

# **Role of Islamic Finance (Zakah) to Eradicate Extreme Poverty in Bangladesh**

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*The aim of the study is to find out the role of Zakat as tools of Islamic Finance to eradicate extreme poverty through the empirical study in Bangladesh. The study also analyzes the model of Zakat collection and distribution to eradicate poverty. The hearts of wealthy people are purified from greed through giving Zakat to the needy and the needy people are then able to fulfil their needs. Thus, Zakat should be able to reduce the gap between the rich and the poor .Each year, the Rich people of Bangladesh provide Zakat. The Zakat fund is not collected and distributed properly in most of the cases. The important recommendations of this paper are the best ways to collect zakat from different sectors, organizations, Institutions as well as individuals and also to distribute in a systematic way to alleviate poverty from Bangladesh.*

**Keywords:** Islamic, Finance, Extreme poverty, Eradicate, Systematic and Zakat

## **1. Introduction**

Statistics indicate that only 20% of the world's population live at a high level of comfort and luxury, while the vast majority of the population are experiencing poverty, ignorance, hunger, and some of them live on less than a dollar a day, and the gap between the two lives is increasing day after day (Todaro, 1981). Bangladesh ranks among the least developed countries of the world. Although at present it has little natural resource, its human resource is in abundance. Unfortunately this vital resource is not educated, skilled, equipped and organized. According to the statistics, A large number of SSC,HSC and graduated are being unemployed in Bangladesh. Most of the landless people live in so-called slum and living measurable life. The real problem in Bangladesh is the widespread poverty, which is a man-made phenomenon. The Government has set the target to bring down poverty to 13.5 percent by 2021. They further believe that, extreme poverty will be totally eliminated from this country .To attain these solutions, A correct and total implementation of Zakat seems to be the only panacea to their misery. Zakat is collected every year in our country but didn't work properly. The main reason is that most of the rich people of our country distribute zakat money or clothes which helps them temporarily but not permanently. If it continues, Zakat may be collected but won't be able to change our poverty condition. So it is time to think systematic utilization of zakat.

## **2. Objectives**

**The objectives of this study are as follows:**

- To analyze the role of Zakat to eradicate extreme poverty;
- To suggest necessary measures in policy formulation regarding poverty reduction by utilization of zakat fund.

### **3. Review of Literature**

Rahmatullah (2007) illustrates that Islam enjoins on believers a duty of individualistic and collective nature. Zakah as prescribed by holy Quran indicates nothing but social security/insurance to the indigents of the society where Zakah is practiced.

Much earlier, Zaman (1979) Mentions that the social security system in Islam by Zakah are different from the capitalist and the socialist social security. For Muslims, Zakah is not a matter of legislation or an issue in the class struggle. It is a duty of the wealthy and the right of the Downtrodden and is automatically adjusted.

Further, Al-Zoubi and et al. (2006) show the difference between Zakah system of social security and the traditional system. Zakah is not a compulsory contributory savings plan but pay to the needy people and other groups in order to get reward in the hereafter.

Akkas(2007) emphasizes on introducing a continuous basic minimum initial asset/Capital transfer mechanism like Zakah instead of government safety net programs.

Finally, Hossain (2007) is surprised that Zakah, an expressly designed poverty eradication tool, clearly prescribed in the Holy Qur'an and Sunnah, has been completely ignored in all poverty alleviation plans and programs in Bangladesh, where more than 85 percent of the population are Muslims.

### **4. Extreme Poverty**

It is a condition where people's basic needs for food, clothing, shelter, medicine, education, freedom are not being met. Extreme poverty is a technical term used by the World Bank to define a family living on an income of less than \$1 a day. These families suffer chronic hunger and lack of safe drinking water and sanitation, health care, children's education and rudimentary shelter.

According to Islam, Those who cannot afford to buy the minimum economic need and cultural entertainments prescribed by Islam are poor. These minimum or basic needs area 1. Faith, 2. Education, 3. Self, 4. Right to marry e. material needs such as; food, cloth ,shelter and freedom. Although faith, self, and freedom are not economic elements but these are basic needs for a man. (M Zohurul Islam ,1999)

#### **4.1. Profile of the poverty in Bangladesh**

The characteristics of poverty of Bangladesh are very similar to others south Asian countries. The major nature of poverty is having low level of education,has limited access to land, and are highly concentrated in low paying, physically demanding, and socially unattractive occupations as casual wage labourers. Poor people are passing measurable in both urban and rural areas. They deprived of the touch of modern life. However, unlike other parts of South Asia; poverty in Bangladesh does not appear to be strongly linked (at least in the aggregate) with social identity or religion: the incidence of poverty is more or less the same among the Muslim (50 percent) and non-muslim (46 percent) population. Likewise, poverty rates are virtually identical for male and female-headed households (50 percent vs. 48 percent respectively). Among female-headed households, however, those that are widowed, divorced or separated (about 60 percent of all female-headed households) have a considerably higher incidence of poverty (56 percent) relative to others.

## **4.2. Causes of Poverty**

Though poverty is usually meant to be deprivation of wellbeing, there are many factors that cause it and various approaches to explain the concept. Poverty results from the way a society's economic, political, and social systems are organized. These systems create processes that interact with each other and produce deprivation among a group of people (World Bank 2001).

Often the poor are weak and vulnerable to hostile factors and events beyond their control. A characteristic of poverty is its tendency to persist in what is referred to as the vicious circle of poverty (Basu 1984). Though, the concept of poverty has evolved from deprivation of material needs, education, and health to include vulnerability, exposure to risk, voicelessness and powerlessness. Other Causes of poverty according to local perception are as follows:

- a) Over population-Population has become burden instead of asset due to improper educational and training system.
- b) Corruption
- c) Dependence of one earning member in family
- d) Spending money on non-productive traditional events
- e) Lack of govt. and private investment
- f) Lack of proper infrastructure –long term result in poverty
- g) Nepotism in getting job
- h) Inflation
- i) Depending on agriculture
- j) Mis-Management of Zakat collection and distribution-It's may help reduce poverty if it is done properly

## **5. Zakat**

Zakat refers to the obligation for an individual has to donate a certain proportion of wealth each year to charitable causes. But it is not obligatory for all Muslims but only those who are recognized as rich by the laws of Islam is considered by the Shariah. It is a mandatory process for Muslims in order to physically and spiritually purifies their yearly earnings that are over and above than the essential needs of a person or family. Basically, all possessions are not liable for taxation of Zakat but only the specified possessions in similarly specified quantities.

### **5.1. Zakat in the time of the Prophet (peace be upon him)**

Going back to the first application of Zakat at the time of the Prophet (peace be upon him) is like studying Zakat at its source in order to discover its significance, mode of application and effects, whether social, spiritual or economic.

In Makkah the verses on Zakat were in the general form of voluntary payments and it was left to the faith and the brotherly feelings of individuals to decide what and how much to give in Zakat. Surah Al-Ma'arij (70:24-25) advises: "And in whose wealth there is a right acknowledged. For the beggar and the destitute." It was only in the second year of Hijrah, some eighteen months after the arrival of the Prophet (peace be upon him) to Madina that Zakat became a Fard or an obligation on Muslims. Madinan verses gave clear directives, ordering the payment of Zakat

and since that time the Prophet (peace be upon him) used to send out Zakat workers to collect and distribute the due Zakat. The Qur'an does not give the definition of Zakatable wealth, except in a few cases, only the general principles are given without the details, e.g:

Table-01

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Gold and Silver	"And there are those who hoard gold and silver and spend it not in the way of Allah. Announce unto them a most grievous penalty." (Surah Al-Taubah 9:34)
Crops and Fruits	Eat of their fruit in their season, but render the dues that are proper on the day that the harvest is gathered."(Surah al-An'aam 6:141)
Earnings of Trade	"O ye, who believe, give of the good things which ye have earned." (Surah Al-Baqarah 2:267)
Wealth from beneath the earth	"And of that which we have produced for you from the earth." (Surah Al-Baqarah 2:267)

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Furthermore, the Qur'an mentions Zakat in general and the word amwal (i.e. property or wealth or earning) is used as in the verse, "Out of their wealth take sadaqah thereby purifying and sanctifying them."(Surah Al-Taubah 9:103) and, "In their wealth and properties is the right of the poor, the beggar and he who is in deprivation." (Surah Al-Dhareyat 51:19)

## 5.2. Who are entitled to received Zakat

It is the Sunnah of the Prophet (peace be upon him) that gives us, by example and by directives, details of the general Qur'anic command and converts the theoretical axioms of the Qur'an into a living reality. The Sunnah also gives the details of the categories of people that should receive Zakat. (M Zohurul islam,1999)

Table.02

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Needy	A person who does not have any property and source of income, or, if he/she has a source of income it would not fully meet his/her basic needs
Poor	A person who has property or means of livelihood but is not able to meet his/her own needs or that of his/her family members. This individual is not required to perform Hajj and Zakat, but instead is entitled to receive zakat and fitrah
Amil	A person who is involved in the management of charity, whether as an officer or management support staff at all stages. He/she is entitled to acquire certain portion of the proceeds from zakat as wages
Mualaf	A non-Muslim who recently converts or 'whose heart is made inclined' to Islam. It is believed that giving zakat to mualafs can be seen as a

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	recognition and reward for choosing the right path and as a way to show the beauty of Islam
Ar-Riqab	Muqatab is a servant who wants to liberate himself
Gharimin	A person who is eligible to receive zakat because by he/she has been declared bankrupt or is heavily burdened by His /her job
Fisabilillah	A person who is in a 'fight' or makes efforts and do activities to uphold, maintain and promote Islam and Islamic teachings.

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Source: Summarised by Authors

### **5.3. Process of Zakat collection at the time of Hazrat Muhammad (SAS)**

In the financial administration of the prophet (SAS) it is observed that, Separate collectors of Zakat was appointed for different regions. The total area of administration was divided into 22 regions and one collector was appointed for each region .whoever would disagree to pay zakat would be collected by force of the Government. Prophet (SAS) give the collector written instruction how to Zakat would be collected and distributed.

It is obvious that in a region separate Sub-collectors were appointed by the regional collector. Thus vast organization for Zakat came to be established by the Prophet (SAS) himself.

### **5.4. Process of Zakat Collection in Bangladesh**

Some countries established separate Zakat organization.On the other hand other's established Separate Zakat division under the Revenue Ministry for collection. In Bangladesh Zakat Foundation is established under the guidance of great scholar of the time.

In 1982, the government of Bangladesh announced Zakat ordinance and established the Zakat Fund. Some govt. servant and reputed Islamic scholars nominated by the government manage the Fund. The board has two types of committee .One is Central committee which is constituted by 13 members and other's is District Committee is chaired by the deputy commissioner of the district and local officer in charge of Islamic Foundation works as Secretary .The major responsibility of them is to promotion for Zakat Collection, keeping records of the Zakat payers, Payees and money received and paid to maintain social confidentiality, accountability and spirituality in these tasks. There shall be 7 to 9 members nominated by the government to execute the socio- economic and religious duty of realizing and distributing Zakat in proper, orderly ,organized and effective way.

The Islamic Foundation receives a lot of requests for financial aid from individuals, families, Islamic institutions and charitable organizations. The Islamic Foundation disburses Zakat according to Islamic regulations. People can donate online through this website or make checks payable to Islamic foundation and drop it in the donation box marked "Zakat Fund" or mail it to the Islamic Foundation address. Zakat is 2.5% of the Zakatable assets. Zakatable assets do not include items of personal use such as house for residence, car, clothes, furniture and other household items.

## **5.5. Criticism of present scenario and Limitations of Zakat process in Bangladesh**

A large amount of money is collected and there is a more possibility to collect more by Zakat Collection every year in our country. But the hard reality is that the practices are followed in our country for Zakat distribution is just noting but voluntary charity. Rich people in Muslim countries, including Bangladesh, usually share a portion of their assets with poor relatives or neighbors' in the same community to distribute as Zakat. It is mostly being used to buy saris, lungi, mosquito nets, and charitable items among poorer people. For this reason, There is no socio economic impact of Zakat on the society. As a result, Poverty is thus spiraling up.

Basically, there is no effective or structured method for zakat distribution in Bangladesh. The Scenario of Zakat in Bangladesh is as follows:

- a) Rich people buy charitable items for distribution via relatives, local government representatives (union council chairman or members) or mosque imams and head teachers at local madrasas.
- b) Some also distribute clothes or food in orphanages out of their zakat money.
- c) A few also buy rickshaws, carts or fishing nets to help poor people in rural Bangladesh into income generating activity.
- d) Some people are seen using zakat for extension, refurbishment or repair of mosques and other religious institutions.
- e) Few are also seen using their zakat money for building rural schools, libraries or helping poor students through scholarships.
- f) None using their zakat funds for medical treatment of disadvantaged people.
- g) Due to non-existence of a proper distribution network, people in more remote areas do not get an adequate share of zakat funds.

Newspapers have in the recent past reported stampede deaths during the distribution of zakat by political leaders in Chittagong, Dinajpur and Noakhali. It has also been observed, particularly in election years, some people spend money through zakat to achieve their personal gain or repairs of religious institutions. On the other hand, the zakat flow to rural Bangladesh this year is reportedly lower than before. Relevant reasons could be reduced business in capital markets and real estate, election uncertainties and political instability.

In addition, Bangladesh government's Zakat Board fails to lead a structured process for zakat administration; collections from all zakat payee and distribution to the needy people. Besides, Many people prefer to distribute zakat personally rather than centrally. As a result, Presently, Money is not flowing adequately to deserving target groups or causes in the community. It has a little impact to help poor people temporarily but not permanently. But No doubt, there could be a better way of zakat money management in Bangladesh.

On the Contrary, Other Muslim countries have come up with a structured approach to zakat collection and administration. Saudi Arabia, Kuwait and especially Malaysia have all set positive standards. Pakistan engages NGOs to help make effective distribution of zakat. Few countries however have shown success in integrating zakat funds with "social safety net" programs.

## **6 . Zakat as a Tool for Poverty Alleviation: A systematic method of zakat collection and Disbursement**

Zakat can play an effective role in poverty alleviation by taking some policy. The first relates to integrating Zakat into the overall development strategy of individual countries and the second aspect relates to institutional development that will enable to enhance the use of Zakat in poverty alleviation. Some aspects of these policy matters are discussed below.

### **6.1. Strengthening Zakat Organizations**

The Zakat institutions must have good governance structures and management procedures. The processes of making decisions and implementing them, transparency, and human resource, flexibility to introduce innovations in systems and processes, and cost efficiency in operations are important aspects of good governance and management procedures.

### **6.2. Raising Revenues/Funds**

Raising fund is one of the important issues. There are some other related issues are ease with which donors can make payments, marketing, and providing information. It is not easy for government bodies to make this service available. Various studies has been done on this. It was observed in case of some states in Malaysia where the public Zakat bodies have established corporations to collect Zakat. This policy can be taken in our country as well. The system will be like that; the agency or corporation will make the people conscious and educate them so that they may understand the importance of Zakat. It will be difficult to collect 100% Zakat until they pay willingly. This strategy will help people to see the real effect of zakat on socio-economic condition of our country. Thus, they promote their self for Zakat collection. In this way, the corporation uses all means to maximize the Zakat collections by using modern management and transparent system. But the important fact is that the operations of corporations are more transparent and able to build trust among the Zakat payers. The Zakat payers are interested to know if the funds are being used for the beneficiaries. Besides, Zakat can also be deducted from salaries automatically from the rich people.

### **6.3. Disbursement of Funds**

Disbursement of funds to the right target group with the appropriate impact determines whether the social objectives of the organization are reached. To do so, a low-cost infrastructure of mainly volunteers needs to be established to identify the poor and deliver the assistance in forms that would enhance their productive capacities. The important issues in disbursement of *Zakat* would be to

- a) Identify the beneficiaries
- b) Establishing a delivery system,
- c) Having access to volunteers, networking and coordination with other similar organizations
- d) Disbursement

While no data exists on the type of disbursements, it is safe to assume that most of the Zakat proceeds most likely go for income support purposes instead of Wealth development and does not solve the problem of poverty in the long run. Traditionally, Zakat payments were given out as handouts, the focus should change to provide the human, physical, and financial capital to make the households productive. Furthermore, to empower people and build capacity, there may be a need to coordinate with other welfare oriented organizations and also establish institutions that can facilitate this. Zakat funds can be disbursed by the public Zakat agency to different institutions that are involved in serving the poor.

Suppose, A project can be taken for eradicating poverty by creating employment by Zakat collection .For an example if it is assumed to take a project for eradicating unemployment , The authority can initiate a self employment program .Activities may taken up in phases , each phases comprising of minimum three years .The participating unemployed youths may be selected from the area under the projects on some pre-fixed criteria .Average credit requirement and number of exact receivers may be fixed as per available Zakat resources . As an operative unit one district comprising on average about 80 unions with 100 youths,who prefer to do volunteer work from each union may be taken for functioning .A three year programme, with average credit requirement of Tk. 10000 per person may be produced as follows

Table: 03

<b>Year</b>	<b>No of targeted youth</b>	<b>Per person on loan required(Tk)</b>	<b>No of unions</b>	<b>Loan required (in million Tk)</b>
<b>1<sup>st</sup> year</b>	40	10000	80	32M
<b>2<sup>nd</sup> year</b>	30	10000	80	24M
<b>3<sup>rd</sup> year</b>	30	10000	80	24M

Source: M Zohurul Islam (1999) ,Modified by Authors

Assuming 5 % as the administrative overhead expenses, the costs stand at tk 84 million for one district. Now , when these 8000 people will be independent earners. They may be able to pay zakat even. Thus on the one hand, the number of zakat recipients is decreasing and zakat payee will be increasing .This program me may be multiplied in other districts in accordance with the availability of resource. Such area coverage program can be under taken from the Central Zakat Fund Resources. It is obvious that the main constraint in launching all these programmers are the usable resources. According to the report from NEWAGE (18,july,2014),The Zakat board has estimated collection of Tk 1.16 Corer in current 2014-2015 financial year, While private run-Centre for Zakat Management eastimated collection of Tk 6-8 Corer during the same period ,noting but a small part of actual amount. It is very likely that, if it is seriously dealt with a fund about 200 corer even more and more might not difficult to raised from entire country as well as abroad. Even if the potential Zakat resources can be collected and distributed in accordance with the Shariah, How long time it will take to eradicate poverty from our counry? it can achieve such success in a small span of time as social ills like beggary rehabilitation and maintenance problems of crippled destitute may be eradicated and thus a qualitative change in the society may be brought about without burdening the Government exchequer.

## **7. Recommendation to Process Development**

The paper asserts that the causes of poverty are many and resolving the problem requires a multi-faceted approach. The paper studied the role of Zakat providing opportunities to the poor in eliminating poverty. Poverty cannot be eliminated without using Zakat in an effective way. The paper also suggests that there are certain conditions under which Zakat will be able to make an impact on poverty.

First, to have desirable impact, the functions of raising and disbursing funds should be separated.

Second, Zakat has to be complimented by robust macroeconomic policies that enhance growth and also redistribute income to eliminate poverty.

Second, while more Zakat has to be collected and disbursed, the impact on poverty will only be significant when a larger percentage of Zakat proceeds are used for productive purposes.

Third, given the important role of Zakat 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, including Bangladesh.

Fourth, Zakat institutions, however, will only be effective if its operational structures can produce results that build faith, reputation and trust among ordinary citizens. To do this, there is a need for further research and exchange of ideas related to the development of operational models of Zakat organizations that can effectively be used to combat poverty during contemporary times.

## **8. Conclusion**

The Islamic strategy of eradicating poverty is pragmatic, participatory and intervening. Every Muslim is asked to try heart and soul to earn his livelihood. In this struggle for earning a comfortable living, some people may fall behind. The govt. as well as Non-profit organization work hand by hand to collect Zakat from the wealthy sections of the society to re-distribute these revenues among the approved categories of incumbents. On the other hand it is obligatory duty of the wealthy class of people to contribute this Zakat revenue in the welfare of the downtrodden people as mentioned earlier. On the other hand Zakat gives a very large source of indigenous Islamic finance and free from evils of the foreign funds. If it is possible to collect majority percent of the zakat from all source, generate and disburse properly, the day is not very far when the poverty will be eradicated from Bangladesh not only temporarily but also permanently. Thus, Zakat as a tools of Islamic finance works as the major antidote to the evils of poverty .

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