Zakat, Persistence of Poverty and Structural-Incidental Segmented Approach: A Survey of Literature

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Abstract. Scholars and researchers in the field are almost unanimous that poverty reduction is one of the primary goals of zakat and targeted upliftment is pivotal for poverty alleviation. Generally it has been argued that faqir (destitute) and miskin (needy) are the primary target groups and their poverty alleviation is possible through effective collection and distribution of zakat. Throughout history zakat had an ameliorative effect, but due to a lack of systemic understanding about poverty, a lack of systemic commitment to its eradication, and ineffective use of zakat, poverty has been a persistent feature of the Muslim societies. Since the emergence of Islamic finance, broader interest in zakat as part of the development aspirations has grown and empirical research has enhanced knowledge and understanding of zakat in light of the experience from various Muslim-majority countries. Zakat, as part of Islamic finance, can play a valuable role in poverty reduction, when it becomes part of a national strategy of development with interventions focused on target groups, segmented into incidental and structural pool. This paper provides a survey of the pertinent literature, with a special focus on a segmented approach that recognizes different needs, priorities and frameworks for effective intervention using zakat.

Keywords: Zakat, Incidental poverty, Structural poverty, Poverty alleviation, JEL Classifications: I31, Z12

1. INTRODUCTION

Poverty alleviation, rather eventual eradication, is recognized as one of the primary goals of zakat (Hassan 2010). With that focus, it has been argued that the necessity of targeted upliftment of selective asnaf – various zakat-eligible categories of recipients (Bakar et al. 2011; Nadzri et al. 2012 and Lubis et al. 2011) - is critical to overcome the poverty bottlenecks. So, commonly it has been argued that faqir (poor) and miskin (needy) are the main target poverty groups, and poverty alleviation can be significantly facilitated by effective collection and distribution of zakat (Rahman 2007; Kaslam 2008), for which historical evidences of success are also claimed.

Historically, early records of the Muslims after the Prophet Muhammad indicate the elimination of poverty at least twice: first, during the reign of Umar ibn al-Khattab (d. 644 AD), the second caliph and second, during the reign of Umar ibn Abdul Aziz (d. 720 AD), popularly known as Umar II (Bakar et al. 2007; Chapra 1979; Zaman 1991). However, these experiences of success with poverty reduction or

1 * The insight and encouragement from Professor Nor Hayati Ahmad and Dr. Nor Azlina A. Wahab, both at Islamic Business School, Universiti Utara Malaysia, Sintok, 06010, Kedah, Malaysia, are gratefully acknowledged.
2 “During his reign, Caliph Umar al-Khattab introduced a zakat distribution concept that alleviated the socio-economic status of the recipients, ... Umar’s aim was to change the life style of the poor that is from becoming the recipient of zakat to the giver of zakat”, Bakar et al. (2011).

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elimination did not evolve into a systematic and concerted effort to keep poverty at bay,\(^3\) and gradually poverty became a persistent feature of Muslim societies as part of the broader humanity.

In regard to the successes during the early periods, Farooq (2008) has presented the problem with those early experiences as nostalgia and the failure of the society to sustain a campaign to eradicate or alleviate poverty. In the modern period reduction of persistent poverty requires a broad national development strategy, long term planning, fiscal and monetary measures as well as well-balanced mechanisms where the nature and extent of the problems are appropriately diagnosed and targeted interventions are used to have the desired impact. Zakat, if properly organized, and utilized, can only be a vital part – but only a part - of the tools and resources to combat poverty.

Zakat, in a proper framework, can serve as an added tool for poverty reduction. As part of a long term development plan\(^4\) and supportive fiscal policies, when zakat and infaq (various types of welfare-augmenting spending) (Hassan et al. 2007; Malik et al. 1994) are utilized, they can help reduce poverty. This role of zakat and other spending is supported both theoretically (Yusoff 2006) and empirically,\(^5\) but poverty reduction needs to be pursued as a mapped-out solution and several pertinent aspects are to be considered. First, while effective administration of zakat can help in poverty reduction (Rahman et al. 2012; Bakar et al. 2010), in societies where have-nots outnumber the haves in significant proportion, broadly targeting merely faqir (poor) and miskin (needy) in that particular society may not bring the desired result. The reason being, the magnitude of poverty in some of those societies is so severe, that just by one measure, no matter how effective or efficient those processes might be, attaining the desired goals might not be easy (Farooq 2008), especially in societies with extraordinary concentration of wealth and power and a deep state of corruption. Secondly, effectively dealing with the asnaf (the eight categories of zakat-eligible groups) might be a long-term proposition.\(^6\) However, if the emphasis is on the reduction of incidental poverty, the potential for achieving the desired goal can be much stronger when zakat is effectively administered and systematically approached and monitored. Reduction of structural poverty requires an even much more comprehensive approach and framework.\(^7\)

In this survey paper we explore the perspective that systematic approach to zakat in the context of a proper national development strategy that is mapped out with specific problem-solving goals and with appropriate recognition of segmenting incidental and structural poverty, can be effective in significant poverty alleviation.

### 2. POVERTY: INCIDENTAL VS. STRUCTURAL

\(^3\) Farooq (2008) elaborates, “Between such periods when poverty was eliminated and later re-emergence of widespread poverty in the Muslim world, we neither have a historical account of what happened nor any analysis – theoretical or empirical – in this context. Indeed, there is hardly any analytical work explaining what kind of economic policies, framework and institutions led to this remarkable success. Was there any systematic program of poverty alleviation? Was there anything from the production side to help people overcome poverty and deprivation on a sustainable basis, or was it achieved exclusively or primarily through redistribution measures? If it is the latter, how much of it was impacted by the bulging resources in the public treasury (bait al-mal) from conquests and how much was it due to zakat as a poverty alleviation tool?” (p. 40)

\(^4\) Hassan (2010) argues that zakat can play a long term policy goal, but as he mentions, along with other infaq and policy measures. Also see Shirazi 1994.

\(^5\) From historical context, see footnote 3. From contemporary context, see Beik and Arsyianti 2016; Tarar 2012.

\(^6\) Hassan et al. (2012), Ahmed (2004). And for controversies, please refer to Sarif et al., 2009; al-Qaradawi, 2000.

\(^7\) Farooq (2008) explains, “…Zakat and other charities might be more suitable for alleviating the ‘incidental poor.’ Solving the problem of structural poverty requires much more than zakat and other charities; it needs broad-based economic development”. [pp. 53-54]
Poverty can be divided into two categories: incidental and structural. Incidental poverty is related to certain unfortunate incidents, such as natural disaster, war, death of a breadwinner in the family, etc. Sometimes people get in and out of incidental poverty through their own effort or some temporary support. In contrast, viewed “as a multidimensional and structural phenomenon … Structural poverty results from long-term processes of inequality, persistent exclusion, concentration of economic power, lack of the access to political resources, and systematic violation of basic social, political and human rights.” (Spicker et al. 2007, p. 196) Out of eight asnaf categories, five to six categories fall mostly into the incidental category and are not necessarily persistent. A person can be indebted, and is required to be out of incidental scenario. A Muallaf (one of the categories of zakat recipients) may have been quite alright financially in the previous situation, but when reverted to Islam, he might require incidental assistance until he recovers from adversities and becomes a Mukallaf (someone on whom there is religious obligation to give, instead of receive). (Aishah, et. al. 2011) The same goes for who are serving in the way of God, who might require assistance for a time, but not on a regular basis.

Given the two different types of poverty, there is a need to have appropriately researched and differently focused interventions. Incidental poverty might be more of a resource and allocation issue, while structural poverty related to faqir and miskin, would require comprehensive policy adjustments and major fiscal measures as part of a robust development plan and initiative at the national level, engaging both the public and private sector for the common cause.

Incidental cases might be easier to achieve than cases where it is comprehensive and long-term policy and structural solution would be required. Out of eight targeted audience (asnaf), three categories of asnaf (faqir, miskin and riqab, the last one includes those in slavery or bondage) generally require structural reforms, and five categories require incidental attention. So if the policy makers address the issues accordingly, i.e., aiming short term objectives and planning long term goals, and also address the issues with effective management and systematic distribution, along with institutional changes, then the concerns at hand may be better and effectively addressed.

Due to a lack of focused, prioritized and systematic intervention, neither structural nor incidental poverty is effectively alleviated. In many regions where faqir and miskin as well as riqab are significantly high in proportion, targeting faqir, miskin and riqab first and foremost and segmenting them into incidental and structural pool, may make the job of poverty alleviation often difficult to achieve its desired goals due to resource constraints. Here it is prudent to ponder the three focused solutions. A portion of asnaf will require long term assistance, like who are orphans, widows, the elderly and the disabled. The reasons are that some of them may be unproductive for the time being. A portion of asnaf needs empowerment, like the able-bodied and may have the right skills, but poor, and require financial aid in the form of capital. A portion of asnaf requires incidental assistance, like who are serving in the path of God, and the remaining four categories of asnaf other than faqir, miskin, and riqab. If resources

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8 Incidental poverty is also known as transitory, and structural as chronic. See Arif and Bilquees 2007.

9 The Qur’an states: “Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise.” 9/At-Taubah/60.

10 For example, an amil’s case should be viewed differently. Amil means who collects zakat and is not necessarily poor.
are limited, a prioritized intervention would be relevant (Lubis et al. 2011).

Initially, focusing on incidental poverty might have an added advantage. Since this poverty pool may require less resources and simpler intervention, it should be possible to help this pool to get out of poverty within a short period of time, beyond which a part of this pool would join the zakat-paying pool so that more resources would be available for further poverty reduction. With the reduced pool of those in incidental poverty and zakat-base broadened, addressing structural poverty can then be focused on as part of a long-term phase.

3. THE HISTORICAL BACKGROUND

Zakat or tithe or almsgiving were prescribed even before Prophet Muhammad (Nadzri et al. 2012). In all major religions, giving is seen as a noble deed in mitigating the societal woes. In Islam, it received specific institutional recognition and fundamental emphasis. In the Qur’an it is commonly paired with obligatory prayers.11 “And they were not commanded except to worship Allah, [being] sincere to Him in religion, inclining to truth, and to establish prayer and to give zakah. And that is the correct Deen (way of life)” (Al Quran 98.5).

The pairing of prayer and zakat12 has been understood not just as theological, but also as a socio-economic imperative. During the earliest of the post-Muhammad era, the first rightly guided Caliphs (Al Ghamdy 2012; Bakar et al. 2011) fought wars with the persons or tribes who refused to pay zakat. As Islam is not merely a religion to address spiritual and devotional aspects, rather it is understood by Muslims as a comprehensive guidance for life, zakat is used to be collectively gathered and distributed by the state. Zakat is no longer universally agreed as to be collected and administered by the state. However, zakat is an obligation and it needs to be disbursed and utilized for specified categories which are still valid and applicable.

From the early post-Muhammad period there are reports that zakat-payers could not find zakat-seekers, as the economic condition of the common people improved tremendously. That was a remarkable achievement on the part of a state toward an equitable society. There is a need for closer inquiry into that achievement to better understand how that was achieved and why it was not repeated and sustained. As Farooq (2007) explained, a key reason why anti-poverty success did not sustain is because it did not evolve into a systematic framework within which wealth and resources circulated equitably and the concentration of wealth and lack of access to resources, in particular capital, widened. Unfortunately, that tendency only worsened over time.

Zakat in Islam is not merely to address poverty, especially structural poverty. But since Islam emphasizes reducing hardship and pursuing equity and shared wellbeing and prosperity in a society, as a comprehensive way of life Islam institutionalized zakat while calling on the society to bring together all possible resources, zakat as compulsory and other voluntary/charitable spending, to pursue common welfare. As entailed in the Quran, zakat is mandated for freeing the slaves (both in classical sense as well as contemporary sense), assisting the needs of travellers in difficulty and supporting those serving in the path of God to establish justice, peace and common wellbeing. This broad scope of the eligible categories indicates that the Quran takes into account both poverty reduction and hardship reduction (Bello 2009).

11 2/al-Baqarah/43.
12 The Qur’an 2/al-Baqarah/43. Also see hadith Volume 2, Book 24, Number 486: Narrated by Abu Huraira, Allah’s Apostle said, “Whoever is made wealthy by Allah and does not pay the Zakat of his wealth, then on the Day of Resurrection his wealth will be made like a bald-headed poisonous male snake with two black spots over the eyes. The snake will encircle his neck and bite his cheeks and say, ‘I am your wealth, I am your treasure.’” Then the Prophet recited the holy verses:-- ‘Let not those who withhold . . .’ (to the end of the verse). (3.180).
https://sunnah.com/bukhari/24/8
This breadth of approach of Islam allows flexibility to the society to prioritize its intervention in addressing various types of poverty and economic hardship.

4. RELEVANCE AND EFFECTIVENESS OF ZAKAT

There is a punitive dimension of zakat against idle wealth, where non-payment of zakat will gradually diminish wealth if it is not productively utilized to grow further wealth. From this angle, paying zakat should have a positive impact on economic growth (Hassan 1987; Yusoff 2009); however, this aspect seems to have been ignored as hardly any Muslim-majority country has undertaken a systematic approach to poverty alleviation through Zakat and sadaqat through proper collection and disbursement (Farooq 2008).

Assuming the marginal propensity to consume (MPC) of low income group (LIG) is higher in a simple Keynesian model, as seen in economic theory and evidence, any amount entering the economy, as Zakat or sadaqat, may contribute to economic growth (Sarea 2012, Yusoff 2006). Because of this high MPC factor, any inducement through Zakat may lead to a multiplier effect in the economy in terms of boosting national income, improving consumption and poverty reduction (Sarea 2012; Suprayitno 2013). Further empirical investigation is needed regarding the size of the impact. Here it is important to highlight that considerable development in terms of research and implementation (of Zakat) has taken place in the entire Muslim world, but the outcome is yet to be seen in terms of satisfactory accomplishment.14

Secondly an initiative to turn a zakat receiver into a zakat giver would be a major achievement toward distributive justice (Sarea 2012; Kahf 1999; Rahim 2013). If this effort is successful for a large number, the reduced pool of zakat receivers and the expanded pool of zakat givers should help reduce income inequality as well. The issue of significant and systemic income inequality and concentration of wealth are among a few fundamental Islamic and Qur’anic concerns. (59/Al-Hashr/7) This issue has also become central to contemporary economic discourse especially during the last decade and since the 2008 global financial crisis (Stiglitz 2012; Piketty 2014). Thus, reducing poverty, which has implications for reducing inequality and concentration of wealth, is among the central economic concerns, and zakat can be part of the vital toolkit toward that end. There are some public initiatives in various Muslim-majority countries, and there are also some notable private initiatives that can provide further insight into effective approaces to zakat.15

Islam stands for justice, happiness and wellbeing of the fellow citizens (Shafinah, 2003), whether he is a Muslim or otherwise. It is often argued that the Islamic system wants to put into operation the social security through the implementation of Zakat, sadaqat, waqf and fitrat (ZSWF), to alleviate the burden of absolute poverty from the society. But the question has been raised, whether charity alone can reduce the magnitude of poverty without a comprehensive approach to alleviate poverty and deprivation (Farooq 2008).

How zakat is collected is an important issue in this context. Islam enjoins its adherent Muslims to pay zakat from their wealth. Zakat is not just a personal obligation, but also in a state based on Islamic principles, Zakat, like tax, can be collected and managed by the state. Indeed, that was the case during

13 Gupta et al. 2008; Goodwin et al. 2013. For possible counter arguments, see Jappelli et al. (2013), Tarar et al. (2012).

14 Farooq (2008). Again quite similar notion has been raised by Lubis et al. (2011), “…the zakat payers were not satisfied with the zakat institution in zakat distribution…”

15 Nadzri et al. (2012). Also one can view the developments of the Quantum Zakat Foundation of Bangladesh (QZFB), which is trying by empowering the asnafs and making them a sahib-e-nisab in a constructive way for the last few years. If the result is sustainable, it can be replicated in other parts of the Muslim world, especially to alleviate incidental poverty, as has been done successfully by QZFB through effective Zakat management (see http://quantummethod.org/Zakat).
the time of the Prophet and early post-Prophetic period. Also, the authority needs to ensure that zakat is duly collected and disbursed as expeditiously as possible to the respective asnaf (Lubis et al. 2011).

From the Islamic viewpoint, if the authority in charge fails to collect zakat and hence fails to distribute in due course to the eligible recipients, then the authority will be liable to God (Al Ghamdy 2012, Hassan 1987) for gross negligence. As part of the administration, the authority in charge (i.e. the Amil) also has accountability regarding due diligence in zakat administration, as its role is pivotal in ensuring the management of social welfare fund to alleviate poverty within the framework of the Islamic system of governance (Shirazi 2000). It should be noted, however, that the consensus and practice that zakat should be collected by the government has long been absent. For a couple of centuries after the Prophet, zakat gradually became a private matter. Most of the time government had some zakat collection program, but it was treated like tax that must be paid to the government, as governments or rulers lost much credibility in fulfilling their public trust and ensuring public welfare. Thus, a new consensus or mandate would be needed if the government is to assume or be entrusted with this particular responsibility (Eliyani and Handriani 2016). Many Muslims have little trust in their government and therefore instead of giving zakat to the government would prefer to retain their right to privately give zakat. However, collecting and disbursing zakat in an organized manner is indispensable for its effectiveness, and with credible initiatives, governments can gradually earn trust in fulfilling this religious responsibility.

Another important issue is the understanding of the need and wants. In Islamic discourse the issues are discussed in the framework of basic needs and comfort. The notion of Al Hajiat (the level of comfort, which is above the basic need fulfillment, as described by Imam Shatibi (d. 1388 AD) and Imam Ghazzali (d. 1057 AD) as part of their discussion about public interest (maslahah) is relevant in this context (Dusuki and Abdullah 2007; Haspari and Abidin 2016). Based on their conceptualization it can be deduced that if the distribution is supposed to be, let’s say an amount \( d \) to an asnaf, which complies with the requirement of Al Hajiat (the level of minimum comfort), then any amount less than that \( d \) may not be just or acceptable, i.e., that will not conform with Imam Shatibi or Imam Ghazzali’s concept of Al Hajiat as per Maslahah (Bakar et al. 2011), which might also be in line with Maslow’s Hierarchy of Needs (1954).

Zakat is made incumbent to find ways for everyone in the society to be able to meet their basic needs and avoid undue hardships. While everything should be considered the right of God, he has made distinction between his rights and the rights of his creations, especially the human beings. The Prophet has taught the message of God in this regard that Haqqul Ibad (i.e., rights of the people) is not forgiven unless meted or paid in full. Zakat payment falls in the category of Haqqul Ibad. The Prophet has said: “Whoever wishes to be kept away from the Fire and admitted to Paradise should have death overtake him while he believes in Allah and the Last Day and should treat people the way he wants them to treat him” (Sahih Muslim). He also warned in clear terms that he will not intercede for someone who has not paid Zakat in full (Sahih Al Bukhari, Book on Zakat, #485).18

Zakat management authority, whether government instituted or private organization, has the responsibility to distribute the collected zakat as expeditiously as possible among the eligible recipients (Bakar et al. 2011). Ensuring this efficiency can make the needy better off and the society’s welfare enhanced. The strategic goal of Zakat management authority, as part of a broader national plan and framework, should be helping Zakat receivers gradually transition to becoming Zakat givers at the end (Ahmed 2004, Bakar et al. 2011). If after receiving Zakat the condition of the asnaf does not improve, it

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16 The Quran 6/al-An’am/141, 17/al-Isra/26, 21/al-Anbiya/73; Shoufani 1973; Eaton 2005; Kamali 2002.
17 Available at http://sunnah.com/muslim/33/74
18 Available at http://ahadith.co.uk/permalink-hadith-4011
would indicate that an amount adequate for the purpose was not given, and proper method may not have
been applied to help him get out of the poverty trap (Hassan 1987). Zakat cannot be a mere unstructured
and aimless transfer of certain mandated resources from zakat givers to zakat receivers (Bakar et al.
2011). The entire institution of zakat needs to have a framework to apply zakat and all other relevant
resources to help people get out their structural poverty or overcome their incidental poverty. So the job
of Zakat management authority is to make sure that the distribution helps to alleviate poverty and not
just lessen the hardship of the moment (Bakar et al. 2011). Therefore, the authority needs to ensure that
zakat amount is distributed expeditiously and in adequate amount.

Helping people not just in specific, contemporaneous needs (incidental), but helping them so that
any persistent need does not arise again (structural) is an important lesson that one could have gained
from the Prophet Muhammad. It is reported that a person came to the Prophet seeking assistance.
Learning that he was a destitute, he inquired about what he exactly had. He informed that he had a piece
of cloth and a bowl. The Prophet asked him to produce those before him. He then had those auctioned
at two dirham. He then handed over those two dirhams to the individual and advised him to spend
one dirham on food for his family and spend the other dirham to buy an axe and bring it to him. The
individual bought an axe and produced it before the Prophet. At that point the Prophet added a wooden
handle to the axe with his own hand and then instructed him to gather firewood with the axe and sell it.19
The clear lesson of this incident is that our generosity should not be directed merely to address the need
of the moment, but to enable people to become independent by earning their livelihood. Unfortunately,
throughout history no systematic programs or framework was developed based on the same approach
until in 20th century when microcredit movement, similar to Grameen Bank, founded by Nobel Laureate
Professor Muhammad Yunus, were pioneered.

In this framework, there must be targeted and measured interventions. For example, if an x amount
of resource is required for a person to be financially independent, so that he can earn his living, as in the
abovementioned case of the axe, then that x amount needs to be given to this deserving recipient for this
purpose. Any amount lesser than x may not be enough for this recipient, otherwise his dependence on others
will persist

So the lesson that one can learn from the above context is, if a person can start a micro enterprise
(let us say the x amount is required to start a small petty trading), and can sustain, then, that x amount
needs to be arranged and provided. Success of the microcredit movement reveals that in addition to
providing scalable, but adequate resource, there might be need for provision of skill as well as engaging
such people in a supervised framework. In such framework, just like people in poverty can gradually
rise out of poverty, initially a zakat-eligible individual can benefit from properly constituted zakat
management programs until such an individual is no longer a zakat-eligible person. Hopefully, through
further organized support, such people can rise to the level of being zakat-givers or sahib-e-nisab20
(Bakar et al. 2011; Ibrahim 2006). Thus, the Zakat system can be instituted effectively by segmenting
the zakat-eligible pool into two broad segments: those who are in incidental poverty and those who are
in structural poverty. Then, first, due priority can be given to those in incidental poverty, second, to
some of those in structural poverty who can become recipients of zakat and gradually become a Zakat
giver, and then the process can be multiplied until poverty is drastically reduced or even eliminated
(Ahmed 2004; Hassan et al. 2012; Sarea 2012).

This multiplier effect is possible to achieve if some traditional understanding of Islamic rulings
about zakat is revised. In the traditional understanding of zakat, the zakat-eligible person gets full

19 Available at http://hadithcollection.com/abudawud/235-Abu%20Dawud%20Book%2003.%20Zakat/16492-
abu-dawud-book-003-hadith-number-1637.html.
20 In Selangor, Malaysia, anybody earning more than RM 1100 a month in the year 2012, is liable to pay Zakat.
ownership of zakat resource and it is up to the recipient to utilise the zakat as he or she seems fit. Also, zakat, once given to a recipient, can never be asked to be returned. This orthodox approach renders the entire process ineffective for a number of reasons.

First, the orthodox approach does not allow or facilitate recycling of the resource. The microcredit experience has shown that the same resource given to a party can be recycled, because it is in the form of a credit that must be returned. This provides a dignified as well as accountable framework to utilise the resources in a responsible, goal-oriented and problem-solving manner. Second, there is scant attention paid to scale in providing zakat. If a certain minimum resource is needed for a defined path or project for a user of the resource to come out of poverty and that minimum resource is not provided, then the process cannot be effective in producing desired outcomes. Third, the giver of zakat has no responsibility to follow through on the outcome of this zakat transfer, while the zakat recipient has no obligation or accountability in regard to the usage of the resource.

While this can be done at the individual level, where an individual zakat-payer would determine scalable need of a potential zakat recipient and provide the measured help, such individual engagement cannot be efficient or enjoy economies of scale. Furthermore, if an organized supervised framework is needed to make a zakat resource to be properly utilized, then in addition to the segmented approach, there is also a need for a planned, organized approach to zakat management.

Here the segmented approach may require identifying further sub-segments. For example, some people in persistent poverty may require perpetual support due to handicap or senility. However, if those who can be helped to rise out of poverty through finding sustainable income-earning opportunities are segmented and targeted separately from those who would require perpetual support, the extent of poverty can be significantly reduced. (Bakar et al. 2011).

Islam promotes social welfare and asks every believer to lessen the social burden to his utmost (Nor 2012). A poor man is asked to ensure a halal21 sustenance through hard and permissible work, similarly a rich man is ordered to ensure that - in his halal wealth the poor and the needy hav a stake, which should never be forgotten.22 As Islam strongly emphasizes working for earning livelihood and be self-reliant, concerted effort to motivate or inspire to become self-reliant while providing due support through zakat and other relevant resources can have a major impact on poverty reduction.

Modern economic discourse about inequality and economic crisis has highlighted the central importance of maintaining economic inequality at an acceptable level. Zakat and other similar resources can partially help reduce the gap, even though the overall concentration of power – economic and socio-political – would require further structural change to make any significant dent to inequality. Yet, zakat is a pool of resource, which in the hands of lower income people, would have high marginal propensity to consume, and as people gradually make the transition out of poverty, there should be a positive impact on economic growth and development (Sarea 2012; Iqbal 1985). Indeed, with properly instituted zakat management, zakat can be part of an economic index to measure economic growth.

According to Bakar et al. (2011) and Khan (2007), the main goal to implement Zakat is to ensure socioeconomic justice. Furthermore, Hassan (2010) clarifies, that the Zakat fund can also be used for developmental purposes, educational needs, health care services, if the stated eight recipients benefit because of these measures taken by the authority. Several works have highlighted potential macroeconomic effects of zakat, including redistributive justice and multiplier effect (Sarea 2012),

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21 Permissible and honest earnings and not from any questionable sources, like gambling, see Beekun (1996), Faizal et al. (2013).
22 The Quran 98/al-Baiyyinah/5, 4/an-Nisa/33, 8/al-Anfal/2-4, 2/al-Baqarah/273, 2/al-Baqarah/43, 2/al-Baqar- rah/270–281.
boosting national income (Yusoff 2006) and use of zakat as a monetary tool as well as a fiscal tool (Tarar 2012).

While addressing incidental poverty might be more of a resource allocation and utilization issue, structural poverty, persistent in nature, requires a much bigger change in policy and approach. Indeed, as Farooq (2008) articulated, two key reasons why persistence of poverty has been in the Muslim world to be specific are: (a) there is little understanding or research to understand the nature and causes of poverty and an empirical approach to understand what may or may not work; and (b) poverty alleviation, let alone eradication, has rarely been taken as a policy goal for which systematic and integrated initiatives have been undertaken. He further adds that historically zakat as a poverty eradication tool has been largely romanticized, as there is hardly any explanatory record of how poverty was eliminated during the earlier part of the rightly guided caliphs. Farooq offers explanation why, even if those narratives – zakat-givers were roaming the street to find zakat-eligible persons but could not find any – were true, such success in dealing with poverty was not sustained and faded into a golden period in history.

COUNTRY EXPERIENCE

a. Malaysia

Rahman et al. (2012) discussed the snags and issues faced by the Zakat institutions in Malaysia. The authors identified that capacity building and fundamental change of the mind-set is needed by these state-led institutions to decrease the incidence of poverty. They further noted that these initiatives are mainly focused on Muslims only, so the issue of broad policy objective might be missing. They acknowledged the inefficiency issues related to distributive achievements. They reiterated the five requisites for effective zakat system as identified by Yusuf al-Qaradawi.

“The effectiveness of the zakat institution in carrying out its duties would depend on a number of factors viz. expansion of new resources for zakat, the collection of zakat from tangible and intangible properties, systematic zakat management, efficient zakat distribution and the thoroughness of implementation of Islamic rules.” (Rahman et al. 2012, p. 35)

Rahman et al. (2012) further emphasized the importance of organized collection and distribution of zakat, as was during the time of the Prophet and the early caliphs.

In asserting the historical context of zakat collection in Malaysia, Rahman et al. (2012) states that, it was assumed it used to be collected or disbursed to religious scholars, and these scholars were expected to know the true usage and were hoped that they will be able to reach the rightful recipients. And after the disbursement, the remainder, they could be used as their reasonable honorarium. Furthermore, Rahman et al. (2012) highlighted that transformational improvements in the area of Zakat management though did take place in the very recent past in Malaysia, but inefficiency in distribution and the administrative bottlenecks indicated significant room for improvement (Lubis et al. 2011; Wahab et al., 2011). Finally the authors pointed out that capacity building along with adequate and prompt fund transfer to asnaf to facilitate their transition from being a receiver (Asnaf) be a Zakat giver (Sahib-e-Nisab) at the end must be approached in a planned manner.

Indeed, planned and systematic approaches within a performance monitoring framework is a more recent development in the past half-century. In Malaysia zakat organizations come under state authorities, which have gone through significant development through their corporatization or corporate governance experience. One such performance study (Mohd Noor, et al, 2015) in Malaysia based on survey of respondents related to a number of zakat organizations as beneficiaries or administrators. The study found more problem with zakat distribution than with zakat collection, as the former lagged significantly behind the latter.
“Some [zakah organizations] registered as little as of 50% of zakat collection being distributed. On average, only 77% of zakat were distributed annually for the period of 2003 to 2010” (Mohd Noor, et al, 2015).

Consistent with the other studies by Rahman, et al., Mohd Noor’s study identified the following snags: (a) zakat collection is usually concentrated toward the end of the year, which leads to problems in distributing the fund during the next 12 months and such inefficiencies undermine the confidence of the zakat payers as well as payees; (b) lack of studies that focus on zakat institutions’ performance in light of resources, processes and stakeholder. The study notes that while there is great potential for making the zakat collection more robust, for zakat system to have its desired effects, the approach has to be impact oriented and the operation of the system has been appropriately monitored based on provenly effective benchmarks, like the one proposed by the authors.

b. Pakistan

Pakistan is the second largest Muslim-majority country and officially known as an Islamic Republic. The country has a high incidence of poverty. According to a new report, one-third of the population are poor (Khan 2016). Thus, zakat as part of the poverty alleviation toolkit has high significance. In 1980 Pakistan enacted Zakat and Ushr Ordinance (Toor and Nasar 2004) as part of a new welfare system. Since then many studies have been undertaken to explore the scope of the problem and the impact of zakat to enhance welfare.

A study using both micro and macro level data on zakat, Azam et al, (2014) found zakat having significant impact enhancing welfare of the impoverished pool in Pakistan. The study also found the zakat collection mechanism weak and the distribution lacking transparency and simplicity.

Zeb et al. (2014) points out similar findings while assessing the role of Zakat as a social safety net and problems faced by inadequate distribution in Pakistan. Administrative bottlenecks are the root cause of scant disbursement and delayed imbursement to the recipients. Furthermore, according to the said author, the banks or other institutions, who are appointed as amil (zakat collector) in Pakistan, are not playing a proactive role in addressing the administrative and other related issues. Illiteracy and corrupt measures are also magnifying the bottlenecks further, and this can in turn tarnish the true image of this noble institution and its executions, according to the said authors.

Shirazi (1996) studied a number of targeted programs in Pakistan that successfully reached the target group, but the coverage very small.

c. Sudan

Sudan is one of the major Muslim majority countries in Africa, also with a high incidence of poverty. The country has an organized approach to zakat through Sudanese Zakah Chamber (SZC). Studies on the zakat sector in Sudan find positive linkage between zakat programs and their impact on poverty alleviation in the country. However, consistent with studies from other Muslim-majority countries, the studies identified considerable operational inefficiencies that reduced the impact of the programs (Hassanain and Saaid 2014).

Since 1980, zakat law was enacted for an experiment on voluntary basis and since 1984 payment of zakat was made compulsory and institutionalized. According a some reports, 61% of zakat was paid to the poor (fuqara) and needy (masakin) and 40% disbursement was in cash (Powell, 2010, p. 71). While positive impact of zakat has been established and noted, such cash payment may be less effective due to the extent of poverty, where the recipients may be motivated to use cash to meet urgent or immediate needs than utilizing the resource for more enduring and sustainable impact on their lives.
5. THE WAY FORWARD

These countries experiences have some common aspects, which, as reflected in the studies, drive the point home that while there is a strong potential for zakat to have a positive impact and in some cases it is having some impact, there are significant limitations or constraints due to ineffectiveness in both collection and distribution of zakat. This is further exacerbated due to a lack of goal-oriented, systematic, problem-solving approaches to utilization of zakat as a poverty-alleviation tool.

However, the limitation is partly also related to the lack of a targeted approach that segments incidental and structural poverty. If zakat and other charitable resources are used unsystematically, it may be useful only for incidental poverty (Farooq 2008). Furthermore, in Islam the haves have a greater responsibility in dealing with absolute poverty or the issues of have-nots, which sadly was not addressed properly by the scholars and the ruling establishment in a systematic and problem-solving manner throughout Muslim history. Regrettably, the authorities in the Muslim world generally took ad-hoc actions in regard to poverty eradication, which evidently have not helped the society to sustainably overcome the challenges of poverty.

It is also possible that the notion of sustainable or long-term solutions to the problem was not within the grasp of earlier generations. Though the Muslim history records that the religious establishments were commonly in charge of receiving and distributing the ZSWF resources, unfortunately there is hardly any record of a systematic approach based on investigative research of the problem and development of relevant policies and frameworks for intervention. Muslim scholars, jurists or authorities did not have an empirical approach to study the problems, based on which appropriate interventions would be undertaken. There were interventions, as Muslims generally have been sensitive to human miseries and concerns, but not necessarily based on empirical studies to first understand and diagnose the problems in terms of their nature and extent.

The trailblazing contributions of Ibn Khaldun could have paved the way for such a systematic approach to study socio-economic problems, but Muslims hardly paid attention to him until the West discovered Ibn Khaldun, understood and appreciated him better, and Muslims became reintroduced to Ibn Khaldun, one of their own, through the West (Farooq 2008). In the past few centuries, as investigative research, especially in a dynamic way (i.e. thinking out of the box in light of human experience), became more common in the West or even in the colonies, Muslim scholars, experts and authorities had hardly taken any interest in such approach, until recently (Farooq 2008).

While Zakat (alms and charity) is a very important Islamic institution as well as an Islamic obligation (Siddiqui 1978) and a powerful tool for socio-economic welfare and bridging the income gap in the Muslim economy (Sarea 2012), the experience of Muslim societies continues to demonstrate that mere distribution of Zakat for the asnaf without a targeted, segmented and mapped-out problem-solving approach cannot bring the desired impact. The real goal of zakat is not merely alleviation, but economic empowerment that has a sustainable socioeconomic impact on people’s lives to move them from their current condition to put on the trajectory toward escaping the vicious cycle (Bakar et al. 2011). 23 That still can serve as an important norm in approaching the issue of zakat and designing approaches to face the relevant challenges.

Sapingi et al. (2011) identified the reasons and influence that motivates one to pay Zakat, and found that though the collection of Zakat is mainly from employment income (Sapingi 2011), the amount can be increased if the awareness can be raised and likewise, if the authority puts more effort in

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23 The author further quoted that Yusuf Al Qaradawi supported such notion in his famous writings in 1987.
raising awareness from all the applicable sources. Proactive collaboration between Zakat institutions and micro finance institutions (MFI), both sharing common goals, can enhance the effectiveness of zakat management and programmes. (Hassan et al., 2012)

Several researches identify strength on the collection side, but relatively more weakness on the distribution side, which can be improved with adequate incentives, promotions and awareness. (Johari et al. 2013; Sarif et al., 2013; Sapingi et al. 2011)

Zakat, as gratitude to the Creator, is like a financial worship for the giver, and also a financial gratitude for the receiver (Benthall 1999). Zakat fund can serve as a stabiliser, and its mismanagement means that the economy is deprived of certain important benefits. (Zaman 1991) The distribution needs to be based on a well-defined framework of targeted alleviation of poverty, to ensure social justice, to promote social harmony, and above all, to remove conflict and suffering from society, so that this world can be a better place for everyone.

With the era of Islamic finance, zakat has received considerable attention, both theoretically and empirically. As more robust and systematic efforts are being undertaken in different Muslim-majority countries, researchers as well as policy-makers are benefiting from the practical experience. This is helping to better understand and diagnose the nature and extent of the problem, which in turn will facilitate better implementation of zakat as part of a broader, systematic effort within national development frameworks.

4. CONCLUSION

Zakat has played an important role in society as experienced in Muslim history. When used effectively, as demonstrated during the reign of Caliphs, Umar I and Umar II, it had reduced poverty meaningfully and ensured welfare for everyone. As this survey shows, the key is not just to use zakat as transfer payments in an unplanned manner, but to apply it in a framework that ensures at least basic needs fulfilment (Farooq 1988). Islam presents zakat as a worship that purifies the believers’ wealth, reflects and enhances piety, delivers shares of wealth to the rightful recipients and brings blessings to the zakat-payers.

Research on zakat is becoming more common, increasingly with an empirical bent. These researches establish that zakat fund needs to be apportioned according to priority as part of a mapped-out framework to reach targeted groups – segmented into incidental and structural, which, if implemented successfully, can usher shared prosperity and enhance stability and harmony in a society. However, the segmented approach is yet to take firm root in various zakat implementation programs.

Zakat by itself may not be adequate to eradicate poverty, but when it is made complementary to policy measures and other infaq initiatives in a national development framework, it can have significant role in poverty alleviation. In the short run, if the emphasis is on incidental cases, and if these incidental cases are proactively addressed, then the zakat-eligible base can shrink and the base of sahib-e-nisab can expand. Parallel to addressing the need of the incidental pool, the society can have a more systematic approach to address long term and persistent woes of structural poverty. The important thing is that zakat administration and its proper intervention needs to be based on thorough and contextual research and investigations, which has been lacking. Research and knowledge-based approaches can enable zakat to have relevant impact.

Effective policy planning and interventions toward poverty alleviation and poverty eradication require understanding the nature and needs appropriate for alleviating incidental and structural poverty. Designing any solution toward poverty alleviation would be more useful when zakat resources are collected and combined with other resources and allocated toward addressing incidental and structural
poverty in a systematic manner.

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