



## Zakah Fund Distribution Model Trough Takaful Institution for The Welfare of The Poor Farmer

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**Abstract:** Various poverty alleviation programs are always launched by the government from year to year. But it is not able to change the state of this country to become more self-sufficient and prosperous. If explored further, the majority of people classified as poor are working as farmers. Therefore, it is necessary to alleviate poverty policy that focuses on the welfare of farmers. So that when the policy is successfully realized, the majority of the poor in Indonesia will be able to independently through the development of the agricultural sector. One of the problems faced by farmers is weak stimulus funds from financial institutions. Due to the agriculture sector is seen as high risk, the financial institutions tend to feel worried if that financing for the sector. In anticipation of losses on crop failure, it is important applied an insurance that serves to protect the farm. So that financial institutions have the courage to do the financing for the agricultural sector. Meanwhile, zakat is one of the Islamic public financial instruments with the potential to be developed. Zakat funds channeled to 8 asnaf, including for the poor. So, it is possible if the charity can be used as agricultural insurance fund for farmers who are poor. Based on the explanation, this paper is intended to offer a model of the distribution of zakat to the poor farmers through takaful. The hope when this model is applied, will invite many financial institutions in stimulating agricultural business funds. The final implications are the farmers' productivity increased and the quantity of the poor in Indonesia will be reduced.

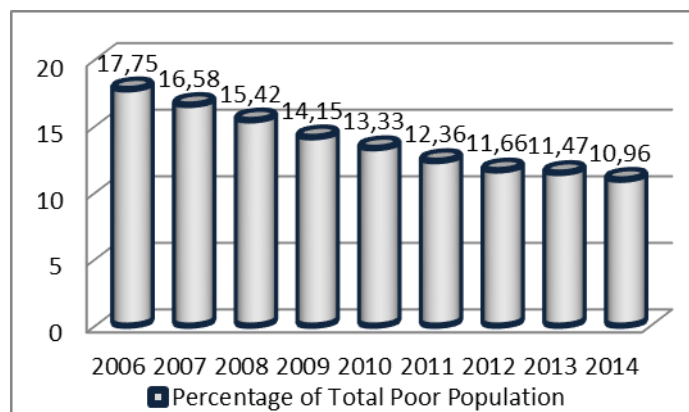
**Keywords:** Poverty, Farmer, Takaful, Zakah.

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### Introduction

Poverty is a classic problem faced by developing countries, including Indonesia. Because, from year to year the number of poor people is mitigated by various policies but they did not have significant impact on the economy. Policies aimed at eradicating poverty realized through various program such as the Jaminan Kesehatan Masyarakat (Jamkesmas), Bantuan Siswa Miskin, Program Keluarga Harapan (PKH), Beras Miskin (Raskin), Program Nasional Pemberdayaan Masyarakat (PNPM), etc. (BAPPENAS, 2012: 33). However, the positive impact of these programs is still relatively small when it is seen the decrease in the number of the poor in Indonesia, which is less than 1% per year.

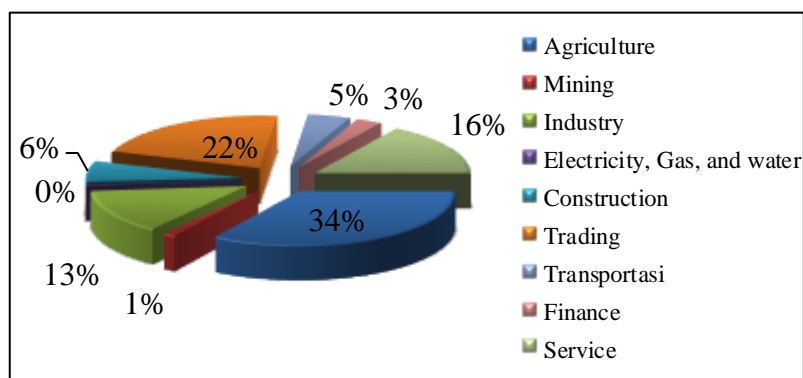
Badan Pusat Statistik (BPS) published in 2014 noted that the figure is equivalent to 10.96% or 27.73 million people in Indonesia are categorized as poor. While the previous period of 2013, there was 11.47% of the population classified as poor. It shows that in one year period, the decrease of poor people only 0.51%. The lack of decline in the poverty rate indicates no maximum program initiated by the government to eradicate poverty in Indonesia.

**Figure 1. Percentage of Total Poor Population 2006-2014**

Source: Indonesia Statistic BPS, 2015

From 27.73 million people were classified as poor, 26.14 million of them were living as farmers (Agricultural Census BPS: 2013). It means that the majority of poor people are farmers. Therefore, it is necessary to alleviate poverty policy that focuses on the welfare of farmers. So that when the policy is successfully realized, the majority of poor people in Indonesia will be able to be self-sufficient through the agricultural sector development. Policies in the welfare of farmers have a big impact on the economy. Besides aiming to alleviate poverty, agriculture serves as a food source for the community, a source of national income, employment opportunities, a source of investments, as well as foreign exchange when agricultural products exported to the other countries (Insyafiah: 2014).

The agricultural sector has become the mainstay of livelihood of the majority of the Indonesian population. So naturally, if Indonesia is claimed as an agricultural country, because the majority (40%) of Indonesia population has a livelihood in agricultural or farming (Prasetyo: 2010). This is similar to the data published by BPS, there is 34% of the population are farmers. The data bellow concluded that agricultural is the job with the highest number of workers (34% or 31,705,337 people) as compared with other jobs such as industry (13%), construction (6%), trade (22%), transport (5%), finance (3%), service (16%), and mining that only 1%.

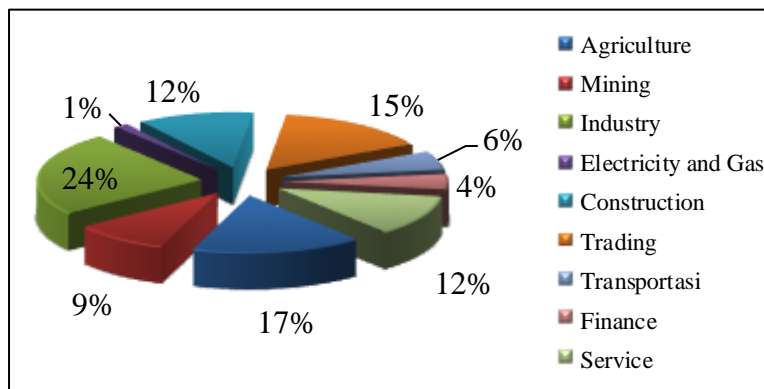
**Figure 2. Number of Workers Based on Jobs**

Source: Badan Pusat Statistik (2014), data reprocessed

Another potential that Indonesia has specialized in agricultural sector is the contribution of the Gross Domestic Product (GDP) to the national GDP reaches 17%. It is the second largest

position after manufacturing sector (24%). Here is the info graphics related to sectoral GDP contribution to national GDP:

**Figure 3. Sectoral GDP Contributions to National GDP**

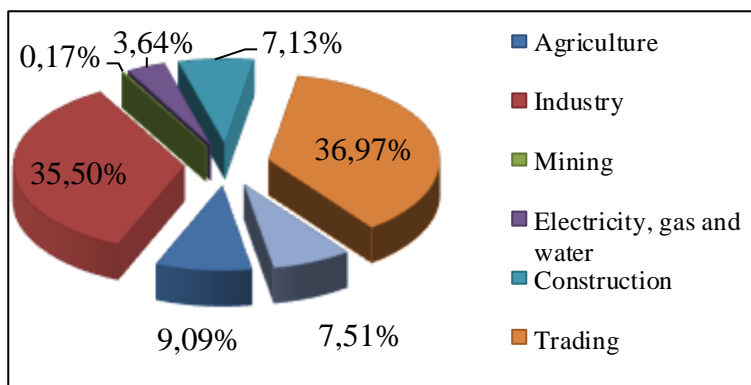


Source :Badan Pusat Statistik (Triwulan II 2015), data reprocessed

Although the data above indicate that Indonesia agricultural sector has a major contribution, but in fact the majority of farmers in Indonesia are included in the poor category. According to Septia (2009:16) on of the problems is because the farmers need funds for working capital. Venture capital support currently which is channeled by financial institutions to farmers can be said to be very low. That is because agricultural is a sector which is vulnerable to the risk of crop failure.

As Supartoyo (2013:1) argues that agricultural sector is a sector which has a fairly high risk of crop failure. Almost every year, the crop failure caused by natural conditions such as the negative impact of climate change, floods, droughts, and pests. So do not be surprised if the financial institutions is difficult to distribute funds for agricultural sector as well as the following data:

**Figure 4. Bank Financing to Various Sectors**



Source: Bank Indonesia (2013), data reprocessed

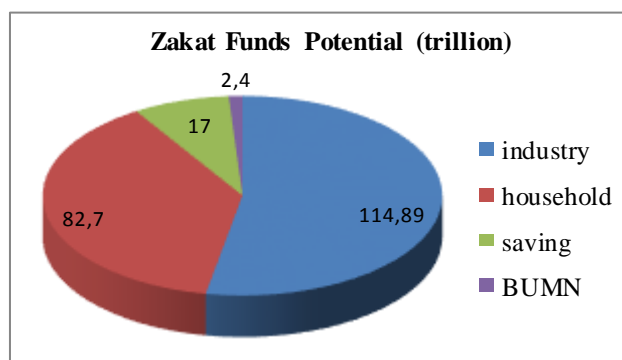
The data above shows that the agricultural sector obtain financing from banks amounted to 9.09% only. This figure relatively small compared to other sectors such as the processing industry (35.5%) and trade amounted to 36.97%. As a solution for the problems of agriculture in Indonesia, the government intends to declare agricultural insurance program (Supartoyo, 2013:3). Pointed out by Ramadhana (2013:5), the insurance mechanism is one of risk management mechanism that can protect the welfare of farmers. So that with agricultural

insurance, financial institutions will be interested in financing the agricultural sector. Due to losses in the sector has been covered by the insurance company.

The draft of agricultural insurance requires farmers to pay a premium to the insurance company. In fact, as we know that the majority of farmers are included in the poor category. So they are not so interested in agriculture insurance because they have not considered it as an important thing (Insyafiah, 2014:46).

Meanwhile, in the teachings of Islam, the poor is as amenability of the rich. It is represented by the Islamic public financial instruments such as zakah, infaq, charity, and wakaf (Yuli, 2015:1). One of the Islamic public financial instruments which has great potential in Indonesia is zakah. Based in research conducted by Badan Amil Zakat Nsional (BAZNAS) in collaboratin with Institute Pertanian Bogor (IPB) and Islamic Development Bank (IDB) concluded that the potential of zakah that should be collected in Indonesia is 217 trillion.

**Figure 5. Zakat Funds Potential in Indonesia**



Source: Baznas Publication, 2011

Zakah fund potential in Indonesia amounted to 217 trillion is the cumulative amount of 114.89 trillion of industry zakah, 82.7 trillion of household zakah, 17 trillion of saving zakah, and SOEs amounted to 2.4 trillion. As for the distribution of zakah funds given to 8 ashnaf is stated in Surah at-Taubah verse 60. One of the 8 ashnaf is the community are included in the poor category. So that when zakah funds distributed to poor farmers, it is not contrary to the rules of Islamic jurisprudence.

Based on the exposure above, this paper is meant to offer a model of zakah distribution to the poor farmers through Islamic insurance or commonly called takaful. The hope is when this model applied, it will invite many financial institutions in stimulating agricultural business funds. So the final implication is productivities of farmers increase, the poor farmer can be prosperous, and the quantity of the poor can decrease until 26.14 million people, if this policy can be relized maximally.

## Literature Review

### Zakah

According to the language, zakah comes from the Arabic language which is isim masdar from word - *zaka-yazku-zakah*. Zakah word means blessing, grow, clean, well and accrue. According to Maliki, as the term is issuing a special part of the property, that has reached the nishab to those who deserve it (Fakhruddin, 2008). While according to Hafidhuddin ( 2002 ) zakah is a part of property with certain requirements, which Allah enjoined to its owner to be submitted to those who deserve it with certain conditions as well.

Zakah is a worship that has two sides. On the one hand, zakah is a worship that serves as a cleansing property as well as the soul of the owner. On the other hand, zakah has high social value (Mas'udi, 2004). Zakah is a name given to the treasure which is issued with the purpose given to the poor. Called zakah is because it has an expectation that zakah can give blessing, sanctity of life and property as well as develop in the goodness (Sabiq, 2005).

The command of zakah has been stated clearly in the Qur'an that is in al-Baqarah verse 43, at-Taubah verse 103, and other passages. Moreover, Allah has affirmed zakah target in the Qur'an surah at-Taubah verse 60. There are 8 ashnaf who receive zakah, called mustahik, so that it is not anyone who can receive zakah. While, who are obliged to pay zakah called muzakki. Muzakki start paying zakah after their property reaches nishab (minimum size of compulsory zakah) and haul (which has been owned for one year).

There are a lot of lessons from zakah, among of them are as a manifestation of gratitude for property owned, carrying out social responsibility, can reduce the gap between the rich and the poor. From the economic side, zakah can help to reduce poverty which always existed because the distribution of zakah is right on target and usability can make recipients (mustahik) transformed into giving zakah (muzakki).

In Indonesia, zakah has been arranged since 1999 in constitution number 38 Year 1999. In 2011, it was renewed because there are many inaccuracies, into Constitution number 23 Year 2011. The existing regulation governs the management of zakah become neat and orderly.

Zakah management institutions in Indonesia consist of two that are Baznas as the manager of government and LAZ as independent agency that also manages zakah. Currently, there are about 4000 LAZ in Indonesia, 18 LAZ which already have decree, and 3982 do not have decree yet. With so many institutions of zakah, zakah should be pooled to the maximum. Plus the potential of Indonesian Muslims reach  $\frac{3}{4}$  of the whole population.

### ***Takaful***

In language, takaful means helping, nurturing, providing, and taking over the case of a person. This understanding is seen from the basic word of takaful, which is kafala. Takaful in the sense of mu'amalah jurisprudence is mutually bear the risk among people so that between one another as the guarantors of other risks. This mutual bear risk is on the basis of mutual help in goodness by giving spend virtues (tabarru') intended to bear the risk (Sula, 2004:33).

Takaful in the definition above is accordance with that word of Allah in the Qur'an surah al-maa'idah paragraph 2, which means, "*And please help ye in (doing) goodness and piety; and do not do mutual assistance in sin and transgression.*"

The fatwa about Islamic insurance (takaful, ta'min, tadhamun) issued by Dewan Syari'ah Nasional Majelis Ulama Indonesia (DSN-MUI) is as follows, Islamic insurance is to protect mutual effort and help among a number of people/parties through investments in the form of assets and/or tabarru' that gives the pattern of returns to face certain risks through contract (engagement) which is accordance with the shari'ah (Eden, 2005:18). DSN-MUI fatwa mentions the existence of the contract (engagement) which in accordance with shari'ah in insurance. The contract is of absolutely free of maysir (gambling), gharar (fraud), usury, zhulm (persecution), risywah (bribes), haram and sinful.

There is a fundamental difference between takaful with conventional insurance. They are, first linked Dewan Pengawas Syari'ah (DPS) which does not exist in conventional insurance. Second, the contract used in takaful is mutual help. While in conventional insurance uses purchase contract. Third, in terms of investment funds, in takaful is based on shari'ah with profit sharing system (mudharabah). While in conventional insurance is based on interest (riba). Fourth, related to the funds ownership, in takaful, premiums collected is the participant property and the company is only as fiduciary in managing it. While in conventional insurance, premiums collected belong to the company, so that the company is free to invest it.

Fifth, in takaful, claim payment is from tabarru' account of all participants who have been sincere by participants for the purpose of mutual help in case of disaster. While in conventional insurance, claim payment is taken from company fund account. Sixth, takaful profits are shared between the company and participants using mudharabah contract. While in conventional insurance, all profits belong to the company (Sula, 2004).

### ***Agricultural Insurance***

Agricultural insurance is a financing scheme to protect farmers from risks due to the phenomenon of climate change. The insurance scheme is for ensuring an uncertainty phenomenon into a certainty plan. In addition, insurance is considered to be one of the most effective financing schemes in order to increase the resilience of the local economy (Sagala, 2010:3).

According to Supartoyo (2013:2), the main purpose of agricultural insurance in fact is to provide protection to farmers against economic losses caused by the risk of their farm. It is right if agriculture is a sector that has huge risk in crop failure. So it is important to do business protection. In more detail Rohmah (2010:4) in her paper tells three important points which are the goals of agricultural insurance, are:

1. To stabilize farmers' income through a reduction the losses suffered by farmers because of yields loss
2. In order to stimulate farmer to adopt farming technologies that can increase the production and efficiency of resource use
3. To reduce the risk faced by agriculture credit institution and improve farmers' access to credit institutions.

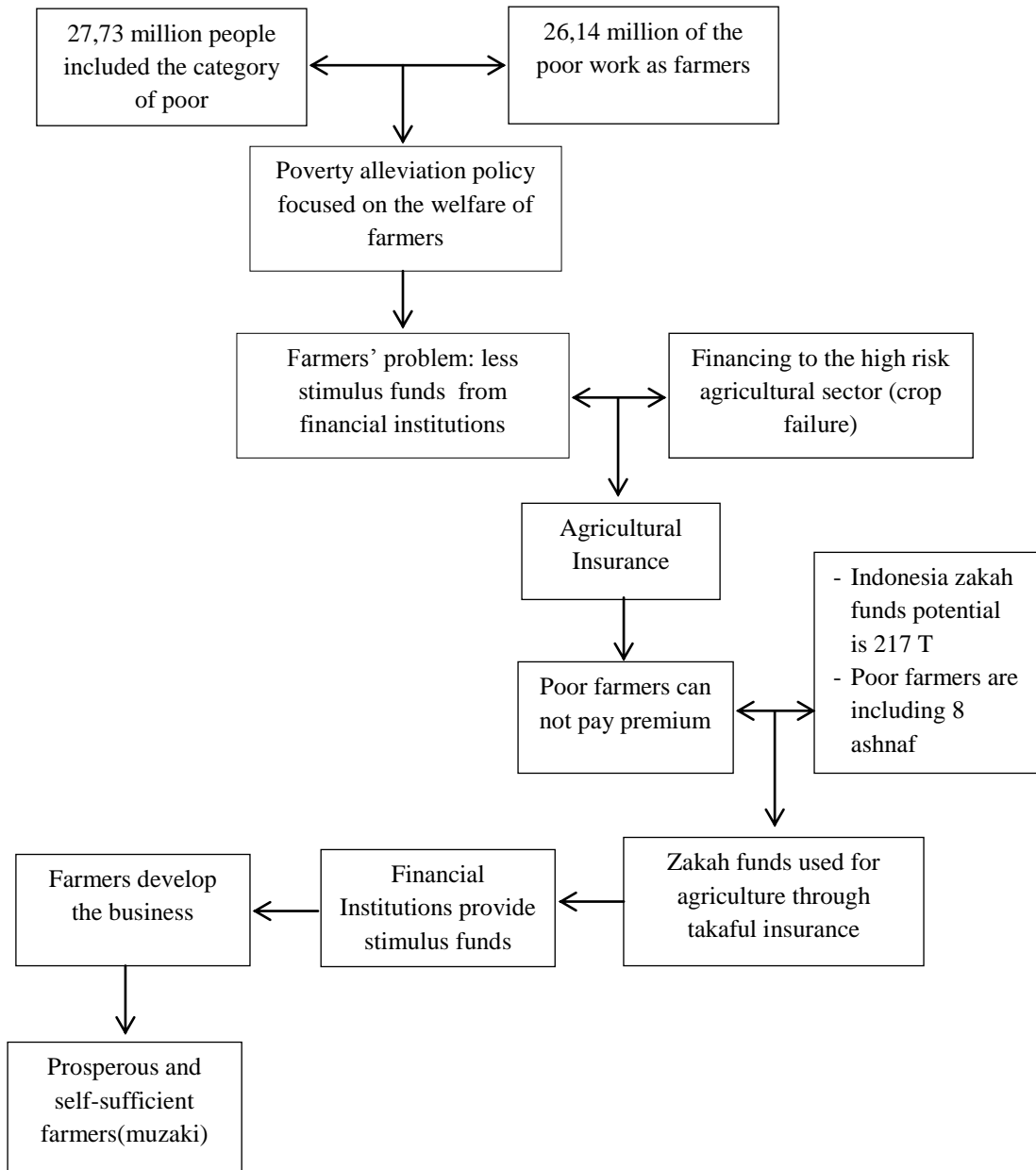
Agricultural insurance system has been developed in many countries to protect farmers against crop failures due to disasters, such as climate disaster as floods, droughts, pests and diseases and others. However, this insurance does not develop properly because the implementation is difficult and high operational costs (Boer, 2013:2). However, the implementation of agricultural insurance in developed countries like United States, Japan, and several European countries experienced rapid development and effective way to protect farmers. Therefore, agricultural insurance is one of the strategies to adapt to climate change.

The condition is different from those in developing countries. The development of agricultural insurance is diserve and does not show satisfactory results. In Taiwan, agricultural insurance is well-developed; in India, Bangladesh, and Philippines progress has been slow, while in Thailand is less developed (Nurmanaf, 2011:2).

### **Methodology**

The type of this research is library research, where the problems described based on the data contained in the literature or documents. Then it is analyzed further to be concluded. In collecting data, the authors use the documentation technique. That is collect data based on the problems of writing. The literacy technique used is using qualitative descriptive method, in which data or information described based on facts obtained.

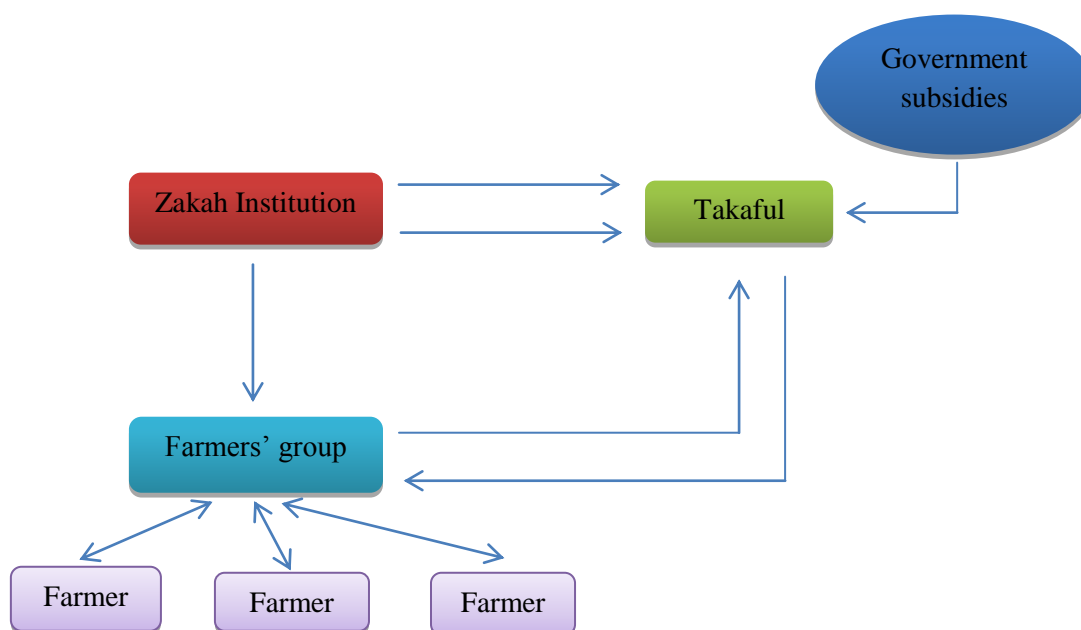
Figure 6. The Framework



Source: Authors' Illustration

### Findings and Discussion

Based on the problems related to food security which is still weak and many local farmers are still in the lower level and poor, this paper tries to offer a solution, that is a model of development and distribution zakah funds for the welfare of poor farmers through takaful. Zakah which has been collected and managed by zakah institution can be utilized to improve the farmers' welfare. Farmers' welfare can be measured by their easiness to do production in each period, no capital constraints so that they will get maximum agricultural product.

**Figure 7. Distribution of Zakah Fund for Farmers Through Takaful Scheme**

Source: Authors' Illustration

Based on the picture above, distribution of zakah funds model begins with zakah institution which has zakat fund distribution program starts to assess mustahik who work as farmers. Then, they come to the target farmer groups and tell them that they will distribute the fund in the form of insurance for agriculture to farmers who are poor. Later, the positive effect for the farmers is getting risk cover which may arise from the agricultural production was undertaken. The hope after there is guarantee from takaful, the farmers will be easier to obtain capital if they need additional funding. Especially capital which come from banks.

In this model, zakah institution is in collaboration with Takaful (Islamic Insurance) as an institution that will cover farmers' risk. After data has been collected, zakat institution contacts the takaful and gives mustahik's data. Then Takaful makes an appointment for a meeting together with zakah institution and the farmers. The purpose of the meeting is to determine various agreements that will be agreed in the form of policy for each farmer. There are three parties to the agreement in the policy. They are zakah institution as a purveyor of premium funds, takaful as those who manage funds and distribute to customers when there is a claim and farmers who can make a claim without having to pay premium.

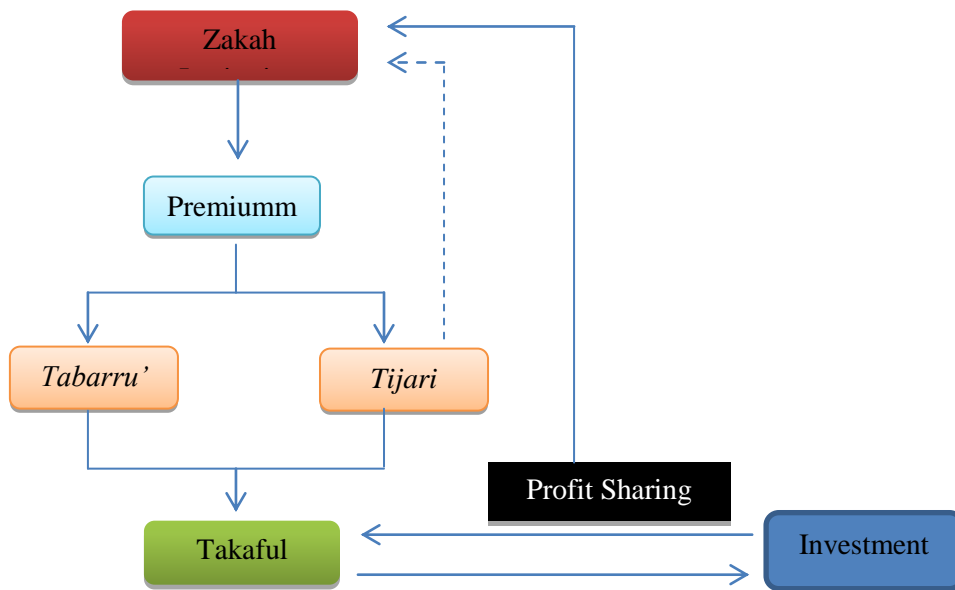
Zakah institution will pay agreed premium monthly. The premium is divided into two, those are tijari and tabarru' funds. Tijari and tabarru' funds will be invested in capital or financial markets as investment instruments by the takaful. The profit from tijari investment will be directly shared with zakah institution. While the profit from tabarru' investment can be shared with zakah institution if it has met the terms of surplus underwriting sharing. The profit sharing obtained by zakah institution can be used to the other program of zakah distribution or for operations.

The agreement between the three parties is made in the specified time period. At that time, when there are customers make claims, then the takaful will be ready to cover all claims in accordance with the initial agreement. But if until the term of agreement there is no customer who makes a claim, automatically monthly premium paid by zakah institution will be returned in full unless the tabarru' fund. Because tabarru' fund has become a common fund and the depositor which is in this case is zakah institution does not have right to get the fund back.



Zakah institution can get tabarru' fund profit if there is surplus underwriting. It can be illustrated in Figure 8 as follows:

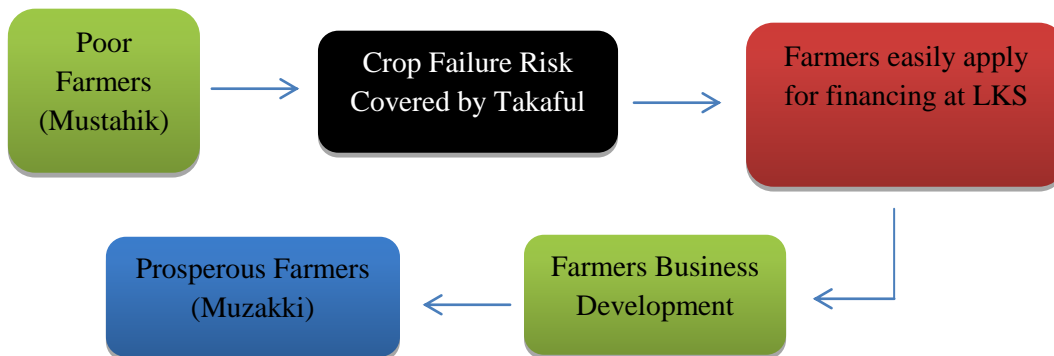
**Figure 8. Premium Payment Plot**



Source: Authors' Illustration

This development model will provide many positive effects, especially for farmers. Target farmers who are still as mustahik can turn into muzaki after there is agricultural risk cover from takaful. By using it, when the farmers hard to get capital, they can be easily apply for financing especially for Islamic Financial Institutions (LKS). The plot is described in the following model as:

**Figure 9. Farmers Developments Model Plot**



Source: Authors' Illustration

In addition to farmers, the idea of this model also gives positive effects to the other parties. The positive effects are as follows:

First, for zakah institution, this program is one of the efforts of distribution program development and zakah utilization which is required for every zakah institution. In addition, the absorption of zakah fund that has been collected can also be maximum so that there is no zakah fund settles in account of zakah institution for a long time.

Second, for takaful which is still unknown the roles and functions primarily by the lower strata of society, will increasingly exist and be known in all circles. Of course, the more effect is the application of Islamic economics will be massive.

Third, the ease of capital needed by farmers, will impact on the development of agricultural enterprises. Thus, it is expected that agricultural sector, which starts to weaken its role in the national, will still be visible and considered by the government.

Fourth, Indonesia's poverty rate is expected to be reduced, because poor farmers who had been mustahik, then they become muzakki.

### **Conclusion and Recommendations**

Economic policies that can be authors recommend in terms of alleviating poverty is to focus on the welfare of farmers through Islamic financial institutions that is takaful. In proclaiming the policy, the government is expected to synergize with amil zakah institution. As we know, zakah institution has the same goal on the eradication of poverty. Focus on farmers is considered important, because the majority of the poor are farmers. So, when the farmers succeed to be prosperous then the poor will be reduced significantly.

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