THE POTENCY OF PRODUCTIVE ZAKAT IN REDUCING THE RATE OF POVERTY IN ACEH

Alamsyah Alwi[1]

ABSTRACT

Economic crises and disasters have caused an increase in the incidence of poverty in Indonesia, including Aceh province. Difficulties in obtaining capital loan business have been one cause of difficulty to get out of poverty. Some studies believe that the concept of microfinance could alleviate poverty. However, several other studies still doubt its effectiveness. In Islam, productive zakat is a method that can improve the well-being of the poor. Baitul Mal has distributed productive zakat to tackle poverty in Aceh. The question is, what are the advantages of productive zakat compared with conventional microfinance in addressing the problem of poverty in Aceh? This paper identifies the potential of productive zakat in addressing the problem of poverty in Aceh. The analysis was made by using content analysis method based on secondary data from several previous studies. It has found that productive zakat has the potential and is appropriate in tackling poverty in Aceh because it gives direct support to the poor, provides mental support, and the method itself is in accordance with the teachings of Islam.

Keywords: poverty, productive zakat, and microfinance

[1] *Ph.D student at Universiti Sains Malaysia, 11800, Penang, Malaysia. E-mail: alam.alwi@gmail.com*

INTRODUCTION

Poverty is a global issue that is dynamic and complex. According to Hassan (2010), poverty is an economic problem that has multiple dimensions. Kataria (2011) stated that poverty is the root of many social problems around the world. Previously, Arifujjaman Mohammad Khan and Mohammed Anisur Rahaman (2007) stated that poverty can affect the basic requirements and minimum standards of human life. Meanwhile, Surjono and Peterson (2010) in their study also noted that the problem of poverty is not just a matter of income and consumption but also a concerning problem for the society and the environment.

LITERATURE REVIEW

As the most Moslem populated country in the world, Indonesia has a low level of well-being. According to the United Nation Development Programme, the Human Development Index ranking of Indonesia is at 108 from 187 countries. This shows the level of prosperity of Indonesia is still below the regional countries such as Singapore, Brunei Darussalam, Malaysia, and Thailand. The monetary crisis in 1997 and natural disasters have led to the increment of poverty in Indonesia. The fact is also supported by Irfan Syauqi Beik (2009), who stated that poverty is a critical issue faced by Indonesia because of the food and energy crisis. As a result, poverty in Indonesia became more serious when compared with some neighbouring countries in the region when in fact these countries have natural resources, social, cultural, and regional characteristics that are similar to Indonesia. Therefore, Indonesia needs an aggressive strategy to reduce poverty (Miyashita, 2000).

Aceh is the only province that receives benefit in terms of the implementation of Islamic Sharia, yet still it cannot be separated from poverty. The Central Bureau of Statistics noted that in March 2014, the percentage of poverty in Aceh is higher compared with some provinces in Sumatra. Hassan (2010) and Tewfik, Andrew, Bene, and Garces (2008) also added that the tsunami disaster in Aceh in

December 2004 had caused huge loss of life, property, and employment. Hassan (2010) also noted that natural disasters can cause psychological consequences to the victims. The 2004 disaster certainly has worsened the poverty conditions in Aceh.

Meanwhile, Miyashita (2000) believed that microcredit can help Indonesia address the problem of poverty. Accordingly, Khandker (2005) stated that microfinance has supported the efforts to reduce poverty levels. Hadinoto and Retnadi (2007) stated that microcredit is an effective way to tackle the problem of poverty and unemployment. Contrary to that, Hulme (2000) doubted the effectiveness of microfinance in overcoming poverty globally. According to him, microfinance has failed to improve the lives of the poor. Bank Indonesia noted, in May 2015 the lending rates for the microcredit in Indonesia is up to 23.90 percent. High interest rates will burden most small businesses because they are owned by low income people. Furthermore, in April 2015 Bank Indonesia recorded Aceh as among the provinces that received the smallest share of loans in the Sumatra region.

In fact, there are many alternatives that can be relied upon to overcome poverty in Aceh. For example, since 2006, Baitul Mal of Aceh has been distributing productive zakat. Productive zakat is refers to allocation of business capital distributed by Baitul Mal (Mila Sartika, 2008). According to Murti-Nim and Nuryanto Day (2011), productive zakat is dedicated to small productive enterprises. Meanwhile, Sulong and Ali (2012) stated that the distribution of productive zakat by Baitul Mal of Aceh is to provide capital to recipients who run businesses. Unfortunately, Multifiah (2007) stated that the distribution of productive zakat has not shown significant effects on the well-being of recipients in Malang, Indonesia.

By understanding some of the issues that have been shown, in general, it can be seen that Aceh has a problem with high poverty rate, high loan interest, and limited access to credit. Scholars believe microcredit and productive zakat are *the best solutions to overcome poverty in Aceh. In fact, both have their advantages and disadvantages. The alleviation of poverty in Aceh must be tailored to the needs of the people of Aceh itself. Therefore, what is the appropriate concept of capital loans to the poor people in Aceh? This paper would first compare microcredit and productive zakat in overcoming poverty in Aceh. Furthermore, the main purpose of this paper is to determine the potential and suitable loan concept to overcome poverty in Aceh.*

The Advantages and Disadvantages of Conventional Microfinance in Overcoming Poverty

To determine the potential of productive zakat, this paper attempts to make a comparison that explains the advantages and disadvantages of microfinance and productive zakat.

In discussions related to microfinance, Arifujjaman Mohammad Khan and Mohammed Anisur Rahaman (2007) explained that microfinance has benefits such as reducing poverty and discrimination against women, increasing income, improving health, education, legal rights, sanitation system, and quality of life, helping poor families who have no assets, and creating job opportunities.

In accordance to that, Adam Brown, Steve Garguilo, and Mehta (2011) explained that the Grameen Bank in Bangladesh have such basic principles. The bank only grants loans to the poorest people in rural areas and emphasises more on women. It also grants loans without any collateral or guarantees. Meanwhile, non-bank lenders will determine the business activity for which the loan will be used to help the success of the borrower's business, and the borrower will pay little interest or as much as needed to keep the bank running.

However, the concept of microfinance still has weaknesses and constraints in reducing the risk of poverty, especially in Aceh. According to Nugroho (2009), many microfinance institutions that maximise their profits and benefits will not necessarily be felt by the *poor. Meanwhile, according to Hassan (2010), microfinance still involves usury (riba), which requires collateral although it is for small businesses; requires a high loan interest, diversion, and rationing of credit; high operational and administrative costs; and not in accordance with the teachings of Islam.*

The Advantages and Disadvantages of Productive Zakat Overcoming Poverty

In discussing the zakat, Hamizul Abdul Hamid (2012) wrote several key benefits of zakat such as property cleaning, cleansing the soul of the rich from mazmumah (negative) nature, nourishing their souls with commendable qualities like asceticism, generosity, and qana'ah (contentment), sowing high sensitivity among Muslims, building bridges of brotherhood between the rich and poor, reducing crime, promoting economic development of the Muslim community, creating a balanced society by bridging the gap between the rich and poor, helping to meet the needs of the poor, empowering the country and Muslims through zakat-funded research, and helping the less fortunate Muslims.

Meanwhile, Abd Rif'at Al-Latif Masyhur (2010) stated that the role of zakat is a source of financing for economic development, dodging the accumulation of wealth, prompting investment, avoid wastage, as a stabilising tool to the economy, enhancing employment, stimulating the desire to spend saved money, protect the economy from shock, investing on capital sources, improving community welfare as a material and spiritual fulfilment of human needs, improving Muslim brotherhood, supporting people who are in debt, and creating social security.

More specifically, Armiadi (2008) explained the benefits of productive zakat such as providing working capital loans, building agricultural infrastructure and industry to reduce the unemployment rate, providing spiritual guidance in saving the faith of Muslims, providing skill-training classes for the unemployed, improving the purchasing power of *the poor, directly giving benefits to the poor, reducing poverty, opening new jobs, as well has having no form of usury in the form of loan interest and requiring no collateral during loan application.*

Despite the benefits, zakat still have weaknesses and obstacles with its implementation on the ground. Armiadi (2008) stated that the management of zakat that has been carried out by the government is still not good; there is still a crisis of public confidence in the institution of zakat, lack of cooperation between zakat agencies, conflicts regarding the sources of the new zakat, as well as borrowers who have not returned the loan money of productive zakat. The total distribution is still limited due to the small amount of zakat collection, lack of political support from the government, limited understanding on the importance of zakat, as well as internal problems within Baitul Mal.

Referring to the comparison of the two concepts explained above, there are some major differences that can be inferred by looking at the table 1 below:

Table 1. The Differences between Microfinance Concept and Productive Zakat

No	***Description***	***Microfinance***	***Productive Zakat***
1.	*The obligation to return the borrowed money*	*Yes*	*No*
2.	*Tool to transfer the accumulated wealth from the rich to the poor*	*No*	*Yes*
3.	*The existence of usury (riba)*	*Yes*	*No*
4.	*The existence of collateral*	*Yes*	*No*
5.	*As a means to strengthen brotherhood among Muslims*	*No*	*Yes*
6.	*The recipient of the loan are only the poor people*	*No*	*Yes*
7.	*As a tool to improve individual's spiritual well-being*	*No*	*Yes*

By viewing the seven comparisons in Table 1, productive zakat generally has three supports in overcoming poverty, namely financial support for the economy, material support for the poor, as well as moral and spiritual support for the development of individuals and the poor. Meanwhile, microfinance has only two forms of support, which are economic and material support for the development of the poor.

To see the differences between the support of conventional microfinance and productive zakat more clearly, refer to figure 1 as below:

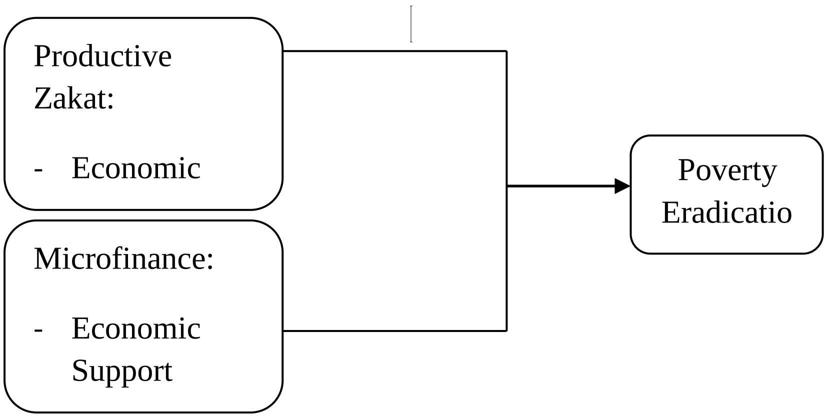

Figure 1. The Support Provided by Productive Zakat and Microfinance in Overcoming Poverty

The difference between microfinance and productive zakat lies on two different forms of support. The first support for both is enhancing economy, whereby productive zakat is more focused on Islamic concept such as having no loan interest (usury) whereas microfinance still takes benefit from the loan interest. However, Productive zakat and microfinance have similar support of material to the poor. They are both giving the material support for the business. Meanwhile, spiritual support in the form of moral and faith is the only form of support that is not included in the concept of microfinance.

From the above discussion, productive zakat is considered as a potential solution in addressing poverty in Aceh by improving income, providing business capital, creating jobs, requiring no collateral *to secure a loan, having no loan interest, and also improving the moral of individuals with a spiritual approach.*

CONCLUSION

Poverty in Aceh looks more complex compared with other provinces in Sumatra. This shows the importance of employing appropriate alternative solutions in reducing the level of poverty since the tsunami disaster and war. Microfinance concept is believed to be very effective in addressing poverty. However, it still faces scepticism from some experts. Furthermore, the concept is still setting loan interest (usury) and there are some formal financial institutions that require collateral from the borrower.

In general, micro financial mechanism and productive zakat share one similar form of support, which is material support. Meanwhile, productive zakat has two special forms of support that are different from microfinance. Productive zakat has economic development support in Islamic perspective and also giving spiritual support to the poor. Economic support from microfinance is still using the conventional concept and it does not give any spiritual support like what is given by productive zakat.

It can be concluded that productive zakat is more appropriate in overcoming poverty in Aceh because it has additional support that is needed by poor people in Aceh, which is spiritual support. Most importantly, productive zakat does not contradict with Islamic perspectives, which is highly prioritised by the country with the highest Muslim population. Therefore, the potential effectiveness of productive zakat should be further examined in future to eradicate poverty in Aceh.

REFERENCES

Adam Brown, Steve Garguilo, & Mehta, Khanjan. (2011). The Relentless Pursuit of Financial Capital for Micro- enterprises Importance of Trust and Social Capital. International Journal for Service Learning in Engineering, 6(2), 78-97.

Armiadi. (2008). Zakat Produktif: Solusi Alternatif Pemberdayaan Ekonomi Umat (Potret & Praktek Baitul Mal Aceh). Banda Aceh, Indonesia: Ar-Raniry Press, Darussalam Banda Aceh.

Hadinoto, Soetanto, & Retnadi, Djoko. (2007). Micro credit challenge: cara efektif mengatasi kemiskinan dan pengangguran di Indonesia: Elex Media Komputindo.

Hamizul Abdul Hamid. (2012). Eksklusif Zakat. Selangor, Malaysia: Galeri Ilmu Sdn.Bhd.

Hassan, M. Kabir. (2010). An Integrated Poverty Alleviation Model Combining Zakat, Awqaf and Microfinance. Paper presented at the Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi 2010, Bangi, Malaysia.

Hulme, David. (2000). Is microdebt good for poor people? A note on the dark side of microfinance. Small Enterprise Development, 11(1), 26-28.

Irfan Syauqi Beik. (2009). Analisis Peran Zakat dalam Mengurangi Kemiskinan : Studi Dompet Dhuafa Republika. Jurnal Pemikiran dan Gagasan Vol II (Zakat and Empowering).

Kataria, Jafar R. (2011). Poverty In South Asia: An Overview. Interdisciplinary Journal of Contemporary Research in Business, 3(3), 389-396.

Khandker, Shahidur R. (2005). Microfinance and poverty: Evidence using panel data from Bangladesh. The World Bank Economic Review, 19(2), 263-286.

Mila Sartika. (2008). Pengaruh Pendayagunaan Zakat Produktif Terhadap Pemberdayaan Mustahiq pada LAZ Yayasan Solo Peduli Surakarta. Jurnal Ekonomi Islam, 2(1), 75-89.

Miyashita, Yoko. (2000). Microfinance and Poverty Alleviation Lessons : From Indonesia's Village Banking System. Pacific Rim Law & Policy Journal, 10(1), 147-189.

Mohammad Arifujjaman Khan, & Mohammed Anisur Rahaman. (2007). Impact of Microfinance on Living Standards, Empowerment and Poverty Alleviation of Poor People A Case Study on Microfinance in the Chittagong District of Bangladesh. (Master Master Thesis), Umeå School of Business (USBE), Sweden.

Multifiah. (2007). Peran ZIS Terhadap Kesejahteraan Rumah Tangga Miskin (Studi Penanggulangan Kemiskinan Melalui Bantuan Modal Pendidikan dan Kesehatan di Daerah Malang). (PhD), Universitas Brawijaya - Malang, Indonesia, Malang.

Murti-Nim, & Nuryanto Hari. (2011). Pengaruh Pendayagunaan Zakat Produktif Terhadap Pemberdayaan Ekonomi Ummat di Lembaga Amil Zakat. UIN Sunan Kalijaga Yogyakarta.

Nugroho, Agus Eko. (2009). The Pro-Poor Policy of Microfinance In Indonesia. Gadjah Mada International Journal of Business, 11(3), 317-340.

Rif'at Abd. Al-Latif Masyhur. (2010). Zakat Penjana Ekonomi Islam (A. E. A.-M. A. Nejihat Ed.). Selangor, Malaysia: Al-Hidayah Publication.

Sulong, Jasni, & Ali, Anwar Mohd. (2012). Kajian Perbandingan Dalam Pentadbiran Undang-Undang Kutipan Zakat di Provinsi Aceh dan Negeri Kedah A Comparative Study of The Administration of Zakat Laws In The Province of Aceh And The State of Kedah.

Surjono, & Peterson, Ann. (2010). Constructing A New Planning Indicator Framework to Reduce Poverty in Indonesia. Journal of Mathematics & Technology (3), 95-100.

Tewfik, A., Andrew, N. L., Bene, C., & Garces, L. (2008). Reconciling Poverty Alleviation with Reduction in Fisheries Capacity: Boat Aid in Post-Tsunami Aceh, Indonesia. Fisheries Management & Ecology, 15(2), 147-158.