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Combating Poverty in Malaysia: The Role of Zakat*

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Abstract

Poverty is often referred to as a phenomenon of scarcity, inadequacy or instability of income. Besides, poverty can also cause health issues, exacerbate social problems, leading to isolation, discrimination and loss of a bright future. Lately, the role of zakat (the compulsory giving of a set proportion of one's wealth to charity) as a useful tool in combating poverty has been highlighted since zakat collected will be distributed specifically to the poor and needy groups. This paper seeks to assess the role of zakat in combating poverty among recipients. A questionnaire was distributed to 300 participants selected from the list of recipients who received assistance from *Zakat* institutions. A cluster random sampling has been utilized to select sampling from the target population. The data were analyzed using SPSS to provide descriptive analysis. Past evidence has shown how zakat has able to transform the recipient into a payer especially through education or business assistance. Proper management of zakat institution is seen as a powerful mechanism to facilitate community development and to strengthen the Muslim economy. Results show the importance of zakat in the effort to eradicate poverty and further able to improve the *asnaf's* quality of life.

Keywords: Economic, Poverty Alleviation, Rural Poverty, Zakat, Zakat Fund, Malaysia

JEL Classification Codes: G20, I38, P25, P36, R29

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1. Introduction

The 2020 crisis due to the COVID-19 outbreak has caused huge disruption on the economic activities. Although the declaration of movement control order (MCO) 1.0 and MCO 2.0 at the domestic level was meant to minimize the impact on the people and the country, it has caused forcing permanent closures of business, people losing their jobs, incapable to pay loans and even unable to fulfill their basic needs. Even worst, the large floods that hit Perak, Pahang, Terengganu and Selangor have added to the misery of the people involved. From unwelcoming events, it is expected that Malaysia will face a high unemployment rate, lower GDP, and increase in poverty. This will put a huge burden on the government to ensure the welfare of the people especially those below 40 (B40). This situation has caused Malaysians to rely on any assistance available either from the government, religious institutions or non-government organizations (NGOs), for survival. This situation has also increased the numbers of people living in poverty.

Combating poverty is becoming the main focus globally. The 2030 Agenda for Sustainable Development of the

United Nations has set out 17 sustainable development goal (SDG), where the first goal targeted is eradication of poverty with the tagline “End poverty in all its forms everywhere,” showing how serious this issue has been addressed in the global platform. This question had been frequently asked in various studies eliciting different answers (Zou et al., 2019; Wang & Peng, 2021; Quang Pham et al., 2021). Findings with different answers is because poverty itself is a multidimensional phenomenon, therefore, poverty should be defined and measured in a comprehensive manner. Households with an income of RM3,000 per month were considered well-off in the 1990s, but not in the 2020s. The same goes if one receives an income of RM3,000, but for a single as compared to a household with six family members on the same amount of income. The general definition of poverty is unique for every single country and can be retrieved from the World Bank website. Poverty indicator in Human Development Data (1990–2018) is measured by using the education index, the health index, and standard-of-living index. On top of that, it is becoming common to use consumption or income as a basis for setting up the poverty line.

Managing the poverty issue is always an important agenda item for the government. Lower poverty rate proved the government’s success in promoting equality, which should be in line with the growth achieved in the country (Kusairi et al., 2020). Serious emphasis on combating poverty by the government is crucial when poverty can contribute to other problems such as illiteracy, health problems, social problems and other socioeconomic problems, which always become a concern in both national and global discussion and that might also prevent the successful achievements of other SDGs such as SDG2-Zero Hunger, SDG3-Good Health and Well-being, SDG4-Quality Education and SDG10-Reduced Inequalities. To understand the concept of poverty is not easy as it is so complex and may be interpreted differently. The recent health pandemic COVID-19 poses a significant threat to economic stability, especially to the households. Among the impact is companies are shutting down their operations and lay off the worker (Kochhar & Barroso, 2020). This leave people without jobs and struggling to make end needs.

Since then, efforts have been undertaken to reduce the poverty rate by establishing new regulations and strategies that help to overcome the current economic uncertainties (OECD, 2020). Until recently the target is reducing poverty and hunger to no more than three per cent of the world’s population living on just \$1.90 a day by 2030, as mentioned in the 2000 Summit, but still unable to be achieved (United Nation, 2019a). It is believed that the reason for such failure is due to a series of economic uncertainties that affect the global economy, and the COVID-19 pandemic makes it more difficult to realize these goals. This led the government to decide on the trade-off between growth of the economy and

resource redistribution. The latter usually being prioritized, which has resulted in a slower pace of economic growth (Beik, 2013).

In the Muslim economy, *zakat* can be defined as an alternative assistance on top of government support for poor and needy people to solve their financial needs. In brief, *zakat* can be described as a compulsory obligation for Muslim to part of wealth, which is at the rate of 2.5% and paid to the authorized religious center. The amount of *zakat* collected will then be distributed to eight groups of eligible *asnaf*. The list of eligible *asnaf* includes: poor, needy, *amil*, *muallaf*, *al-Gharimin*, *fisabilillah*, and *Ibnussabil* where usually the first two become the utmost focus. Thus, *zakat* is usually being treated as the most powerful tool in an Islamic economic framework for poverty alleviation and economic welfare.

However, the role of *zakat* in the poverty eradication is often being underestimated. The focal discussion of *zakat* usually being diverted to the failure of *zakat* institution in managing the *zakat* fund wisely. The potential of *zakat* for Muslim economy harmonization is yet to be unlocked with the current mindset toward *zakat* institutions. Considering the underexplored role of *zakat* as a tool to combat poverty especially in the Muslim world, this paper aims to unveil how *Zakat* assistance may help alleviate poverty in Malaysia’s context. The remaining section is organized as follows: Section 2 presents the discussion of the relevant literature review followed by the discussion of the methodology and the findings in Section 3 and Section 4, respectively. Section 5 finally concludes.

2. Literature Review

The definition of poverty is rich and varied. The understanding of poverty definition and characteristic has been revised since the early 20th century when too many foci have been diverted to dig on determinants and solutions of these global problems. The original definition given by prominent Muslim scholar Al-Qaradawi (1999) on poverty is: the economic conditions where an individual who has no property or income and has to rely on others to meet their needs. Poverty can also be described as the scarcity or the lack of a certain (variant) amount of material possessions or money, which is a multifaceted concept including social, economic, and political elements (Sabates, 2008). Collins’ (2020) recent definition of poverty is a lack of income to purchase a minimum of goods and services needed to survive. Since the definition of poverty is diverse, as it has been compiled through a series of similarities, there was no specific meaning of poverty until nowadays (Mahamod, 2011; Spicker, 2018; Collins, 2020; Lauren & Perdana Kusuma Putra, 2020).

Within the global context, poverty has been viewed as insufficient income or resources to meet one’s essential needs.

Debates on poverty have been influenced by the necessity of understanding the right or wrong approach in tackling the poverty issues, plus understanding the cause and effect of poverty itself. Over the years, the concept of poverty has been defined in different ways, which cover income, basic needs, and capabilities (Spicker, 2018, Bray et al., 2020). From the perspective of income, one is poor if, and only if, one's income level is below the defined poverty line. Many countries based on the World Bank indicators have adopted income poverty lines in monitoring the progress to reduce poverty (Ravallion & Chen, 2019). Often, the baseline of poverty is defined in terms of having enough income for a certain amount of food (Tonn, 2021).

Heberle and Carter (2020) emphasize the negative stereotyped beliefs about people in poverty from adults as well as children and how this will affect people's life. In the long run, limited knowledge, lack of awareness, and low self-esteem toward their ability to move forward has caused the failure of poor people in transforming themselves for a better life. There are six types of poverty (Kumar, 2018) on basis of social, economic, and political aspects, which are absolute poverty (Owais, 2020), situational poverty (Ijaiya et al., 2020), relative poverty (Decerf, 2021), generational poverty (Docka-Filipek, 2017), rural poverty (Pan, Wang, & Ryan, 2021), and urban poverty (Vilar-Compte et al., 2021).

Relative poverty is a widely-used measure to ascertain poverty rates in a wealthy, developed nation. The implications of poverty are hedging a person who possesses knowledge, skills and knowledge on how to generate income, to move ahead and succeed (Soytemel, 2013). This is due to the current practice of cronyism, institutional and legal setting, and cultural factors do not support the efforts of helping the poor (Daniele, 2020). The discussion of rural poverty also received a lot of attention among scholars where it can be categorized into five elements, namely, income poverty, physical weakness, isolation, vulnerability, and powerlessness (Sewell et al., 2019). Rural poverty is affected by a few factors such as the size of large families, individual environments, government policies that affected income and welfare, and political policy (Anthopoulou, Kaberis, & Petrou, 2017; Nguyen et al., 2020).

Although the incidence of poverty can be minimized, it cannot be fully eliminated. Poverty continues to exist and efforts to overcome it should be continually implemented. Islam taught the Muslims to always enhance the spiritual aspect of a person, which will influence the involvement in the effort to combat poverty issue at every level (Yesuf & Aassouli, 2020). Based on this, a very effective strategy is required to improve development and eradicate poverty as the poverty problem is a very complex phenomenon and it covered the whole country (Zhou et al., 2018). Salgotra, Kandari, and Bahuguna (2021) highlighted that the accessibility to finance enables to assist in poverty eradication.

In most recent development, there is an increasing trend focused on poverty index in Malaysia (United Nations, 2019b) and it is believed to getting worse with the COVID-19 outbreak, which triggered the debate on the role of *zakat* and how the fund collected was managed. Based on the Islamic view, *zakat* was genuinely meant to help the needy (Kamla & Alsoufi, 2015) and act as an assistant to boost people economic ability to fulfill basic needs (Mohd Ali et al., 2015). *Zakat* also acted as a tool to strengthen the social economy as it has the function to reduce the gaps between rich and poor by distributing welfare fairly (Zainal et al., 2016). Other than through *zakat* institution, *zakat* distribution can also be implemented by using financial technology such as mobile banking (Yahaya & Ahmad, 2018), which can enhance the effectiveness of *zakat* distribution. The increasing amount of *zakat* collection will lead to the increment of Real Gross Domestic Product (Nisthar, Mustafa, & Mazahir, 2018; Mohamed et al., 2019), thus, contribute toward the decline of poverty.

Zakat is functioning to reduce poverty. Quraisy, Hamzah, and Razak (2017) reported that a microcredit program of BaitulMaal Wat Tamwil (BMT) in Indonesia has a positive impact on its participants' quality of life. Henceforth, it intrinsically suffices to mention that the microcredit programs bring about positive contributions and improvement to the participants' quality of life (Mohamed Isa, Ali, & Ibrahim, 2019). However, there are also weaknesses of *zakat* management specifically on the distribution aspect in Malaysia. Such weaknesses included *zakat* miscalculation (Howe, 2019), unreported *zakat* collection (Embong, Taha, & Mohd Nor, 2013), and limitation of *zakat* allocation channel (Ali, Ibrahim, & Ab Aziz, 2019). Among the missing items that have always been overlooked during *zakat* distribution are medical insurance, education, and religious savings. Therefore, to improve the *zakat* distribution, those missing items need to be dealt with based on *zakat* instruments wisely (Ali et al., 2019). *Zakat* distribution serves to reduce imbalanced income distribution and wealth (Muhammad, 1986; Jehle, 1994, Meerangani, 2017) and eradicate poverty, and its role and function remain despite the extreme change in the way people lives for the past few decades. Distribution of *zakat* improves the quality of life where the impact was due to the quality of education and social participation of poor people (Suprayitno, Aslam, & Harun, 2017).

The discussion on the role of *zakat* on poverty eradication can be traced to Al-Qaradawi (1993, 1995), who emphasized how *zakat* can liberate the Muslim community from the chaos of poverty. The discussion was then continued by Mohd Sabri (1997), who emphasized how *zakat* can redistribute wealth and restore social balance in society. *Zakat* has a clear background as the foundation in building a strong Islamic community, particularly concerning the socio-economic status of the *ummah* (Gamon & Tagoranao, 2018; Nashwan

et al., 2020). The effectiveness of *zakat* as a tool for eradicating poverty is proven long ago because the methods used in distributing *zakat* can meet the needs of *asnaf*, either in the form of regular assistance or capital assistance for them to become independent persons (Ayuniyyah et al., 2018; Aziz et al., 2020). To sustain the economy of the poor, *zakat* aid also can be utilized as capital to start a business (Nadzri et al., 2012; Meerangani, 2019; Mahmood, Al Mamun, & Ibrahim, 2020; Harun & Ab Rahman, 2021). Besides, to improve the poor's income, seed fund assistance can be used as business capital and exposure to help them as well (Zainal et al., 2016). Therefore, *zakat* is not only able to reduce poverty, but will also develop a social and ethical value for societies to achieve sustainable development.

Jehle (1994) proves that the distribution of *zakat* that has been given to *asnaf* has managed to reduce the imbalance of income distribution. Since then, studies (Ibrahim, 2008; Kadri, Ahmad, & Noor, 2012; Nurjanah, Kusnendi, & Juliana, 2019; Setiyowati, 2019) have proven the role of *zakat* in eradicating poverty, income distribution and create wealth equality in Islam. *Zakat* is effective in reducing income distribution imbalance gaps and succeeding in overcoming the problem of poverty. Kefeli et al. (2017) found that *zakat* aid had a significant impact on the quality of life. However, this study finds that the poor can improve the quality of life through children's education on *zakat* aid. From the logistic regression results, it shows the relationship between the variable of *zakat* aid with five factors of quality of life. The study found that *zakat* aid has a significant impact on the quality of education and the social participation of the poor.

It follows from the above discussion that determining, understanding and examining the issues of poverty is always relevant and not just seasonal. From an Islamic perspective, the pivotal role of *zakat* on eradicating poverty should be promoted to ensure every eligible Muslim is able to benefit from this opportunity. It is important for the authority that deals with *zakat* management to have a thorough planning so that *zakat* funds can finance long-term projects that will enhance the lives of the poor and needy. Further, distribution of *zakat* must include various forms of assistance that could have a long-term effect suitable for the passage of time.

3. Methodology

This study was conducted in Terengganu, based on the Department of Statistics Malaysia that ranked the area among the top 6 with a high rate of poverty of 6.1 percent in 2019 (Economic Planning Unit, 2020). The respondents were those who received *zakat* assistance from the Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM), which was under the category of poor and needy to fulfill the research objectives. Three districts (Hulu Terengganu, Besut and Marang) were selected, which represent both

urban and rural residents. The population represents the poor and needy *asnaf* obtained from the Terengganu State *Zakat* Distribution. For this research, 300 participants were selected from the list of recipients who received assistance from *Zakat* institutions. Questionnaires were distributed to the participants who are selected purposefully. To achieve this, a cluster random sampling has been utilized to select sampling from the target population. The data were analyzed using SPSS to provide descriptive analysis and interpreted by using mean.

4. Results

A total of 200 questionnaires out of 300 have been successfully collected and analyzed. Questionnaires were distributed to the selected recipients to identify their demographic profile. 59% of the respondents are female who receives a different type of *zakat* assistance with the age ranging from 21 to 40. 55% of the respondents are aged between 41 and 60 years old, and 58% or 104 respondents are married. Table 1 shows that 99% of the respondents received an income below RM2,000. The recipients from this research in majority come from a destitute category, which received RM301 to RM450 per month from *Zakat* institution.

Table 2 shows the financial perspectives. As we can see, the statement '*Zakat* assistance can reduce my family poverty level' recorded the highest mean. As most of the *zakat* recipients come from the poor and needy category, regardless of the amount received, they believed this assistance at least may reduce their burden to provide the necessary item to the family. Thus, it cannot be denied that *zakat* assistance can help them to live and reduce their poverty level in daily life. The second highest mean of 3.94 came from the statement of '*Zakat* assistance granted to meet the basic needs of my family,' which also obtain a good score. This statement complements the first statement, which is *zakat* can reduce family poverty. These results were in line with previous findings by Yesuf and Aassouli (2020), which address how important, if managed systematically, *zakat* can be used as powerful tool to eradicate poverty.

There were three statements with an average rating, which are '*Zakat* helps in increasing my monthly income', '*My* income increased significantly after receiving *Zakat*', and '*Zakat* received is increasing over the years'. These three statements are related to each other that represent the amount of *zakat* to the recipient income. This results indicate that *zakat* is not significantly improving their income level, but still slightly changes the way they are living through the assistance given.

The lowest mean, which is 1.53, is the statement '*Zakat* assistance helped me become a successful entrepreneur' showing that the respondents do not agree with this idea. One of the reason why this question was developed is to

Table 1: Demographic Profile of the Respondents

	Frequency	Percent
Gender		
Male	82	41.00
Female	118	59.00
Age		
21–40	13	6.50
41–60	110	55.00
61–80	56	28.00
81 and above	21	10.50
Marital Status		
Married	104	58.08
Divorced	29	12.66
Widow	44	19.21
Widower	18	7.86
Single	5	2.18
Number of Households		
0–2	92	46.00
3–4	55	27.50
5–6	30	15.00
7 and above	23	11.50
Monthly Income		
RM 0–RM 1,000	110	55.00
RM 1,001–RM 2,000	88	44.00
RM 2,001 and above	1	1.00
Amount of Zakat Receive		
RM 0–RM 200	25	12.50
RM 201–RM 300	40	20.00
RM 301–RM 450	112	56.00
RM 451 and above	23	11.50

see the effectiveness of one type of distribution given to the *asnaf*, which is capital assistance as seed money. It is found that, from the recipients' point-of-view, *zakat* fund does not help them to be successful entrepreneurs because the fund is only enough for their basic needs. This is when the seed money was not meant to provide basic living, but specifically for business purposes. Factors that contributed of such failure in this program are *asnaf* attitude (Mahmood et al., 2020), limited time to monitor the recipient (Bahri & Arif, 2020) and bad quality of human resource (Mustafida et al., 2020). This was something that needs to be further explored to see the root cause of why this is happening and how this can be overcome.

Table 2: Financial Perspective

No	Statements	N	Mean
1	<i>Zakat</i> can help reduce the level of poverty of my family	200	4.15
2	<i>Zakat</i> assistance granted to meet the basic needs of my family	200	3.94
3	All <i>Zakat</i> is distributed fairly to recipients	200	3.39
4	<i>Zakat</i> help in increasing my monthly income	200	3.30
5	My income increased significantly after receiving <i>Zakat</i>	200	3.29
6	<i>Zakat</i> received is increasing over the years	200	2.56
7	<i>Zakat</i> assistance helped me become a successful entrepreneur	200	1.53

Table 3: Overall Performance of *Zakat* Distribution Toward Recipients

No		N	Mean
1	I can well manage <i>Zakat</i> received	200	3.91
2	<i>Zakat</i> has contributed greatly help in improving the education of family / my children	200	3.75
3	<i>Zakat</i> assistance have increased potential business / my job	200	3.03
4	<i>Zakat</i> assistance has increased the potential for me	200	3.01
5	I am happy to deal with <i>Zakat</i> Institution	200	1.75
6	I am satisfied with the distribution of <i>Zakat</i>	200	1.54

Table 3 provided information on recipients' opinion toward *zakat* that has been obtained from the institution. From the above table, the statement with the highest mean of 3.91 is the statement that stated, 'I can well manage *Zakat* received'. This indicates that most of the respondents agreed with this statement showing they able to manage the *Zakat* assistance received. Although coming from the poor and needy group, their skills in managing resource cannot be denied. This findings is relevant in the discussion by Meerangani (2019) where *zakat* received is well managed by the recipient in the economic development.

The statements with the average rating are '*Zakat* assistance has increased potential business / my job' and

‘Zakat assistance has increased the potential for myself’. These statements are related to the welfare of the recipients. It shows that *Zakat* assistance does not help in their job or business and even themselves, but make a huge contribution in providing better education to their family. However, it can be said that most of the recipients were not satisfied with the *Zakat* institution and how they manage the distribution. This can be proven by two of the poor rating statements, which are ‘I am happy to deal with *Zakat* institution’ and ‘I am satisfied with the distribution of *Zakat*’. Thus, *Zakat* institutions should improve their service provided and becoming more transparent to ensure the public get a clear picture of how the *zakat* fund was managed. These findings can be associated with Saad et al.’s (2017) study, which highlighted the needs for *zakat* institutions to improve their governance aspect in term of the performance and innovation toward the distribution of the fund.

Table 4 shows information on the life changes after the respondent received the *zakat* fund. The table shows that all four statements have a high mean, indicating that the respondents agreed with these statements. The highest mean, which is 4.50, with the statement “My standard of living and my family have improved compared to before receiving *zakat*”, indicates that respondents’ standard of living has improved after they receiving *zakat* assistance. The second highest mean is 4.01 with the statement “The situation in my life and my family is better than in the last five years in terms of material increase/asset ownership”, which indicates that they can have better asset and material increase for their living. It shows that *zakat* can help in improving the standard of living and comfortable accommodation.

Besides, from the two statements with the same mean, which is 3.45, with the statement “The situation in my life

and my family is better than in the last five years in terms of participation in community activities” and “The situation in my life and my family is better than in the last five years in terms of jointly developing the community”, indicate that *zakat* can help respondents in improving their social life. Respondents are more likely to participate in community development if their standard of living improved. Thus, it shows that *zakat* can help in improving the standard of living and also the social life of the *zakat* recipients. Based on these results we can see the potential of *zakat* as a tool in designing the Muslim economy in the future if it was managed properly. These findings can be relate to the results obtain by Kefeli et al. (2017), Suprayitno et al. (2017), Nurjanah et al. (2019) and Setiyowati (2019) on how *zakat* can facilitate in transforming the recipient quality of life and promote equality.

5. Conclusion and Recommendations

Managing *zakat* is so complex as the institution are given the responsibility to ensure that the *zakat* fund contributed by the payers was properly managed. To date, there is rising concern on how *zakat* fund was distributed. This is when the social media have news on the abandon of poor and needy and this somehow may shatter the image of the *zakat* institutions. Based on this issue, this study was conducted to see how *zakat* assistance may help alleviate poverty. Based on the analysis conducted, the results show that the fund distribution by *zakat* institution is effective in reducing poverty and reducing the imbalance of income distribution among poor and needy although a lot more can be done. It also shows positive development for *zakat* distribution on poverty and income distribution. Thus, the effort to improve the distribution is able to assist the government in combating poverty especially during the economic uncertainty, which resulted in a high rate of poverty. The focus should be given at the stage of implementation of aid programs to make their impact more effective from time to time.

Continuing improvement by Baitul Mal in managing the distribution system of *zakat* to the poor and needy should be praised. However, it will be more meaningful if such effort is showed to the public through disseminating relevant information. Besides, information on *asnaf*’s eligibility should also be communicated publicly to reach all level and to ensure everyone knows their right. This is when sometimes the *asnaf* itself is not aware of their eligibility or right toward the *zakat* fund. Besides, they did not have any opportunity to obtain the information due to the limitation that they have and as they usually isolate themselves from the public. This has hedged the institution objective of eradicating poverty. Hence, improvement of the distribution process to *zakat* recipients from disseminating the information until the final process of distribution is crucial to ensure the poor and needy

Table 4: Life Changes After *Zakat*

No		N	Mean
1	My standard of living and my family have improved compared to before receiving <i>zakat</i> .	200	4.50
2	The situation in my life and my family is better than in the last five years in terms of material increase/asset ownership.	200	4.01
3	The situation in my life and my family is better than in the last five years in terms of participation in community activities.	200	3.45
4	The situation in my life and my family is better than in the last five years in terms of jointly developing the community.	200	3.45

group of *asnaf* is treated fairly. This will not only ensure the right of the poor and needy group has been fulfilled, but also may improve the image of *zakat* institutions. It is hoped that the information provided in this study may assist the *zakat* institution to revisit their quality of services provided to the *zakat* recipients.

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