

# The Impact of Islamic Social Finance on Sustainable Development Goals to Alleviate Poverty in Muslim Countries: A New Paradigm for Zakat Organizations in Bangladesh

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## Abstract

This research focuses on the issue of effect of Islamic social finance in the Muslim countries and especial reference to Bangladesh to alleviate poverty through managing zakat and other forms of social finance in Islam such as, waqf and sadaqah. Islamic social finance in Muslim countries including zakat, was estimated at almost \$2tn in 2015 and is expected to exceed \$3tn by 2020. Existing zakat management system in Muslim countries is not developed up to the level with the advance technology and innovation to rescue the Muslim nations from poverty. Therefore, this research is planning to recommend a new framework that evaluates the success factors of zakat management and distribution system by using FinTech to establish a clear and trusted system that will help zakat collection and provide transparent distribution channels to alleviate poverty in Bangladesh and establishing social protection system and in achieving SDGs of Bangladesh including Muslim countries. The inductive method was applied to examine data from secondary sources for this qualitative study which focused on how Bangladesh and the Muslim countries could make remarkable progress in the future to develop an Islamic social protection system and FinTech for zakat management system to achieve SDGs with especial focuses to Bangladesh.

**Keywords:** Islamic Social Finance, FinTech, Sustainable Development, Social Protection, Zakat Collection and Distribution, Alleviate Poverty.

## Introduction

Poverty is a global phenomenon which is very common in Muslim countries due to their financial constraints, thus the Muslim countries need to cooperate among the Muslim countries to resolve this problem since Islam is a religion of humanity. Bangladesh is a developing country and very fast economic

growing country among the Asian region. The people of Bangladesh are very practicing Muslims, and they spend their wealth for the cause of Allah swt such as paying zakat, sadaqah and other forms of charity within the Islamic guidelines. This can be a great idea to use these Islamic social welfare revenues to utilize for alleviating poverty and to achieve sustainable development goals (SDGs). The objective of this research is to find out the effective way of managing the Islamic social finance, zakat and Sadaqah to achieve SDGs by alleviating poverty in Bangladesh by using financial technology (FinTech) for zakat management.

Therefore, Islamic social finance and zakat can be the instruments to alleviate poverty by improving sustainable economic growth. Zakat management in Bangladesh need to be improved to see the impact in society with promoting result. The revenue of zakat money can be used as a micro finance model to assist entrepreneurship and income generation for economic development that helps to achieve SDGs.

### Literature Review

The objective of this study is to come up with new model related to social protection and sustainable development in Muslim countries. The model of zakat management is to discuss satisfaction of people and the relationships between social welfare and sustainable development. Here is the point that zakat and Islamic social welfare has an important role to play to fulfil the human basic needs to satisfy them by achieving their personal development with standard of social life which is the purpose of achieving SDGs are met.

The main objective of zakat is to eliminate poverty from a society (Alaro & Alalubosa, 2016), government must play important role for the Islamic microfinance by zakat revenue to provide to poor and needy people which will help to alleviate from poverty. Zakat has significant role to alleviate poverty as mentioned by Nazim, Hamdino, Nor, Salina and Norma (2020), in implementing zakat microfinance system through pursuing basic income generating activities and minimizing poverty ratio and income inequality gap with proper delivery of zakat which can improve the living standard of the zakat recipients. Poverty is one of the major problems in Bangladesh as stated by Anis and Salina (2016), the millions of people are living under poverty. The result of poverty reduction is not up to the satisfactory level whereby many individuals and organizations are offering such microcredit/ financial solution but the result to be seen as effective to reduce poverty from Bangladesh. The appropriate application of Islamic microfinance for the poverty alleviation by using zakat revenue is proposed by Billah (2017) to the special needy people in Bangladesh.

Bangladesh is a birthplace of microfinance as mentioned by Shammi (2019), that the potential of Islamic microfinance in Bangladesh is left behind by the zakat organizations to alleviate poverty. Another way of poverty reduction suggested by Khan (2015), zakat revenue can be utilized to train up the poor people as well as to educate them to rescue the poor people from poverty line and upgrade their standard of living in Bangladesh in terms of their basic earnings and expenses. However, there is no any statistical econometric analysis in Bangladesh to find out the ratio of the zakat recipients and bring them in a proper system to educate and train them in order to be financially self-dependent.

The major issue facing by Muslim nations is poverty to cope up whereby many of the population are living under poverty in Africa and Asia continent who are suffering for foods, health care and education a result of limited opportunities and a poor income. Thus, zakat is an important revenue in Muslim countries for

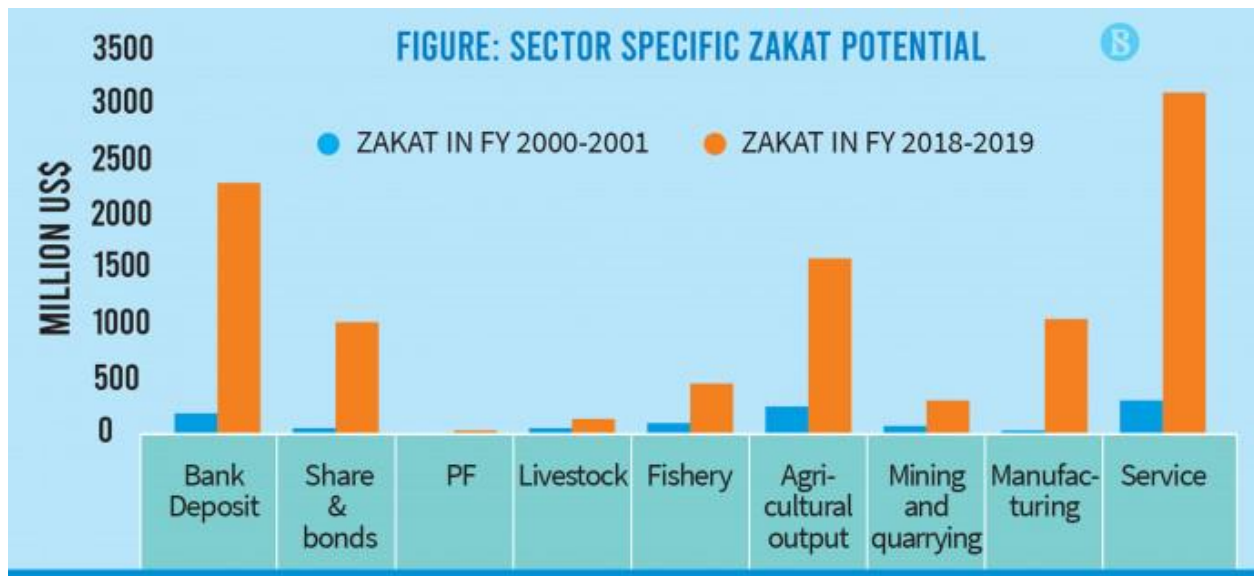
welfare economic and social financial model for poverty alleviation by utilizing zakat distribution and management.

| List of Countries | Total Population<br>2017 (millions) | Percentage of<br>Muslim Population<br>2017 (%) | Percentage of People with Living<br>Below the National Poverty Line<br>2015-2017 (%) |
|-------------------|-------------------------------------|--|--|
| Indonesia         | 264.9                               | 87.2   | 28.1   |
| Nigeria           | 214.0                               | 53.5   | 46.7   |
| Pakistan          | 207.7                               | 96.5   | 24.3   |
| Bangladesh        | 170.0                               | 90.4   | 24.3   |
| Egypt             | 97.5                                | 94.0   | 27.8   |
| Iran              | 83.0                                | 99.4   | N/A  |
| Turkey            | 82.3                                | 99.8   | 13.5   |
| Sudan             | 45.5                                | 97.0   | 46.5   |
| Iraq              | 40.2                                | 95.7   | 23.0   |
| Marocco           | 38.3                                | 99.0   | 15.0   |
| Afghanistan       | 35.5                                | 99.7   | 54.5   |
| Saudi Arabia      | 33.4                                | 97.1   | N/A  |
| Malaysia          | 32.6                                | 61.3   | 19.0   |
| Yemen             | 29.8                                | 99.1   | 54.0   |
| Syria             | 19.3                                | 87.0   | 82.5   |
| Senegal           | 15.8                                | 96.1   | 46.7   |
| Somalia           | 11.7                                | 99.8   | N/A  |
| Tunisia           | 11.7                                | 99.1   | 15.5   |
| Jordan            | 10.5                                | 97.2   | 14.2   |
| UAE               | 9.9                                 | 76.0   | 19.5   |
| Oman              | 4.6                                 | 85.9   | N/A  |
| Kuwait            | 2.0                                 | 74.6   | N/A  |
| Bahrain           | 1.5                                 | 73.7   | N/A  |

Source: Abdel Mohsin (2020)

There have been numerous studies on zakat collecting and distribution in Muslim nations and shown different model by many researchers. The studies place a strong emphasis on the standard of life and income of individuals in Muslim countries (El-Karanshaw, 2015).

There are many researches have been conducted on zakat and SDGs in deferent aspects of social protection and development of human life by alleviating poverty. Such as Ahmed Shaikh and Ghafar Ismail (2017), explain that by addressing the issues of poverty, health and well-being, economic growth, and income inequality, zakat plays a significant role in achieving the goals of sustainable development. Addressing social values, income, growth, and other goals via social welfare function is the goal of sustainable development (Hediger, 2000). Similar to this, zakat seeks to enhance human life and provide value to the social system. By strengthening the zakat collection and distribution system, zakat may play a significant part in achieving the SDGs (Khasandy & Badrudin, 2019).



Muda, et. al, (2006) looked at the factors that influence people's decisions to give zakat, which in Muslim countries must provide them with a clear knowledge and motivation for it. Sustainable development is a concept that includes addressing "the needs of the present without compromising the ability of future generations to meet their own needs," and countries from all over the world have agreed on a set of goals to achieve it (Sadiq & Mushtaq, 2015). The goal of this study is to discuss the keyways that Islamic financial institutions contribute to the realization of sustainable development objectives and to highlight the contribution of FinTech, which can be a key tool for the proper and systematic distribution of zakat in the future in order to combat poverty and achieve sustainable development.

## New Paradigm for Zakat Organizations in Bangladesh

### Pilot Case of Zakat Agencies in Bangladesh

The ratio of poor and needy people is increasing in Bangladesh whereby the zakat revenue in Bangladesh is capable to reduce this poverty ratio in the country by improving zakat collection and distribution system with using modern technology. Thus, this study aims to propose a new framework for Zakat collection and distribution using FinTech which can help to achieve SDGs in Bangladesh. In order to improve their economic situation and transform them from zakat recipients into self-sufficient individuals in the areas of health care, education, social participation, and skill enhancement, this research will revise the eight Asnaf groups of zakat recipients (Ashraf & Norazlina, 2019). The researchers are confident that the newly proposed framework will improve Bangladesh's social welfare system by achieving the SDGs, which include eradicating poverty and reducing inequality.

### Microfinance Model for Zakat Management:

Zakat money can be huge state revenue which can be utilized as a microfinance model to facilitate for solving the problem of poverty by uplifting the poor from the poverty line and it is a good project that can be taken as a tool for increasing job opportunities for the unemployment people and to make the financially self-dependent (Hassan & Khan, 2007). The integration of zakat and Islamic social finance by using FinTech in Microfinance is the way to improve financial viability and to increase social outreach of microfinance model in widening the livelihood and economic growth in the country.

Thus, by supporting profitable but not necessarily productive measures and stimulating investment, it will both accelerate the growth of capital assets and, at the same time, provide jobs for millions of people in the nation, increasing their purchasing power (DFID, 2008). This will therefore give a number of industries that produce and consume commodities more encouragement. A significant decrease in interest rates, not to mention a zero or negative rate of interest, would open countless investment opportunities in Bangladesh's manufacturing and agricultural sectors (Planning Commission, 2010).

By allocating income to the community's poorer members and increasing public spending, the institution of zakat, thus very successfully controls the propensity to consume. At the same time, the zero rate of interest aids in maintaining the amount of current investment deemed necessary to the current level of employment. Thus, it appears beyond a shadow of a doubt that the elimination of interest and the reinstatement of the institution of zakat will maintain conditions of nearly full employment and foster an appropriate rate of economic growth, which is the fundamental idea behind achieving the goal of reducing poverty and promoting social welfare in order to achieve SDGs.

### **Providing Skill Enhancement Education for the Poor:**

Zakat revenue can be used for developing skills of the young poor generation to prepare them for the battle of poverty to win and be successful financially. In this regard, zakat funds can be given to help disadvantaged kids who are unable to afford tuition and other study-related expenses continue their education. These individuals may fit under the category of *asnaf fi-sabiliilah* (in Allah's way). Numerous underprivileged Muslim children are unable to continue their education due to a lack of funds (Ahmed, 2004). Another point to consider in this situation is the high number of Muslim young underprivileged individuals in society who lack the necessary skills to fulfil their talents in real-world settings. As a result, the zakat revenue can be a tool for assisting them to skill up so they can progress their talents and be skillful in society which will have an impact on the reduction of poverty in a nation. These may be helpful suggestions for them to continue their education at a higher level and then support their family's needs, which is another strategy to combat poverty in Muslim countries.

### **Developing Health Care System for Zakat Recipients:**

One of Allah's major blessings is good health. Numerous people in the Muslim-majority nations are afflicted with various diseases. They lack the resources to pay for quality medical care for their illnesses. In this instance, zakat funds may be used to assist the underprivileged in receiving medical care from a clinic, and information on the receivers of health support will be recorded by zakat management authorities so that they can monitor cases of health issues. Health insurance can be used to benefit the impoverished by ensuring their access to health care. The fundamental principle of insurance is cooperation, which is known to be acknowledged in Islam (Sohag et. al., 2015). Therefore, promoting and expanding insurance on a national level is necessary. It is best to leave life insurance to private companies. Government should provide national-level insurance against old age, unemployment, sickness, and injury so that the entire country is collectively liable for caring for individuals who are ill or elderly, or without sufficient care or who are unemployed. As a result, the government will have zakat funds to use for insurance.

### **Allocating Zakat for Debtors:**

The zakat money is used to assist all debtors who have more debt than personal belongings, provided that their debts were not accrued via illegal activities like indulgence in pleasures, drinking, gambling, or



speculation. Since "al-Gharimin" is a generic term, persons who committed loans to meet their basic needs can get zakat monies. They are not wealthy and have no assets beyond the prescribed nisab, along with those who committed loans to help others (Hassan & Khan, 2007). The Qur'an mentions gharimin along with the poor and needy when describing the beneficiaries of zakat, making it clear that this expenditure refers to wealthy debtors who have been forced to take loans due to external circumstances.

### **Providing Zakat for Refugees:**

Fi al-riqab is the name of an asnaf in the zakat distribution system. It's crucial to talk about this asnaf. It is possible to reframe the phrase "fi al-Riqab" and tie it to the current problems that Muslim nations are dealing with. In many of the Muslim world's contemporary concerns, this asnaf should be considered. Many people fall within this category, including those who are displaced, undocumented immigrants, politically repressed, and those who have been jailed due to their inability to pay fines; these individuals can use the zakat money to be released from custody.

The refugee problem is one of the largest issues facing the Muslim world right now, especially since several Muslim nations, like Syria, Libya, and Iraq, are embroiled in conflict. The Rohingya or Myanmar refugee situation would be another matter to consider. There are millions of Syrian refugees living in appalling conditions in many nations. In Turkey alone, there are more than two million people. Two million more people reside in Jordan, Lebanon, and other nations (Kargin, 2018).

Zakat money, which is gathered from Muslim nations, can be used to aid with and solve this issue as well as to help refugees find permanent housing and pay for their kids' education. Consideration should be given to the Rohingya problem, which is another crucial factor. Numerous Rohingya people are currently wandering the globe without any documentation of their identity or citizenship. If so, zakat funds could be used to find a long-term solution to their issues.

### **A New Model of FinTech for Zakat Management:**

In this digital age, the quick advancements in technology are influencing how people live and the future generation. Adopting of new technical innovations to address financial intersection and other problems of worldly necessities, such as Internet, applications, new financial technology, and many digital techniques to manage daily life in the contemporary digital world, is becoming a necessary element of life. While every technological development has had an influence on how people evaluate financial concerns in modern life, the Islamic ritual system continues to employ more traditional methods, such the present zakat collecting and distribution system.

In order to meet the changing needs of the modern world, it is urgent to transform the zakat collection and distribution system into a FinTech system. This will enable it to achieve its objectives and reduce poverty by managing zakat methodically using new artificial intelligence and blockchain technology. Thus, using new artificial intelligence and blockchain technology (FinTech), To combat poverty in Bangladesh and other Muslim countries, we will try to examine the digitization of the zakat management system and a new type of social funding.

Although the zakat collection and distribution system has been institutionalized in many Muslim countries and is run by government agencies in accordance with Shari'ah, there are still many difficulties in managing the zakat revenue, including inefficiency, a lack of transparency, poor governance, and ignorance of how to handle a complex bureaucracy. In this time, artificial intelligence and blockchain

technology (FinTech) have a ton of room to grow and a ton of potential to serve the people and manage zakat correctly to reduce poverty and achieve sustainable development goals by strengthening the crucial areas listed as follows: 1) managing and studying zakat recipients' data; 2) Using blockchain to facilitate microfinance projects for the poor to lift them out of poverty; 3) using FinTech to facilitate such projects without an interest-based system and keep track of the recipients; 4) managing zakat revenue with good governance to safeguard the interests of the underprivileged by utilizing artificial intelligence and blockchain technology (FinTech).

Furthermore, because of technological advancement in our century, the reflection of digitization has become an integral part of our daily lives. Utilizing technology in all facets and phases of daily lives seems to be a requirement. As a result, adopting FinTech to implement the new model of zakat management will enhance digital experiences to reduce poverty in Bangladesh as well as in Muslim nations and, as a result, achieve sustainable goals. The main goal here is to ensure effective administration of the recipient's records and progress as well as the distribution of the zakat.

## Conclusion

The conclusion that can be drawn from the foregoing discussion is that in order to strengthen the role of the zakat system in the socioeconomic development of the country and to achieve Bangladesh's sustainable development goals, a comprehensive approach is needed. As a result, the new zakat distribution system (FinTech) will result in a more resilient zakat system that will significantly benefit society and the country. In order to realize the zakat and social welfare goals and materialize sustainable goals in Muslim countries, certain reforms are necessary (Shariff, Hazlina, Mansor & Jusoff, 2011).

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