

# Through Islamic Banks' Zakat House (IBZH): Investment of Zakah Funds in Microfinance to Remove Poverty in Bangladesh: A New Model

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## *Abstract*

One of Zakat's main objectives is to help eliminate poverty and famine. And in Shari'ah, the obligation of zakat payment is elaborated which if not maintained holds severe consequences. Zakat has its unique features of supporting the poor in providing a collateral free financial stability. The main socioeconomic factors in all the developing Muslim countries are poverty, unemployment and economic inequality which results in not meeting the basic needs of the poor. In a country like Bangladesh consisting of Muslim Majority, although governmental and non-governmental institutions collect and distribute zakat yet the ultimate goal of zakat is not attained completely. At present, modern Islamic jurists reinforce the notion of microfinance investment through the collection and usage of zakat money. This paper consists of a static ground for the poverty removal creating a financial institution which is equally responsible as those present in Bangladesh but with a different route in eliminating poverty where schemes can be initiated along with opening opportunities of employment. Finally, it also surfaces the model in investment of zakat fund through IBZH with opinions of Islamic jurists. This Islamic Banks Zakah House (IBZH) is an amalgamated forum of the present eight established private Islamic banks of Bangladesh

**Keywords:** Islamic Banks' Zakat House (IBZH), Microfinance, Bangladesh.

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## Introduction

Among the Muslim populated countries Bangladesh stands in third position<sup>1</sup>, accommodating about 150 million population where 31% lives under the poverty line<sup>2</sup>. This count is more in rural areas rather in the urban areas<sup>3</sup>. There have been many innovative movements introduced since forty years by many conventional micro financial institutes (CMFIs) to remove poverty and famine from the face of Bangladesh, especially Grameen bank (GB), Bangladesh Rural Advance Committee (BRAC), Association of Social Advancement (ASA) etc. various researches proved that this conventional programs were not successful as expected. According to begum and momen (2006); the eradication poverty is not possible as per the micro credit programs which acquire excessive interest from the poor<sup>4</sup>.

Therefore, the conventional micro financial institutional effect on the society did not propagate the notion of equality, instead inequality prevailed (Hassan and Khan: 2007)<sup>5</sup>.

On the other hand, in Islam zakat has been known as the principled weapon for the alleviation of poverty. The reference of which has come 30 times in the holy Quran, at some point it addressed the Prophets as examples and at another point it addressed the Muslims to implement it.

The role and importance of zakat in Islam has been exemplified by the incident of the first kahlif Abu Bakr of zakat where he declared war against those who denied the payment of zakat<sup>6</sup>. Yet the elements of the third pillar of Islam i.e. zakat is not full filled completely. Although the superiority complex between rich and poor is decreased through this process.

The organizations of zakat in Bangladesh are not successful enough to bring any changes upon the distraught lives of the poor. In this case, the

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<sup>1</sup> [https://en.wikipedia.org/wiki/Islam\\_in\\_Bangladesh](https://en.wikipedia.org/wiki/Islam_in_Bangladesh)

<sup>2</sup> Shahadat Hossain, M.D., 2014. An Analysis on Macroeconomic Performance of Bangladesh (Dhaka, Bangladesh: The Institute of Chartered Accountants of Bangladesh, 2014), pp: 17.

<sup>3</sup> "Bangladesh: Priorities for Agriculture and Rural Development", Agriculture in South Asia, The World Bank, <<http://www.worldbank.org/en/topic/agriculture/x/sar>> accessed November 01, 2014.

<sup>4</sup> Momen, M. N., and Begum, M. M. (2006) Impact of Micro-Credit Program for Women Development in Bangladesh: A Case Study of BRAC. *Asian Journal of Information Technology*. 5 (11), p. 1269-1283

<sup>5</sup> Hassan, M. K. and Khan, J. M. (2007) Zakat, External Debt and Poverty Reduction Strategy in Bangladesh. *Journal of Economic Cooperation*. 28 (4), p. 1-38.

<sup>6</sup> Bukhari, Book; zakat, Hadith no: 536.

present eight private Islamic banks in Bangladesh are in equivalence to this zakat based institution in order to functionalize as a single organization or a bank i.e. Islamic Banks' Zakah House (IBZH) which has its own zakat fund and the money acquired from encouraging clients for zakat, also money transacted from national and international donations which enabled the distribution of "lungis-sarees" (cloths for both male and female) and 2-3 kg rice is given, instead provides services like giving interest free loans and to invest in small projects which will help build a rock underneath their helpless ceiling of livelihood and remove poverty.

In this article, a new form of Islamic Banks' Zakah House (IBZH) is introduced, its structure and form also to have a hand-in-hand of financial support from different countries, along with opinions of Islamic jurists upon zakat investments.

### **1. Background of the Study**

Since earlier times, Zakat has been discussed in the Holy Qur'an, Hadith and Islamic Jurisprudence books but investing with zakat money was not so renowned at that time. However, today the Islamic Jurists and scholars are holding seminars and discussions on the Islamic micro-financing system of zakat investment, names of such Scholars like Qaradawi, Furfur, Zarqa and Manzar Kahf are mentioned. On the other hand, in the context of Bangladesh, a few researchers have under gone researches on Zakat management, financing and investment etc. For instance, "*An Integrated Poverty Alleviation model Combining Zakah, Awqaf and Micro-finance*" by M. Kabir Hassan. Another case is "*Zakah Based Poverty Eradication in Bangladesh: The Millennium Development Goal is exceed able*" by Monaowar Hossain, meanwhile Rakib has scrutinized in "*Islamic Banking and Zakah: an alternative approach through poverty reduction in Bangladesh*. In another illustration, "*Impact of Zakah in Alleviating Rural Poverty: A case Study of MACCA in Bangladesh*" by Mahmud, Hassan, Sohag and Alam. "Role of Zakat and Awqaf in poverty alleviation" by Habib Ahmed.

Whereas, another independent institution like CZM is working with Zakah. Yet, the structure and formation of a clear foundation of an establishment of zakat house and an equivalent form of the Islamic banks are missing in the country. Keeping some questions and considerations in sight an effort of creating a new idea is put to words in this study.

The contemporary system of zakat is not going in the right direction which arises many questions as such:

(i) Although, Bangladesh is a Muslim country yet why is zakat not being implemented?

(ii) Despite the availability of Islamic banks all over Bangladesh why is the duly payment of zakat declined?

(iii) An institution of zakat house if established in Bangladesh, will it bring about any changes in the poverty level?

Answers to the above mentioned questions are explained in accordance to various researches in this article.

## **2. Objectives of the Study**

(i) To present a form of zakat system of Bangladesh

(ii) Through the medium of Islamic banks in Bangladesh, establishing a new model which will make the proper implementation of zakat possible in the country.

(iii) To invest the money of zakat in the form of micro-finance to alleviate poverty; as the first notion of it is its reduction.

## **3. Methodology of the Study**

Primary data has been taken from the Holy Quran and Hadith, this resources which are checked on the basis of its authenticity, whereas, the secondary data has been retrieved from diverse number of books, magazines, articles, newspapers, internet and non-governmental organizational data from libraries etc.

Moreover, an interview of one of the CZMs by e-mail has been taken in order to know and understand their system of zakat and activities.

## **4. Poverty and Bangladesh**

Bangladesh is situated in an area of a total of 1, 47, 570, k.m. which is at 94<sup>th</sup> number in the world<sup>7</sup>. According to the number of population, the accommodation of this number in the area mentioned above is too large, where among 150 million people 31% of the population live under the

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<sup>7</sup> <https://en.wikipedia.org/wiki/Bangladesh>

poverty line. In order to its removal, an idea of microcredit developed under the Nobel Prize holder, Dr. Mohammed Yunus. He applied his discovered theory in a small village of Chittagong for starters and it spread nationally and internationally. Then, Bangladesh Rural Advance Committee (BRAC), Association of Social Advancement (ASA) along with 632 other MFIs which are registered under Microfinance Regulatory Authority in 2013 initiated such policies<sup>8</sup>.

Yet, poverty still remains in Bangladesh at a higher scale, where a huge number of ultra-poor travel in water to enter Europe countries either legally or illegally for income generation in their family. Also, natural calamity causes terror to the people living at the shore side every year making a large number of them increasing. However, none of the MFIs give them loans without guaranteeing interest payments.

#### **4.1. Role of Conventional MFIs to Alleviate Poverty in Bangladesh**

The initiation and implementation of poverty eradication projects have been started since the function of a Micro-Financial Institution in Bangladesh by Mohammed Yunus in 1976 known as the Grameen bank<sup>9</sup>. This has a set of unique objectives in efforts to improve poor people's access to loans and saving services which may be recognized as the most widely effective anti-poverty tool. The Grameen Bank works as a banker to the poor. Most of the people live under the poverty line who do not have collateral in possession in order to get credit from the formal financial institutions.

#### **4.2. Some Positive Aspects of this**

The effectiveness of borrower repayment confirms through the structure of Grameen Bank's function of joint liability. Reduction of risk by liability is in three ways (Conning: 1998)<sup>10</sup>.

(i) In order to screen potential borrowers, this joint liability creates a pathway for the members to exclude known risks.

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<sup>8</sup> Microfinance Regulatory Authority, List of Licensed MFIs as of 2 September 2013, available online at: <[http://www.mra.gov.bd/images/Licensed\\_NGO\\_MFIs/0001-692%2002-09-13%20%20english.pdf](http://www.mra.gov.bd/images/Licensed_NGO_MFIs/0001-692%2002-09-13%20%20english.pdf)> accessed on: 14 September 2013.

<sup>9</sup> <http://www.grameen-info.org/>

<sup>10</sup> Conning, J. (1998) "Outreach, Sustainability and Leverage in Monitored and Peer-Monitored Lending", *Journal of Development Economics*, 60: 51-77.

(ii) The liability makes sure that their fellows do not squander their loans; this cuts the cost to monitor borrowers.

(iii) The liability lets members to monitor each other on payment which cuts the cost to enforce repayment.

Besides such projects the Grameen bank has established some fascinating programs as mentioned:

### 4.3. There are Some Negative Aspects of this Program as Follows

(i) The joint liability may lead to dysfunctional effects in which borrowers who would have repaid or choose instead to default because they would lose access anyway due to the default of others (Beasley and Coate: 1995)<sup>11</sup>.

(ii) This program imposed high interest rates which makes the program to be undermining micro-finance's claim to be a function of social business. Karnani and Osada (1998) found from their observation that from the GB, the drop rates are steadily increasing<sup>12</sup>.

(iii) The default rate is extremely high, the factors can be natural and few in hands of men such as flooding or storm in Bangladesh can increase the default rates. This creates an issue of balance and enforcement, however, as per the report of Dyal-Chand (2007), horrific incidents occur in Bangladesh daily, where captive women strap their own "sari" to strangle themselves from the ceiling fan as a result to failure in their repayments of loans<sup>13</sup>, whereas, Assaduzzaman (1997) claimed that the lives of the extreme poor remain unaltered due to the non-functional efficiency of the current MFIs operations<sup>14</sup>.

Another MFI which created awareness of poverty-stricken sectors in Bangladesh was the emergence of Rural, BRAC-Bangladesh Rural Advancement Committee in 1972. It struggles to bring about positive changes in the country by reducing the number of people living under the poverty line with institutional inputs and some helping hands to the poor.

<sup>11</sup>- Besley, T., and S. Coate. (1995) "Group Lending, Repayment In Collateral", Journal of Development Economics, 46: 1-18.

<sup>12</sup> Karim, M.R and M, Osada "dropping out: an emerging factors in the success of micro credit based poverty alleviation programs" the developing economics 36 (2) 1998: 257-288.

<sup>13</sup> Dyal-Chand, R. "the attorney's role in the micro lending project" in clare, Dalton, (ed.) progressing lawyering, Globalization and markets, rethinking ideology and strategy, Boston Hein, 2007b.

<sup>14</sup> Assaduzzaman (1997). "The role of microcredit in poverty alleviation program" in R.I Rahman (editor), poverty and development: Bangladesh perspective, BIDS, Dhaka, (in Bangla).

But Ahmed *et al.* (2009) found in their research that BRAC had failed to reach the extreme poor in Bangladesh<sup>15</sup>.

## 5. Poverty and Zakat: Islamic Shari'ah Perspective:

In the light of Islam and its fundamentals, wealth is a treasure from Allah (SWT) as a blessing and compassion to the humankind. In return, he seeks the gratefulness of His creation, Allah has taught His Messenger about wealth in the Holy Qur'an: "He found you helpless and then He showered you with wealth and washed away poverty from you"<sup>16</sup>. This drought of poverty diverts away people from religion, it becomes a threat to their faith in Allah, and it says more in the Hadith: "poverty enforces to hypocrisy"<sup>17</sup>. Poverty does not only influence one's spirituality but one's sane mind, characteristics and morality to corruption. This pushes the poor to lose hope in everything and then to hostility like picketing, robbery and vandalization.

The Prophet used to ask refuge from Allah (SWT) in prayer for himself and his companions to retain them from begging and poverty. "I seek refuge to thee Allah SWT, your guidance, piety, chastity and wealth"<sup>18</sup> and the Prophet asked in prayer to Allah SWT for Anas RA: "O Allah increase him in his wealth"<sup>19</sup>.

### 5.1. Zakat and Poverty

Zakat is an Arabic word which is taken from 'zakah'; it literally means to grow or to increase<sup>20</sup>. Its literal meaning is reflected in the Holy Qur'an: "Take Sadaqah (alms) from their wealth in order to purify and sanctify them with it and pray for them"<sup>21</sup>. Its importance is strongly mentioned in the Holy Qur'an and it is one of the five pillars of Islam. Allah SWT said: "...And perform Salah and pay Zakat"<sup>22</sup>. He also said "... and they were

<sup>15</sup> Ahmed, A. U., Rabbani, M., Sulaiman, M. and Das, N. C. (2009) "*The impact of asset transfer on livelihoods of the Ultra Poor in Bangladesh*". Research Monograph Series, Research and Evaluation Division, BRAC, Dhaka, No. 39

<sup>16</sup> Sura Duha- verse no: 7

<sup>17</sup> Nayem, abu. Book: "Al-Hilya". This Hadith is narrated by Anas while Iraqi said that this is reported by Baihaki in his book "Shuaab" and Tabrani in "Al-Awsaat" with weak evidence.

<sup>18</sup> Muslim.

<sup>19</sup> Bukhari, Md ibn Ismail, (1422H). Ed. by M. Zuhair bin Naser. N. Dar Tuq al-Najat

<sup>20</sup> Al-Qaradawi, Yusuf. *Fiqh al Zakah*, Translated in English by Monzer Kahf, P.1:17.

<sup>21</sup> Quran: Sura Al-Tawbah. 7:103

<sup>22</sup> Quran: Sura Al- Bakhara. 2:43

commanded not, making pure for him the religion turning towards the truth and perform Salah and pay zakah...”<sup>23</sup>.

There are five objectives of Shari’ah which are included as human needs. They are the following as:<sup>24</sup>

- (i) Sustenance of religion (hifj al din )
- (ii) Sustenance of chastity (hifj al nafs, wal-ird)
- (iii) Sustenance of the intellect or knowledge (hifj al aqal)
- (iv) Sustenance of offspring (hifj al nasl)
- (v) Sustenance of wealth (hifj al maal)

Allah (SWT) has made zakat obligatory to fulfill the needs of the people. Every person on whom zakat is mandatory i.e., with wealth or asset must give a part of it to the poor annually. “Prophet (saw) warned people who do not pay zakat”<sup>25</sup>, he also said “who does not pay zakat, on the Day of Judgment (Qiyamah), his wealth will turn into a venomous blade serpent which will bind around his neck and bite jaws and say “I am your wealth, I am your treasure”<sup>26</sup>. In the ruling time of second khalifa Omar Ibnul Khattab, during the process of poverty eradication, the system of zakat played an effective role at that time bringing out a change in poverty, wiping it out completely among the Muslim lands, (Nadzri:2012)<sup>27</sup>. In other words, the main target of zakat is worship (Ibadah)<sup>28</sup>. Islam strongly recommends Muslims with wealth to balance their wealth to help in the eradication of poverty, because prophet cautioned that excessive wealth may endanger faith and morality while poverty may lead to Kufr (disbelief)<sup>29</sup>.

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<sup>23</sup> Quran: Sura Al- Bayyannah. 98:5

<sup>24</sup> Al-Ghazali, Abu Hamid. Al-Mustasfa fi' Ilm al-'usul, ed. Muhammad 'Abd al-Salam Abd al-Shaqi (Beirut: Dar al-Kutub al-'Ilmiyyah, 1413 A.H.), pp: 174.

<sup>25</sup> Bukhari, Md ibn Ismail, (1422H.). Sahee Book: Zakah. Ed. by M. Zuhair bin Naser. N. Dar Tuq al-Najat.

<sup>26</sup> ibid.

<sup>27</sup> Nadzri, F. A. A., Abd Rahman, R. and Omar, N. (2012) Zakat and Poverty Alleviation: Roles of Zakat Institutions in Malaysia. *International Journal of Arts and Commerce*. 1 (7), p. 61-72.

<sup>28</sup> Al-Qaradawi, Yosuf. Fiqh al Zakah. Translated into English by Monzer Kahf, P. 2:183

<sup>29</sup> Bukhari

## 5.2. What is Zakat Investment?

Currently, the most important issue or discussion of Shari'ah is about investment of zakat money in micro-finance sectors. From many groups different types of arguments arise like whether to invest the zakat money as a whole in micro-finance or just a part of the whole portion. Modern economists defined investment in many ways, according to Al-Hawari: to involve in order to gain an amount of profit for long term of duration<sup>30</sup>, as Shibbir defines that zakat investment is to deal with money for a fulfillment of profit in future terms, it can be either with a new operation, a contemporary project or an old enterprise with a repairment<sup>31</sup>, as for Tantawi (1994), it is to priorities money on those business schemes and projects which are declared Halal (permitted) by Allah<sup>32</sup>. Investment can be more understood by Farh's (1997) definition to integrate in a deal whether a loan or with someone else for the right of the deserving ones<sup>33</sup>.

In the present time, Bangladesh is in a state of extreme poverty where the factors leading mainly in huge numbers are unemployment, the deterioration of economy, no wide-spread source of education and natural calamity. Bangladesh constitutes of a total number of population which stands at 3<sup>rd</sup> position in the Muslim world where 90% of them are Muslims<sup>34</sup>. Yet, zakat being one of the pillars of Islam it is at the weakest level of implementation in the economic system of the country.

## 5.3. Some Viewpoints of Islamic Jurists on Zakat Investment in the Eye of Islam

This matter of investment was not taken in notice by the earlier Islamic scholars as it was not an issue of crises at that time. Today, it has become a global catastrophe along with it being an economic crisis. A few of Islamic jurists like Wahabatuz Zuhaili, al Ayan, Sayed Ata and Taqi Osmani warned that if zakat money is invested then the possibility of it being wasted

<sup>30</sup> Al-Hawari, Sayeed. AL-Istismaar wat Tamweel, P. 43

<sup>31</sup> Shibbir, Mohammad Usman, Istismaaru Amwaaliz Zakah, P. 1-19

<sup>32</sup> Tantawi, Mohammad Sayeed. "Muamelatul Banuk Wa Ahkamuha Ash-Shariya" Dar-ul-Ma'arif, 1994, P.118.

<sup>33</sup> Farh, Abdul Fattah Md. (1997) " At tawjihul Istismaari Liz Zakah: Dirasah Iqtisadiyah Fiqhiyah Tahliliyah Muqarana", Published by Dubai Islami Bank, Dubai, , P. 20

<sup>34</sup>The Bangladesh census July 2012.

<[http://www.bbs.gov.bd/WebTestApplication/userfiles/Image/Census2011/Bangladesh\\_glance.pdf](http://www.bbs.gov.bd/WebTestApplication/userfiles/Image/Census2011/Bangladesh_glance.pdf)> accessed Decembe 28, 2012.

away and dismissing the rights of the needy is lofty and declared it as forbidden in Shari'ah<sup>35</sup>. On the other hand, like Zarqa, Qaradawi, Abu Gudda, Al Khayat and Furfur etc. claim that investing zakat money is a step towards alleviation of poverty<sup>36</sup> but Zarqa interpreted that it can be maintained properly if the one handling the operation is honest and trustworthy<sup>37</sup>. Al Khayat, an Islamic jurist says that it is seen as appropriate and necessary to apply the zakat money in investment of the daily projects, like industries and business for the welfare of the beneficiaries<sup>38</sup>, Furfur also claims that he sees it as a clearance to invest zakat money like a part of Istihsaan in opposition to Qiyas according to the needs or importance under the supervision of the head of a nation otherwise a person eligible to judge fairly subservient under the head<sup>39</sup>. According to Qaradawi "The role of zakah can play in this regard is obvious. It can provide the unemployed with the necessary tools, machinery and capital for production ..."<sup>40</sup>. He also adds: "zakah, as we have seen earlier, does not only provide relief to the poor but aims also at making the poor own means of production by giving them the tools and machinery necessary for productive work so that persons given zakah are removed forever from the category of poor and needy deservers. This is in addition to necessary shelter and immediate relief that zakah provides"<sup>41</sup>.

International Fiqh academy of OIC has declared the investment of zakat money as allowed which is found in article 15\_3\_3, (1) in it 11-16 October, 1986: according to the principle of Shari'ah it is permitted to invest zakat in different projects where the beneficiaries attain their required financial stability or an institution of zakat collection can invest that money on a condition when they have a pool of funds to give financial support to the beneficiaries in case of urgent need, also this process must maintain risk

<sup>35</sup> Al-Alwan, Abdullah. "Ahkamuz Zakah Ala dawel Majahibul Arbiyah", Published by Majallatu Majmail Fiqhil Islami, No: 3, Vol. 1, P. 335-406

<sup>36</sup> Shibbir, Mohammad Usman, Istismaaru Amwaliz Zakah, P. 7-19

<sup>37</sup> Zarqa, Mustafa Ahmad. Published by Majallatu Majmail Fiqhil Islami, No.1, P.44

<sup>38</sup> Khayat, Abdul Aziz. "Tawzifu Amwaliz Zakaht fi Mashari jat riya Bila Tamlik Fardi Lil Mustahiq", Published by Majallatu Majmail Fiqhil Islami, No:3, Vol.1, P.371. And "Az Zakat wa Tatbikatuha Wa Istismaaruha" P. 58, Conference was held on 1989.

<sup>39</sup> Furfur, Saleh. Fatwa on "Tawzifu Amwaliz Zakah Ma'a Admi At-Tamlik Lil Mustahiq", Majallatu Majmail Fiqhil Islami, No: 3, Vol. 1, P. 358.

<sup>40</sup> Al-Qaradawi, Yusuf. Fiqh al Zakah. Translated into English by Monzer Kahf, P. 186

<sup>41</sup> Ibid, 2:183

and loss free situation<sup>42</sup>. There are a number of suggestions and discussions on investment of zakat money being permitted as such: Kuwait finance house, fatwa no “247 and 426” and Kuwait zakat house, fatwa no 81<sup>43</sup>.

To fulfill one of the objectives of Shari’ah that is Dharuriyat- the necessities, zakat money is to be invested for the welfare and minimization of poverty without any sort of wastage.

## **6. Zakat Investment in Microfinance through Islamic Banks Zakat House (IBZH)**

### **6.1. Islamic Banks in Bangladesh at a Glance**

Islamic banking pioneered in 1983 by the establishment of IBBL-Islamic Bank Bangladesh Limited. Now, among 56 commercial banks there are eight Islamic banks where IBBL alone has more than 13,574 employees, consisting of about 300 branches all over Bangladesh. In addition to this, First security Islamic Bank Bangladesh (FSIBL), has over 2600 employees and 143 branches. Apart from this, Social Islamic Bank Limited (SIBL) comprises of 108 branches and has working members of about 2000, it has a charismatic trait in the bank that is all the officers of it have an account called “Waqf” where every month a portion of their income like 100BDT to 5000BDT is kept to be used later in life for social welfare needs. Al- Arafah Islami Bank (AIBL) consists of 124 branches with 1,950 employees, EXIM bank, Union bank, ICB and Shahjalal Islamic Bank Limited ( SJIBL) have about 250 branches comprising of more than 5,500 employees.

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<sup>42</sup> Majallatu Majmail Fiqhil Islami, the 3<sup>rd</sup> OIC conference Volume- 1408H/1987. No.1, First Part, P.421

<sup>43</sup> Habib, Ahmad. “*Financing Micro-entrepreneurs: An analytical study of Islamic Microfinance Institutions*”. Islamic Economic Studies, 9 (2), 27-64.

**Table 1:** Islamic Banks in Bangladesh

Name of the Bank	No. of Branches	No. of employees
IBBL	300	13,574
First Security Islamic bank	143	2600
Social Islamic bank Ltd.	108	2000
Al-Arafa Islamic Bank	127	1950
EXIM Bank	94	2650
ICB	33	1000
Shah Jalal Islami Bank	93	2300
Union Bank	09	300
<b>Total</b>	<b>907</b>	<b>26,074</b>

Source: Author's own

## 6.2. Collection and Distribution System of Zakat in Bangladesh

Surprisingly, all the pillars of Islam named prayer-Salah, fasting-Soum, Pilgrimage-Hajj are performed except Zakat which is not even considered to an extent. That is why its collection in Bangladesh is playfully hilarious. Under the religious ministry of the country some amount of zakat is collected but as the amount is too low. These reasons are at a loss because its official zakat board has no definite structure which can guide the zakat administrators to collect and distribute. It created a gap of trust between them and the nation<sup>44</sup>. In one of the estimations of the zakat board shows the collection of 42 commercial banks where only 14 had collected an amount of 60million BDT during 2012-2013 annually but the board distributed only 2 million BDT. Out of the 42 banks the remaining 28 commercial banks did not put an effort for zakat collection despite having separate accounts and a collection of over 10 million BDT each; however, they had no accountability list of the funds<sup>45</sup>. Those who pay zakat individually they do it in terms of two genders' clothing either for males LUNGIs or females –SAREEs. Some provide edible dry products as zakat payment which last only for three to four days. In such distribution, many villagers die in the crowd of the mass under foot, like every year, an incident where 27 people died instantly in the pack recently; for an amount of 300 BDT only which rounds up for less than 4 dollars<sup>46</sup>.

<sup>44</sup> <http://www.dhakatribune.com/op-ed/2013/aug/10/economics-zakat>

<sup>45</sup> <http://www.dhakatribune.com/bangladesh/2013/jul/31/zakat-fund-runs-dry>

<sup>46</sup> <http://indianexpress.com/article/world/neighbours/at-least-25-people-killed-and-50-other-injured-in-bangladesh-stampede/>

### 6.3. Selangor Model and CZM: A Case Study

An example of a structure created in Malaysia to wipe out poverty known as Selangor zakat institution, which functions in five particular sectors:<sup>47</sup>

- (i) Social development
- (ii) Economic development
- (iii) Education development
- (iv) Human development
- (v) Development of religious institutions.

This economic development sector is further divided into different categories as such, fisheries, agriculture, small industries like tailoring or machinery shops etc. these are mainly established under Qard Hasana. In this way, investment is done by following few steps:

(i) Providing 500-5000 R. to the beneficiaries to start off with a banana shop or small cafeteria where food can be supplied.

(ii) Selangor zakat institution gives to another group to open on the basis of beneficiaries position an amount of 5000-50,000 R. to lunch in a much larger business like machineries and other industrial products.

(iii) Laundries where 50,000 R. are invested for a period of 5 years' contract.

(iv) 30,000 R. is sanctioned depending on the type of entrepreneurs like mobile programs moving from shops to shops or industries to industries and employees are purely zakat deserving ones giving employment opportunities to the needy ones too.

Mohit et al (2011) mentioned that the project in Selangor province of Malaysia with the collection of zakat fund by the board was originally for the purpose of community enrichment and social development<sup>48</sup>.

<sup>47</sup>- Ijjuddin, ibn Abdur Rahman. "Dawarul Muassasatiz Zakawiya fi Mualijatil Faqr ifka Barnamijit Tanmiyatil Iqtisadiyah: A model for Selangor Province, Malaysia" P. 1-20. Islamic Science University Malaysia.

<sup>48</sup> Mohit, M. A. and Nazyddah, N. (2011) "Social Housing Program of Selangor Zakat Board of Malaysia and Housing Satisfaction". Journal of Housing and the Built Environment. 26 (2), p. 143-164.

Meanwhile, CZM<sup>49</sup> is an independent zakat collection center which initiated in 2008, since then it has involved in various development programs. Some identified areas of investments by CZM are as follows for distribution and utilization:

- (i) Jeebika: zakat based livelihood program
- (ii) Mudareeb: micro-enterprise development program
- (iii) Naipunna Bikash: technical training and employment for unemployed youths
- (iv) Genius: scholarships programs for the undergraduate students.
- (v) Ferdousi: women and children welfare and many more, among which one of the prominent one is sustainable livelihood.

Mainly known as Jeebika project which is undertaken in a small village of Mohora in Chittagong district in Bangladesh, where people have a livelihood as fishermen and bamboo craftsman. This project invested 450 poor families to be involved in this project including non-Muslims. In this project, 30 members are made a group collectively creating about 15 groups in which 60,000BDT is invested as capital amount, the each family receiving 20,000 BDT approximately. Rahman says, that in lieu of families, earlier, earning about 7000 BDT, now earn a total of 13,000 BDT, moreover, he says that while working with project he discovered that zakat itself is an effective instrument for poverty alleviation<sup>50</sup>, firuz says that Bangladesh has the utmost capacity to eradicate poverty within its reach as the total number of poor families are about 65 million, whereas, the zakat collected annually will make a pool of funds in US dollars of approximately 3 billion<sup>51</sup>.

## **7. Islamic Banks' Zakat House (IBZH) Model**

Islamic banking has taken a revolutionary turn of events in Bangladesh, where the most approved ones to the nation for this system of banking are the Islamic banks of Bangladesh. Not only them, but conventional banks have altered this system of banking into Islamic banking. This sort of approved and honesty to the nation creates an establishment equivalent to

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<sup>49</sup> <http://czm-bd.org/newsite/>

<sup>50</sup> <http://www.thedailystar.net/the-permanent-revolution-31425>

<sup>51</sup> <http://www.thefinancialexpress-bd.com/2014/06/08/38416/print>

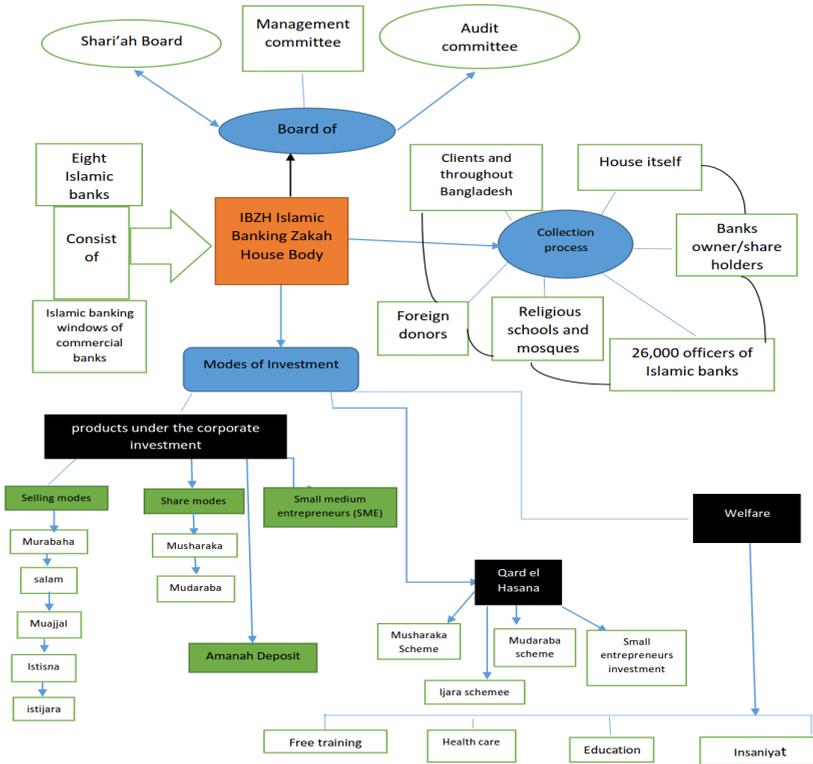
the eight Islamic banks of Bangladesh named Islamic Banks Zakat House (IBZH).

Since IBZH is a proposed model, therefore it will function under the present eight Islamic banks along with the conventional banks in equivalent relationship with Islamic banking Windows to have a form of its own. Its structure can be classified into three and the board of trustee can be categorized as the following:

- (i) Shari'ah board
- (ii) Management committee
- (iii) Audit committee

Zakat collected by the Islamic bank is processed through their own source that does not ensure proper distribution. The main objective of zakat collection is to diminish poverty which is too farfetched due to inappropriate concept. Therefore, the Process of collection is divided into six they are as follows:

- (i) The collection must initiate from the house itself.
- (ii) Then from the annual capital of the banks owner, sponsors/shareholders.
- (iii) However, the Islamic banks have made fasting and prayer compulsory likewise, the IBZH can make zakat payment mandatory upon the officers e.g. keeping it as a condition while filling up vacancies in the bank.
- (iv) Encouragement of the people to pay zakat by providing donation boxes in the religious schools and mosques under the supervision of their religious heads.
- (v) Another way to collect zakat is from the foreign donations which are yet being donated to individuals and organizations separately in huge numbers, especially from IDB, Kuwait zakat house, Gulf countries and Turkish ministry of Awqaf.
- (vi) The final step must be to enlarge the scope of this model throughout Bangladesh so that people living in the country or out of it may walk to it for zakat payment.



However, management committee and audit committee can have various sub committees subservient to them. Mainly IBZH will form a pseudo as equal to the eight Islamic banks. In that case, its financial lever should be made clear to what extent it ensures its liability.

When an amount of zakah is collected by the bank then through modes of investment the money can be divided into three divisions and the Process of zakat allocated can be initiated. Products under the corporate investment: this mode is alike to the other Islamic banks' commercial projects. Its given earlier that in order to full fill the visual aim of maqasid al shariah's by financing zakah money in projects. That is why, Products under the corporate investment (PUCI) can invest in four different ways:

(i) **Selling/ bai modes:** this can be further utilized in five modes such as:

- 1) murababa
- 2) salam

- 3) muajjal
- 4) istisna
- 5) istijarah

**(ii) Share modes:**

- 1) Musharakah
- 2) Mudarabah

Prior to the introduction of these two modes it must pass through some clearances of the Shari'ah committee since zakah gives its rights eight categories of human.

So it has to go through some inspection to see whether it meets the criteria of zakah system in shari'ah.

**(iii) Amana Deposit**

**(iv) SME modes:** Small medium enterprise is an appropriate project to propagate labor opportunities across the country. There numerous numbers of people who are above the poverty yet cannot afford for investment such Citizen can acquire zakah money and start his/her business etc.

Modes of investment is of two types: Qard al Hasan or benevolent investment: this can also be invested in various ways:

1) Musharakah scheme: under this scheme some people who are landlords yet cannot afford tools for agriculture, irrigation etc. Hence, IBZH will enhance their lands by associating in their investments

2) Mudarabah scheme: It is that type of scheme which will constitute a training center for the young laborers who will be given instructions as a source of income through investment in their projects like small shop, restaurant and tailoring shop etc. where the members can repay the invested money from their income which IBZH can re-invest.

- 3) Ijarah scheme:
- 4) SEI (small entrepreneurs scheme)

The third type of investment mode is welfare project: In this scheme, whatever amount of money is invested will not be returned to IBZH.

1) Free training course: IBZH will establish a life sustaining training center where men and women both will be trained for a duration of 3-6 months concerning tailoring, driving and handcrafting etc. making oneself capable of earning.

2) Health care: a community clinic will function under IBZH for the treatment of the poor.

3) Education: in Bangladesh many sectors yet fail to send their children to schools, colleges and universities due to lack of sufficient money and some cannot continue after college for the same reason. Hence, IBZH will organize vocational school, college, and private universities district wise that provides the necessary education till a certain age group for free and develop a scholarship program for further studies.

4) Insaniyat scheme: however, Bangladesh is a calamity prone country like flood Therefore IBZH will provide emergency assistance in those affected areas giving unconditional amount for re-construction etc. It should be noted that though IBZH works as zakat based institution yet it processes under these three grounds:

- 1) Commercial banking
- 2) Qard al Hasana based investment
- 3) Emergency project through welfare based scheme.

### **7.1. Products in Micro-Finance through IBZH**

This IBZH model is a prosperous one for Bangladesh where the money collected can be invested in micro-finance programs helping the moderate and ultra-poor in a way of not giving a hand-out cash payment instead, launching different products. They are as follows:

**(i) Trade financing system (Mudaraba):** The most welcoming procedure in Islamic financing is to invest in Mudaraba system. In earlier time, Mudarabah was used as Qirad and Muamela, (Sabek: 1971)<sup>52</sup>. For instance, our prophet prior to his prophet-hood when on business to Syria on behalf of Khadija based on Mudaraba system. Although some scholars deny it to be permitted but as prophet did not forbid this system after his prophet-hood,

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<sup>52</sup> Sabek, Sayed. "Fiqhus sunnah", Darul Kitab al arabi, vol. 3 page 202, 1<sup>st</sup> edition, 1971.

is considered allowed<sup>53</sup>. Therefore, if the IBZH can provide investment to the beneficiaries in Mudaraba system, it shall emerge them from poverty.

**(ii) Share of harvest (Muzara'a):** In Bangladesh, most of the occupations in rural areas are in the field of agriculture, some farmer tenants have a land but no tools. IBZH can provide them with the necessary resources in the Muzara'a pattern.

**(iii) Spot sales (Bai e Muajjal):** A mode of a deal where a product is sold on the spot but the price is paid within the time period of its arrangement. Ayesha's advice to Prophet on the spot buying of two garments from a Syrian businessman<sup>54</sup>, or Ibn Omar used to buy clothes on spot business guaranteeing himself with future payment of the products<sup>55</sup>. The above apologue gives proof to buy a Muajjal-spot sale.

**(iv) Forward selling (Bai-e-salaam):** In Islamic view, this system is considered as not permitted<sup>56</sup>, however, it can be proceeded in case of products being tangible in a prescribed time duration.

**(v) Benevolent loan (Qard al Hasana):** Mainly it defines the action where there is "zero return". To extend money to target people without any condition. Qard al Hasana has been translated by many scholars as a "beautiful loan" (Ali: 2000)<sup>57</sup>; according to Moududi Qard al Hasana in its terminological meaning in its spirit it described as a "Goodly Loan"<sup>58</sup>.

The above mentioned products can be used in many ways like hospitals, clinics, irrigations, ploughing, dairy farm and pharmaceutical etc. in which if invested, It will establish risk free opportunity along with employment chances for all. For instance, if a rickshaw driver takes his loan for a rickshaw business which costs about 25-30 thousand BDT then in rural areas his daily income is 400-500 BDT, then he pays back 100 BDT to IBZH per day and if he drives in urban areas, his daily income is 1000-1500 BDT then he pays back 200BDT to IBZH per day, that makes him to give back the loan of IBZH in complete within six months to one-year duration and eventually he remains the owner of the rickshaw and continuous his

<sup>53</sup> As-Subaili, yusuf ibn Abdullah. "Fiqhul Muamelat", maktabats shamela (3<sup>rd</sup> ed.), vol, 1, page 379.

<sup>54</sup> Narrated by Hakem, Baihaki, *Subulus Salam* vol. 3 p. 51

<sup>55</sup> Abdur Razzak, al-Musannaf, vol, 8 p, 138, Hadith 14634, Maktabats shamela, (3<sup>rd</sup> Ed.)

<sup>56</sup> Tirmizi, Abu Isa. Hadis no 1154, (3<sup>rd</sup> Ed.) Maktabats Shamela.

<sup>57</sup> Ali, Yousuf (2000) "The Holy Quran".

<sup>58</sup> Moududi, S.A. "*Towards Understanding the Quran*", Leicester, UK: The Islamic Foundation, Vol. II

daily business. However, Qard al Hasana (interest free loan) can be broadly classified as partnership “Shirkat” and exchange contract “Muamelat”, (Hassan: 2010)<sup>59</sup>.

### **Recommendations and Conclusion**

This research may be considered as an attempt to analyze the zakah investment through IBZH in the eradication of poverty. But, Islam has categorized zakat in eight different parts as a compulsory tool for removal of poverty. Among them, five itself are for poverty minimization. Apparently, if successful in establishing this model on real grounds then governmental budget will also have its effects on zakat payment. According to Hassan (2007) zakat funds can raise the level of the potential taxation of the government through product improvement, employment and the production<sup>60</sup>.

Also, this establishment will bring about a drastic change in economy of the country and reduction in inflation. Moreover, it will set an example to the bank of other Muslim countries. (Sara: 2012)<sup>61</sup>.

### **Some recommended views of investments by IBZH:**

1. To keep away the youth from unemployment, one of the most seasonal food product in Bangladesh is banana and within the range of 3 BDT, hence, it can be a huge market for business i.e., banana tree (agriculture).
2. Bangladesh has a high rate of manpower which if trained free then they can build a position of themselves in foreign countries in diverse fields of working sectors and to avoid the illegal mobility of them to other nation for some income.
3. Without zakat it is impossible for banks to take a risk of Qard al Hasana.
4. Not being able to make payments back to the conventional MFIs, many lives of families detach that is divorce, delinquent houses etc. Therefore, morality development training and Islamic teaching must be propagated.

<sup>59</sup> M. Kabir Hassan, “*An Integrated Poverty Alleviation Model Combining Zakat, Awqaf And Microfinance*”, paper presented at the Seventh International Conference – The Tawhidic Epistemology: Zakat and Waqf Economy, Bangi, Malaysia, 2010, pp. 271-272.(54)

<sup>60</sup>- Hassan, M.K and Khan, J.M (2007). “*Zakat, external debt and Poverty reduction strategy in Bangladesh*”, Journal of Economic Cooperation, 28(4), P.1-38.

<sup>61</sup>- Sera, A. (2012) “*Zakat as a Benchmark to Evaluate Economic Growth: An Alternative Approach*”. International Journal of Business and Social Science. 3 (18), p. 242-245.

5. Bangladesh is renowned for its fabrics and textile industries throughout Europe and Middle East, if IBZH can further give supplementary and financial support to the females of the poor unemployed with tailoring training facilities, premises and adequate supply of machineries like sewing machines etc.

6. The following are the small projects of investments which are daily necessities for the people of Bangladesh, fisheries, dairy farm, poultry farm, nursery, furniture, departmental stores and dispensaries etc. IBZH can integrate in these projects through Micro Enterprise Investment Scheme (MEIS).

This proposed model needs further researches that can add and drop ideas necessary accordingly. If IBZH is established then not only in Bangladesh can it be adopted but in other Muslim countries as well. Two models of two nations proved to reduce a huge part of poverty in their sectors such are CZM of Bangladesh and Selangor model of Malaysia. If these institutions can implement and reach a positive result then it is not difficult for Bangladesh to remove poverty starting with the officers of its Banks mainly the eight Islamic Banks along with other Islamic windows of conventional banks comprising of more than 26,000 employees; of whose zakat collection can act as a huge step towards the alleviation of poverty. Zakat based Islamic micro-finance model is most effective in opening opportunities and it has the potentiality to minimize poverty to nil.

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