

THE ROLE OF ZAKAH AND BINARY ECONOMICS IN POVERTY REDUCTION

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ABSTRACT

Poverty reduction remains the most important challenge for every countries. Zakah, as an Islamic faith-based institution, is a strategic tool for combating poverty. This study aims to identify the role of zakah and compare its principles with an overview of the characteristics and practices within binary economics which also provides a systemic solution for poverty. The study shows that zakah has an essential role to the economic growth and poverty reduction in Muslim community, as well as, binary economics which also offers a way of enhancing everyone's economic well-being and fundamentally different from all forms of conventional economics.

Keywords: *zakah, binary economics, poverty reduction*

1. INTRODUCTION

Due to the recent global economic meltdown and slow economic growth rates, the World Bank estimates that approximately 3 billion people are living in poverty and 46 million more people will come under the income level of US\$1.25 a day. Thirty-five percent of these people are Muslims from Islamic countries (Ali and Hatta, 2014). Having a large population but insufficient prosperity, Indonesia also faces poverty. Indonesia measure poverty based on people's ability to meet their basic needs. Hence, people are considered poor if they are economically unable to fulfil food and non-food basic needs, measured by consumption/ expenditure per capita per month. In March 2012, the poverty line applied is defined as IDR 267.408. Thus, according to the statistics, in March 2012, there were 29.13 millions people living in poverty, corresponding to 11.99% of the population (Riwajanti, 2014).

In Islam, it is a mandatory duty for the wealthy Muslim to perform zakah to complete his worship to God (Quran 107: 1-7; 21:73; 19:31; 19:55). Being wealthy means having nisab which is a given level of monetary or in-kind wealth exceeding one's needs and his family. Zakah is given to the poor and the destitute to help them in meeting the basic needs in life. However, people should be given from zakah if they feel in need, even if they have their necessities and more. They should be given from zakah after fulfilling the necessities of the destitute and the poor (Korayem and Mashhour, 2014:8). Since zakah constitutes one of the pillars of Islam, the global Muslim community has an essential role to play in addressing the injustice of global poverty through zakah. (Ali and Hatta, 2014).

Based on binary economics' principles, one widely overlooked way to empower economically poor and working people in market economy is to universalize the right to acquire capital with the earnings of capital. Binary Economics offers a distinct explanation

for the persistence of poverty, unutilized capacity, and suboptimal growth. Most binary economists conclude that universal, individual participation in the right to acquire capital with the earnings of capital is a necessary condition for sustainable growth, distributive justice, and a true democracy. Binary economic analysis reveals a voluntary market-based strategy for producing much greater and more broadly shared abundance without redistribution. Therefore binary economics, should be taught wherever other economic approaches to growth, sustainability, development, investment, poverty, and economic justice are taught (Ashford, 2012)

Thus, both, zakah and binary economics have essential role to the economic growth and poverty reduction. This paper attempts to determine several aspects about zakah and binary economics' principles as represented as a practical solutions that can successfully reducing poverty in Muslim and all communities.

2. METHODOLOGY

This paper uses qualitative methodology to gather a better understanding about zakah and its role of poverty reduction, in relation with the mechanism of binary economics which offers an economy of more equal opportunity, fairness and respect for all community, by way of an inclusive and efficient solution for poverty.

In order to study the issue, this paper contains two parts.. First part contains a brief discussion about the meaning of zakah, poverty in Islamic view, the implementation of zakah, and problems with contemporary zakah. Second part discusses about the role of binary economics in poverty reduction. The result of this study reflects the view of how zakah and binary economics, if properly implemented, will promote a systemic solution of poverty reduction.

3. ANALYSIS AND DISCUSSION

3.1. The Role of Zakah

a. The Meaning of Zakah

Zakah as one of the five pillars of Islam, is an important tool for the redistribution of income and growth from every wealthy Muslims to the poor. The word 'zakah' (also spelt 'zakat') is derived from the Arabic word 'tazkiyah', which means 'purification', what Ramadan (2004) refers to "social purifying tax". Thus, zakah is often seen as a means of purifying the wealth acquired by the giver as well as purifying the giver themselves by making them more sensitive to the needs of others (Zaman, 1980). According to Al-Qaradawi (2010) zakah means to grow and to increase. When it is said about a person, it means to improve, to become better. Consequently, zakah is blessing, growth, cleanliness, and betterment. In this way, the primary purpose

of zakah is to purify the giver, a consequence of which is aiding those who are less fortunate.

Table.1
 Nisab and Rates of Zakah For Some of the Contemporary Items

	Rate	Nisab
Cash	2.50%	Equivalent of 85 grams of golds
Bank Deposits	2.50%	Same as for cash
Stocks in Trade	10%	Same as for cash
Agricultural Produce	5%, if investment is made in inputs and irrigation (10% otherwise)	635 kg
	10%, if there is no cost of inputs	
Real Estate	2.5% from their income	
Professionals	2.5% from their income after deducting cost	
	10% when dealing in the trading of shares	
Shares/Stocks	2.5% from income if for the purpose of investment	

Source: Kahn (2007) and Korayem and Mashhour (2014:8)

Islamic shariah lays down some conditions that must be realized to make zakah due. These conditions were identified with the aim of granting some facilities to the owner, so that he might give zakah willingly. Thus, zakah achieves the noble aims for which it has been ordained. These conditions are: full possession, real or assumed growth, fulfilling one's basic needs, the lapse of a full year, forbidding twice payment of zakah at the same year and fulfilling the nisab. Nisab is a minimum amount of property to be owned in order to qualify as payer of zakah. Table.1 shows the nisab along with the minimum rate of zakah to be paid. Zakah will be payable only if one owns the property beyond that limit. The Table.1 is only indicative of a broad picture about the structure of zakah obligations which becomes due to be paid every year. There is no upper limit to this spending (Khan, 2007). Zakah is calculated as 2.5% of most physical and financial assets, 5% of agricultural products from artificially irrigated land and 10% for naturally irrigated land, for cattle not used for land work it is levied in-kind after a minimum number for each kind. Zakah is to be paid at the end of each lunar year; only Zakah of the agricultural products is to be paid, mostly in-kind, at the harvesting time (Korayem and Mashhour, 2014:8).

There are two types of zakah (Veen, 2009):

1. Zakah al-fitr is a one-off payment that is made once in every Muslim Hijri calendar year (lunar year) at any time during Ramadan (before Eid Al-Fitr prayers). Muslims are obliged to pay this, regardless of their age, status or wealth (unless they do not have enough food to eat). The amount of Zakah al-fitr payable is the equivalent of approximately 3 kg of staple food in the relevant country or an amount of money that is equivalent to the price of the food.
2. Zakah al-mal is zakah on wealth or an annual payment based on the amount of wealth owned by a Muslim individual or organization that has completed the requirement of Nisab (minimum taxable amount) and Haul (one Muslim Hijri calendar year). Zakah al-mal can be subdivided into Zakah on business, rental income, personal income, savings, gold, silver, shares, livestock, crop, etc.

Therefore, zakah al-mal is related to the saved money, whereas zakah al-fitr is paid by the head of nousehold on behalf of the family members (Al-Musayyar, 2012).

Zakah as an obligation, is related to defined types of property from which a part is to be paid every year to the poor as their right. The word al zakah occurs in the Qur'an thirty times. In twenty-seven of them it is associated with prayers in the same verse. In one place it is mentioned with prayers in the same sequence of verses, this is, "those who humble themselves in their prayers" and "who are active indeed in zakah." Surveying these thirty places in the Qur'an shows that eight of them are Makkian verses and the others are Madinan. Some writers claim that zakah is associated with prayers in eighty-two places in the Qur'an, but this is an obvious exaggeration. Since even if we include such places that have implicit reference to zakah, while words like spending, lending or feeding are mentioned, we would not reach that acclaimed number (al-Qardawi, 2010: xli). The teachings of the Quran and the Prophet lay tremendous emphasis on spending in the way of God out of one's own resources (Khan, 2007). Because zakah is an obligation, some scholars argue that it should not be interpreted as a form of charity, but rather a right of the poor (Veen, 2009).

b. Poverty in Islamic View

Poverty has become an economic, social, and political issue all over the world particularly in the developing and third-world nations including many of the Muslim countries. Parties from various organizations, such as the United Nations and World Bank are working hard to eradicate poverty with all kinds of activities, programs, services, and policy developments. In 2000, the UN organized an event that gathers the leaders of the nations to sign the "Millennium Development Declaration". On that day, these world leaders pledged to work together to achieve the "Millennium Development

Goals” by the year 2015, where one of the objectives is to significantly reduce the number of extreme poverty and hunger globally (United Nations, 2012 in Nadzri and Rahman, 2012:62).

Generally, poverty is measured in monetary terms, based on the income levels or consumption per capita or per household. In 2008, the World Bank has redefined the international poverty line at \$1.25 a day instead of \$1 a day, based on the purchasing power parities (World Bank, 2008). Based on this new figure, it was suggested that those who earned less than \$1.25 a day are categorized under absolute poverty (Nadzri and Rahman, 2012:62). According to Sirageldin (2000), poverty has persisted in varied degrees in societies and communities around the world since recorded history, regardless of resource endowment, the stage of development, level of technology, social structure or culture. However, societal approaches to poverty alleviation varied significantly from indifference to active intervention, from reliance on private or collective strategies, and between distribution and growth strategies, depending on the efficacy of existing socioeconomic institutions and the prevailing social values. Throughout history, individual and social values, especially where equalitarian ideology ranks high, have been important determinants of how individuals and society view poverty as an issue that requires attention at the level of society.

On the other hand, Islam defines poverty based on an individual failure to fulfil any of the five basic human requirements of life that is based on MaqasidSyariah1: (1) religion, (2) physical self, (3) knowledge, (4) dignity, and (5) wealth (Hassan, 2010). The fulfillment of these needs is considered one of the basic goals of the religion of Islam. This is so because Islam aims at providing every opportunity for good living both at the individual as well as the societal levels. The starting point is that Islam sets goals for human life. All matters, be they activities or things, that help to achieve the goals increase welfare or standard of living and are called *masalih* or utilities; the opposite are *mafasiid* or disutility (Khan, 2009).

Islam, being a religion of balance, views poverty as social and ideological problems. It is considered as social problem because the effects are felt in the society as a whole. Moreover, it is also an ideological problem as it affects the performance of one's socio-religious obligation towards the community and Islam, and may even lead to *kufr*. Furthermore, a hadith reported that Prophet Muhammad (pbuh) has sought Allah's refuge from poverty."O Allah! I seek refuge with You from laziness and geriatric old age, from all kinds of sins and from being in debt; from the affliction of the Fire and from the punishment of the Fire and from the evil of the affliction of wealth; and I seek refuge with You from the affliction of poverty, and I seek refuge with You

from the affliction of Al-Mesiah Ad-Dajjal. O Allah! Wash away my sins with the water of snow and hail, and cleanse my heart from all the sins as a white garment is cleansed from the filth, and let there be a long distance between me and my sins, as You made East and West far from each other." (Hadith – Sahih Bukhari). Therefore, it was suggested that poverty cannot be alleviated through income redistribution only, but it needs to include a holistic approach (Nadzri and Rahman, 2012:63).

In the Islamic view, wealth as one of the human basic needs are classified into three levels:

1. Necessities (Dharuriyyat). Necessities consist of all activities and things that are essential to preserve the five needs discussed above at the lowest level or the barest minimum for an acceptable level of living. Necessities therefore should include the ability to perform the five pillars of Islam (Belief, Prayer, Fasting, Zakah and Pilgrimage) and calling to the way of God; protection of life, securing food, clothing and shelter, education, the right to earn a living, to set up a family, etc. It is to be understood that at this level, one has enough to live but not necessarily to be in some comfort.
2. Convenience (Hajiyat). Conveniences comprise all activities and things that are not vital to preserve the five foundations, but rather, are needed to remove difficulties or impediments in life. Examples include the use and enjoyment of things that man can do without, but with difficulty, such as the use of some mode of transport (a car), a carpet in winter, etc.
3. Refinements (Kamaliyat). This category includes items that are beyond those for convenience. They do not only remove difficulty but improve the comfort. For example, if a car is considered as an item of convenience, than a chauffeur-driven car is obviously a refinement.

Hence, one is considered poor if he does not possess sufficient necessities to fulfill his basic needs and social life. In other words, one of the basic goals of Islam, i.e. to establish a reasonably good life has not been fulfilled. This definition also implies that all the five foundations of needs must be fulfilled and if only one of the needs is not fulfilled, then one is still considered poor. Nisab is one of the two prerequisites for a Muslim to pay zakah. Nisab as a certain minimum quantum of any goods or wealth, is must be possessed before that good or wealth is subject to zakah. Zakah is paid on the net balance after a Muslim has spent on basic necessities, like family expenses, due credits, donations, taxes, etc. Those who do not possess the nisab are not liable to pay any zakah. They are, however, qualified to receive zakah (Khan, 2009). According to Surah At Taubah 9: 60, zakah can be spent only on eight specified categories :

1. The poor (Faqir/Fuqara), those without any means of livelihood and material possessions.
2. The needy (Miskeen), those without sufficient means of livelihood to meet their basic necessities. For instance, those who, although may have a job, a house and a car, but whose income is below the minimum requirement.
3. The administrators of zakah (Amil), those appointed to manage and administer zakah.
4. The sympathisers (Muallaf), those who are inclined to enter or have already converted to Islam.
5. To free slaves (Riqab), zakah can also be used to free slaves or captives.
6. Those who are in debt (Gharimin), zakah can be used to pay off the debts of a person who has borrowed to pay for basic necessities so that he/she can lead a normal life. Zakah can also be distributed to those in financial difficulties e.g. bankruptcy due to the loss of employment and heavy debt.
7. For the cause of Allah (Fisabilillah), zakah can be used to finance any form of struggle or work for the love of Allah. The following examples fall under this category, e.g. Da'wah; building & developing society's infrastructure; defending Muslims, who are being oppressed; assisting poor travelers and sponsoring a student's educational expenses.
8. Those who are stranded during a journey (Ibnus Sabil), zakah can also be used to help a traveler facing difficulties in continuing his journey due to reasons such as loss of money or the break down of his vehicles, the repair of which he cannot afford.

If one doesn't fall into any of the listed categories, then he is prohibited from receiving zakah though he may be eligible to receive other sources of charity.

The nisab requirement in zakah, implies that those who do not meet the requirements, are not only excused from paying zakah but are also considered poor and hence are eligible to receive zakah. In this context, Islam defines two categories of poor, namely the poor and needy or destitute. The former are those who do not possess the necessities, whilst the latter implies those whose level of necessities do not reach half of that of the poor. It is the destitute or the so called hard core poor who should receive more attention. The distinction between the poor and the destitute has been very clearly defined for the development of a proper approach to poverty eradication in Islam (Khan, 2009). Thus, zakah is treated as a right of the poor and have-nots in the income and wealth of the haves. According to Rahman and Ahmad (2010), in general zakah distribution method is still focused on the periodical form of

direct payment where asnaf is given zakah money monthly or annually. Nevertheless, many cases have shown that direct payments reducing asnaf's incentive to work and end up being dependent on zakah funds. Although direct payment of zakah is still acceptable especially for nonproductive asnaf such as the disabled and elderly, it is recommended that zakah should be distributed in the form of capital finance to the poor and needy in order to encourage business activities among asnaf.

In a long, this paper attempts to discuss how zakah can be mobilized to generate additional resources to support poverty reduction programs. The discussion above is not only with reference to zakah as a pure religious obligation in the sense that it has to be treated as worship like the obligations of daily five time prayers, but the underlying objective is that zakah promotes social justice and ensures provisions to the economically unfortunate sections of the society.

3.2. Implementation of Zakah

In principle, zakah is an individual act like saying prayers five times a day. But like prayers which being preferred collectively, zakah has been preferred to be managed collectively also, rather than individually. The fact that Quran allows part of zakah collection to meet the expenses on the management of zakah, implies a religious encouragement for making an institutional encouragement to manage zakah. Despite that the practice and application of Islamic injunctions have deteriorated considerably over time, payment of zakah is still carrying significant importance in Muslim's daily life. This is partly reflected in the donations given to the non government organizations (NGOs) and charitable organizations working for the poor in Muslim societies. But the donations to charities and their injunctions form a rather small part of the zakah obligations constantly discharged by Muslims in their societies through personal and informal channels. In most cases, these channels may not be serving the purpose of fighting poverty (as they are paid to do so, called professional beggars in public places who may not necessarily be "poor"). In contemporary societies, NGOs type set-up is considered more suitable for zakah management. Some contemporary Muslim governments, however, are taking the responsibility of collecting and distributing zakah (Khan, 2007).

The institution of zakah is a state/government responsibility. Both collection and disbursement should be under close government supervision. Zakah is much too important a matter to be left at the discretion of the conscience of people alone. Though a good proportion of contemporary Muslims accomplish this act of worship, helping their fellow men in meeting their sufficiency needs, zakah does not play its prescribed significant role in the collective life of the Muslim society (the Ummah) in recent

centuries. It is the role of the Islamic government to establish the efficient machinery for collection and disbursement of zakah in order to recuperate its preponderant role and function in the betterment of the socio-economic life, least of all in alleviating poverty and promoting social development (Korayem and Mashhour, 2014:10).

Looking at the implementation of zakah by Muslim governments, historical records tell us that the government of Yemen continued taking this responsibility since the time of the Prophet when he sent Mu'adh Bin Jabal and told him to take zakah from the rich among them (Yamenis) and distribute it to the poor among them (Khaf, 1999).

Zakah, in fact, created the first universal welfare system in human history. The economic system that emerged when Islam took hold in the Arabian Peninsula was a reflection of what is known in the contemporary world as welfare economy. There was a time in the early history of Islam, which is recognized by contemporary historians also, when hardly any one was in need of charity. Muslims were finding hard to locate poor and hungry in order to discharge their religious obligations of paying zakah. Throughout Islamic history, zakah collection and distribution have been among the functions of Muslim governments. This has been the case until the end of Ottoman empire. Besides government, zakah during all this period has been managed through other institutional arrangements as well, notably like 'awqaf' (trust) organizations (Khan, 2007).

Zakah was implemented by government, in an obligatory manner, in Saudi Arabia since 1951, Pakistan since 1981 and Sudan since 1984. In Saudi Arabia the zakah base consists of livestock, agricultural products, trade, inventory and certain types of professional income, such as income of physicians, civil engineers, lawyers, accountants and auditors, trucks and taxi drivers, artists and TV actors, etc. The income of such categories are considered subject to zakah only if they work independently, but if they were salaried persons working in the government or private corporations, their salaries are not subject to zakah. It should be noted that cash holdings of companies and registered establishments are covered by zakah while the cash holdings and bank balances of all types of banks' deposits of individuals are not covered. The total amount of zakah proceeds actually collected in Saudi Arabia ranges between 0.4% and 0.6% of GDP as the statistical year books indicate (Kahf, 1999).

In Yemen, zakah is also applied on the current and liquid assets of private sector's corporations and establishments as well as livestock, agriculture, trade inventory, etc. Salaries and professional incomes are not included in zakah. The Yameni zakah authority also collects on obligatory basis, zakah of al-fotr. The startistical year books of Yemen indicate that zakah proceeds' ratio to GDP doesn't exceed 0.4% (Khaf, 1999).

The Zakah and Ushr Act of Pakistan distinguishes between Schedule A and B. Schedule A covers items on which zakah is to be collected by law and to be transferred to the account of the central zakah administration. This schedule includes eleven types of financial and other items, including holdings of stocks and bonds, agricultural products and current and investment deposits in banks and other financial depositories, such as post offices and insurance companies. On the other hand, Schedule B names items on which zakah payment to the government is not obligatory. Schedule B includes livestock, trade assets and inventory, domestic deposits in foreign currencies, overseas assets of Pakistani nationals, etc. The estimated proceeds of zakah in Pakistan didn't exceed 0.3% of GDP as indicated in the consecutive statistical year books (Khaf, 1999).

In a recent study on the application of zakah in Sudan, it emphasizes that the zakah base in Sudan includes livestock, agricultural products, current and liquid assets of companies and establishments, income earned by professionals whether salaried or independent, cash earned by professionals whether they are business oriented or not, etc. The only potential zakah ables item virtually left outside the obligation is cash holdings maintained by individuals whether in the form of fiat currency in their pockets or in the form of current accounts in banks. This is only because, out of fear of destabilizing the monetary system in the country, The Zakah Department has not given jurisdiction to force banks to deduct zakah on demand deposits. In other words, monetary holdings of all individuals who are not required to submit actual or estimated balance sheets, i.e., person who is outside formal business, is not reached by obligatory collection of zakah. The zakah proceeds collected in Sudan, even with such a liberal expansion in the definition of the zakah base, ranges between 0.3% and 0.5% of GDP. Available information belongs to the year 1991 through 1996 (Khaf, 1999).

Zakah of al-fitr is collected by the power of law in Malaysia and zakah on agricultural products is also collected in Libya (Kahf, 1999). On the other hand, there are countries where government has established institutions to collect and manage zakah only voluntarily contributed by zakah payers. These countries include Bahrain, Bangladesh, Egypt, Indonesia, Jordan, Kuwait, Oman and Qatar. Majority of the contemporary countries, however, leaves it entirely to the private (charity) organizations or NGOs to manage the collection and management of zakah. There is no country, where all zakah obligations are made to pass through formal channels (whether government bodies, or NGOs or charity organizations). In all countries a substantial amount of zakah passes through informal and unorganized or personal channels that hardly have the capacity to

ensure that the zakah contribution is effective in alleviating poverty in their societies (Khan, 2007).

Potential of zakah collection for a sample of eight countries and their averages estimated by Kahf (1987) are reported in Table 2. Taking three opinions on the zakah base, Kahf estimates different zakah rates as a percentage of GDP for the various countries. We note that the averages range from the 1.8 percent and 4.3 percent of GDP depending on the assumptions used in relation to zakah proceeds (Ahmed, 2004).

Table.2
Zakah Revenue Estimates (As a percentage of GDP) According to Different Opinion

Country	Opinion A	Opinion B	Opinion C
Egypt	2	3.9	4.9
Pakistan	1.6	3.5	4.4
Indonesia	1	1.7	2
Qatar	0.9	3.7	3.2
Saudi Arabia	1.2	3.7	3.4
Sudan	4.3	6.3	6.2
Syria	1.5	3.1	3.1
Turkey	1.9	4.9	7.5
Average	1.8	3.9	4.3

Source: Kahf (1987) and Ahmed (2008)

One may have good reasons to lean towards accepting the actual reality in these countries as an empirical representation of the zakah proceeds' potentials. Among these reasons are the following (Kahf, 1999):

1. A collection of 0.4% - 0.5% of GDP persists over the years and across borders.
2. National accounts statistics in the third world countries have a tradition of low level reliability and dependability. The suggestion of over estimation in these accounts sounds reasonable.
3. Incidences of evasion, fraud, administrative inefficiency and other moral and methodological hazards that negatively affect the actual collection are not taken into consideration in all the theoretical estimations. They are however part of real life.
4. The zakah on cash makes up about one half of the estimated proceeds. Materializing it in actuality is very difficult.

5. Differences in the zakah base, figured in real experiences, seem to tend to cancel out between different countries. However, such differences seem to be the most important factors in increasing the estimated proceeds.

3.3. Problems With Contemporary Zakah

The biggest problem today with zakah has to do with the collection of the zakah funds. The biggest source of zakah funds if we were to apply the classical rules would be a percentage of oil and gas wealth (*zakah al-ma'adin wal-rikaz*). However, since those resources are generally nationalized, there is no point in going there. For private individuals, there are numerous zakah shelters. The rules of zakah as a wealth tax was appropriate for the categories of merchants, shepherds, and farmers who possessed wealth during the Prophet's time. Those rules are grossly inadequate today. Dr. Al-Qaradawi himself commented that when he visited Malaysia, he found that small farmers who produced grains and fruits paid the zakah (*zakah al-zuru' w al-thimar*), but that the richer landowners who grew trees for the production of rubber paid no zakah, since the classical rules do not include a tax on trees that did not bear fruit (El-Gamal, 2007).

Worse, yet, today's capital for the average well-to-do Muslim may be in large part human capital (lawyers, doctors, etc.). Those can earn huge incomes, but then live in equally huge homes (*zakah exempt*) and drive equally expensive cars (*zakah exempt*), etc. In the end of the day, they have no gold or silver, no merchandise, no livestock, etc., therefore, pay no zakah. The late Dr. Mohammad Al-Ghazali, and the late Dr. Abou El Saoud, tried to argue for an income zakah, but Dr. Al-Qaradawi argued that zakah contains a major *ta'abbud* (ritual worship) element, as the third pillar of Islam, and therefore did not want to apply analogical reasoning with much liberty. Needless to say, wealthy Muslims were more than happy to adopt this conservative view that allowed them to pay less. Again, we have a problem with religious substance giving way to pieties adherence to forms. This is the general disquiet of Muslims today. It is not restricted to finance (El-Gamal, 2007).

In Indonesia zakah has not yet been carried out and managed optimally, it is because there are still many incorrect perceptions on zakah. The false perception is inherited from traditional understanding that does not based on the full understanding of zakah. Some of Moslems' incorrect perceptions on zakah are (Juwaini, 2008):

- a. Identical to other countries, in Indonesia zakah is special religious observance (*mahdhoh/ta'abbud*), an opinion that zakah is only a religious ritual, connected to all religious observance regulation. Zakah is the fifth pillars of Islam, thus has to be approached with transedental perspective. This viewpoint would narrow the space for

Moslems to do exploration, discovering new ideas and developing the zakah practice in in Moslems.

- b. Zakah is individual religious observance, a view that like any other pillars of Islam, zakah is tend to be understood as personal behavioural teaching in fulfilling his duties to his Rabb. This perspective rejects the zakah's role as social concern and social wealth instrument. The consequences would be that every people who do their zakah feel that the problem has ended, when they meet their duties in paying the zakah. It is not important to see whether their zakah has made a change in public prosperity.
- c. Zakah is the same as zakah al-fitr, an opinion that zakah means zakah al-fitr. All this time Indonesian Moslem lives in colonialism, thus not many Moslem people have a good life. This also affects their ability to pay zakah Mal. It is not surprising that Indonesian Moslem have more understanding on zakah as zakah al-fitr.
- d. The time for zakah is on the month of Ramadhan, a view that the momentum in paying zakah is on the month of Ramadhan. It also means that zakah only progress in Ramadhan. The consequences would be that the portion of Moslems attention in developing thoughts and implementation on zakah is limited to the month of Ramadhan. Eventhough zakah that is linked to the month of Ramadhan is only zakah al-fitr. Whilst for zakah on assets, the zakah payment term is much depends on nisab

Since there are still lots of incorrect perceptions on zakah among Indonesia Moslems, the zakah management situation has not yet shown its quality. The situation on zakah management in Indonesia in common can be described as follow (Juwaini, 2008):

- a. Only occur in the month of Ramadhan. Usually the zakah management institution is established in form of committee and operates effectively for the last three days of Ramadhan. Such institution is not categorized as a permanent institution but temporary.
- b. Managed by unpotential senior people. The managers of zakah institution are usually the eldest who also have limited potential on growth.
- c. Managed part-time. The institution of zakah management is administered unprofessional. It describes that zakah is not something that important in the lifes' of Moslems people.
- d. Lots of "negative thinking" towards the assigned institution. Due to many fraudulent use of zakah fund by several zakah institution, thus forming people' perceptions that zakah institution can not be trusted in which it is used much for their own interest.
- e. Having traditional, dirty, and marginal images. Zakah institution is an institution that is managed with traditional insight and insufficient knowledge.

According to Fridaus et.al. (2012:2), the basic problem faced by all zakah stakeholders is related with huge gap between the potential of zakah fund and its actual collection. A research made by the Centre of Language and Culture of the Islamic State University of Jakarta (UIN Jakarta) in 2005 shows that the potential zakah fund that can be collected equals Rp 19.3 trillion. If this is compared with 2008 data, it can be observed that the actual collection of zakah is still less than 5 percent of its potential.

Moreover, traditional Islamic attitudes towards poverty alleviation are not wrong in them selves but they are certainly inadequate. Thus, Shakespeare (2009) still believes that zakah is an Islamic duty to alleviate poverty but its essence is charity rather than a systemic program for poverty's elimination. Without such a program extremism in the Islamic world is unlikely to be eliminated. According to Ahmed (2008), the role of zakah is associated with the macroeconomic policies which intended to the growth of income and providing opportunities to the poor in eliminating poverty. Simulation of various macro regimes and zakah schemes for some countries, indicate that while macroeconomic policies play an important role in reducing poverty, poverty cannot be eliminated without using zakah in an effective way. He suggests that there are certain conditions under which zakah will be able to make an impact on poverty. First, zakah has to be complimented by robust macroeconomic policies that enhance growth and also redistribute income to eliminate poverty. Second, while more zakah has to be collected and disbursed, the impact on poverty will only be significant when a larger percentage of zakah proceeds are used for productive purposes. Given the important role of zakah in poverty alleviation, there is a need for countries to integrate this vital faith-based institution in the development strategy and programs of Muslim countries.

3.4. The Role of Binary Economics in Poverty Reduction

The principle of giving charity is one that spans all cultures and religious faiths and it is an important means of establishing a social safety net for the poor. A general definition of 'charity' is a voluntary giving of money or other help to those in need (Bentley, Webber and Hall-Russell 1999). Oftentimes, charitable giving is motivated by people's religious beliefs. There is a the strong connection between religious belief and the notion of charity which is an important aspect of all of the major world religions, including Islam (Veen, 2009).

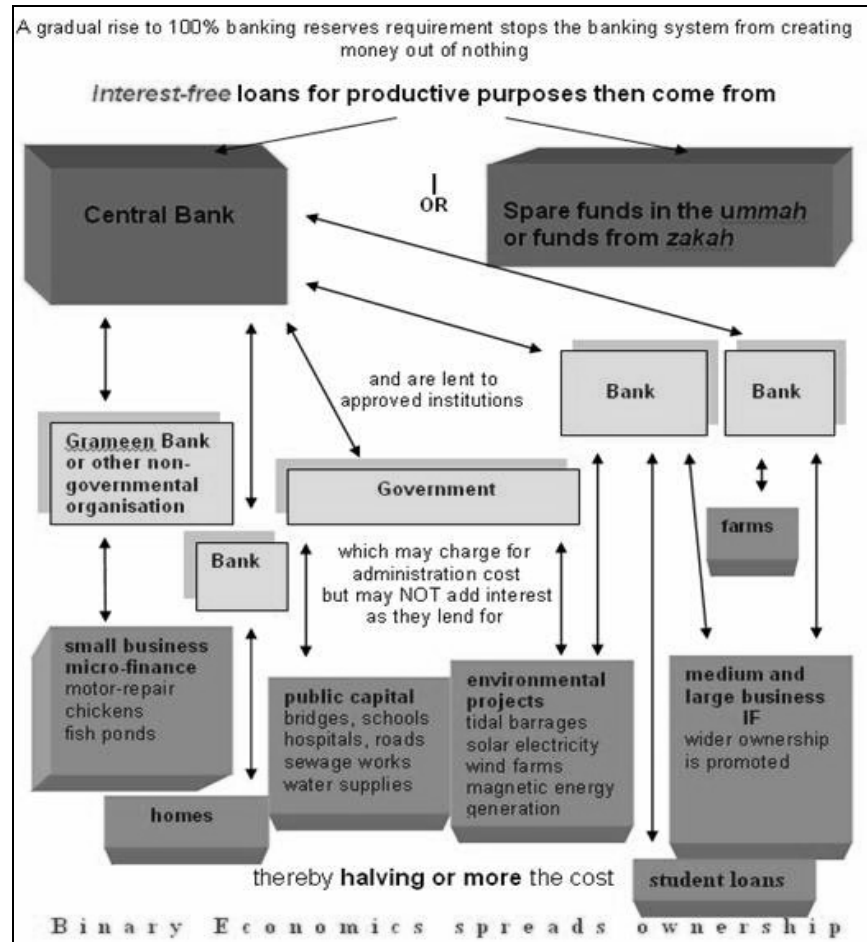
Indeed, the alleviation of poverty and suffering lies at the heart of Islam. It is for this reason that charitable giving is strongly encouraged in Islam both as a means of purifying one's wealth and in order to alleviate poverty and suffering. Islam has put in place a mechanism for alleviating poverty in the shape of various forms of charitable giving like zakah. However, this acknowledges that charity alone will not solve poverty.

Instead of charity as the essence of zakah, Islam should encourage an alternate set of different kind of systemic programs in order to formulate an effective role in poverty reduction. Unlike most mainstream economics, Binary Economics accommodates beliefs in God, unicity and ethics. As a study, it does not ignore the imbalance in power relationships between people and does not assume that extensive poverty is inevitable. Moreover, in complete contrast with its physical analysis of who or what creates the wealth in mainstream neoclassical economics upholds to the concept of productivity, Binary economics has the new concept of productiveness, which is an understanding of physical reality by giving fair credit to the contributions of not only labor (as there in neoclassical economics) but also capital. It is certainly state that where the development and spreading of productive capacity is concerned, interest is not necessary (Shakespeare, 2009). Figure.1 above is a visual summary of the main binary mechanisms.

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The word of 'Binary' means 'composed of two' because there are two factors in production - capital and labor. Figure.1 shows a diagram of visual summary of the main binary mechanisms.

Figure.1
The Way Forward- Interest is Not Necessary



Source: Shakespeare (2007:166)

Binary economics is fundamentally different from all forms of conventional economics. Unlike the present fractional reserve banking system in which government does create some of the new money supply but most of the creation is done by the banking system, the binary economics, as the universal paradigm, upholds society's right to create money (via the central bank) as long as that money, in the form of interest-free loans, is directed at various forms of productive capacity. Crucially the object is not only to create productive capacity, but to spread its ownership throughout society and the economy thereby spreading the associated consuming power as well as forwarding social and economic justice. Thus, a poor person who has potential talent can be enabled to be productive. A small business, which has a viable business plan, can be helped to expand. Small or huge, environmental capital schemes can be introduced as also can a bridge, road, school or hospital - at half or less of the present cost. And in the large corporations (where ownerships has long ago been separated from management control) cheap money

for expansion will be available as long as the expansion is viable and the ownership of the corporations is extended even to those who do not work with the corporations. Just as existing shareholders do not work with the corporations whose shares they own, so new binary share-holders can own shares but, this time, a basket of shares paying out all of their earnings (resulting perhaps five to eight times present earnings) with exception for depreciation, maintenance and research (Shakespeare, 2007: 165). When looking at the diagram of Figure.1, Shakespeare (2007:166) explains that it is need to remember that over time, there is a gradual rise to the 100% banking reserve requirement (so that the banking system can't create new money), that it is recommended that the overall money supply be related to gold (although, in practice, this will not be necessary because the universal paradigm economy is counter-inflationary (and that when the lent money is repaid to the central bank it can be simply cancelled (or if wished, used again).

According to Ashford and Shakespeare (1999:ix), among its many benefits, binary economics offers: a free market way for all people to achieve increased levels of economic prosperity and autonomy, a far more inclusive and efficient private property system, a practical market alternative to the redistribution of wealth, the potential for beneficial political realignment drawing upon those of the left, right and center who are sincerely committed to a better world, a strengthened democracy, an economic foundation for voluntary control population levels, a lessening of pressures to emigrate, a practical means for helping to protect flora, fauna and the environment, and a practical basis for new honesty, optimism, and generosity of spirit. Thus, a binary economy offers enhanced growth and distributive justice, whether in times of boom and bust, or anything in between. It offers material assistance to poor and middle class people, and even the rich will benefit. It offers help to all nations rich and poor.

According to Farooq (2009:50), binary economics is an example of a mapped out solutions for poverty challenge, as a little known framework pioneered by Louis Kelso, who developed the Employee Stock Ownership Program (ESOP) and later others, based on his ideas, further articulated Binary Economics. The goal of Binary Economics is to uphold a society's absolute duty to ensure that all humans have access to basic needs, a share in the overall prosperity and an independent income. Because it believes that widespread iniquity and injustice exists even in the prosperous societies, it has attempted to identify the interest-free money creation and ensuring that everyone has a share in the growing capital stock of the society, where the latter is to be facilitated by interest-free credit from the central bank, are pivotal to its mapped out solutions. While its criticisms of the conventional economics in a blanket manner are questionable and its theoretical foundation is weak, especially in its attempt to present itself as a strand of

economics, but due to placing itself completely out of the entire legacy of economic thoughts in history, some notable aspects of it deserve closer study. Just like there is not one perfect and complete school of economic thought that obviates all other, Farooq (2009:51) mention it as an example of a mapped out solution, because despite its theoretical weaknesses, it has clear and comprehensive ideas that show and explain how poverty and serious economic inequities exist and there is a connection between its analysis of the problem and the proposed solutions. In other words, right or wrong, it has a roadmap toward the desired solution.

4. Conclusion

Zakah in Islamic teaching could only play an effective role in poverty reduction if zakah integrates with the overall development strategy and programs of individual countries and use a larger percentage of zakah proceeds for productive that will enable to enhance the use of zakah in poverty reduction. It should be noted that explorations of Islamic teachings on finance and justice suggests that Islam should encourages an alternate set of different kind of systemic program for poverty reduction which could discourages the exploitation of the poor and ensures a more equitable distribution of wealth. The program should focus on broader concepts of social and economic development as part of a holistic approach to human development.

Rather than palliative charity, Binary mechanisms demand for structural social and economic justice. It also insight that the technological capacity exists to eliminate poverty. It follows from this that continuing poverty is the fault of human beings, institutions and practices rather than any inadequacy equipment, material resources or expertise. Therefore, Binary economics could also provide a way of solving poverty problems and to give hope for better future. Wallahu a'lam bisshawab (only the mighty God knows the truth).

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