisement, however. Consumers with low incomes or poor credit histories are also frequently denied access to many mainstream consumer credit sources and often find themselves in the same borrowing class as those consumers who lack even a basic checking account. These consumers are forced as a whole to rely upon what is sometimes referred to as the "fringe banking" system (Caskey, 1996; "Poverty, Inc.", 1998, p. 29). The term "fringe banking" applies to institutions that lie outside of the traditional mainstream of the consumer financing business. Patrons of fringe banking services do their banking through institutions such as check cashing establishments (Rowe, Jr., 1993), subprime mortgage lenders ("Poverty, Inc.", 1998), lay-away plans, rent-to-own stores, "title lenders", "payday

lenders" (Murray, 1998), and even pawnbrokers, numbers rackets, and lotteries (Noponen, 1992; Light, 1977).

Those facts implied that there is an urgency for complementing an alternative type of banking/financial establishment that directed to address the problems such as; broadening the scope of banking/financial activities by including social aspect of man's life (not rely only on the economic aspect); improving the distribution of income and wealth within a society; and helping eradicate poverty alleviation.

Waqf as part of Islamic Voluntary Sector

Islamic concept on production instruct every single individual to be able to fulfill his/her needs in this world by encouraging him/her to work or to produce something which gives benefit to him/herself or and others, so that he/she might be able to achieve his/her self-fulfilling ability and not dependent on others. Islamic Teachings have a clear character in this regards, that there is an injunction that man should be able to manage their wealth and economic resources endowed by Allah SWT in a just manner to facilitate the improvement of all human welfare. The wealth and economic resources should not circulate only among a few people. They should be distributed equitably among all people so that they will enable people to achieve a prosperous society.

> *"……In order that wealth or property (merely) may not make a circuit between the wealthy among you……."* (Qur'an 59:7)

This implies one important question on how to distribute the wealth and economic resources in a just and more equitable way. In this respect, Islamic Economic System recognizes two mechanisms in the distribution of income and wealth (AHM Sadeq, 2005), *first*, functional distribution of income and wealth and *second* income (re)distribution through transfer payment institutions both obligatory and voluntary. The first mechanism conducts the distribution through market mechanism, while the second one implements the distribution through various instruments such as Zakah, Infaq, Shadaqah, and Waqf.

As a religion that put emphasize on the importance to balancing all aspects of life, Islam provides a concept called Voluntary Activities. Following A.A. Islahi (1992) the activities include:

1. *Al Sadaqat al Nafilah* (Voluntary or Recommended Charity),
2. *Hibah, hadiyah or 'atiyah* (Gift and Grant),
3. *Al Wasiyah* (a will in the legacy)
4. *Al ariyah or al qard* (lending)
5. *Al Nadhr* (the vow or dedication)
6. *Al waqf* (endowment)
7. Cooperative Association

Meanwhile M.N. Siddiqi (1996:125) characterized that traditionally, voluntary activities consist of five activities as follows:

1. Obligatory Family Support,
2. *Zakah* and *'Ushr*,
3. Gifts and Grants,

4. Social Services,
5. *Waqf* (Charitable Endowments).

All those five activities in the implementation can be classified into a sector so called *Voluntary Sector*. Legal foundation of this sector is many and quite strong as they are mentioned in Qur'an.

QS: At Taubah (9): 71:

The Believers, men and women, are protectors one of another: they enjoin what is just, and forbid what is evil: they observe regular prayers, practice regular charity, and obey God and His Messenger. On them will God pour His mercy: for God is Exalted in power, Wise.

QS Al Hasyr (59): 9:

But those who before them, had homes (in Madinah) and had adopted the Faith, -show their affection to such as came to them for refugee, and entertain no desire in their hearts for things given to the latter, but give them preference over themselves, eventhough poverty was their (own lot). And those saved from the covetousness of their own souls-they are the ones that achieve prosperity.

QS Ar Rum (30): 38:

So give what is due kindred, the needy, and the wayfarer. That is best for those who seek the Countenance, of God, and it is they who will prosper.

QS Al Baqarah (2): 177:

It is not righteousness that ye turn your faces towards east or west; but it is righteousness –to believe in God and the Last Day, and the Angels, and the Book, and the Messengers; to spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask, and for the ransom of slaves; to be steadfast in prayer and practice regular charity; to fulfill the contracts which ye have made; and the firm and patient, in pain (or suffering) and adversity, and throughout all periods of panics. Such are the people of truth, the God-fearing.

QS: Al Anfaal (8): 72:

Those who believed, and adopted exile, and fought for the Faith, with their property and their persons, in the cause of God, as well as those who gave (them) asylum and aid,-these are (all) friends and protectors, one of another. As to those who believed but came not into exile, ye owe no duty of protection to them until they come into exile; but if they seek your aid in religion, it is your duty to help them, except against a people with whom ye have a treaty of mutual alliance. And (remember) Go seeth all that ye do.

Hadith Bukhari Muslim:

Ibn 'Umar reported: 'Umar acquired a land at Khaibar. He came to Allah's Messenger (may peace be upon him) and sough his advice in regard to it. He said: "Allah's Messenger (may peace be upon him), I have acquired land in Khaibar. I have never acquired property more valuable for me than this, so what do you command to do with it?" Thereupon he (Allah's Apostle, may peace be upon him) said: "If you like, you may keep the corpus intact and give its produce as sadaqa." So 'Umar gave it as sadaqa declaring that property must not be sold or inherited or given away as gift. And 'Umar devoted it to the poor, to the nearest kin, and to the emancipation of the slaves, and in the way of Allah and guests. There is no sin for one who administers it if he eats something from it in a reasonable manner, or if he feeds his friendsand does not hoard up goods (for himself). He (the narrator) said I narrated this hadith to Muhammad, but as I reached the (words) "without hoarding (for himself) out of it", He (Muhammad, may peace be upon him) said: "without storing the property with a view to becoming rich". Ibn 'Aun said:

"He who read this book (pertaining to waqf) informed me that in it (the words are) 'without storing the property with a view of becoming rich.'"

The importance of voluntary activities can be understood under the context that Islam is significantly stressing altruistic aspect in the social life. This is implied from the existence of two types of obligation attached to every Moslem individual, first is obligation for each individual which is irreplaceable or non-transferable, (*fardlu 'ain*). Second is communal obligation (*fardlu kifayah*). Voluntary activities are conducted by Muslim individuals as a reflection of altruism characteristic of human being in Islam. These activities might provide many benefits for the community in the form of public services be made available, such as educational services, orphanage shelters, medical clinic facilities and so on. These kinds of services basically should have been provided by government at the basic level, however, there are always plenty of rooms for members of community to provide similar community's needs due to the limitation of government budget to cover the whole package of such public services.

At this point, voluntary sector's existence being felt very important by community members, because it helps improving the welfare of the community by providing public services deeply needed by them. The activities in this sector are highly motivated by Islamic injunctions under communal obligation for each Muslim individual. As it is believed by Muslim personality, that the best person would be those who capable of providing benefits and helps to others as much as possible. This kind of attitude will drive positively to the community welfare.

Waqf Institutions

"A man's work ends upon his death except for three things: (a) a contribution to knowledge (b) on-going charity and (c) faithful child" (Hadith)

Waqf has a specific characteristic making it different from other types of instruments which is its perpetuity property inherent within. As one important element of the five voluntary activities, waqf has an important role in connection with developing the ummah (society) and even human civilization. In this regards M. Boudjellal (2005) stated that because of the benefit continuity of the waqf donation, the Muslim Ummah, alongside the Islamic History, found that this special form of charitative donation is the best way to explain their attachment to the Islamic Teachings.

A.M. Sadeq (2005) stated that waqf is considered an important institution in an Islamic Economic System. It plays an important and precious role along the Islamic history, especially in time of Othoman Khalifate. There were various institutions, organizations, and even some infrastructure facilities which were built by use of proceeds from waqf properties. The importance of waqf relies on the form of property being donated and it can be utilized for various types of interest or necessities (i.e. public or ummah interests). Meanwhile, in Bangladesh Education Sector recorded merely more than 8,000 educational institutions established based on waqf. In addition, 123,000 mosques were built based on waqf, most of which have education institutions (A.M. Sadeq, 2005).

The following illustrations also indicate the important roles played by Waqf institutions for the countries (M. Boudjellal, 2005):

- Three-quarters (3/4) of all Arab land in the former Ottoman Empire belonged to 'awqaf..

- In Algeria, under French occupation, waqf comprised half (1/2) of the lands of the country in the middle of the nineteenth century.
- For the same period, waqf comprised one third (1/3) of the land in Tunisia.
- In Egypt in 1949, about one eighth (1/8) of the agricultural land belonged to this category.

Further historical notes stated that in this waqf sector, there was interesting record on the proportion of waqf forms being donated by Muslim Ummah as revealed in a study by Ruth Roded during six centuries period (1340-1947). It covered 104 waqf institutions (endowment foundations) in Egypt, Syria, Palestine, Turkey, and Anatolia, and resulted in the following (M. Boudjellal, 2005):

- 58 percent properties were concentrated in big cities and were comprised of commercial shops, roadhouses, flat and houses.
- 35 percent were concentrated in small villages and countryside and comprised of agricultural lands, farms and gardens..
- Other types of 'awqaf represented 7 percent where 5.5 percent were in the form of money.

In a more recent development, it is recorded that in Malaysia there are about 20,735.61 acre of land as waqf properties (Ngadimon, 2006). Meanwhile in Indonesia it is recorded as of September 2002 that there are 360.002 locations of land as waqf properties totalling 1,472,047,607.19 meter square or equivalent to around 147,204.7 hectares (Tohirin, Achmad. 2002).

In general, the types of waqf can be distinguished into two categories as follows (A.A. Islahi, 1992):

a. Waqf for individual or family benefits called as Family Waqf
b. Waqf for public interest and the welfare of the poor called as *Public Waqf*.

In its historical records, there were four aspects of waqf that had always been of interest (M.N. Siddiqi, 1996: 146):

1. Objectives
2. Types of properties
3. Management
4. Its supervisory form

The concept of waqf have been practiced by Muslim for long time, however, there seems to be problem persisting in the implementing the concept of waqf, especially in managing waqf properties to generate optimal benefits/maslahah to the society.Mohamed Ariff (1991) observed that nearly all the waqf properties found in the South East Asia region represent endowments made in the nineteenth century. The explanation that there are now not as many wealthy Muslim individuals as in the distant part is hard to accept. A plausible explanation for this may well be found in the neglect, misuse, and abuse which could have discouraged others from donating their properties. In highlighting waqf management problems in Malaysia, Alhabshi (1991) have identified five problems as follows:

- The transfer of ownership titles of waqf properties to the council as the sole trustee of waqf properties in a given state.
- The shortage of qualified and competent personnel in the waqf section of almost every state council.
- The process of transferring the ownership titles.
- The state council has to incur costs in term of quit rent and sometimes assessment on the property whose title is under the name of the council.

- There seems to be very little understanding of the potential of waqf as an Islamic development institution within the circle of those involved in managing the waqf properties.

Considering problems persisting in the management of waqf properties, it is, then, very crucial to look into modern administration and management of waqf. One important factor will be the discussing the roles of *waqf nadhir*. According to Idris Khalifah in his research *Istitsmar Mawarid al-Awqaf*, Waqf Nadhir (waqf management) is in charged for the following works (Mulya E Siregar et.al., 2001):

a. Maintaining waqf assets
b. Developing waqf assets and not let them useless so that they can not provide any benefits
c. Exercising request of waqif (waqf donator) which is not against shariah's laws
d. Distribute the proceeds to the eligible beneficiaries in due time
e. Fulfilling obligation arisen from managing waqf from its own proceeds
f. Repairing the damage of waqf assets so that they can be beneficial again
g. Leasing the fixed assets of waqf such as buldings and lands with market rent rates
h. Investing waqf assets to generate income
i. Being responsible for any damage on waqf assets due to their negligence and for that their jobs can be terminated.

Cash Waqf Organisation

Another form of waqf other than physical assets such as lands and buildings is cash waqf. However, this type of waqf might create few problems, for example, if it deals with ribawi transaction in its implementation which is prohibited in Islam. Other possible problem which is more serious is regarding keeping the waqf assets (financial assets) from diminishing in its values, since financial assets are very much affected by general price changes. It also is important to prevent cash waqf assets from wearing off, to preserve its main characteristics of perpetuity. Historical record under Ottoman Empire considered this type of waqf as specific category of Islamic Endowments and played important role in the economic and financial aspects of the empire (M. Cizakca, 1999). Cizacka, as quoted in Hasan, Samiul (2007), also mentioned that cash waqf has become popular because people without much (immovable) property wish to get the benefits of the waqf system and the banking system prefers it because it is easier to handle than property or other endowments. There have been examples where endowed capital was distributed as credit to a number of borrowers and the return from this investment was spent for religious and social purposes. If the return exceeded the expenses, the remainder was then added to the original capital of the endowment the following year.

Recognition of cash waqf is not new. Imam Zufar has allowed cash without attaching any condition. The majority of Malikis allowed cash and food stuff as waqf though some held to be makruh. The Hambalis are deemed to have not allowed cash but according to Ibn Taymiyah the various rulings on the invalidity of cash waqf are based on the opinions of al-Khiraqi and those who followed him. There is no opinion of Imam Ahmad on the point, and hence according to Ibn Taymiyah cash may be a valid subject of waqf. At present, countries, which accept and practice cash waqf are Egypt, Iraq, Syria, Iran, Turkey, India, Pakistan, Brunei, and Singapore (Mohammad Tahir Sabit Hj. Mohammad, 2006).

Cash waqf concept is aimed at mobilizing public funds to be pooled as a waqf asset (financial capital/endowment) to be managed in such a way that it can generate income stream besides maintaining its initial value to grow, or at least to preserve its perpetuity, then the income generated from investing the funds will be distributed to the beneficiaries. Preserving the perpetuity of waqf is a very important character in managing waqf assets, inclusive of cash waqf, because it is an essential characteristic of waqf. In this regard, it is very important to design a basis for valuation of this financial waqf asset. In addition, due to its financial nature of the asset, it has to take into account of the general price changes, i.e. inflation rates. Cash waqf might play important role in providing public services needed by the community. It can be directed to achieve this ends under condition that it has to be organized in such a way that reflect good government so that the donor/waqf would be willing to participate in donating the funds. Based on this concept, it implies that there are three important steps in developing cash waqf organization and management;

- Mobilizing Donation (fund raising method)
- Utilizing the pooled funds to generate income (portfolio investment method)
- Distributing the benefit/income to the beneficiaries.

Mobilizing funds requires an effective method of fund raising, considering the voluntary nature of waqf. In this regard, certification might be considered one simple way. Various nominal values might be issued for each certificate considering affordability of the potential donors to target. In this respect, the value of donation should be set in a way that it considers valuable. This is one important advantage of cash waqf concept compared to other types of waqf. It can target various segment of a community to participate, due to its flexibility and affordability in donation.

Managing the pooled funds will be the next step. An important principle in managing this financial asset is to apply income generating orientation or to be as productive as possible so that positive income stream can be generated. This principle implies that the funds should be used and invested in productive business ventures. There will be many options to arrange investment portfolio available as medium of allocating funds. This option includes direct investment into real sector through partnerships model (equity investment) with business players, and indirect investment through depositing funds in banking companies, or various security instruments. In this respect, it has to take into account the return and risk nature of each types of investment chosen.

Following the pooled income generated from investing of the funds is distributing the income to the beneficiaries. Related to this distribution, it is crucial to follow the purposes of the cash waqf program. Distribution of generated income might be targeted for the following purposes:

- Charity
  Distribution of this type is aimed to fulfill the needs of those who are unprivileged. The nature of this distribution is consumptive spending.
- Empowerment
  Segment of this target is persons or group of people who have prospective business ventures but having difficulties to access financial capital. Empowerment here is aimed to provide means of production, i.e. financial capital so that this group of small business enterprise might enhance their business ventures further. In assisting this group, various types of contracts in line with Sharia might be utilized, such as mudharaba, musharaka or murabaha, etc.
- Human investment

This type of human investment is targeted to provide education, through scholarship program, or training to improve the quality of human being by enhancing the level of skills of labor or entrepreneurs. In the end, it is expected that productivity of this group of people will improve and positive effect on the level of output might be resulted.

- Infrastructure investment
  It is meant to assist providing physical facilities such as buildings for schools, medical facilities, and so on, which will help improving community's welfare.

Based on previous explanation it can be concluded that cash waqf has significant potential to contribute to community development. It might play very crucial role in alleviating poverty as it can be targeted to low income groups. Managing cash waqf requires many important aspects to take into account. Cash waqf might provide financial capital to business sector directly or indirectly. It also might play role as a mode of transferring wealth.

Since managing cash waqf funds might involve methods like managing financial institution like bank, the following discussion will be directed to that ends. As for prototyping institution, it is interesting to look at cash waqf implemented by Social Investment Bank Limited (SIBL) Bangladesh. The followings are major features of Cash Waqf Certificates as quoted in Hasan, Samiul (2007);

- Cash waqfs are accepted as endowment in conformity with Shari'a and managed by the Bank.
- Cash waqf accounts are open in perpetuity.
- Waquif will have the liberty to choose the purpose(s) to be served either from the list of 32 purposes identified by SIBL or any other purpose(s) permitted by Shari'a.
- Cash waqf accounts earn profit at the rate of 10.70% per annum.
- Only the profit amount (wholly or partially) is spent for the specified purpose(s); unspent profit amount is added to waqf amount to grow over time.
- Cash waqf can be created with a one time endowment or multiples of thousand(s) deposited at different occasions, through nominated bank accounts if so wished.
- Cash waqf is accepted in specified endowment receipt voucher and a certificate for the entire amount is issued as and when the declared amount is built.

Profit & Loss Sharing Concept

PLS system as the utmost fundamental difference distinguishing Islamic banking and finance from its conventional counterpart can be viewed as alternative mechanism in financing techniques to avoid ribawi, i.e. interest based, mechanism. This system is a manifestation of Islamic injunction to conduct any business transaction in a manner that ensures fairness and justice for all parties involved. Under this system, therefore, risk and return will be equitably balanced, as Ahmad (1978a) stated that the rationale of the principle that there should be no profit-sharing without risk-sharing (*al ghunm bi-'l-ghurm*) is that the justification for earning profit is having engaged in an economic venture and thus contributed to the economy. As for the nature of PLS system Al-Omar and Abdel-Haq (1996) emphasizes that Islamic finance relies on equitable risk-sharing between the person who provides the capital and the entrepreneur. This practice derives from the central tenet of Islamic banking based on the Qur'an: the prohibition of riba. Along with distributive justice, the rationale for profit-sharing also embraces allocative efficiency, economic stability and growth.

The PLS system transparently distributes the profit earned and the loss incurred from conducting business ventures for all contracting parties by fixing the profit ratio/share in advance for each party. From this system the rate of returns for contracting parties will not be known in advance, it will only be known after completing the business ventures, ex-post rate of returns. This system is conducted through two types of contract, namely mudharaba and musharaka. Mudharaba is a contract between two parties, one as capital provider (shahibul maal) and the other as entrepreneur (mudharib) to conduct business ventures. The contract will requires both parties to arrange and fulfill their rights and obligations. Both parties should agree in advance for the profit share applied, whereas for any financial loss that might prevail will be born only by capital provider. The entrepreneur will suffer the loss, unless negligence can be proven, only in the form of efforts and time spent unrewarded. Musharaka is a contract between two or more parties to conduct business ventures. Each party entering into this contract will contribute capital in the form of financial or non financial capital. The profit share and the distribution of losses will be determined up-front or prior to executing the business ventures.

Presley, and Sessions, (1994) have shown that the *mudharaba* method will, under certain conditions, lead to an enhanced level of capital investment on account of the ability of *mudharaba* to act as an efficient revelation device. By applying the ideas developed in the Western contract literature by Holmstrom and Weiss (1985) and Meyer (1986) they show that a *mudharaba* contract between a project manager and a syndicate of investors may permit a more efficient revelation of any informational advantage the manager may have over the latter. Nienhaus (1988) emphasizes that theoretically, Islamic banks, through PLS financing, should provide capital to dynamic entrepreneurs who have good projects but cannot offer collateral, and so create new business and thus contribute to the community's economic development.

However, the main problem in implementing PLS financing is due to the principal–agent problem, i.e., moral hazard and adverse selection. Under moral hazard, the capital provider (*shahibul maal*) cannot observe the action/effort of the entrepreneur (*mudharib*). Such problem requires monitoring mechanism which can be incorporated through incentive scheme in the contractual agreement and its enforceability. Whereas adverse selection related to the existence of asymmetric information under which the uninformed party, in this case *shahibul maal*/bank, moves first by providing a menu of financing, e.g. through credit/financing rationing to the informed party, entrepreneur, to adjust to the contract offer of the uninformed party (i.e., *shahibul maal*/bank) to make a financing decision. (Wahrenburg, 1996).

PLS and Cash Waqf

PLS system might be used to match those who have funds and those who need them. In this regards, cash waqf institution plays as capital provider (*shahibul maal*) and the SME as the entrepreneur (*mudharib*) who has prospective business ventures but no capital. The SME will get benefit from the existence of cash waqf institution to help them running their business ventures by getting financing from cash waqf institution though profit PLS scheme. At this point the cash waqf institution fills the gap left by banking system by outreaching to the SME. The problem of bankability can be overcome through the institution of cash waqf.

Significant financing by cash waqf institution into SME's will depend on the funds available under cash waqf mobilization. To outreach into SME's cash waqf institution should be able to mobilize the funds significantly. Therefore organizing cash waqf is vital since it will have significant impact to the success of cash waqf program. Therefore, it will be proposed that the organization will be comprised of three sections as follows;

Funds Procurement Section

This section has main function to mobilize funds from member of community. It might target different group of people with different potential in terms of their wealth. It might consider some sort of flexibility in terms of people willingness to participate in this program. In this respect, it might be wise to have classification of participation as the following;

1. Cash waqf donor (waqif).
   This is the main sources of cash waqf funds. Hopefully this basis of participants will be growing in numbers and in contribution along with the development of cash waqf institution. The donor (waqf) can consist of individuals and institutions. In Muslim countries mosques can be directed to participate because they are number big in numbers and their accumulated funds.
2. Usufruct giver.
   Usufruct means as lending any assets to other party to take benefit of the assets by using it. This group of participants is expected to participate in the program by providing financial assets for specific period of time to be utilized by cash waqf institution to generate income provided the principal funds will be repaid in full at the end of agreed period. Attracting participation from this group will surely required efforts to convince them by building a trustable cooperation. There will be no (financial) incentives given to this group of participants.

Funds Utilization Section

In order to generate income, the accumulated funds have to be utilized in such a way that income stream can be resulted. To produce that income the funds can be allocated into various type of investment directly or indirectly through the following ways;

1. Banking companies via investing in deposits which will earn returns on deposits.
2. Capital market via investing in securities which will gain dividend or capital gain
3. Partnership with business players which will give shared-profit from projects/business ventures.
4. In addition, the funds might be made available for specific purposes which generate non-financial returns as a part of providing benefit/maslahah to the community, provided the principal can be repaid.

Utilizing funds into partnership will require picking or selecting the right partners for the sake of investment's safety. Choosing the successful businessmen who at the same time have similar spirit and concern in enhancing the welfare of the community might be an appropriate method.

Income Distribution Section

Income generated from funds utilization will be allocated to;

1. Administrative expenses
2. Beneficiaries
3. Add up the initial funds for allowing it to grow or at least to prevent its value from declining or eroding.

Due to its financial nature and valuable character there are few things need to be settled when managing cash waqf institution;

- The nominal value per unit of certificate, to provide guidance, price of gold or price of land might be used as a benchmark.
- To anticipate any disruption in managing cash waqf program, it is a must to write up guidance and rules pertaining cash waqf organization which covers long period of time.

Conclusion

Cash waqf as a relatively new method in Islamic voluntary activities might be considered as an important avenue to contribute to the development of a more productive waqf property's management, which ultimately capable of producing various public services needed by community. It can be implemented side by side to assist other types of waqf properties, especially buildings or lands, to enhance their productivity. It also can be implemented separately as independent waqf property directed to achieve similar purposes in the area of public services. In short, its public benefit or maslahah that being taken care of most.

Considering the important potential of cash waqf it might be established as an institution under Islamic public finance. It is therefore important to organize cash waqf in a proper way to be able to take fruit from it for the sake of public interest or maslahah. It will need serious thought to develop it as a public financial institution. It can learn from what have been done by Social Investment Bank Limited of Bangladesh. It will be more beneficial should implementing cash waqf program be connected to the mosque management to enhance further the economic role of mosque to the community. For spreading out the idea, it would be instructive to conceptualize cash waqf development model into a compact module.

Cash waqf institution might be established to target SME. In this regards, it can be used to empowering SME especially by providing financing to them. SME will be capable to run and even expand their business ventures through the partnership with cash waqf institution via PLS contracts. From SME side, they will be assisted in getting the financing, which cannot be accessed through banking system due to bankability problem. On the other side from the cash waqf institution, they can show the effectiveness of this institution in tackling the problem of lack-financing faced by SME. The empowered SME will have significant impact in some important aspects, such as more economic activities, employment, and income that can be enhanced. These will contribute to the betterment of income distribution among all segments in the society. The positive effect will also be achieved in the social gap as well.

At last, managing cash waqf will need a solid organization which might comprised of government agency and private institution at once due to a trust nature of the organization. In addition, organizing cash waqf will cover three main activities. Firstly, mobilizing donation (fund raising method) by use of certification, secondly, utilizing the pooled funds to generate income as productive as possible involving portfolio investment method, and thirdly, distributing the benefit/income to the beneficiaries to facilitate public services.

******wallaahu a'lam bishshawab******

REFERENCES

Alhabshi, Syed Omar. (1991), "Waqf management in Malaysia", in Ariff, Mohamed (ed)(1991), *The Islamic Voluntary Sector in Southeast Asia*, Institute of Southeast Asian Studies, Singapore.

Ali, Abdullah Yusuf. (2004), *The Holy Qur'an, Original Arabic Text with English Translation & Selected Commentaries*, Saba Islamic Media, Kuala Lumpur, Malaysia.

Al-Omar and Abdel-Haq (1996). *Islamic Banking, Theory, Practice & Challenges*, Oxford University Press, Karachi, and Zed Books, London & New Jersey.

Ariff, Mohamed. (1991), "Resource mobilization through the Islamic voluntary sector in Sotheast Asia", in Ariff, Mohamed (ed)(1991), *The Islamic Voluntary Sector in Southeast Asia*, Institute of Southeast Asian Studies, Singapore.

Boudjellal, Mohammed. (2005), "The need for a new approach of the socio-economic developing role of waqf in the 21st century", in Haneef, M.A. and Anwar M. (2005), *Studies In Islamic Economics In The 21st Century, Shari'ah Foundations, Theory and Institutions*, Kulliyah of Economics and Management Sciences, International Islamic University Malaysia, Gombak, Kuala Lumpur, Malaysia.

Chapra, M Umer. (1992), *Islam and the Economic Challenge*, The Islamic Foundation and International Institute of Islamic Thought, Herndorn, VA, USA.

Cizakca, Murat. (1999) "Relevance of the Ottoman cash waqfs (awqaf al-nuqud) for the modern Islamic economics", paper presented in the 3rd International Conference on Islamic Economics, International Islamic University Malaysia, Kuala Lumpur

Hasan, Samiul. (2007), *Philanthropy and Social Justice in Islam, Principles, Prospects, and Practices*, A.S. Noordeen , Gombak, Kuala Lumpur, Malaysia.

Hj. Mohammad, Mohd. Tahir Sabit. (2006), "Innovative modes of financing the development of waqf property", paper at Konvensyen Wakaf Kebangsaan 2006, Jabatan Wakaf Zakat dan Haji, Jabatan Perdana Menteri, Malaysia.

Islahi, Abdul Azim. (1999), "Provision of public goods: role of voluntary sector (waqf) in Islamic history", paper presented in the 3rd International Conference on Islamic Economics, International Islamic University Malaysia, Kuala Lumpur

Khan, Muhammad Akram. (1989), *Economic Teachings of Prophet Muhammad (may be peace upon him), A Select Anthology of Hadith Literature on Economics,* International Institute of Islamic Economics, Islamabad and Institute of Policy Studies, Islamabad

Lewison, Martin. (1999), "Conflicts of interest? the ethics of usury", *Journal of Business Ethics* 22: 327–339, *Kluwer Academic Publishers.*

Ngadimon, Md. Nordin. (2006), "Pengembangan harta wakaf menggunakan instrument sukuk", paper at Konvensyen Wakaf Kebangsaan 2006, Jabatan Wakaf Zakat dan Haji, Jabatan Perdana Menteri, Malaysia.

Presley, J.R., and Sessions, J.G., (1994).'Islamic economics: the emergence of a new paradigm' *The Economic Journal*, Vol. 104, No. 424, (May), pp. 584-96.

Sadeq, AbulHasan M. (2005), "Socio-economic development role of waqf in the 21st century and restructuring of its administration, with special reference to Bangladesh", in Haneef, M.A. and Anwar M. (2005), *Studies In Islamic Economics In The 21st Century, Shari'ah Foundations, Theory and Institutions*, Kulliyah of Economics and Management Sciences, International Islamic University Malaysia, Gombak, Kuala Lumpur, Malaysia.

Siddiqi, Muhammad Nejatullah. (1996), *Role of the State in the Economy, An Islamic Perspective,* The Islamic Foundation, Leicester, United Kingdom

Siregar, Mulya E., et.al. (2001), "Peranan perbankan syariah dalam wakaf tunai (sebuah kajian konseptual), Biro Perbankan Syariah, Bank Indonesia, Jakarta, Indonesia.

Tohirin, Achmad. (2002), "Kontribusi pengembangan wakaf (tunai) di Indonesia", paper at Simposium Nasional I Sistem Ekonomi Islami, Center for Islamic Economics Studies and Development, Faculty of Economics, Universitas Islam Indonesia, Yogyakarta, Indonesia.

Wahrenburg, M., (1996). 'Financial contracting under adverse selection and moral hazard' in A. Picot, E Schlicht, (eds) (1996) *Perspectives on Contract Theory,* Physika Verlag, pp. 165-84.

MODEL GELAGAT PEMATUHAN DAN PENGELAKAN ZAKAT: SUATU TINJAUAN TEORI

Sanep Ahmad
Profesor Madya,
Fakulti Ekonomi dan Perniagaan,
43600 UKM, Bangi, Selangor

Zulkifli
Pegawai Badan Kepegawaian,Pendidikan dan Pelatihan Provinsi Aceh dan
Pelajar Ph.D, Fakulti Ekonomi dan Perniagaan, 43600 UKM, Bangi, Selangor

MODEL GELAGAT PEMATUHAN DAN PENGELAKAN ZAKAT: SUATU TINJAUAN TEORI

Sanep Ahmad [1]
Zulkifli [2]

ABSTRAK

Zakat merupakan salah satu perintah agama yang wajib dipatuhi bagi setiap Muslim yang berkelayakan. Tahap kepatuhan membayar zakat adalah dipengaruhi oleh faktor iman yang tidak boleh dipersoalkan tetapi apabila institusi formal telah ditugaskan untuk menguruskan kutipan dan agihan zakat maka kepatuhan zakat kini telah menjadi tahap kepatuhan terhadap institusi formal pengutip zakat. Oleh itu maka kecekapan pengurusan institusi dan beberapa faktor sampingan telah mempengaruhi kepatuhan membayar zakat. Kajian ini cuba membina satu model kepatuhan zakat terhadap institusi formal kutipan zakat. Model dibina berdasarkan model kepatuhan cukai dengan mengambil kira beberapa faktor penting yang mempengaruhi kepatuhan pembayaran zakat.

Kata kunci: *Kepatuhan zakat, kepatuhan cukai, institusi formal zakat.*

Latar Belakang

Secara teoritis, gelagat merupakan perilaku seseorang terhadap sesuatu objek yang boleh mempengaruhinya dalam bertindak untuk membuat sesuatu keputusan (Mueller, 1986). Dikatakan gelagat individu berkaitan dengan personaliti iaitu gabungan kestabilan ciri-ciri fizikal dan mental yang akan menjadikannya sebagai identiti tersendiri. Antara ciri-cirinya ialah termasuk cara seseorang melihat terhadap sesuatu objek, cara berfikir, bertindak dan berperasaan. Terdapat beberapa faktor yang mempengaruhi gelagat seseorang iaitu; faktor fisiologi (jantina dan genetik), persekitaran, situasi, budaya dan kumpulan atau keluarga (Kreitner dan Kinicki, 1998). Faktor-faktor tersebut secara umum dapat dikelompokkan kepada dua jenis iaitu faktor dalaman dan luaran individu.

[1] Profesor Madya, Pensyarah, Fakulti Ekonomi dan Perniagaan, 43600 UKM, Bangi, Selangor.
[2] Pegawai Badan Kepegawaian,Pendidikan dan Pelatihan Provinsi Aceh dan Pelajar Ph.D, Fakulti Ekonomi dan Perniagaan, 43600 UKM, Bangi, Selangor

Dari sisi pembentukannya, gelagat dapat dibentuk melalui kaedah pengukuhan positif, pengukuhan negatif dan hukuman. Pengukuhan positif dimaksudkan bahawa gelagat individu disebabkan kerana adanya ganjaran yang positif yang akan mereka terima sehingga menimbulkan kepuasan atas keputusan yang dibuat dan pengukuhan negatif pula sebaliknya. Manakala hukuman pula berkenaan dengan peraturan, undang-undang atau penguatkuasaan yang memberikan sesuatu hukuman kepada individu jika melanggarnya (Aziz, 2003). Selain itu, gelagat juga dipengaruhi oleh kepercayaan hasil daripada perhatian langsung (kefahaman) dan pembelajaran (pengetahuan) yang telah dilalui terhadap sesuatu. Mengikut Greenberg dan Baron (1995), gelagat terdiri daripada komponen kognitif dan afektif. Kognitif berhubungan dengan pendapat atau keyakinan terhadap sesuatu. Perkara ini boleh dibentuk oleh kepercayaan atau kesedaran dan melalui pendidikan (pengetahuan). Afektif pula merupakan emosi atau perasaan seseorang, apakah ianya suka atau tidak suka, percaya atau tidak percaya dan sokong atau tidak sokong ke atas sesuatu perkara. Oleh itu, dapat disimpulkan bahawa gelagat merupakan tindakan atau kelakuan individu dalam membuat keputusan terhadap sesuatu perkara yang dipengaruhi oleh kepercayaan, keyakinan dan perasaan.

Berdasarkan konsep gelagat seperti yang dihuraikan di atas, beberapa pengkaji di bidang percukaian telah mengembangkan model yang dibina oleh Becker (1968) iaitu dengan mengambilkira faktor demografi, sikap dan persepsi, sistem cukai (Jackson dan Milliron, 1986) dan pengiraan cukai serta kefahaman undang-undang cukai (Mustafa, 1996).

Dalam bidang percukaian, kajian-kajian mengenai gelagat individu telah banyak dilakukan. Berbagai teori gelagat telah digunapakai bagi menerangkan faktor-faktor yang berhubungkait dengan pembolehubah yang mempengaruhi individu dalam membuat keputusan sama ada patuh atau mengelak daripada membayar cukai. Tahap permulaan yang berkaitan dengan pematuhan dan pengelakan cukai didasari kepada teori ekonomi yang dikenali dengan teori individu rasional (Hite, 1987). Teori ini menyebutkan bahawa individu yang rasional akan cuba memaksimumkan utilitinya dengan berusaha mengelak daripada membayar cukai, namun dia akan berhadapan dengan risiko yang bakal diterima apabila tingkahlakunya dikesan oleh pihak berkuasa.

Berdasarkan teori ini, Becker (1968) dalam kajiannya mengenai jenayah dan hukumannya dalam pendekatan ekonomi telah mengenalpasti beberapa faktor yang mempengaruhi gelagat individu untuk mengelak daripada membayar cukai iaitu kebarangkalian dikesan, kadar cukai dan struktur penalti. Didapati bahawa hukuman yang tegas dan jelas boleh mengurangi tingkat pengelakan cukai. Oleh itu, penguatkuasaan undang-undang menjadi perkara penting dalam meningkatkan aras kepatuhan cukai. Seterusnya, kajian dikembangkan lagi dimana berlakunya peralihan daripada hanya mengambilkira faktor ekonomi kepada faktor-faktor sosial dan psikologi yang lain (Geeroms dan Wilmots, 1985). Penambahan faktor-faktor tersebut diasaskan pada pandangan bahawa gelagat merupakan sesuatu yang komplek, ianya tidak sahaja dipengaruhi oleh faktor ekonomi namun juga persekitaran, pengetahuan, sosial demografi, peluang mengelak, persepsi dan sistem cukai (Jackson dan Milliron, 1986).

Isu dan Objektif

Persoalan yang muncul pada masa ini ialah adakah gelagat kepatuhan zakat boleh dibina berdasarkan gelagat kepatuhan cukai dan sekiranya boleh bagaimanakah ia boleh diubahsuaikannya. Meski kedua-duanya merupakan kewajipan dalam bidang harta, tetapi kedua-duanya mempunyai falsafah yang khusus dan berbeza sifat dan asasnya, sumbernya, sasarannya, bahagiannya, kadarnya, serta prinsip, tujuan dan jaminannya. Sememangnya terdapat perbezaan definisi diantara pematuhan dan pengelakan zakat dan cukai. Pengelakan atau lari zakat disini bermakna bahawa individu tidak melakukan pembayaran melalui institusi formal seperti yang diwartakan, walaupun ianya berkemungkinan dilakukan pembayaran secara terus kepada asnaf. Berdasarkan definisi ini, pematuhan dan pengelakan zakat sememangnya berbeza dengan erti pematuhan dan pengelakan cukai. Dengan ini pengelakan cukai bermakna tidak membayar cukai, sedangkan pengelakan zakat bermakna tidak membayar zakat kepada institusi formal tetapi masih membayar zakat.oleh itu fungsi institusi formal kini menjadi faktor yang mempengaruhi kepatuhan membayar zakat.

Disamping itu, zakat berkaitan rapat dengan ibadah, kerana zakat merupakan perintah Allah SWT. Ianya mempunyai tujuan moral dan spiritual sekaligus. Kadar dan nisabnya bernilai tetap, tidak boleh ditambah mahupun dikurangi. Manakala cukai lebih berkait dengan penguasa/pemerintah, ianya boleh berubah dari semasa ke semasa sesuai dengan dasar kerajaan. Justeru itu, faktor yang mempengaruhi gelagat kepatuhan terhadap keduanyapun dijangka terdapat perbezaan. Oleh itu, apabila model gelagat pematuhan dan pengelakan cukai ingin diterapkan dalam bidang zakat, tentunya ianya perlu diubahsuai dengan mengambilkira teori-teori yang berkaitan dan prinsip-prinsip yang membezakan antara kedua-duanya.

Secara umum, objektif kajian ini adalah untuk membina suatu model teoritis tentang gelagat pematuhan dan pengelakan zakat terhadap institusi formal berdasarkan teori gelagat kepatuhan cukai.

Literatur dan Kajian Lepas

Zakat merupakan pembayaran yang diwajibkan oleh Islam kepada semua penganutnya yang mempunyai harta dalam berbagai bentuk sekiranya cukup syarat *haul* atau tempoh dan *nisab* atau satu jumlah minimum yang mencukupi untuk memenuhi keperluan asas selama tempoh yang dikenakan (Alhabshi, 2003). Kewajipan ini lahir kerana zakat merupakan satu antara rukun Islam yang diwajipkan kepada individu muslim oleh Allah SWT dengan maksud untuk pembersihan dan penyucian harta bagi orang yang membayarnya (QS:At-Taubah, ayat 103) dan juga untuk menolong kaum dhu'afa atau orang yang memerlukan (QS:At-Taubah, ayat 60). Oleh itu, kedudukan zakat adalah sangat penting, ianya sama sepertimana kedudukan shalat bagi setiap orang Mukmin. Keadaan ini telah difahami oleh setiap muslim.

Faktor pemahaman dan pengetahuan zakat ini, menurut kajian Hamid (1998), Mohd. Ali, et.al. (2003) dan Sanep, et.al. (2005) memberi kesan ke atas pembayaran zakat

sama ada zakat pendapatan mahupun zakat pertanian. Disamping itu, hasil kajian Mohd. Ali, et.al. (2003) dan Kamil (2002) juga mendapati bahawa faktor keimanan dan pengetahuan zakat mempengaruhi kepatuhan zakat pendapatan secara positif.

Kajian lainnya yang berhubungan dengan gelagat kepatuhan individu dalam pembayaran zakat adalah seperti dikaji oleh Nur Azura, et.al. (2005). Kajian ini mendapati bahawa taraf sosial dan bilangan tanggungan memberi kesan yang signifikan terhadap gelagat kepatuhan individu dalam mengeluarkan zakat pendapatan. Disamping itu, faktor merasa puas hati terhadap kecekapan pengurusan pusat zakat khususnya bila agensi ini dapat mengagihkan dana zakat dengan baik merupakan faktor penting lainnya yang mempengaruhi kepatuhan membayar zakat kepada institusi formal. Semakin tinggi tingkat kepuasan terhadap agihan didapati semakin tinggi tahap kepatuhan membayar zakat kepada institusi formal (Sanep dan Hairunnizam, 2004). Oleh itu, keyakinan masyarakat terhadap kecekapan dan ketelusan pengurusan pusat zakat perlu ditingkatkan supaya individu akan membayar zakat kepada institusi formal pungutan zakat (Sanep, et.al., 2005 ; Sanep dan Hairunnizam, 2005). Selanjutnya, gelagat kepatuhan zakat juga dipengaruhi oleh kemudahan prasarana dalam membayar zakat. Dan akta zakat yang jelas juga perlu diadakan bagi menguatkuasakan peraturan zakat supaya individu akan bertambah komit dalam membayar zakat. Sebelum sesuatu kutipan boleh dilaksanakan, suatu undang-undang yang jelas dan komperehensif perlu dibentuk dan dikuatkuasakan. Selain itu, fatwa juga merupakan instrumen yang digunapakai bagi tujuan kutipan zakat (Kamil, 2002).

Undang-undang dan penguatkuasaan zakat tersebut amat perlu dalam menentukan kepatuhan membayar zakat. Dengan adanya penguatkuasaan undang-undang, masyarakat akan menyedari bahawa zakat merupakan suatu kewajipan serta tanggungjawap terhadap agama dan sosial yang harus ditunaikan oleh warganegara. Berkaitan dengan penguatkuasaan undang-undang, kajian Kamil (2002) mendapati bahawa terdapat hubungan langsung diantara tanggapan individu kepada undang-undang zakat dan kebarangkalian pembayaran zakat. Disamping penguatkuasaan, tidak dapat dinafikan pula bahawa institusi zakat mempunyai peranan yang sangat penting (Zulkefly, et. al., 2002). Institusi zakat menjadi faktor pemangkin kepada mempengaruhi orang lain termasuk untuk menyumbang kepada institusi tersebut (Zalina, 1999; Norazian, 2003; Hasan dan Saidu, 2004).

Berdasarkan literatur dan kajian lepas seperti yang telah dihuraikan di atas, kebanyakan kajian masih bertumpukan kepada persoalan hukum pelaksanaan, dan kajian kesan beberapa faktor yang dijangka mempengaruhi kesedaran individu pembayar zakat. Secara khusus, kajian empirikal untuk membina model spesifik mengenai pematuhan dan pengelakan zakat belum menjadi tumpuan dalam kajian-kajian sebelumnya. Justeru itu, penulisan ini menfokuskan kepada pembinaan model pematuhan dan pengelakan zakat kepada institusi formal (baitulmal) secara spesifik berdasarkan kepada teori pemaksimuman utiliti yang telah dikembangkan dalam kajian percukaian.

Disamping itu, melalui kajian teoritis ini juga dirangka beberapa faktor lain yang belum dijadikan faktor penentu dalam kajian sebelumnya bagi mengembangkan pembolehubah sedia ada, seperti pengaruh persekitaran, pewartaan undang-undang

zakat yang mewajipkan individu wajip zakat untuk membayar melalui institusi formal pungutan zakat dan kesan sistem cukai sedia ada kepada pematuhan dan pengelakan zakat. Faktor sistem cukai perlu diambilkira sebagai faktor penentu kepada pematuhan dan pengelakan zakat apabila isu cukai masih dianggap membebankan individu pembayar zakat apabila pembayaran zakat tidak diberikan rebet terhadap pembayaran cukai.

Model Pematuhan dan Pengelakan Cukai

Model pematuhan dan pengelakan cukai didasari kepada teori ekonomi yang dikenali sebagai teori individu rasional (Hite, 1987). Model ini diasaskan oleh Allingham dan Sandmo (1972), kemudian dikembangkan oleh Srinavasan (1973), Yitzhaki (1974), Watanabe (1987), Borck (2004), Hindriks dan Myles (2006), Chorvat (2007), Galbiati dan Zanella (2008) dan Tuzova, Y (2009). Berdasarkan teori individu rasional, bahawa individu pembayar cukai akan memaksimumkan utilitinya iaitu tertakluk kepada kos yang terlibat dalam pembuatan sesuatu keputusan sama ada patuh atau mengelak daripada membayar cukai. Kos yang terlibat ditimbulkan oleh faktor denda dan kebarangkalian dikesan oleh pihak berkuasa. Pembayar cukai akan melihat tindakan pengelakan cukai yang mereka lakukan dari sudut keuntungan atau kerugian yang bakal mereka perolehi yang bermakna bahawa keputusan yang diambil turut melibatkan risiko/hukuman (Allingham & Sandmo, 1972; Srinivasan, 1973). Untuk memaksimumkan utilitinya, pembayar cukai akan melaporkan pendapatan mereka dalam jumlah serendah mungkin ataupun tidak melaporkan sama sekali, dimana tindakan itu berhadapan dengan risiko kebarangkalian dapat dikesan dan penalti oleh pihak berkuasa. Apabila tindakan pengelakan cukai yang dilakukan tidak dapat dikesan oleh pihak berkuasa maka pembayar cukai akan terus melakukan pengelakan cukai. Sebaliknya, apabila kelakuannya dapat dikesan maka pembayar cukai akan mengalami kerugian kerana penalti atau denda yang terpaksa dibayar kepada pihak berkuasa.

Mengikut model yang diasaskan oleh Allingham dan Sandmo (1972), pembayar cukai akan memilih sama ada membayar atau mengelak cukai dengan jangkaan utiliti yang maksimum sebagai berikut:

$$E(U) = (1 - p (w - x)) \, U(Y^{nc}) + p (w - x) \, U(Y^{c}) \qquad (1)$$

Dimana, $U(Y^{nc})$ adalah utiliti yang diperolehi daripada pendapatan Y dengan andaian bahawa pengelakan cukai tidak dapat dikesan dan $U(Y^{c})$ adalah utiliti pembayar cukai apabila ianya dapat dikesan dan dikenakan penalti, dan $p (w - x)$ adalah kebarangkalian dikesan terhadap pengelakan cukai. Apabila w adalah pendapatan sebenar (*actual income*), x adalah pendapatan yang dinyatakan (*declared income*), t adalah kadar cukai yang dikenakan dan *F* adalah penalty/hukuman yang dikenakan, maka kekangan bagi pemaksimuman utiliti atau maksimum utiliti pembayar cukai akan tertakluk kepada persamaan berikut:

$$Y^{nc} = w - t(x) \qquad (2)$$

$$Y^{c} = (1 - t) w - F \, t (w - x) \qquad (3)$$

Dengan memasukkan kekangan ke persamaan (1), maka diperolehi persamaan berikut;

$$\text{Max } E(U) = [(1-p(w-x))\, U(w-t(x))] + [p(w-x)\, U(w-t(w) - F(t(w)-t(x))] \quad (4)$$

$$\text{Max } E(U) = [(U(w-t(x)) - p(w-x)\, U(w-t(x))]$$

$$+ [p(w-x)\, U(w-t(w) - F(t(w)-t(x))] \quad (5)$$

Dimana, $F(t(w)-t(x))$ adalah merupakan total penalti yang akan dikenakan apabila perbuatan mengelak cukai dapat dikesan. Dengan demikian, daripada persamaan (4) atau (5), diperolehi *First Order Condition* (FOC) sebagai berikut:

$$\frac{\partial E(U)}{\partial (X)} = [-(1-p)\, U'[w-t(x)]\, t'(x)] + [p\, U'[(1-t)w - Ft(w-x)]\ (F)\, t'(x)] = 0 \quad (6)$$

atau dapat ditulis;

$$(1-p)\, U'[w-t(x)]\, t'(x) = p\, U'[(1-t)w - Ft(w-x)]\, (F)\, t'(x) \quad (7)$$

atau,

$$(1-p)\, U'[Y^{nc}]\, t'(x) = p\, U'[Y^{c}]\, (F)\, t'(x) \quad (8)$$

$$\frac{pU'(Y^{c})}{1-pU'(Y^{nc})} = (F) \quad (9)$$

Daripada persamaan (9) dapat didefinisikan bahawa kebarangkalian individu mengelak cukai ($\frac{pU'(Y^{c})}{1-pU'(Y^{nc})}$) adalah bergantung kepada beban hukuman/penalty (F) yang akan dikenakan apabila perbuatan mengelak cukai dapat dikesan oleh penguasa. Selanjutnya, Watanabe (1987) telah mengembangkan persamaan (9) ini dengan menambah beberapa pembolehubah yang relevan seperti mengambilkira pembolehubah kos yang dikeluarkan bagi melakukan pengelakan cukai (r). Dengan demikian, persamaan (9) dapat ditulis menjadi;

$$\frac{pU'(Y^{c})}{1-pU'(Y^{nc})} = (F + r) \quad (10)$$

Bagi memenuhi persyaratan fungsi yang maksimum, maka *Second Order Conditions* daripada persamaan (6) pula adalah sebagai berikut:

$$\frac{\partial^2 E(U)}{\partial (X)^2} = (1-p)\{U''[Y^{nc}](t'(x))^2 - U'[Y^{nc}]\,t''(x)\} + p\{U''[Y^{c}]((1-F)t'(x))^2 - U'[Y^{c}](F-1)t''(x)\} < 0 \qquad (11)$$

Daripada persamaan (6) hingga (10), diperolehi bahawa kepuasan maksimum bagi individu yang melakukan pengelakan cukai dengan menyatakan pendapatan (*declared income=x*) yang lebih rendah daripada pendapatan sebenar (*actual income=w)* atau [$Y^{nc} = w - t(x)$] sememangnya tertakluk/bergantung kepada seberapa besar total beban hukuman/penalti yang dikenakan {$F(t(w)-t(x))$} jika perbuatannya dikesan dan juga kos yang harus dikeluarkan bagi melakukan pengelakan cukai. Individu dikatakan akan patuh membayar cukai apabila ianya merasa beban penalti yang diterima adalah lebih berat sehingga menjejaskan kepuasannya, demikian juga sebaliknya apabila total beban hukuman/penalti yang diterima lebih ringan maka individu cenderung akan mengelak cukai.

Apabila perkara ini dihubungkaitkan dengan kes zakat, maka sememangnya bahawa pematuhan dan pengelakan zakat tidak hanya bergantung kepada beban fizikal seperti beban hukuman/penalti dalam model pengelakan cukai semata, tetapi ianya lebih menyeluruh/komperehensif yang mencakup fisikal dan mental. Perkara ini disebabkan kerana zakat merupakan perintah agama yang secara konseptual merupakan satu entiti yang berbeza dengan cukai. Oleh itu, adalah munasabah apabila kita menentukan faktor-faktor yang mempengaruhi gelagat pematuhan dan pengelakan zakat perlu dibincangkan secara luas iaitu mencakup serta mengambilkira faktor fisikal, mental dan prinsip-prinsip agama sekaligus. Justeru itu, artikel ini cuba mengembangkan pemikiran teoritis untuk membentuk suatu model konseptual berkaitan dengan gelagat pematuhan dan pengelakan zakat berlandaskan teori-teori gelagat samada daripada aspek ekonomi, sosiologi mahupun psikologi yang sedia ada dengan menyesuaikan dan mengambilkira prinsip-prinsip Islam yang lebih luas.

Landasan Teori Model Gelagat Pematuhan dan Pengelakan Zakat Berdasarkan Falsafah Zakat

Model pengelakan cukai yang telah dibahas di atas berlandaskan kepada teori individu rasional. Berdasarkan teori tersebut, bahawa prinsip rasional hanya diasaskan kepada kepuasan fizikal (keduniawian) sahaja. Rasionalisme didefinisikan sebagai suatu proses memaksimumkan sesuatu kehendak berdasarkan kepada satu set kekangan. Definisi semacam ini menurut Kahf (1982) perlu ditafsirkan semula jika istilah yang sama ingin digunakan dalam ilmu ekonomi Islam kerana istilah tersebut masih agak kabur sebab sebarang perkara boleh dirasionalkan dengan merujuk kepada satu set aksiom atau prinsip tertentu. Oleh itu, sesuai dengan prinsip Islam maka asas kepada rasional sememangnya bukan sahaja kepuasan fizikal tetapi juga kepuasan ruhani, terlebih lagi yang berhubungkait dengan zakat yang merupakan ibadah atau perintah agama. Untuk memahami konsep rasionalisme bagi individu Muslim, maka ruang masa kehidupannya untuk menikmati kepuasan perlu diperluas kepada dua dimensi, iaitu kehidupan di dunia dan kehidupan di akhirat. Sebarang tindakannya akan memberi kesan kepada kebajikannya dalam kedua-dua alam kehidupan tersebut.

Lantaran itu maka gelagat individu dalam memilih satu bentuk keputusan yang boleh mencapai satu tingkat tertinggi nilai kini kepuasan (*present values of his satisfaction*) melalui kebajikan kehidupan dunia dan akhirat (Kahf, 1995). Oleh itu, individu Muslim masih bertindak secara rasional apabila ia melepaskan sebahagian penggunaan peribadi atau penggunaan ekonominya demi membelanjakan hartanya untuk kepentingan masyarakat dan agama Islam. Ia rela berbuat demikian untuk meninggikan kepuasannya yang lebih menyeluruh iaitu kepuasan yang merangkumi kepuasan fizikal (materi) dan kepuasan ruhani. Oleh itu falsafah zakat yang menghendaki Muslim yang mampu membantu orang lain yang memerlukan adalah satu tindakan yang rasional.

Bukti orang-orang Islam mencari jalan untuk memaksimumkan utiliti fizikal dan juga utiliti keruhanian telah difirmankan oleh Allah S.W.T di dalam Al-Quran Surah Al-Baqarah ayat 201, yang bermaksud; "*Dan di antara mereka pula ada yang (berdoa dengan) berkata: Wahai Tuhan kami, berilah kami kebaikan di dunia dan kebaikan di akhirat dan peliharalah kami dari azab Neraka*" (Mahmud, 1973). Dengan demikian, dalam memaksimumkan utilitinya, selain faktor luaran seperti penguatkuasaan undang-undang dengan peruntukan denda dan penalti yang jelas dan tegas, seseorang individu Islam juga tidak terlepas dengan pengaruh faktor dalaman seperti keimanan dan moral (akhlak). Oleh itu sekiranya seluruh masyarakat telah kaya dan tidak ada asnaf yang layak sekalipun, zakat tetap wajib dibayar. Falsafah zakat dalam kontek ini adalah mematuhi perintah Allah swt. Perkara ini juga selari dengan teori kognitif dalam ilmu psikologi dan perspektif normatif dalam ilmu sosiologi, dimana kedua teori ini menyatakan bahawa faktor penentu kepatuhan adalah bergantung kepada keadilan dan moral peribadi seseorang.

Selanjutnya daripada aspek sosiologi, antara faktor yang boleh mempengaruhi gelagat individu dikatakan kerana pengaruh persekitaran. Teori ilmu sosiologi yang berkaitan dengan aspek gelagat dikenali dengan Teori Kumpulan Rujukan atau *Reference Group Theory*. Pada mulanya *Reference Group Theory* diperkenalkan oleh Cartwright dan Zander (1968), yang didefinisikan sebagai suatu kumpulan (group) yang dijadikan rujukan oleh para ahlinya dalam berkelakuan terhadap sesuatu perkara. Menurut teori ini, individu yang menjadi ahli kumpulan akan berusaha untuk mengekalkan keahliannya dengan mengikuti gelagat kumpulan yang sedia ada. Selanjutnya, Spicer dan Lundstedt (1976) menyatakan bahawa adalah munasabah untuk menganggap bahawa hubungan dengan persekitaran (masyarakat) atau individu lain seperti sahabat, saudaramara, rakan sekerja dan kenalan sebagai bahagian daripada kumpulan rujukan pembayar cukai tersebut. Dalam konteks ini, pematuhan atau pengelakan cukai oleh seseorang individu akan terjadi apabila kumpulan yang dijadikan rujukan oleh individu tersebut membenarkan berlakunya pematuhan atau pengelakan cukai (Vogel, 1974; Wallschutzky, 1984; Weigel, et.al,. 1987).

Bagi individu Muslim, piawaian dalam kumpulan rujukan perlu diambilkira kesesuaian dengan prinsip-prinsip Islam. Apabila piawaian dalam kumpulan rujukan bercanggah dengan prinsip-prinsip Islam atau syariah maka sepatutnya piawaian tersebut tidak akan dijadikan rujukan oleh ahli kumpulan. Justeru itu, faktor kefahaman, kepercayaan dan keimanan akan menentukan gelagat kepatuhan seseorang samada mengikuti kumpulan mahupun tidak.

Dari sisi ilmu psikologi pula, teori yang sering digunapakai dalam kajian yang berkaitan dengan gelagat pematuhan dan pengelakan cukai adalah Teori Pertukaran (Exchange Theory). Teori pertukaran berasaskan kepada pertimbangan psikologi manusia yang terpengaruh oleh jangkaan ganjaran yang akan diperolehi daripada keputusan yang dibuat. Dikatakan gelagat pembayar cukai mempunyai hubungan yang erat dengan jangkaan pampasan yang diterima daripada kerajaan sebagai bentuk pengorbanan atas sebahagian daripada pendapatan mereka bagi menjalankan tanggungjawap membayar cukai. Pampasan ini berupa penyediaan perkhidmatan awam oleh kerajaan daripada hasil cukai yang dipungut. Dalam hal ini, individu pembayar cukai mahu kerajaan bertingkahlaku cekap, telus dan bijak dalam membelanjakan wang mereka, manakala kerajaan pula perlu memastikan pembayar cukai berpuas hati dan terus patuh kepada undang-undang percukaian. Jika harapan pembayar cukai tidak terwujud, maka pembayar cukai tidak akan meneruskan hubungan pertukaran sehingga mereka akan mengelak daripada membayar cukai. Keadaan ini berbeza dengan kes pembayaran zakat kerana mengikut falsafah zakat ia tetap wajib dibayar terus kepada asnaf walaupun pihak pemerintah tidak melantik amil untuk mengutip zakat.

Apabila teori ini diperluas dengan mengambilkira prinsip-prinsip agama sememangnya ganjaran yang diharapkan sebagai balasan daripada kesediaan individu mengorbankan sebahagian hartanya seumpama untuk membayar zakat bukan sahaja berupa ganjaran fizikal (material) keduniawian tetapi juga berupa ganjaran keruhanian (pahala) iaitu untuk mencapai *al-falah*. Perkara semacam ini juga diperakui oleh pemikir-pemikir konvensional yang menyatakan bahawa ciri utama kelakuan bermoral didorong oleh faktor dalaman yang tidak menghiraukan balasan material pada diri sendiri. Antara ciri kelakuan bermoral juga berupa pengorbanan dan kesanggupan mengetepikan kelazatan (*denial of pleasure*) demi mempertahankan prinsip moral berkenaan (Kamil, 2002). Dalam Islam, pengekangan kelazatan dan pengorbanan harta benda dan jiwa raga semata-mata hanya untuk mendapatkan ganjaran yang dijanjikan oleh Allah SWT. Firman Allah dalam surah Ash-Shaff, ayat 11-12 yang bermaksud "*(iaitu) kamu beriman kepada Allah dan RasulNya dan berjihad di jalan Allah dengan harta dan jiwamu. Itulah yang lebih baik bagimu, jika Mengetahui (*11). *Niscaya Allah akan mengampuni dosa-dosamu dan memasukkanmu ke dalam jannah yang mengalir di bawahnya sungai-sungai; dan (memasukkan kamu) ke tempat tinggal yang baik di dalam jannah 'Adn. Itulah keberuntungan yang besar (*12*)*" (Mahmud, 1973).

Dalam teori psikologi yang lain, gelagat pematuhan dan pengelakan cukai juga dikatakan dipengaruhi oleh kefahaman dan pengetahuan individu terhadap bidang berkenaan. Apabila individu telah memahami dan mempunyai pengetahuan tentang cukai samada mengenai fungsi dan kegunaan cukai yang dibayarkan, maka akan mempengaruhi psikologi individu dalam meningkatkan kepatuhan cukai. Perkara semacam ini dikenal sebagai Teori Penyumbang (Attribution Theory). Menurut Hite (1987), andaian yang digunapakai dalam teori penyumbang adalah bahawa individu biasanya akan menginterpretasi dan menganalisa sesuatu kejadian secara rasional untuk memahami struktur penyebab kejadian tersebut. Penyebab berlakunya sesuatu kejadian memainkan peranan penting dalam menentukan reaksi dan gelagat individu terhadap sesuatu kejadian (Arrington dan Reckers, 1985). Dengan erti kata lain, sikap

yang terbentuk daripada pengetahuan dan pemahaman kepada faktor-faktor dipersekitarannya akan mempengaruhi seseorang untuk bertindak sama ada patuh atau mengelak daripada membayar cukai.

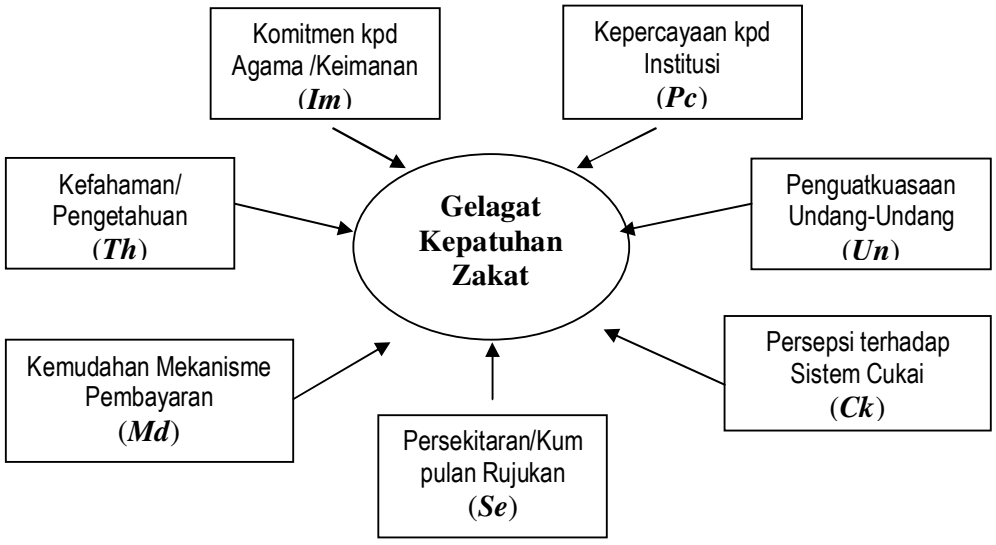
Model Pematuhan dan Pengelakan Zakat

Berdasarkan huraian tentang beberapa teori gelagat di atas, maka apabila kita membincangkan mengenai gelagat kepatuhan niscaya kita tidak boleh mengambilkira satu aspek ilmu pengetahuan sahaja. Gelagat kepatuhan berkaitan rapat antara beberapa disiplin ilmu seperti ekonomi, sosiologi dan juga psikologi. Oleh yang demikian, maka gelagat kepatuhan zakat diyakini dipengaruhi oleh pelbagai pembolehubah yang kompleks. Justeru itu, kajian ini akan cuba membina suatu model konseptual berpandukan kajian-kajian lepas dan literatur (teori-teori gelagat) yang telah dihuraikan di atas, iaitu seperti yang ditunjukkan dalam gambarrajah 1.

Pembolehubah-pembolehubah yang telah dikenalpasti daripada kajian literatur dan kajian lepas adalah faktor demografi, kefahaman/pengetahuan zakat, penguatkuasaan undang-undang, nilai-nilai agama (keimanan), kepercayaan kepada institusi formal pungutan zakat, faktor persekitaran, kemudahan pembayaran zakat dan sistem cukai. Pembolehubah-pembolehubah tersebut menjadi tumpuan dalam membentuk kerangka model konseptual gelagat kepatuhan zakat.

Berdasarkan model konseptual dalam gambarajah 1, maka dapat dikatakan bahawa gelagat pematuhan dan pengelakan zakat tidak hanya bergantung kepada hukuman jika adanya penguatkuasaan undang-undang (***Un***), tetapi juga bergantung kepada pelbagai faktor lain iaitu komitmen kepada agama/keimanan (***Im***), kefahaman/pengetahuan zakat (***Th***), kemudahan mekanisme pembayaran (***Md***), kepercayaan kepada institusi formal pungutan zakat (***Pc***), persepsi sistem cukai (***Ck***) dan faktor persekitaran (***Se***).

Gambarajah 1: Gelagat Kepatuhan Zakat



Faktor-faktor tersebut dijangka akan mempengaruhi kepuasan individu sama ada patuh untuk membayar zakat kepada institusi formal pungutan zakat (baitalmal) mahupun mengelak melakukannya dengan membayar secara terus kepada asnaf ataupun langsung tidak membayar kepada mana-mana pihak. Dengan demikian, apabila model pengelakan cukai dalam persamaan (1) diubahsuai iaitu dengan mengambilkira beberapa pembolehubah yang telah dikenalpasti berkaitan dengan gelagat pematuhan dan pengelakan zakat, maka dapat dibina suatu model pematuhan dan pengelakan zakat sebagai berikut;

$$E(U) = [\, 1 - \rho\,(\alpha - z(\alpha))\; U(Z^{tb})\,] + [\, \rho\,(\alpha - z(\alpha))\; U(Z^{b})\,] \qquad (12)$$

Dimana, $\boldsymbol{U(Z^{tb})}$ adalah utiliti yang diperolehi daripada pengelakan zakat kepada institusi formal pungutan zakat dan $\boldsymbol{U(Z^{b})}$ adalah utiliti pembayar zakat apabila melakukan pembayaran melalui institusi formal pungutan zakat (baitalmal), $\boldsymbol{\rho(\alpha\text{-}z(\alpha))}$ adalah kebarangkalian membayar kepada baitalmal, $\boldsymbol{\alpha}$ adalah jumlah pendapatan kena zakat, **z** adalah kadar zakat dan $\boldsymbol{z(\alpha)}$ adalah jumlah zakat yang dikeluarkan kepada baitalmal. Dengan demikian, apabila $\boldsymbol{\rho(\alpha\text{-}z(\alpha))=0}$ bermakna bahawa individu tidak membayar zakat melalui baitalmal.

Selanjutnya apabila faktor yang telah dikenalpasti dalam model konseptual iaitu ***Un*** (penguatkuasaan undang-undang); ***Im*** (komitmen kepada agama/keimanan); ***Th*** (kefahaman/pengetahuan zakat) ***Md*** (kemudahan mekanisme pembayaran); ***Pc*** (kepercayaan kepada institusi formal pungutan zakat); ***Ck*** (persepsi sistem cukai) dan ***Se*** (faktor persekitaran) dimasukkan ke dalam model, maka kekangan bagi pemaksimuman utiliti individu pembayar zakat melalui institusi formal akan tertakluk kepada persamaan berikut:

$$Z^{tb} = \alpha - z\,(\alpha) \qquad (13)$$

$$Z^{b} = (\,1 - z\,)\,\alpha - (Un+Im+Th+Md+Pc+Ck+Se)(\,\alpha - z\,(\alpha)) \qquad (14)$$

Atau persamaan (11) dapat ditulis;

$$\begin{aligned} \text{Max } E(U) = {} & [\, 1 - \rho\,(\alpha - z(\alpha))\; U(\alpha - z\,(\alpha))\,] + [\, \rho\,(\alpha - z(\alpha))\; U((\,1 - z\,)\,\alpha - \\ & (Un+Im+Th+Md+Pc+Ck+Se)\,(\alpha - z\,(\alpha))\,] \end{aligned} \qquad (15)$$

Dimana, $(Un+Im+Th+Md+Pc+Ck+Se)$ adalah merupakan faktor-faktor yang mempengaruhi pengelakan zakat kepada baitalmal. Dengan demikian, daripada persamaan (15), diperolehi *First Order Condition* (FOC) sebagai berikut:

$$\begin{aligned} \frac{\partial E(U)}{\partial(\alpha)} = {} & [(1-\rho)\; U'(\alpha - z(\alpha))\; z'(\alpha)] - [\rho\; U'(1-z)\alpha - \\ & (Un+Im+Th+Md+Pc+Ck+Se)\; z'(\alpha)] = 0 \end{aligned} \qquad (16)$$

Atau,

$$[(1-\rho)U'(\alpha - z(\alpha))z'(\alpha)] = [\rho U'(1-z)\alpha - (Un+Im+Th+Md+Pc+Ck+Se)z'(\alpha)] \qquad (17)$$

atau,

$$(1-\rho)\, U'\,[Z^{tb}]\, z'(\alpha) \;=\; \rho\, U'\,[Z^{b}]\,(Un+Im+Th+Md+Pc+Ck+\mathrm{Se})\, z'(\alpha) \qquad (18)$$

Dengan perkataan lain, persamaan (18) dapat ditulis sebagai berikut:

$$\frac{\rho U'(Z^{b})}{1-\rho U'(Z^{tb)}} \;=\; (Un+Im+Th+Md+Pc+Ck+\mathrm{Se}) \qquad (19)$$

Dimana, $\frac{\rho U'(Z^{b})}{1-\rho U'(Z^{tb)}}$ adalah kebarangkalian individu membayar zakat kepada institusi formal pungutan zakat (baitalmal) dalam rangka memaksimumkan utilitinya. Bentuk kebarangkalian semacam ini, dimana kepatuhan pembayaran zakat yang diukur dengan menggunakan skel dikotomi seperti dalam persamaan (19) iaitu sama ada responden membayar zakat kepada institusi formal atau baitalmal (Z^{tb}) mahupun tidak membayar melalui baitalmal (Z^{tb}) dapat dianalisis mengikut kaedah penganggaran regresi logistik iaitu model logit multivariat.

Kesimpulan

Berdasarkan tinjauan dan perbahasan terhadap teori-teori yang berkenaan dengan gelagat individu seperti teori ekonomi, sosiologi dan psikologi, diperolehi bahawa model gelagat pematuhan dan pengelakan zakat sememangnya dapat dibina dan diasaskan kepada model sedia ada dalam bidang percukaian, namun kepatuhan zakat terhadap institusi formal perlukan pengubahsuaian yang sesuai dengan prinsip-prinsip agama yang berkaitan dengan zakat. Perkara ini disebabkan kerana zakat dan cukai merupakan entiti yang berbeza dari segi falsafahnya, meski kedua-duanya merupakan kewajipan dalam bidang harta. Oleh itu, model pematuhan dan pengelakan zakat perlu diambilkira faktor-faktor spesifik yang lain selain daripada faktor keimanan.

RUJUKAN

Alhabshi, S.O. 2003. *Peranan Zakat dalam Membantu Pembangunan Ekonomi Negara.* Persatuan Ekonomi dan Pengurusan Islam Malaysia.

Allingham, M.G & Sandmo, A. 1972. *Income tax evasion; a theoritical analysis.* Jurnal of Public Economics 1:323-328.

Arief, S. 1993. *Metodologi penelitian ekonomi***.** Penerbit Universitas Indonesia (UI Press). Jakarta Indonesia.

Arrington, C.E. & Reckers, P.M.J. 1985. *A social-psykological investigation into perceptions of tax evasion.* Accounting and Business Research: 163-176.

Azhar, H dan Nawi, A. 2004. *Metodologi penyelidikan ekonomi dan sains sosial***.** Penerbit Thomson Learning. Kuala Lumpur.

Badan Baitulmal. 2007. *Laporan penerimaan dan agihan dana zakat, infaq dan shadaqah***.** Banda Aceh

Borck, Rainald. 2004. *Income Tax Evasion and the Penalty Structure.* European Public Choice Society Conference in Berlin. DIW Berlin

Chorvat, Terrence. 2007. *Tax compliance and the Neuroeconomics of Intertemporal substitution, National Tax Journal.* George Mason University.

Cartwright, D. & Zander, A. 1968. *Group dynamics: research and theory.* Ed. Ke-3. New York: Harper and Row Publishers.

Galbiati, R. dan Zanella, G. 2008. *The tax evasion social multiplier: Evidence from Italy.* Econpubblica, Bocconi University, Italy.

Gujarati, D.N. 2003. *Basic Econometrics. 4th Edition***.** New York: McGraw Hill.

Hailani, M.T. 2006. *Fiqh muamalat dan zakat: pengaplikasiannya dalam menjana kekuatan umat.* Dalam Abdul Ghafar Ismail dan Hailani Muji Tahir; *Zakat pensyariatan, perekonomian dan perundangan*. Penerbit Universiti Kebangsaan Malaysia. Bangi.

Hairunnizam, W., Sanep, A., dan Mohd. Ali, M.N. 2005. *Kesedaran membayar zakat pendapatan di malaysia***.** Kertas kerja yang dibentangkan pada Seminar Ekonomi dan Kewangan Islam anjuran Jabatan Ekonomi Awam dan Kewangan Fakulti Ekonomi Universiti Utara Malaysia.

Hamid, A. 1998. *Antara zakat dan cukai pendapatan : satu analisis penyelarasan***.** Kertas kerja dibentangkan pada Seminar Zakat dan Cukai Pendapatan di Pusat Matrikulasi USM. 5-6hb. November 1988.

Harun, A.R. 1994. *Teknik penarikan sampel dan penyusunan skala.* Universitas Padjajaran. Bandung Indonesia.

Hasan, B., dan Saidu, Mohd Sahnaz. 2004. *Kajian terhadap faktor yang mempengaruhi pembayaran zakat perniagaan di kalangan usahawan: kajian kes terengganu***.** Universiti Teknologi MARA Terengganu Malaysia.

Hindriks, J., and Myles, G. D. 2006. *Tax Compliance and Evasion.* International Public Economics, The MIT Press.

Hite, P.A. 1987. *An aplication of attribution theory ini taxpayer non compliance research.* Public Finance 42(1): 105-117.

Ismail, Y., dan Wan Nasyaruddin, W.A. 2006. *Zakat perniagaan yang diiktilaf oleh fuqaha dan kesannya apabila dilaksanakan***.** Dalam Abdul Ghafar Ismail dan Hailani Muji Tahir; *Zakat pensyariatan, perekonomian dan perundangan*. Penerbit Universiti Kebangsaan Malaysia. Bangi.

Kamil, M.I. 2002. *Kesan persepsi undang-undang dan penguatkuasaan zakat terhadap gelagat kepatuhan zakat pendapatan gaji.* Kertas kerja yang dibentangkan pada Muzakarah Pakar Zakat. Universiti Kebangsaan Malaysia.

Mahmood, Z. 1992. *Syarat haul: satu penilaian terhadap pandangan al Qardawi dalam masalah zakat gaji dan pendapatan profesional.* Medium, Vol 2. Universiti Malaya.

Mahmud, Y. 1973. *Tafsir qur'an karim***.** PT. Hidakarya Agung. Jakarta

Mohd. Ali, M.N, Hairunnizam, W., dan Nor Ghani, M.N. 2003. *Kesedaran membayar zakat kakitangan profesional: kajian kes di universiti kebangsaaan malaysia***.** Dalam Pascasidang Seminar Dasar Awam dalam Era Globalisasi: Penilaian Semula ke Arah Pemantapan Strategi. Fakulti Ekonomi Universiti Kebangsaan Malaysia.

Monzer, K. 1982. *Taxation policy in an islamic economy.* Dalam Ziauddin Ahmad, et.el. *Fiscal policy and resource allocation in Islam.* Jeddah ; International Centre for Research in Islamic Economics. King Abdul Aziz University.

_____. 1995. *Ekonomi Islam, Telaah Analitik terhadap Fungsi Sistem Ekonomi Islam*. terjemahan dari *The Islamic Economy: Analytical of the Functioning of the Islamic Economic System* (Yogyakarta: Pustaka Pelajar)

_____. 1999. *Potential effects of zakat on government budget***.** Journal of economics and management. Vol. 5.

Mujaini, T. 1999. *Zakat penggajian (pendapatan): satu penilaian dari sudut hukum dan amalan di malaysia***.** Kertas kerja dibentangkan di Muzakarah Zakat Penggajian Negeri Pulau Pinang pada 15-16 Oktober 1999. Pulau Pinang. Malaysia.

_____. 2003. *Konsep dan pelaksanaan zakat pendapatan masa kini***.** Kertas kerja dibentangkan di Majlis Taklimat dan Pentauliahan Amil-amil Zakat Fitrah pada 14 Oktober 2003. Melaka. Malaysia.

Nazaruddin, A.W. 1999. *Agihan dan manfaat zakat jasa (gaji, pelaburan dan upah kepakaran), kajian kes di propinsi Aceh.* Disertasi Program Sarjana Fakulti Pengajian Islam Universiti Kebangsaan Malaysia.

Norazian, M.L. 2003. *On a study on a factor influencing the payment of income zakat on salary among UiTM staff in Terengganu.* Thesis Universiti Teknologi MARA. Terengganu

Nur Azura, S., Norazlina, A.W. dan Nor Fadzlin, M.B. 2005. *Gelagat kepatuhan pembayaran zakat pendapatan: kajian kes universiti utara malaysia***.** Kertas Kerja yang dibentangkan pada Seminar Ekonomi dan Kewangan Islam anjuran Jabatan Ekonomi Awam dan Kewangan Fakulti Ekonomi Universiti Utara Malaysia.

Qanun Provinsi Nanggroe Aceh Darussalam Nombor 7 tahun 2004 tentang *Pengelolaan zakat*. Banda Aceh

Qardhawi, Y. 1987. *Hukum zakat***.** Pustaka Nasional. Singapura.

Sabiq, S. 1981. *Fikih sunnah (terjemahan).* Jilid I – IV. Penerbit PT. Al Ma'arif. Bandung Indonesia.

Sanep, A. dan Hairunnizam, W. 2004. *Kesan prestasi agihan oleh institusi formal ke atas kepatuhan membayar zakat.* Kertas Kerja yang dibentangkan pada Seminar Daya Saing Ekonomi dan Sosial ke Arah Pemantapan Pembangunan Ekonomi. Fakulti Ekonomi dan Perniagaan Universiti Kebangsaan Malaysia.

_____. 2005. *Potensi dan cabaran terhadap perluasaan sumber zakat sektor pertanian***.** Kumpulan Kajian Ekonomi dan Kewangan Islam Pusat Pengajian Ekonomi Universiti Kebangsaan Malaysia.

Sanep, et.al. 2005. *Kesediaan berkongsi kekayaan dan kebahagiaan: kajian kes bayaran zakat bagi harta yang diiktilaf***.** Kertas Kerja yang dibentangkan pada Persidangan Kebangsaan ke-2 PPSPP.

Sekaran. 2000. *Research methods for bussiness.* New York; John Wiley and sons.

Spicer, M.W. & Lunstedt, S.B. 1976. *Understanding tax evasion.* Public Finance 1: 295-305.

Srinavasan, T.N. (1973). *Tax evasion: a model.* Journal of Public Economics 2: 339-346.

Tuzova, Yelena. 2009. *A Model of Tax Evasion With Heterogeneous Firms.* University of Minnesota

Undang-Undang Republik Indonesia Nombor 44 tahun 1999 tentang *Pelaksanaan syariat islam bagi provinsi Aceh***.** Diundangkan di Jakarta.

Undang-Undang Republik Indonesia Nombor 18 tahun 2001 tentang *Otonomi khusus bagi provinsi Aceh***.** Diundangkan di Jakarta.

Undang-Undang Republik Indonesia Nombor 11 tahun 2006 tentang *Pemerintahan Aceh***.** Diundangkan di Jakarta.

Vogel, J. 1974. *Taxation and public opinion in sweden.* National Tax Journal 27: 499-513.

Wallschutzky, I.G. 1984. *Possible causes of tax evasion.* Journal of Economics Psychology 5: 371-384.

Watanabe, S., 1987. *Income tax Evasion: A theoretical analysis.* Public choice studies. No. 8.

Weigel, R.H., Hessing, D.J. & Elffers, H. 1987. *Tax evasion research: a critical appraisal and theoritical model.* Journal of Economics Psychology 8: 215-235.

Yitzhaki, S. 1974. *A Note on Income Tax Evasion: A Theoretical Analysis.*, *Journal of Public Economics*, 3(2), 201-202.

Zalina, S. 1999. *On a study on factor that influence the participant of bumiputera and non bumiputera towards investing in ASW 2020.* Thesis Universiti Teknologi MARA. Terengganu.

Zamzuri, Z. 2006. *Zakat galian: sumber yang diitifaq dan diiktilaf.* Dalam Abdul Ghafar Ismail dan Hailani Muji Tahir; *Zakat pensyariatan, perekonomian dan perundangan*. Penerbit Universiti Kebangsaan Malaysia. Bangi.

Zuhaili, Wahbah. 1994. *Fiqh dan Perundangan Islam***.** Terjemahan Dewan Bahasa dan Pustaka. Kuala Lumpur.

Zulkefly, A.K., Mohd Azlan, S.Z. dan Hairunnizam, W. 2002. *Pendapatan dan sasaran perbelanjaan dana zakat negeri kedah, perak, selangor dan negeri sembilan: isu dan cabaran.* Kertas Kerja dibentangkan pada Muzakarah Pakar Zakat. Universiti Kebangsaan Malaysia.

POTENSI WAKAF UNTUK PEMBANGUNAN PERUMAHAN DI INDONESIA

Rahmat Hidayat
Calon Ph.D Bidang Ekonomi,
Universiti Kebangsaan Malaysia (UKM)
rahmathidayat64@yahoo.com

POTENSI WAKAF UNTUK PEMBANGUNAN PERUMAHAN DI INDONESIA[1]

Rahmat Hidayat

ABSTRACT

The problems in development of public housing Indonesia especially for poor is limitation of land and budget. Therefore, land waqf and cash waqf are potential sources for development of public housing in Indonesia especially for poor, because the amount of both is very huge. The objective of this paper are describe the potential of land waqf and cash waqf for public housing in Indonesia especially for poor and how mechanism of land waqf and cash waqf for public housing. The result of study are: land waqf and cash waqf are potential sources for development of public housing. Therefore all stakeholders especially government and waqf instituations have to coordinate and work together to realize the potential of land waqf and cash waqf for public housing.

1. Pendahuluan

Sebagaimana diamanatkan Pasal 28 H UUD 1945 bahwa setiap orang berhak hidup sejahtera lahir dan batin, bertempat tinggal, dan mendapatkan lingkungan hidup yang baik dan sehat. Selanjutnya Pasal 40 Undang-Undang No. 39 tahun 1999 tentang Hak Asasi Manusia menyebutkan bahwa setiap orang berhak untuk bertempat tinggal serta berkehidupan yang layak. Sementara Undang-Undang Nomor 4 tahun 1992 tentang Perumahan dan Permukiman menyebutkan bahwa perumahan dan permukiman yang layak, sehat, aman, serasi dan teratur merupakan salah satu kebutuhan dasar manusia dan merupakan faktor penting dalam peningkatan harkat dan martabat manusia.

Undang-Undang No. 17 Tahun 2007 Tentang RPJP 2005-2025 Bab IV.1.5 Butir 19 menyatakan "pemenuhan perumahan beserta prasarana dan sarana pendukungnya diarahkan pada penyelenggaraan pembangunan perumahan yang terjangkau oleh daya beli masyarakat. Kemudian Agenda UN-Habitat di Istambul 1996 Paragraf 39 menyatakan:"….. *We commit ourselves to the goal of improving and working conditions on an equitable and sustainable basis, so that everyone will have adequate shelter that is ….. affordable …".* [2]

[1] Disampaikan pada Seventh International Confrence: The Tawhidy Epistimology: Zakat and Waqf Economy, 6 dan 7 January 2010 di Institut Latihan Islam Malaysia, Bangi, Selangor, Malaysia.
[2] Dikutip dari sambutan Menteri Negara Perumahan Rakyat pada Seminar Potensi Wakaf Untuk Perumahan Rakyat, tanggal 24 Juni 2009.

Dari berbagai landasan tersebut diatas, jelas bahwa setiap warga negara mempunyai hak untuk menempati, menikmati atau memiliki rumah yang layak dalam lingkungan yang sehat, aman, serasi dan teratur. Mengingat bahwa rumah merupakan hak dan kebutuhan dasar manusia, upaya pemenuhan kebutuhan rumah diupayakan dapat menjangkau segenap lapisan masyarakat, termasuk masyarakat berpenghasilan rendah (MBR)[3]. Amanat Undang-Undang Dasar, Undang-Undang dan Agenda UN-Habitat tersebut tentunya perlu dilaksanakan dengan sungguh-sungguh agar hak dasar MBR akan rumah yang layak huni dan terjangkau dapat terpenuhi.

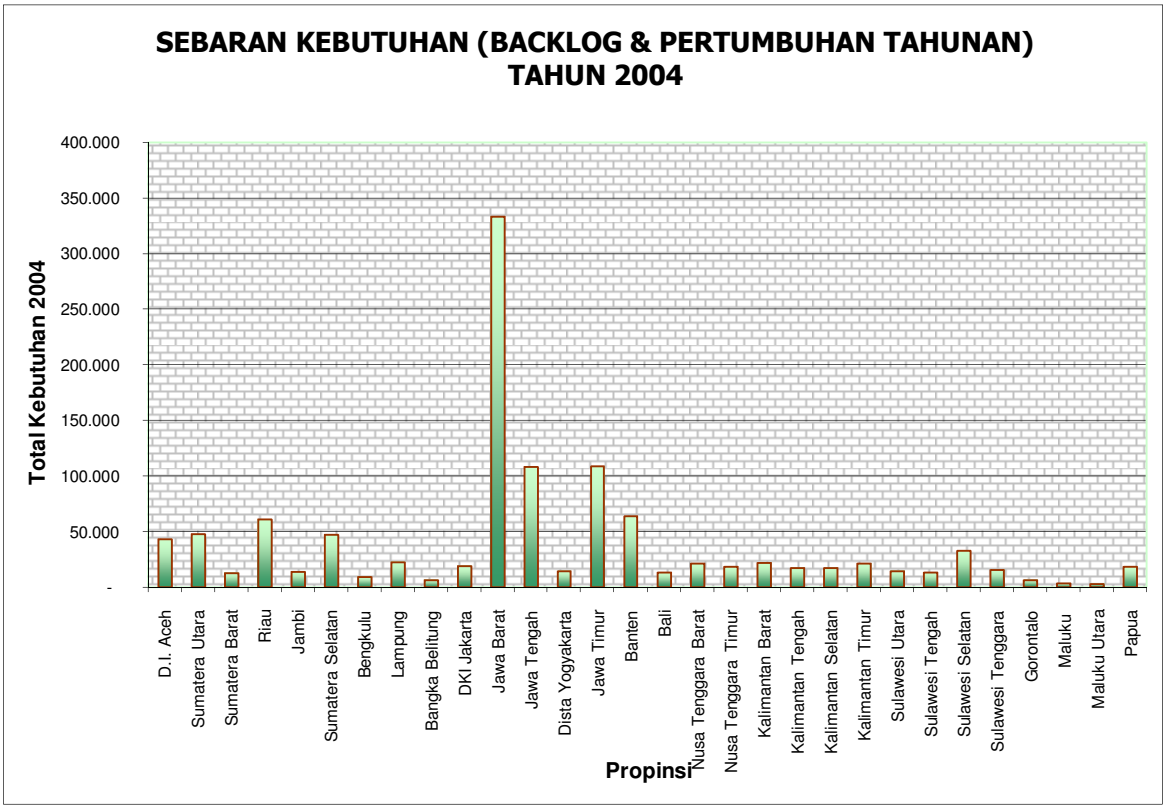
2. Tantangan

Harus diakui bahwa tantangan dan permasalahan yang dihadapi dalam bidang pembangunan perumahan secara nasional cukup berat. Berdasarkan hasil survey sosial ekonomi nasional tahun 2004, terdapat 5,9 juta keluarga belum memiliki rumah, ditambah kebutuhan rumah baru akibat penambahan keluarga baru sekitar 800.000 unit rumah setiap tahunnya. Jumlah kesenjangan rumah yang belum dipenuhi (*backlog*) yang pada akhir tahun 2008 bertambah mencapai ± 8,1 juta unit. Gambar 1 memberikan diskripsi sebaran backlog tahun 2004.

Di samping itu, terdapat pula permukiman kumuh di perkotaan yang mencapai luasan sekitar 54.000 Ha tersebar di ribuan lokasi di perkotaan. Demikian pula bencana alam yang silih berganti menimpa negara Indonesia telah menghancurkan ribuan rumah penduduk termasuk hancurnya infrastruktur pendukung perumahan. Kemudian juga, berdasarkan data yang ada hampir 80% pembangunan perumahan yang ada di Indonesia dibangun secara swadaya oleh masyarakat itu sendiri. Dari 80% pembangunan perumahan swadaya tersebut, masih banyak yang belum memenuhi standar layak dihuni[4]. Kondisi tersebut ditambah lagi dengan masih banyaknya MBR yang belum dapat membangun atau memperbaiki rumahnya, akibat ketidak mampuan mereka serta ketidakcukupan penyediaan dana yang secara langsung ditujukan bagi MBR untuk membangun/memperbaiki rumah mereka. Disamping itu, untuk dapat mengakses lembaga keuangan/bank, mereka mendapat hambatan karena tidak memenuhi persyaratan, terutama yang bekerja di sektor informal karena tidak dapat memenuhi kriteria yang ditentukan bank.

[3] Masyarakat berpenghasilan rendah (MBR) dalam konteks ini adalah mereka yang berpenghasilan samapai dengan Rp 2.500.000,-/bulan.
[4] Dikutip dari laporan akhir: Pekerjaan Pengembangan Model Kemitraan Perintah, Swasta dan Masyarakat Dalam Pembiayaan Investasi Perumahan, Jakarta , 2008.

Gambarajah 1



Sumber: bahan ceramah Deputi Bidang Pembiayaan, Kemenpera, 2009.

Salah satu persoalan besar yang dihadapi oleh masyarakat berpenghasilan rendah untuk dapat membeli rumah di lingkungan hunian yang layak adalah rendahnya kemampuan daya beli (*affordability*) mereka, sehingga menjadi faktor penghambat tidak dapat terpenuhinya hak dasar mereka akan kebutuhan rumah layak huni. Kemudian kendala lain yang cukup yang cukup serius dalam hal pengadaan perumahan rakyat adalah faktor terbatasnya ketersediaan tanah. Terbatasnya dan mahalnya harga tanah terutama di perkotaan membuat harga rumah menjadi sangat mahal dan tidak terjangkau oleh MBR. Oleh karena itu, perlu dilakukan upaya dan terobosan untuk mengatasi permasalahan ketersediaan lahan tersebut, antara lain melalui pendayagunaan wakaf.

3. Pengertian Wakaf

Secara bahasa, kata wakaf berasal dari kata kerja bahasa Arab ”*waqafa”* berarti menahan atau berhenti. Dalam hukum Islam, wakaf berarti menyerahkan suatu hak milik yang tahan lama (*zatnya*) kepada seseorang atau *Nazhir* (pengelola wakaf), baik berupa perseorangan maupun badan hukum, dengan ketentuan bahwa hasil atau manfaatnya digunakan untuk hal-hal yang sesuai dengan ajaran syariat Islam. Harta yang telah diwakafkan keluar dari hak milik yang mewakafkan, dan bukan pula menjadi hak milik Nazhir, tetapi menjadi hak milik Allah dalam pengertian hak masyarakat umumn (Khalil, 2008).

Secara teknis wakaf diartikan sebagai aset yang dialokasikan untuk kemanfaatan umat dimana substansi atau pokoknya ditahan, sementara manfaatnya boleh dinikmati untuk kepentingan umum. Wakaf dikelola oleh Nazhir yang merupakan pengemban amanah *wakif*.

Makna wakaf dari segi bahasa dan teknis terkait dengan adanya ”keabadian” unsur pokok wakaf. Ada beberapa pendapat mengenai unsur ”keabadian” dalam wakaf tersebut diantaranya: (i) Imam Syafii, sangat menekankan wakaf pada fixed asset (aset tetap) sekaligus menjadi syarat sahnya wakaf; (ii) Imam Hanafy, menekankan kepada ”nature” barang yang diwakafkan baik itu aset tetap maupun aset bergerak; dan (iii) Imam Maliki, keabadian umur aset wakaf adalah relatif tergantung umur rata-rata aset yang diwakafkan. Dari pendapatnya ini, Imam Maliki memperluas lahan (area) wakaf mencakup barang-barang bergerak lain seperti wakaf susu sapi begitu juga aset yang paling likuid seperti uang tunai yang bisa digunakan untuk mendukung pemberdayaan potensi wakaf secara produktif. Yang menjadi substansinya adalah sapi dan yang diambil manfaatnya adalah susu. Dari beberapa pendapat diatas, pendapat Imam Maliki dirasa sangat relevan dengan semangat pemberdayaan wakaf secara produktif dan tetap mempertahankan ”keabadian” aset wakaf, karena sesuai dengan Sabda Nabi ”*Ihbis ashlaha wa tashaddaq tsamrataha*” yang berarti substansi wakaf tidak semata-mata terletak pada pemeliharaan bendanya, tapi yang jauh lebih penting adalah nilai manfaat dari benda tersebut untuk kepentingan umum[5] termasuk untuk pembangunan perumahan.

Selanjutnya, dalam Bab 1 Pasal 1 Undang-Undang Nomor 41 Tahun 2004 Tentang Wakaf disebutkan, bahwa: ”Wakaf adalah perbuatan hukum Wakif untuk memisahkan dan/atau menyerahkan sebagian harta benda miliknya untuk dimanfaatkan selamanya atau untuk jangka waktu tertentu sesuai dengan kepentingannya guna keperluan ibadah/atau kesejahteraan umum menurut syariah.” Selanjutnya, dalam pasal 16 UU nomor 41 tahun 2004 tentang Wakaf dinyatakan, bahwa harta benda wakaf terdiri dari: (1) Benda tidak bergerak; dan (2) Benda bergerak. Benda tidak bergerak meliputi: (i) hak atas tanah sesuai dengan ketentuan peraturan perundang-undangan yang berlaku baik yang sudah maupun yang belum terdaftar; (ii) bangunan/ bagian yang berdiri di atas tanah sebagaimana dimaksud pada angka 1; (iii) tanaman dan benda lain yang berkaitan dengan tanah; (iv) hak milik atas satuan rumah susun sesuai dengan ketentuan peraturan perundang-undangan yang berlaku; (v) benda tidak bergerak lain sesuai dengan ketentuan syariah dan peraturan perundang-undangan. Benda bergerak adalah harta benda yang tidak bisa habis karena dikonsumsi, meliputi: uang; logam mulia; surat berharga; kendaraan; hak atas kekayaan intelektual; hak sewa; benda bergerak lain sesuai dengan ketentuan syariah dan peraturan perundang-undangan yang berlaku[6].

Berdasarkan UU tersebut diatas, maka wakaf dari aspek waktu dapat dibagi menjadi: wakaf tidak berjangka (mutlak), dan wakaf berjangka (terbatas). Dan dari aspek bendanya, maka wakaf dibagi menjadi: wakaf benda tidak bergerak dan wakaf benda

[5] Penjelasan lebih rinci dapat dibaca di laporan akhir Masukan Teknis Aplikasi Wakaf Tunai Dalam Pembiayaan Investasi Perumahan Swadaya, 2007.
[6] Penjelasan lebih rinci lihat Undang-Undang No. 41 Tahun 2004 Tentang Wakaf.

bergerak termasuk wakaf uang (*waqfun-nuqud*) yang kemudian lebih dikenal dengan istilah wakaf tunai (*cash waqf*).

4. Potensi Wakaf

Wakaf mempunyai sejarah yang panjang dan penting dalam instrument sosial dan ekonomi masyarakat Islam. Keberhasilan perwakafan dalam sejarah Islam membuktikan bahwa Islam mampu memberi solusi jaminan sosial dan kesejahteraan bagi pemeluknya. Wakaf dalam sejarah Islam tidak hanya menjadi pilar kesejahteraan masyarakat atau perorangan, lebih dari itu wakaf telah menjadi pilar ekonomi negara dalam membangun infrastruktur, ekonomi dan ketahanan.

Dalam masa Islam, wakaf muncul pertama kali bersamaan dengan masa kenabian di *Madinah Al-Munawwarah* yaitu dengan dibangunnya Masjid Quba' yang dijadikan **wakaf keagamaan pertama dalam Islam**. Hal itu terjadi segera setelah Rasulullah SAW hijrah dan sebelum beliau pindah ke rumah kawan-kawan beliau dari kalangan Bani Najjar.[7] Setelah itu wakaf terus berkembang dari tujuan keagamaan sampai menyentuh kemaslahatan umum. Bahkan pada saat ini wakaf tersebut telah memberikan pengaruh yang sangat berarti kepada dunia luas dan diterapkan tidak hanya di negara muslim melainkan juga di Negara non-muslim.

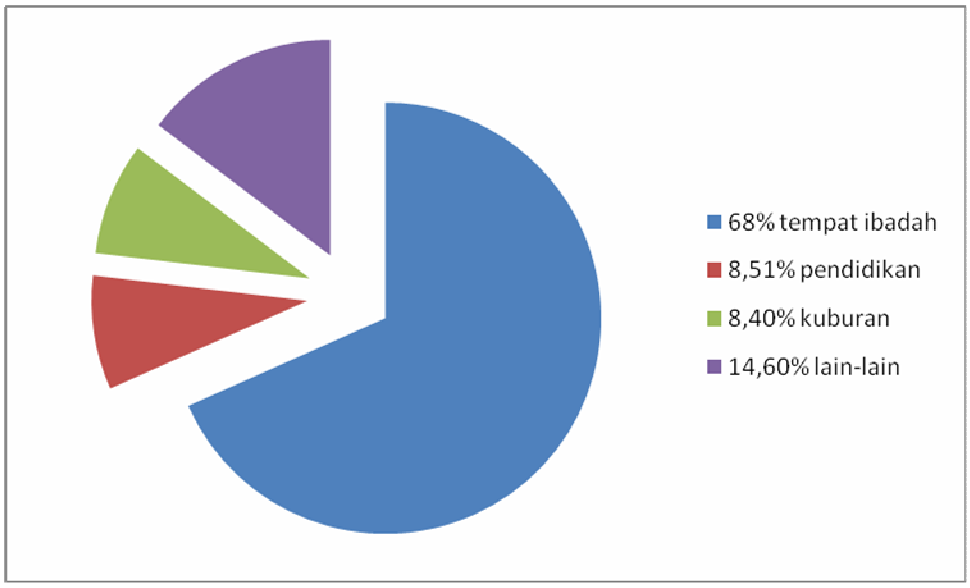
Di Indonesia, praktik wakaf dapat dilihat terutama di kerjaan-kerajaan Islam di Indonesia (sebelum Indonesia menjadi Negara kesatuan) seperti kerjaan Aceh, Demak, Banten dan Cirebon. Di kerajaan-kerajaan tersebut terdapat banyak harta benda wakaf yang digunakan untuk sarana public terutama yang berkaitan dengan tempat ibadah dan pengembangan agama (Nasution, 2008). Di samping itu, lembaga dan badan wakaf yang sudah wujud di dalam kerajaan Islam yang bertugas untuk mengelola dan mengoptimalkan peran wakaf dalam menyediakan sarana public. Sebagai contoh lembaga yang mengelola wakaf adalah Balai Meusara yang dibentuk di Kerajaan Nangro Aceh Darussalam (NAD).[8] Perkembangan wakaf di Indonesia mulai menggeliat sekitar tahun 2000-an. Lahirnya UU No. 41 Tahun 2004 Tentang Wakaf menjadi jawaban bagi masa depan perwakafan di Indonesia agar dapat diberdayakan secara lebih produktif dan professional.

Sebagaimana disebutkan diatas, bahwa salah satu persoalan besar dalam pembangunan perumahan adalah terbatasnya lahan (tanah). Berdasarkan data Departemen Agama Republik Indonesia tahun 2007, bahwa jumlah harta wakaf dalam bentuk tanah di Indonesia sebanyak 2.686.536.565,68 M2 (2,7 milyar M2) tersebar di 366.595 (Sula, 2008). Dari keseluruhan tanah wakaf yang ada, penggunaannya masih didominasi oleh wakaf fisik yang bersifat sosial, diantaranya 68% digunakan untuk tempat ibadah, 8,51% untuk pendidikan, 8,40% untuk kuburan dan 14,60% untuk lain-lain[9].

---

[7] Laporan Akhir Masukan Teknis Aplikasi Wakaf Tunai Dalam Pembiayaan Investasi Perumahan Swadaya, Kemenpera, 2007, hal. 15.
[8] Suparman Usman, Hukum Perwakafan di Indonesia, (Kudus: Percetakatan Menara Kudus, 1994), hal. 48.
[9] Dikutip dari sambutan Menteri Negara Perumahan Rakyat pada 24 Juni 2009.

Gambarajah 2:
Peratus peruntukan tanah wakaf di Indonesia



Apabila sebagian tanah wakaf tersebut[10] dapat dimanfaatkan untuk pembangunan perumahan masyarakat berpenghasilan rendah (MBR) tentu hal tersebut sangat berarti sekali. Dengan demikian, keberadaan tanah wakaf tersebut menjadi semacam "*landbanking*" bagi pembangunan perurumahan rakyat.

Dengan demikian, maka wakaf menjadi salah satu sumber yang cukup potensial yang dapat dimanfaatkan dalam upaya untuk pemenuhan hak dasar rakyat akan tempat tinggal. Namun demikian, sampai saat ini kemanfaatan wakaf belum dioptimalkan dan secara ekonomis potensi tersebut masih jauh dari yang kita diharapkan. Idealnya wakaf dapat dikelola secara produktif dan dikembangkan sehingga dapat meningkatkan kesejahteraan masyarakat, termasuk bagi pemenuhan kebutuhan rumah yang layak bagi masyarakat berpenghasilan rendah.

Kemudian, berdasarkan data Badan Wakaf Indonesia 2009, bahwa tanah wakaf tersebar baik di perkotaan maupun perdesaaan dan daerah terpencil. Untuk daerah perkotaan, maka tanah wakaf dapat dibangun properti yang mempunyai nilai ekonomis tinggi. Kemudian properti tersebut disewakan, dan hasil disewanya sebagian dipergunakan untuk membangun rumah di lahan (tanah) wakaf yang berlokasi di perdesaan atau daerah terpencil untuk masyarakat miskin.

[10] 14,60% dari 2,7 milyar m2 sama dengan 394 juta m2. Seandainya 20% dari 394 juta m2 tersebut diperuntukan untuk pembangunan rumah bagi masyarakat tidak mampu/miskin , maka (tersedia tanah/lahan wakaf seluas 78,84 juta m2 yang sangat potensial sebagai "land banking".

Disamping itu, dalam pemenuhan kebutuhan akan tempat tinggal, selain wakaf lahan pengembangan wakaf tunai juga sangat diperlukan. Menurut sejarah Islam, pemanfaatan wakaf tunai sudah dipraktekkan sejak abad kedua Hijriyah sebagaimana diriwayatkan oleh Imam Bukhari bahwa *Imam az Zuhri*, memberikan fatwanya untuk berwakaf dengan Dinar dan Dirham agar dapat dimanfaatkan sebagai sarana pembangunan, dakwah, sosial dan pendidikan masyarakat Islam. Upaya yang dilakukan adalah dengan menjadikan Dinar dan Dirham tersebut sebagai modal usaha (modal produktif) dan menyalurkan keuntungannya sebagai wakaf. Wakaf tunai juga dapat digunakan untuk menghidupkan wakaf-wakaf non tunai (tanah, bangunan) menjadi wakaf-wakaf non tunai lainnya seperti rumah sakit, sekolah, gedung perkantoran, dalam hal ini termasuk perumahan untuk masyarakat berpenghasilan rendah (MBR).

Implementasi pengembangan wakaf tunai di Indonesia secara *de facto* sebenarnya telah banyak dilakukan, telah banyak lembaga pengelola zakat ataupun lembaga keuangan di Indonesia yang sudah mengembangkan aplikasi wakaf tunai tersebut, seperti: sertifikat wakaf tunai, wakaf investasi kerjasama anara Dompet Dhuafa dengan Batasa Tazkia, dan wakaf produktif lainnya. Hanya saja sampai saat ini pemanfaatan wakaf tunai di negara kita belum digunakan bagi pembiayaan pembangunan perumahan. Sedangkan di luar negeri wakaf jenis ini sudah lama dikembangkan, banyak lembaga pengelola zakat ataupun lembaga keuangan yang telah mengembangkan aplikasi wakaf tunai, seperti yang telah dilakukan oleh Bank Sosial Bangladesh, Majelis Tinggi Wakaf Arab Saudi, Majlis Ugama Islam Singapura (MUIS) Singapore, *al amanah al 'amah lil awqof* (Kuwait Waqaf Public Foundation), Wizâratul Auqâf Mesir dengan *Haiah al-Auqāf al-Misriyyah*, dan Kementrian Wakaf Jordania.[11]

Oleh karena itu, wakaf di Indonesia sangat potensial untuk dikembangkan bagi pembangunan perumahan rakyat, karena potensinya sangat besar. Sebagai gambaran, penduduk Indonesia berjumlah 238,45 juta orang[12], dan 87% diantaranya beragama Islam (207,45 juta orang). Dengan kondisi seperti itu, menjadikan Indonesia sebagai negara berpenduduk Muslim terbesar di dunia. Selain itu, umat Islam Indonesia sudah semenjak lama akrab dengan wakaf. Namun keakraban tersebut belum menjadikan harta wakaf berguna secara maksimum untuk pembinaan umat Islam, kerana umumnya umat Islam Indonesia memahami wakaf terbatas untuk kepentingan pengguna saja, seperti untuk kuburan, mesjid dan madrasah. Padahal harta wakaf berpeluang dikelola secara baik, sehingga ada penghasilan berkesinambungan yang diperoleh dari pengelolaan harta wakaf.

Mannan (2004), pada seminar wakaf di Indonesia tahun 2001 memperkenalkan konsep baru pengelolaan wakaf yang dilakukan di Bangladesh, yaitu dengan menggunakan Sertifikat Wakaf Tunai sebagai suatu instrumen keuangan pada perbankan yang mengelola dana-dana sumbangan seperti dilaksanakan *Social Investment Bank Limited* (SIBL). Sertifikat Wakaf Tunai yang dikeluarkan oleh SIBL merupakan produk yang pertama kali diperkenalkan dalam sejarah perbankan, dengan sertifikat wakaf tunai

[11] Penjelasan lebih rinci baca Laporan Akhir Masukan Teknis Aplikasi Wakaf Tunai Dalam Pembiayaan Investasi Perumahan Swadaya, Kemenpera, 2007

[12] Dikutif dari Wikipedia, tanggal 29 Desember 2009.

ini memberi kesempatan kepada umat Islam di Bangladesh membuat investasi dalam bidang keagamaan, pendidikan dan pelayanan sosial. Selain itu *Islamic Bank Bangladesh Limited* atau IBBL juga menawarkan wakaf tunai yang dikenali sebagai *Mudaraba Waqf Cash Deposit Account* (MWCDA). Uang itu akan dipergunakan untuk tujuan-tujuan kebajikan. Deposit wakaf tunai tersebut menjadi wakaf dengan mengunakan prinsip *mudarabah*, di mana pihak bank akan mengelola uang tersebut bagi pihak *waqif*. Sertifikat wakaf tunai ini juga dapat berperan untuk memobilasasi dana untuk mengembangkan harta wakaf di Bangladesh (Mannan, 2001 dalam Lubis, 2009).

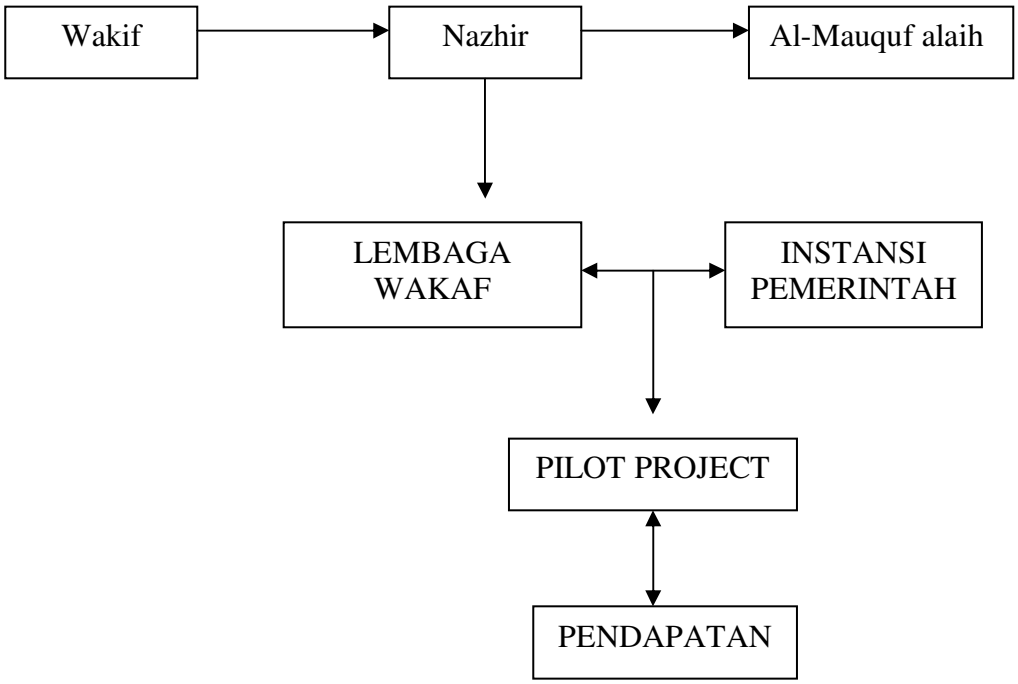
Dari uraian diatas, dapat dikemukakan bahwa wakaf tunai memiliki potensi besar, kerana ibadah wakaf tunai dapat dilakukan oleh masyarakat sesuai dengan kemampuan ekonomi masing-masing. Potensi besar wakaf tunai di Indonesia dapat dilukiskan seperti berikut, andai saja dari 207,45 juta penduduk muslim Indonesia mau berwakaf sebesar 5% saja, maka ada 10,37 juta wakif (potensial). Kalau saja masing-masing wakif potential tersebut berwakaf uang sebesar Rp 50.000,- perbulan, maka akan terkumpul dana wakaf tunai sebesar Rp 518,63 milyar/bulan atau sebesar Rp 6,22 triliun/tahun. Jika jumlah wakif potensialnya dinaikkan menjadi 10% dari total penduduk muslim maka ada 20,74 juta wakif potensial. Jika masing-masing wakif potenstial memberikan wakaf tunai sebesar RP 50.000,-/bulan, maka akan terkumpul dana wakaf tunai sebesar Rp 1,03 triliun/bulan atau Rp 12,44 triliun. Ini merupakan angka yang sangat besar. Kalau dari jumlah tersebut 10% saja digunakan untuk membangun perumahan untuk masyarakat miskin, maka akan tersedia dana sebesar Rp 622,36 miliar/tahun[13] atau Rp 1,24/tahun triliun[14]. Jumlah dana tersebut sangat signifikan untuk membantu mengatasi persoalan terbatasnya anggaran dalam pembangunan perumahan untuk masyarakat miskin. Sebagai gambaran, kalau untuk membangun 1 unit rumah sederhana sehat (RS) diperlukan biaya Rp 25 juta, maka akan dapat dibangunan 49.789 unit/tahun[15] atau 24.894 unit/tahun[16]

5. Mekanisme Wakaf Tanah dan Wakaf Tunai

Dalam rangka pelaksanaan wakaf tanah dan wakaf tunai perlu kerjasama dan mekanisme para pihak terkait, misalnya Institusi Pemerintah, Lembaga Wakaf, Pengelola wakaf (Nazhir wakaf), Lembaga Keuangan Syariah (LKS) serta para Wakif. Bentuk kerjasama dan mekanisme tersebut adalah sebagai berikut:

[13] Asumsi 10%
[14] Asumsi 20%
[15] Jika asumsi wakaf tunai berjumlah Rp 1,24 triliun/tahun.
[16] Jika asumsi wakaf tunai berjumlah Rp 622,36 miliar/tahun.

Gambarajah 3
Kerjasama dan mekanisme wakaf tanah untuk perumahan rakyat



Sumber: diolah oleh penulis

Penjelasan gambarajah 3:

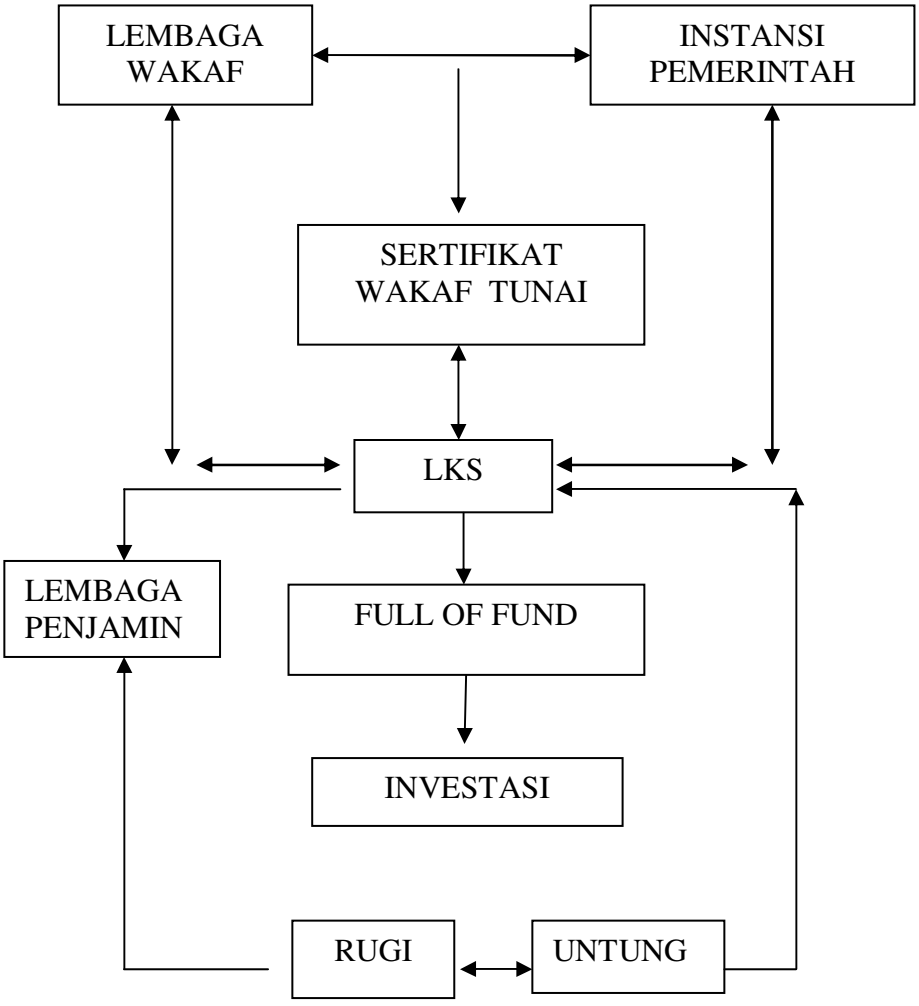
(a) Wakif mewakafkan tanahnya kepada Nazhir untuk dikelola dan tanah yang diwakafkan tersebut memang diperuntukkan untuk pembangunan rumah masyarakat miskin/kurang mampu, atau tanah yang diwakafkan boleh digunakan untuk fasilitas umum termasuk untuk pembangunan rumah masyarakat miskin/kurang mampu.
(b) Kemudian Nazhir berkoordinasi dengan Lembaga Wakaf (LW) untuk menindaklanjuti atau menflow-up keinginan (niat) Wakif.
(c) Kemudian LW melakukan kerjasama (MoU) dengan institusi Pemerintah untuk memanfaatkan tanah wakaf tersebut untuk pembangunan perumahan bagi masyarakat miskin/kurang mampu dalam bentuk rumah disewa[17] yang anggaran pembangunannya disediakan dari anggaran negara melalui Institusi Pemerintah.
(d) Kemudian pendapatan dari sewa tersebut dimanfaatkan lagi untuk membangun rumah sewa untuk masyarakat miskin/kurang mampu yang lain. Atau boleh juga mekanisme itu dimulai dari kerjasama antara LW dan Institusi Pemerintah.

[17] Yang boleh dbangun di tanah wakaf adalah rumah sewa, karena hakikat wakaf tidak boleh terjadi transfer kepemilikan (hak milik). Dengan demikian, keberadaan (eksistensi) tanah wakaf tersebut masih tetap ada (tidak berpindah tangan).

(e) Selanjutnya kedua belah pihak sepakat untuk melakukan kajian terhadap tanah-tanah wakaf yang ada di bawah koordinasi LW baik dari aspek legal maupun aspek syariahnya. Kemudian kedua belah pihak membuat pilot project dengan membangun rumah sewa di tanah wakaf tersebut.

Adapun bentuk kerjasama dan mekanisme wakaf tunai adalah sebagai berikut:

Gambarajah 4
Kerjasama dan mekanisme wakaf tunai



Sumber: diolah oleh penulis

Penjelasan gambarajah 4:

(a) Institusi Pemerintah melakukan kesepakatan kerjasama (Mou) dengan LW dalam pengumpulan atau penggalangan dana/wakaf tunai untuk pembangunan perumahan rakyat miskin/kurang mampu.

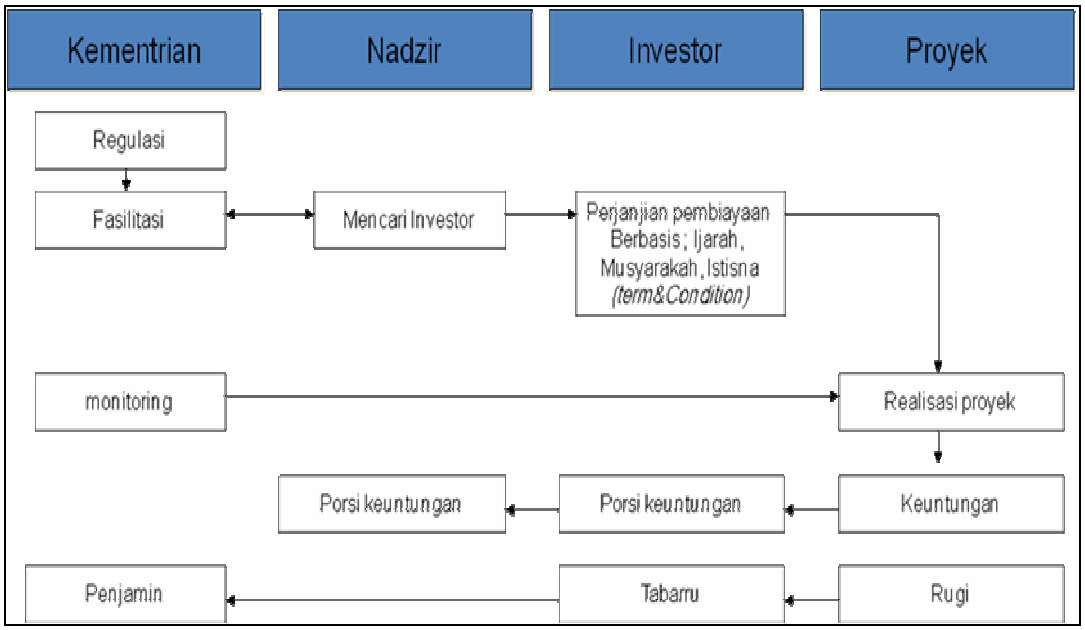
(b) Kemudian kedua belah pihak menerbitkan sertifikat wakaf tunai. Dalam kerjasama tersebut LW bertindak sebagai Nazhir.

(c) Selanjutnya sertifikat wakaf tunai tersebut dipasarkan oleh Lembaga Keuangan Syariah (LKS), dimana LKS tersebut juga bertindak selaku wakil Pengelola (*Nazhir)* dana yang terkumpul (*full of fund*) termasuk menginvestasikan dana yang terkumpul kepada proyek-proyek yang produktif dan sesuai dengan prinsip-prinsip syariah.

(d) Keuntungan dari investasi tersebut dipergunakan untuk membiayai pembangunan perumahan untuk masyarakat miskin atau kurang/tidak mampu. Sedangkan jika rugi, maka kerugian itu dijamin oleh lembaga penjaminan yang preminya dibayar oleh Institusi Pemerintah.

(e) Oleh karena dalam investasi dana wakaf tersebut ada resiko untung dan rugi, maka harus dicari dan dipastikan bahwa Nadhir tersebut betul-betul professional, jujur dan amanah, dan kerugian tersebut bukan karena kesengajaan (moral hazard), tetapi karena murni bisnis.

Gambarajah 5: Model Pembiayaan Dengan sistem *Direct Financing*



Sumber: diolah dari Laporan Akhir Masukan Teknis Wakaf Tunai Dalam Pembiayaan Investasi Perumahan Swadaya, 2007.

Penjelasan gambarajah 5:

(a) Kementerian yang menangani bidang perumahan bekerjasama dengan Kementerian yang menangani bidang keagamaan menerbitkan SKB dalam bentuk regulasi yang dapat berfungsi untuk menfasilitasi kebijakan pembangunan perumahan dengan menggunakan wakaf tunai, dengan bekerjasama dengan lembaga Nadzir yang sekaligus berfungsi sebagai MI (Manajer Investasi) berusaha mencari investor.

(b) Investor yang ditargetkan disini adalah mereka yang akan membeli sertifikat wakaf tunai yang telah diterbitkan oleh MI sebagai provider wakaf tunai, baik dari kalangan institusi (lembaga) keuangan maupun perorangan, dengan akad perjanjian pembiayaan berbasis: *Ijarah, Musyarakah*, maupun *Istisna* sesuai dengan syarat dan ketentuan yang berlaku dan kriteria investasi wakaf tunai yang dikeluarkan.

(c) Hasil dari IPO sertifikat wakaf tunai tersebut seterusnya digunakan untuk pembangunan perumahan melalui realisasi proyek yang melibatkan developer atau pengembang.

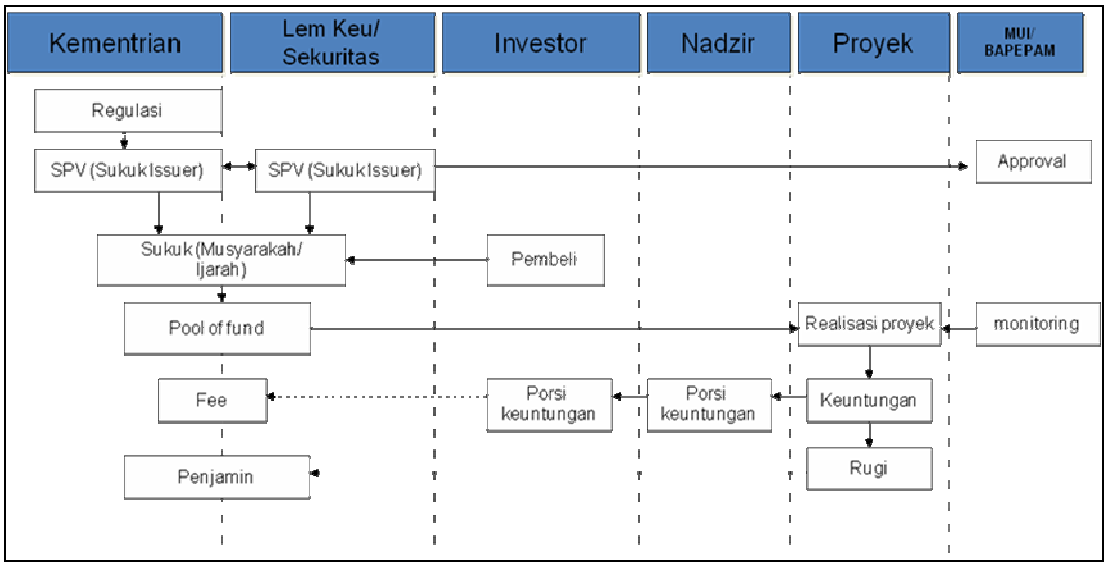
(d) Realisasi proyek tersebut harus dikontrol dan dimonitor oleh pihak kementrian untuk mamastikan bahwa seluruh proses realisasinya sesuai dengan ketentuan dan ketetapan yang telah digariskan di awal, juga agar proyek yang menggunakan skema wakaf tunai tersebut terus terjaga akuntabilitas dan pertanggungjawabannya, yang merupakan amanah dari para muwaqif, sekaligus menjaga agar outcomes dan target wakaf tunai tersebut bisa tercapai.

(e) Dalam proses investasi wakaf tunai tersebut, tentunya mengikuti resiko investasi yang memberikan yield (hasil) dalam bentuk keuntungan maupun kerugian.

(f) Untuk investasi yang memberikan keuntungan, maka keuntungan tersebut akan dibagi sesuai dengan proporsi yang telah disepakati bersama antara MI (Lembaga Nadzir) dan para investor (Lembaga Keuangan/Perorangan).

(g) Jika rugi, maka harus ada lembaga penjamin yang akan mencover kerugian tersebut melalui akad *tabarru'*. Hal ini dimaksudkan agar dana investor yang merupakan wakaf tunai tersebut masih terjaga substansi dan tujuan wakafnya sesuai dengan tujuan wakaf itu sendiri yang berarti tetap dan tidak hilang.

Gambarajah 6. Model Pembiayaan dengan Sistem *Indirect Financing*



Sumber: diolah dari Laporan Akhir Masukan Teknis Wakaf Tunai Dalam Pembiayaan Investasi Perumahan Swadaya, 2007.

.

Penjelasan Gambarajah 6:

(a) Kementerian terkait (Kementerian yang menangani perumahan dan Kementerian Agama) menyusun Surat Keputusan Bersama (SKB) dalam menerbitkan regulasi yang akan menjadi landasan perundangan (legalitas) pembentukan SPV (*Special Purpose Vichales*). SPV merupakan sebuah lembaga penerbit sukuk (Surat Berharga Syariah) yang dalam operasionalnya biasanya melalui lembaga keungan atau lembaga sekuritas. Tata cara dan mekanisme penerbitan/pembentukan SPV diatur oleh Undang-Undang Surat berharga Syariah Negara (SBSN), dan diantaranya adalah harus mendapatkan persetujuan dari Bappepam dan DSN-MUI.

(b) Lembaga penerbit Sukuk (SPV Issuer) menerbitkan Surat berharga Syariah Negara dalam bentuk sertifikat wakaf tunai dengan menggunakan basis transaksi (akad) Musyarakah ataupun Ijarah.

(c) Investor baik berbentuk perorangan ataupun lembaga membeli sukuk (sertifikat wakaf tunai) tersebut dengan tujuan hasil dari investasinya yang terkumpul berupa (*pool of fund)* akan direalisasikan untuk pendanaan proyek perumahan oleh pengembang (project developer), pelaksanaan proyek dengan menggunakan sertifikat wakaf tunai tersebut secara langsung akan diawasi/dimonitoring oleh Bappepam dan DSN MUI ntuk lebih menjaga akuntabilitas dari investasi wakaf tunai tersebut.

(d) Dalam proses investasi wakaf tunai tersebut mengikuti resiko investasi yang memberikan yield (hasil) dalam bentuk keuntungan maupun kerugian.

(e) Untuk investasi yang memberikan keuntungan, maka keuntungan tersebut akan dibagi sesuai dengan proporsi yang telah disepakati bersama antara MI (Lembaga

Nadzir) dan para investor (Lembaga Keuangan/Perorangan). Sedangkan pihak Kementrian akan mendapatkan fee dari investasi sukuk (sertifikat wakaf tunai) tersebut.

(f) Jika rugi maka harus ada lembaga penjamin yang akan mencover kerugian tersebut melalui akad *tabarru'*. Hal ini dimaksudkan agar dana investor yang merupakan wakaf tunai tersebut masih terjaga substansi dan tujuan wakafnya sesuai dengan tujuan wakaf itu sendiri yang berarti tetap dan tidak hilang.

6. Kesimpulan dan Rekomendasi

Berdasarkan pembahasan dan uraian diatas dapatlah penulis simpulkan sebagai berikut. *Pertama*, perumahan yang layak, sehat, aman, serasi dan teratur merupakan salah satu kebutuhan dasar manusia dan merupakan faktor penting dalam peningkatan harkat dan martabat manusia. Setiap warga negara mempunyai hak untuk menempati, menikmati atau memiliki rumah yang layak dalam lingkungan yang sehat, aman, serasi dan teratur. Tantangan dan permasalahan yang dihadapi dalam bidang pembangunan perumahan secara nasional cukup berat, antara lain disebabkan rendahnya daya beli masyarakat serta keterbatasan lahan dan anggaran untuk pembangunan perumahan. Oleh karena itu, perlu dilakukan upaya dan terobosan untuk mengatasi permasalahan ketersediaan lahan dan anggaran tersebut, antara lain melalui pendayagunaan wakaf.

Kedua, potensi wakaf di Indonesia baik untuk wakaf tanah maupun wakaf tunai sangat besar. Jika potensi tersebut dapat diaktualisasikan dan diberdayakan akan dapat membantu mengatasi persoalan keterbatasan lahan dan keterbatasan anggaran dalam penyediaan perumahan bagi masyarakat miskin dan kurang mampu.

Oleh karena itu, maka penulis rekomendasikan agar institusi pemerintah yang menangani bidang perumahan melakukan kerjasama yang sinergis dengan lembaga-lembaga terkait, agar potensi wakaf yang besar tersebut dapat direalisasikan dan diberdayakan untuk pembangunan perumahan bagi masyarakat miskin dan kurang mampu.

RUJUKAN

Anonim, Laporan Akhir, Masukan Teknis Aplikasi Wakaf Tunai Dalam Pembiayaan Investasi Perumahan Swadaya, Kementerian Negara Perumahan Rakyat, 2007.

……., Laporan Akhir, Pengembangan Model Kemitraan Pemerintah, Swasta dan Masyarakat Dalam Investasi Perumahan Swadaya, Kementerian Negara Perumahan Rakyat, 2008.

……., Undang-Undang Dasar (UUD) 1945.

……., Undang-Undang No. 39 tahun 1999 tentang Hak Asasi Manusia.

……., Undang-Undang Nomor 4 tahun 1992 tentang Perumahan dan Permukiman.

……., Undang-Undang Nomor 41 Tahun 2004 Tentang Wakaf.

……., Undang-Undang No. 17 Tahun 2007 Tentang RPJP 2005-2025.

……., Peraturan Pemerintah Republik Indonesia Nomor 42 Tahun 2006 tentang Pelaksanaan Wakaf.

....., Agenda UN-Habitat di Istambul 1996.

Khalil, Jabril. 2008. Standarisasi Nazhir Wakaf Uang Profesional, *Al-Awqaf, Vol. 1, Nomor 01*, Desember 2008.

Nasution, Mustofa E.. 2008. Peran Badan Wakaf Indonesia (BWI) dalam Pengembangan Wakaf di Indonesia, *Al-Awqaf, Vol. 1, Nomor 01*, Desember 2008.

Suhrawadi K. Lubis. 2009. Wakaf Tunai Alternatif Sumber Keuanga Masjid, *Website*, Posted 25 Mei 2009.

Sula, Menakar Kerjasama Nazhir dengan Lembaga Keuangan Syariah, *Al-Awqaf, Vol. 1, Nomor 01*, Desember 2008.

View publication stats