



THE CONTRIBUTION OF ZAKAT TO INCOME
CREATING ASSET FOR THE POOR IN SELANGOR

BY

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A RESEARCH PAPER SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENT FOR THE
DEGREE OF MASTER OF ECONOMICS

KULLIYAH OF ECONOMICS AND
MANAGEMENT SCIENCES
INTERNATIONAL ISLAMIC UNIVERSITY
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NOVEMBER 1999

ABSTRACT

It was not until recently that the zakat department in Malaysia felt an urgent need to provide capital assistance to the poor. Such a realisation evolved mainly due to the rapid increase in the number of poor people along with the state development. Thus, this paper tries to see the contribution of zakat in fighting poverty through income creating programme for the poor in Selangor.

This study adopts 50 percent of the zakat recipients' population from the four districts in Selangor. The success of the recipients is critically evaluated not only from the demographic factor but also from the social and economic factor. A comparison is made before and after the poor receive the assistance. This is to ensure that they are really out of the pit of poverty.

Though more than half of the recipients are successful in the project, still there are ample rooms to improve the effectiveness of the existing programme. The intricacy between the MAIS's poverty line income and the national poverty line income needs to be resolved in order to make more appropriate evaluation of the poverty eradication programmes as been initiated by the government.

ملخص البحث


لقد شعرت إدارة الزكاة في ماليزيا في الآونة الأخيرة فقط بالحاجة الماسة في تقديم مساعدة مالية للفقراء. وقد ظهرت الرغبة، وإلى حد كبير، بسبب الزيادة السريعة لعدد الفقراء مع حالة التطور التي تشهدها البلد. تحاول هذه الورقة التعرف على مساعدة الزكاة في محاربة الفقر من خلال مشاريع - إيجاد الدخل - للفقراء في ولاية سلنجور.

لقد اعتمدت الدراسة على نسبة ٥٠% من الحاصلين على الزكاة في المقاطعات الأربعة لولاية سلنجور. كما قيّمت الدراسة وصورة نقدية سبب نجاح هؤلاء في الحصول على الزكاة ليس من الناحية الديموقرافية (سكانية) فقط ولكن أيضا من الناحية الاجتماعية والاقتصادية. كذلك قارنت الدراسة بين من حصلوا على الزكاة قبل وبعد حصولهم عليها.


من ناحية أخرى مع أن نصف الحاصلين على الزكاة قد نجحوا في تحقيق أهداف المشروع إلا أنه لا زال هناك مجال لتطوير فعالية المشروع. فالمشكلة بيم الدخل المساوي للنصاب ومعدل دخل الفقير تحتاج حلّ حتى يتثنى إجراء تقييم صحيح لمشاريع استئصال الفقر كما اقترحتها الحكومة.

APPROVAL PAGE


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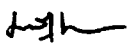
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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

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To my beloved wife and three kids :

Siti Zulaikha,

Siti Mariam,

Mohamad Hadrami.

ACKNOWLEDEMENTS

All Praise be to Allah (s.w.t), the Most Gracious and the Most Merciful who has enabled me to undertake this study. *Salawat* and *Salam* to the Holy Prophet Muhammad Mustafa (s.a.w), *rahmatul lil alamin*.

First and foremost, I would like to express my special thanks to my supervisor-Professor Dr. Ataul Huq (Pramanik) who spent a lot of his time for me to complete this work in time.

Thanks also to ustaz Abdul Samad and ustaz Shairi from the Zakat Department of Selangor, Kelang for providing me useful information for this study.

My gratitudes go to numerous lectures and colleagues especially to Prof. Dr. Sadeq (IIUM), Dr. Ma'sum (IIUM), Dr. Ismail (IIUM), Dr. Ghafar (UKM), Dr. Sanep (UKM), Azlan, Nizam, Sabri, Abd. Hakim for their patience and thought-provoking ideas. Thanks to brother Seidou for his valuable technical assistance and initial edition of this work.

To my beloved wife and three kids, thanks for their whole-hearted support and co-operation. May Allah grant us all the highest place in heaven. *InsyuAllah*.

I am equally grateful to all of my friends and teachers whose names do not appear here.

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SECTION 1

INTRODUCTION

The role of *zakat*, is no doubt, crucial in uplifting the social status of the Muslim community. *Zakat* has been seen as one of the main instruments in alleviating poverty since the time of the Prophet Muhammad (p.b.u.h). This inner strength of *zakat* really worked as a corrective measure especially in the time of the fifth caliph, Umer bin Abdul Aziz, when not a single person was found to be a *zakat* recipient. It is evident that the social status of the poor can be significantly improved with the help of *zakat* distribution. This can only result from an efficient *zakat* collection and distribution. The rich are expected to pay *zakat* to purify their soul and wealth. It is no more considered a burden but a duty to the other less fortunate Muslim brothers. The hearts of the poor will also be purified from the act of enmity and jealousy toward the rich. Therefore, both spiritual and material aspects of the haves and the have nots are expected to be enhanced through the fulfilment of the obligation of *zakat*.

Looking from the perspective of wealth, Islam as a religion appears to be different from other religions. The payment of *zakat* is compulsory regardless of whether there is a need for that or not. Even for an affluent country having no poor, the obligation to pay *zakat* holds. Contrary to this, the disbursement of charity in a secular society is conditioned by the need of the society.

The secularists believe that the poor are the burden to the society. According to them the poor are to be blamed for not being able to take the opportunities available in the

market and this finally slackens the pace of development. The socialists, on the other hand, believe in the socialisation of the community's wealth to redress the problems facing the community. As such, they advocate for nationalisation of all properties to benefit the poor and the less privileged. As opposed to these two extreme forms of economic system, Islam allows the private ownership as long as it conforms to *Shariah*. In Islam, when the net income after fulfilling the essential expenditures on an individual or the society accumulates, the larger will be the share of the poor in that wealth. According to conventional wisdom, *zakat* is not considered as mere charity rather it is considered as an obligation of the rich to their fellow brethren.

That is why in Islam, the failure to pay *zakat* is considered as a major sin since the rich deprive the poor. It is quite expected that when the poor cannot earn enough to survive, they may likely to steal and take resort to all kinds of illegal earnings not enjoined by the *Shariah*. And stealing or earnings by illegal means in any society are being considered an act of immoral and hence condemned. To counter such immoral activities, Islam has made *zakat* compulsory for all those whose net incomes in a year together with any other valuable commercial and idle assets are worth equal to *nisab*¹.

In Muslim countries, the efficiency of *zakat*'s collection and distribution has been the major issue mainly due to the problem of *zakat* evasion. There exists no effectively organised official system of collecting *zakat* in Muslim world with the exception of a few Muslim countries such as Malaysia, Pakistan, Sudan and Iran. The evidences show

¹ Nisab is the minimum exemption limit that a person is liable to pay *zakat*. See appendix 1 for different kinds of nisab on wealth.

that despite the great amount of *zakat* revenue in some countries, there is no organised effort to allocate these revenues for eradicating poverty.

According to Abu Hanifa (Siddiqi,1981), the payment of *zakat* to all categories is not imperative. It can be paid to only one category of the beneficiaries even if the rest of the categories is available. This is indeed one of the reasons the Quran² mentions the word needy (*fuqara*) and poor (*masakin*) earlier than the rest of beneficiaries (*asnaf*). If the eight *asnaf* are divided into three categories, the first categories comprising the needy, the poor and the *zakat* administrator fall under utmost obligatory payment . Normally if a given amount is divided equally among eight *asnafs* (1/8 each), those *asnaf* who cannot spend the allocated amount after a year should transfer it to the other *asnaf* placing the needy and the poor in priority (Monzer,1989). In any condition, the poor *asnaf* should be given priority of payment over the non-poor *asnaf*.

Statement of Problem

The Zakat Department thus holds the *amanah* (trust) from the people to collect and distribute the *zakat* to the respective *asnaf* according to the wisdom and justice of Islam which aims at eradicating poverty through the redistribution of income in the society. Failure to this can lead to the loss of confidence of the people toward the department.

The masses in Malaysia, especially the regular *zakat* payers feel that the current way of *zakat* distribution seems not to be effective in eradicating poverty among the Muslims.

² The alms are only for the poor and needy, and those who administer them, and those whose hearts are to be reconciled, and for freeing the neck of the bondage, and for the overburdened debtors, and in the way of God, and for the traveller : so ordain God; and God is All-knowing, and All-wise (al-Taubah 9:60)

First, they are of the opinion that the poverty line income used by the Zakat Department (MAIS) in categorising the poor is still very low as compared to the national poverty line income. Hence, a person being qualified for *zakat* still remains poor judged by the poverty line income. If a person's income is slightly above the poverty line used by MAIS, he is being deprived of the assistance. Secondly, many *zakat* recipients are not aware that *zakat* department also provides working capital to start business together with monthly allowance to the poor. The Zakat institution should motivate the poor to work as it is the most effective weapon to fight poverty and hunger. This can be done if the poor are provided with the capital to start a small business for income generating purposes.

Recently in Selangor, the Zakat Department announced that the *zakat* revenue of the state was the largest compared to the previous years. As much as RM 40 million was collected last year though only RM 3.8 million or less than one-tenth has been spent for the poor³. The increase in *zakat* collection is not unusual because both the population as well as the per-capita income are increasing in Selangor, and collection centres are established in most of the towns and districts. However, the number of poor has not decreased proportionately. Therefore, it may be interesting to know the role played by the *zakat* distribution in creating income and reducing poverty.

Significance Of the Study

The significance of this study is to show how *zakat* can cure the poverty among the poor having productive potentials. This can only be done if *zakat* plays as an efficient

³ Risalah Al-Mal. Bil 7/98 D'Fa Print Sdn. Bhd.

income-creating asset. Islam has the mechanisms by which poverty and dependency can be eradicated from the society.

Actually, the study on the effectiveness of the *zakat* capital aid given to the poor, has hardly been done so far in any states of Malaysia. The reason might be the fact that many states are not actively engaged in the capital aid assistance as income creating assets. They are also probably not well informed about the importance of that.

This study takes the state of Selangor as the sample mainly for two reasons. First, the collection of *zakat* in this state has been increasing since 1996, thus the amount allocated for the poor will be definitely increasing, too. This can be seen in 1998 whereby as much as RM 3.8 millions had been allocated for the poor and the destitute only⁴. Second, the *zakat* department in Selangor has shown a serious commitment to fighting poverty among the poor through *zakat* assistance programme. These types of programmes have been gaining importance since 1996 to improve the standard of living of the poor.

In view of what has been stated above, I am very much interested to probe the effectiveness of *zakat* as income creating assets for the poor in Selangor. This state is chosen as the case study due to the fact that it has engaged seriously in the use of *zakat* as income creating assets. Since measuring the effectiveness of *zakat* distribution is not

⁴ Risalah Al-Mal.Bil.7/98 D'Fa Print Sdn. Bhd

quite easy, I will try to look at the effectiveness of the existing projects in reducing the level of poverty through the creation of productive capacity of the recipients.

Nature and Objectives of the Study

The purpose of this study is to see how *zakat* contributes to the alleviation of the problem of poverty in the state of Selangor. It will try to ascertain whether the national poverty line can represent the poverty line use by MAIS in categorising the poor from the income point of view. This is because there is a tendency to view the way Zakat Department (MAIS) determines the poverty line as less ambitious showing relatively lower incidence of poverty among the Muslims. The trend can be significantly reversed if the that poverty line is replaced by the national poverty line income.

Therefore, this study tries to meet the following objectives:-

- (a) To see the implications of a difference between the lower income equivalent of MAIS poverty line income as compared to the conventional poverty line income.
- (b) To see the types of business activities pursued by the recipients of the capital aid as *zakat* either in cash or in kind.
- (c) To evaluate the success in terms of poverty reduction through income-creating projects provided for the non-paddy 'productive' poor and destitute⁵ and relate the success or failed cases to their socio-economic and demographic conditions.

⁵ Productive poor and destitute refer to those who are capable of working, and are not handicapped or too old to work. This includes persons in temporary poverty such as poverty arising out of unemployment or natural calamities.

SECTION 2

LITERATURE REVIEW

Zakat And Poverty Line Income

A question arises whether we can use the national poverty line income to identify the poor. A few scholars opine that the amount of *nisab* for collecting the *zakat* should be automatically fixed to the poverty line of revenue (Muhammad,1993). But Hassan (1997) has objected to this view on the basis that computational problem may arise in fixing this poverty line.

Dr. Abdul Aziz Muhammad (1993) also supports the re-evaluation of *nisab*. After explaining some of the theoretical differences⁶ in estimation between poverty line income and *nisab* in his book, he tries to show the difference between *nisab* on paddy and the poverty line income. An interesting conclusion from his study is that the paddy farmer in Malaysia is obligated to pay *zakat* even though the monetary value of the paddy they produce is 85.5% below the national poverty line

Zakat as an Income Generating Asset

There are many verses in the Quran that tells about the need to pay *zakat*. Though the Quran does not go to the details of explaining the need of *zakat* for income generating

⁶ See appendix 2

purposes, there are many hadiths, practised by the companions as well as the opinions of the previous scholars that lay emphasis on it (Sidiqqi, 1981). Thus, it shows that instead of giving *zakat* directly to the poor either in cash or in kind, we can also give them as a capital to run a business. Probably a question arises on what forms of tools should be supplied and how many of them are needed as a beginning.

Imam Ahmad bin Hambal, for instance, has permitted the poor to have something for trade- goods and tools for industry or handicraft. According to Shafie school of thought if the man is not skilled or he has no knowledge of trade, he should be helped with the amount of money that can pull him out of poverty. Additionally, Imam Nawawi said that the poor should be given enough to pick them out of the pit of poverty (Siddiqi,1981,110).

There is a great wealth of literature on the importance of *zakat* as an income creating asset. Generally, most of the papers emphasise *zakat* as an instrument which can raise the standard of living of the poor. Many Islamic economists (Hassan,1988), (Muhammad,1992), (Sadeq, 1989, 1996) argue forcefully that *zakat* can be an income creating asset through the capital aid to the poor.

According to Dr. Yusof al Qardawi (Siddiqi,1981), there are poor people that are skilled but in short of tools required for their occupation. Because of this, they hardly earn anything and cannot be blamed. Even if we cannot support them by providing tools, they should be placed in the suitable factory irrespective of their academic qualifications and barriers of age. This can possibly be done by using *zakat* money as a

share of the recipients in a factory. At the same time, the recipient has to work in that factory for any job suitable to him.

One of the final objectives of the income creating assets will be to reduce the income inequality between the rich and the poor. Writings on the importance of *zakat* as a corrective measure for income inequality such as Al-Qardawi (1981), Ahmad (1989), Monzer (1989), Faridi (1980) and Jehle (1994) emphasised the crucial role of *zakat* to ensure equity in the distribution of income through the mandatory provision of transfer payments. Not only the income gap between the poor and the rich will be smaller but also the purchasing power of the former will tend to increase.

Two in-depth studies on the importance of *zakat* as income creating assets were made by Shirazi (1996) and Mohammad Faiz (1991) in which they highlighted the role of *zakat* to improve the status of the poor through the distribution of *zakat*. They also conclude that *zakat* revenue should not be kept idle thereby depriving the right of the poor from using it.

In Malaysia, some studies on the importance of *zakat* in eradicating poverty had been carried out by Ariff and Osman (1989). They argue that when *zakat* funds are used for poverty eradication programme, there should be a nation-wide publicity through the mass media such as T.V. documentaries, radios showing their benefits. Then only, the masses will know the importance and the role of *zakat*.

Nik Hassan (1987) observed that the system of *zakat* implemented in Malaysia is far from being perfect and consistent with the teachings of Islam. It has no place in the

country's economic and financial systems other than a means of collecting religious due. Its institutional set up and its jurisdictions are reflective of and represent a continuance of a colonialist intention of making Islam mere "ritual and ceremonial" religion.

All in all, the study on the role of *zakat* as income creating asset has not been done with regard to any states of Malaysia. This study is expected to be the beginning of a further research regarding the contribution of *zakat* to improve the standard of living of the poor for Malaysia in particular or other Muslim countries in general.

SECTION 3

RESEARCH METHODOLOGY

This study is designed to examine the role of *zakat* in eradicating poverty among the non- paddy farmers in the state of Selangor. Thus, the use of the present poverty line income by MAIS in identifying the poor needs to be evaluated in order to ensure that those who are still poor will not be deprived of the aid either in kind or in cash. A comparison is made between MAIS poverty line income and the state poverty line income of Selangor to see whether the difference is significant or not.

In order to show the distinct demarcation between MAIS poverty line income and the national poverty line, a clear distinction needs to be made to measure poverty by both yardsticks. Since this section is more of a theoretical discussion, the method used in arriving this objective is more of a library research and academic discussion. It is actually not the intention to show any deficiency especially in the existing MAIS poverty line income, but to make an effort to understand the implication of the gap that will exist later.

Population and Sampling

The population from which the sample is derived consists of 105 non-paddy recipients involved in agricultural, small business and fisheries projects from the state of Selangor since 1996. The list of the recipients' names was taken from Majlis Agama Islam Selangor (MAIS). The selected recipients consists of 15 recipients from Sepang, 10

recipients from Selayang, 11 recipients from Gombak and 14 recipients from Hulu Langat. They represented approximately 50% of the non-paddy *zakat* aid capital assistance in Selangor. Most of the selected respondents started their activities at least two years before. The new recipients in the year 1999 were excluded because it is too early to evaluate their performance.

Variables

This study tries to examine the position of the recipients from the demographic, social and economic factors. The socio-economic and demographic factors analyse the link between the poverty and the age, sex, marital status, size of the family, number of working member in the family, level of education, the status of homestead land and the type of professions of both the respondents and his family members. The nature of profession either primary, secondary and tertiary activities will be examined to see the importance of the recipient's sources of income. Meanwhile, the economic factor tries to look at the income position of the recipients and his family members before and after the *zakat* assistance. The expenditure on food, clothing, education, medical, entertainment, house repairing and transportation of the family before and after the *zakat* assistance will also be used as a proxy of income. This is to see whether the use of either income or expenditure gives the real nature of poverty.

Instrument

Based on the above variables, a questionnaire is designed with the help of the supervisor. See appendix 3 for the form of the questionnaire.

Data Collection and Analysis

Since this study deals with the primary data, the method of collecting data through interviews and questionnaires will be based on participatory observations. The unit of analysis is based on the family. According to participatory observation, the researcher went personally to see for himself the socio-economic conditions of the *zakat* recipients. All the necessary information in favour of the present research is being collected directly from the respondents under the sample. So, it is a kind of purposive or selective sampling.

Firstly, the name of the *zakat* recipients along with their areas were collected from MAIS. Then each and every *zakat* recipient who is purposively selected for this research is interviewed for providing detailed information based on our questionnaire. The data, so collected are processed and used primarily to present in the form of frequency tables. This is to show the better or worse performance of certain *zakat* recipients vis -a- vis others in respect of relevant variables or issues under our considerations. This is how the success or failed cases of those who received cash *zakat* aid are identified in terms of creating further income generating assets.

Limitation of This Study

One of the major limitations that might arise in this study is probably the general tendency of the recipients to underestimate their incomes and to overestimate their expenditures. This is likely to make the savings of the recipients very significant. Other problem may be the failure to estimate the imputed income of the recipients. Imputed incomes include the home-grown vegetables, fruits, home-grown dairy