

Relationship of Zakat, Sharia Bank and Poverty: A Theoretical Exploration

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Paper was presented at the 6th Indonesian Conference of Zakat (ICONZ)
30 November – 1 December 2022, Semarang, Indonesia

ABSTRACT

This article analyzes the collaboration of zakat management opportunities with Islamic banks. Productive zakat is realized to have an important role in alleviating poverty than consumptive zakat. As an Islamic-based institution, Islamic banks can manage zakat funds with usury-free bank products. Healthy Islamic banking institutions and organizations will be able to manage zakat professionally. The use of qualitative methods is carried out to produce a model of zakat management with the concept of Islamic banking through the process of understanding the concept of zakat, Islamic banking and analysis of related literature. In an effort to reduce poverty, the role of zakat is to reduce social size; minimize the divide between the rich and the poor; and foster family and brotherhood values. Zakat also acts as a potential source of funds to alleviate poverty. The partnership between Baznas and Islamic banks is very important in efforts to reach the unbanked poor to be educated and introduce the concept of a bank so that when they reach the level of independence. This is also a form of Islamic financial inclusion bank.

Keywords: Poverty, Zakat, Islamic Banking

INTRODUCTION

The Central Statistics Agency (BPS) said that inflation was recorded at 5.95 percent year-on-year (YOY) in September 2022. As explained by Deputy Minister of Finance (Wamenkeu) Suahasil Nazara that inflation was occur below the government's prediction, the invlation reached above 6 percent. Furthermore, the World Bank also estimated that nearly 35 million people will remain in poverty.

In fact, the World Bank estimates that the number of people living in extreme poverty will increase to 922 million worldwide through a number of scenarios taking into account various poverty lines.

The problem of poverty is not only become the state's responsibility but it

become the whole society biggest problems. Poverty can occur because of the income gap between the rich and the poor. Poverty is a manifestation of the inequality and distribution of wealth between the rich and the poor (Haq & Yusfiarto, 2021). In overcoming this gap, Islam recognizes the concept of zakat, where zakat is an obligation for every Muslim who has assets within the specified nishab and has fulfilled the haul (Chennouf Soheil, 2004).

Islam has prescribed zakat, infaq, and alms to overcome the problem of poverty. As Allah SWT calls on Muslims who have excess wealth to have concern for people who are not capable so that there is a harmonious relationship between the two. Zakat allows the transfer of income between the rich and the poor (Aisha et al.,

2019). Zakat needs to be managed professionally so that the purpose of zakat can be achieved because it involves people's funds whose allocation has been determined (Ridwan et al., 2019). One example of a professional fund management is a bank.

Banks which are highly regulated institutions certainly have advantages in terms of fund management and better distribution schemes to those in need. The existence of banks as financial institutions has a significant impact on improving the community's economy (Alhassan, 2015). However, considering that the bank is a profit institution, the bank cannot freely provide financial assistance to the poor, because it is considered unbankable so that it is too risky for the bank. Therefore, there is a need for the concept of a non-profit bank that can reach the poor and unbanked. This can be realized if the source of bank funds does not come from third party funds that need to be returned. Sources of funds needed are funds that are given without being asked for back by the lender and these funds can continue to flow or are always available.

Islamic banking as an Islamic finance industry has unique characteristics when compared to conventional banks (Chennouf Soheil, 2004). In addition to having an intermediation function, Islamic banks also have a social function. The intended social function is that Islamic banks are allowed to collect community social funds such as zakat, infaq, alms, grants, and waqf and distribute them to zakat management organizations as stipulated in Law Number 21 of 2008 concerning Sharia Banking (hereinafter referred to as Law No. 21 of 2008 concerning Islamic Banking) in article 4 paragraph 2 which states that: "Sharia banks and UUS can carry out social functions in the form of baitul mal institutions, namely receiving funds from zakat, infaq, alms, grants, or other social

funds and distributing them to zakat management organizations".

Islamic economics is different from conventional economics, Islamic economics has principles that are in accordance with sharia. Islamic economics is distinguished in principle, structure of activity and redistribution of wealth with conventional economics. This specificity tends to cause a variety of growth factors. In this case, the relationship between zakat and growth is one of the special paradigms in the Islamic framework (Chennouf Soheil, 2004).

Zakat as one of the important religious and socio-economic practices which is intended to prevent the concentration of wealth in some parties. Zakat is believed to be an efficient solution in overcoming poverty and achieving economic prosperity. However, this issue is very under-researched, underscoring the research suggestions for the investigation of Zakat in Muslim countries (Bin-Nashwan, Abdul-Jabbar, Aziz, & Haladu, 2020) that research on zakat is still a new thing in the discussion of scientific development in the economic field.

So this article analyzes the opportunities for zakat management through Islamic banks. Productive zakat has an important role in alleviating poverty than consumptive zakat. The focus of the problem in this study is that productive zakat will be more effective if it is managed by Islamic banks as Islamic-based institutions that have the ability to manage zakat funds with usury-free bank products.

LITERATURE REVIEW

Zakat

Zakat is a mandatory practice for Muslims who already have assets with a predetermined minimum amount (nishab) and have been owned for a period of 1 (one) year (haul). In addition to purifying property, zakat is seen as an obligation for

property owners to issue other people's rights to the assets obtained. Zakat will be distributed to mustahik in accordance with the provisions. Usually, zakat is distributed to meet the needs of the poor in order to be able to live their lives. The purpose of zakat is as the word of Allah SWT in the letter At-Taubah (9) verse 103.

Meaning: "Take zakat from some of their wealth, with that zakat you clean and purify them and pray for them. Verily, your prayer (becomes) peace of mind for them. And Allah is All-Hearing, All-Knowing."

Qardhawi in 1973 in the book of fiqh zakat explains the purpose and impact of zakat for recipients (mustahik) are:

- a. Zakat will free the recipient from need, so that the recipient can feel a peaceful life so that he can worship God solemnly.
- b. Zakat can eliminate the nature of envy and hatred. The zakat mechanism will eliminate these two traits and replace them with the nature of brotherhood among Muslims who help each other in goodness. The existence of zakat will reduce the gap between the rich and the poor in society.

The word zakat etymologically means holy, fertile, and blessed (Chennouf Soheil, 2004). The Qur'an uses the word zakat with a sacred meaning as stated in Surah Maryam verse 13: "And deep compassion from us and holiness (and sin). And he was a pious person." Zakat is an Islamic obligation to represent one third of the five pillars of Islam. It requires the payment of a 2.5% annual tax on the productive wealth of individual and commercial Muslims who have reached nisab (full ownership) and haul (one lunar year) owning wealth. (Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020). Zakat in Islamic jurisprudence is charged on agricultural products, 10% of zakat is required for agricultural products irrigated with rainwater and is subject to an additional 5% zakat. Islam also requires

zakat fitrah or fitrah which requires one sha' obligatory levy equivalent to 2.5 kg of rice, wheat, sugar palm, sago and other staple foods that must be paid before Eid al-Fitr (Islamic holy day).

The Qur'an in Surah al-Taubah verse 60 regulates asnaf (groups entitled to receive zakat). They; fuqara (poor), Masakin (poor), 'amillin (Muslims who work to manage zakat), converts (Muslims back), riqab (slaves), gharimin (debtors), fi-Sabilillah (Muslims trying to convey the message of Islam) and ibn -sabil (traveler with financial problems).

Islamic Banking

Islamic Banking demonstrates the impact on conventional banking, and why it is such a big player in today's market (Mergaliyev et al., 2021). Islamic banks have several different characteristics compared to conventional banks including the existence of Sharia values that must be obeyed by Islamic banks; provides limits on resource allocation, distribution of income and wealth, accounting, and financial reporting. Islamic banking is one of the fastest growing financial sectors in the world, according to industry estimates (Mousili & Tayachi, 2021).

The development of Islamic banking has attracted more attention after the global financial crisis as investors are increasingly looking for ethical alternative investment ways (Mergaliyev et al., 2021). It has also intensified debate within the industry about whether to move beyond conventional banking, designing more direct products based on Islamic principles. Islamic financial accounting standards related to provisions and reserves require the use of dynamic provisions. Furthermore, Islamic banks are more likely to make allowances for losses to absorb future losses. Thus, the use of Islamic standards leaves little flexibility for managers to manipulate accounting earnings. Islamic banking is essentially an

equity-based system featuring zero-based interest, a stock economy, equity participation, joint ventures, mutual funds, leasing, innovation and promising rates of return.

Islamic banking replaces interest-based intermediation with profit and loss sharing (PLS) and interest-free intermediation. Islamic banks may use fewer risk hedging instruments and techniques than conventional banks and have traditionally operated in environments with underdeveloped or non-existent interbank and money markets and government securities, and with limited availability and access to lender-of-stakeholder facilities last-resort operated by the central bank (Mergaliyev et al., 2021).

The fundamentals of Islamic banking can be summarized as follows: Money used must be obtained from halal sources, all investments must avoid Riba, Income must be distributed between shareholders and investment management, poor people also get a share of income through Zakat and the audit process in banks is based on rules Islam.

Poverty

Poverty is about not having enough money to meet basic needs including food, clothing and shelter (Brady, 2018). However, poverty is more than just not having enough money (Zhu et al., 2022). The World Bank Organization describes poverty as follows: "Poverty is hunger and lack of shelter (Karim et al., 2022).

Poverty has many faces, changes from place to place and across time, and has been described in many ways (Attanasio et al., 2022). Poverty is a situation that people want to avoid. In Islam, seeing poverty as a call to action -- for both the poor and the rich -- is a call to change the world so that more and more have enough food, adequate shelter, access to education and health, protection from violence, and voice in what

is happening in their community (Chennouf Soheil, 2004).

Despite of having insufficient money, poverty is also about not being able to participate in recreational activities; unable to send children on day trips with their schoolmates or to birthday parties; unable to pay for medicine for a disease (Manda & Khan, 2014). Poverty is when people are excluded in a society, when they are not well educated and when they have a higher incidence of disease, there are negative consequences for the society. (Lakner et al., 2022). All individuals pay a heavy price for poverty, as increased costs to the health system, justice system and other systems that provide support to those living in poverty impact our economy (Soleh et al., 2022).

While some progress has been made in measuring and analyzing poverty, the World Bank Organization has focused more on identifying other poverty dimension indicators such as social indicators to track education, health, access to services, vulnerability, and social exclusion. (Soleh et al., 2022). Poverty varies greatly depending on the situation. Feeling poor in Indonesia will be different from living in poverty in Japan, USA, Russia or Zimbabwe. The difference between rich and poor within the boundaries of a country can also be huge.

Despite the many definitions, one thing is certain; Poverty is a complex social problem. No matter how poverty is defined, it can be agreed that it is an issue that requires everyone's attention. It is important that all members of our community work together to provide opportunities for all of our members to reach their full potential.

METHODS

This study uses a qualitative research approach that is library research which uses books and other literatures as the main object. Research that produces information

in the form of notes and descriptive data contained in the literature in accordance with the research. The use of qualitative methods is carried out to produce a model of zakat management with the concept of Islamic banking through a process of understanding the concept of zakat, Islamic banking and analysis of related literature.

RESULTS AND DISCUSSION

Economics of Zakat Solution

The benefits of distributing zakat according to Qardhawi can be divided into three, namely benefits for muzakki, mustahiq, and society in general. (Triyawan et al., 2022). The benefits of zakat for muzakki are purifying the soul from miserliness, educating the spirit of generosity. For mustahik According to Yusuf Qardhawi, productive zakat seeks to alleviate poverty, wants the poor to prosper forever, finds the root of the problem, and enables the poor to improve their standard of living.

Many researchers have analyzed the impact of zakat on the macro economy in Indonesia, in relation to zakat collection and the reduction of the national poverty rate (Aisha et al., 2019; Suprayitno, 2020; Triyawan et al., 2022). From their findings, they explain that zakat funds are positively related to poverty reduction during the observed period. Furthermore, at the microeconomic level, researchers evaluate the impact of zakat on productive means and find that zakat helps increase the average household income (Kamal et al., 2021; Ridwan et al., 2019).

Distribution of cash assistance directly from zakat, infaq and alms, both from zakat collection units and from the community. Facing the current situation, it is not only the government that moves, the community is also expected to contribute according to their respective abilities and conditions. In this context, it takes the sacrifice of the rich and the patience of the poor who are affected by the plague, on the

basis of love that is manifested in the form of humanitarian solidarity, where people who are more fortunate help those who are less fortunate. (Lingga 2015). One of its forms, in the midst of the Covid-19 pandemic, is by paying zakat, infaq and alms. Especially for zakat paid, the distribution can be focused on the poor who are directly affected by Covid-19, as those who are entitled to receive it (impossible). This is an Islamic Economy philanthropic scheme that has great potential for the community's economy.

Sharia Banking and Zakat

Islamic Bank operations are in accordance with Islamic sharia principles. Sharia/Islamic banks perform well with banking in other systems, namely interest-based banking. The service aspect in Islamic banking is a combination of moral and business aspects. In its operations, it always aims to make a profit and is free from elements of gambling, *garar* (obscurity or manipulation), and usury. Therefore, Islamic banks are not free to transact at will, but must integrate moral values with economic actions based on sharia (Kamal et al., 2021).

Islamic banking has grown in the world due to its unique features. The features that exist in this system are not found in other banking systems, especially a strong moral and ethical framework. The Islamic financial system is community-oriented, and one of the basic goals of Islamic financial institutions is to achieve socio-economic justice (Nur Iman et al., 2022).

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Zakat for Inclusive Economic Growth

Zakat not only has an economic effect, but is also an “important social insurance” (Bin-Nashwan, Abdul-Jabbar, Aziz, & Viswanathan, 2020). Zakat also contributes to social security, social harmony and justice, helping to eliminate social challenges (Awadh Bin-Nashwan et al., 2020). As an effective income redistribution mechanism, zakat is expected to reduce wealth that is concentrated in several parties and to maintain social security because zakat is a safety net to help the poor and needy. (Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020). Zakat is one of the factors to reduce the impact of poverty (Ridwan et al., 2019). Zakat promotes inclusive economic growth (Mazhar Iqbal, 2015).

Currently, research is growing rapidly in Islamic social sciences. In his study of the development of zakat literature based on scientometrics analysis, Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea (2020) concluded that recent scientific publications have attracted more attention to zakat than in previous years.

Zakat can be a catalyst for economic growth through various channels. The distribution of zakat affects the components of aggregate demand (consumption, investment and public spending), thus affecting economic growth (Aisha et al., 2019; Alam Choudhury & Syafri Harahap, 2008; Ekonomi dan Bisnis Islam, 2018; Triyawan et al., 2022). Zakat encourages increased consumption of the poor and deprived (Shaukat & Zhu, 2021).

In Islam, due to the obligation of zakat and the prohibition of interest, money that is not invested will be consumed by zakat from time to time. Therefore, zakat can reduce the demand for money for transactions and reasons of prudence and stimulate investment (Triyawan et al., 2022). Zakat is a monetary policy tool to replace interest rates and overcome

liquidity constraints in economies in transition (Shaukat & Zhu, 2021).

In line with that, zakat seeks to achieve sustainable development through reducing social problems and increasing economic activity (Ab Rahman, 2019a). Several studies related to zakat have focused on many areas of accounting, management, administration, payment, collection and distribution both theoretically and empirically (Ab Rahman, 2019b; Aisha et al., 2019; Alim, 2015; Mousili & Tayachi, 2021; Ridwan et al., 2019; Suprayitno, 2020). They also investigate zakat and unemployment or the relationship between zakat and poverty (ben Jedidia & Guerbouj, 2021; Kamal et al., 2021; Shohibul Kahfi, 2022).

Furthermore, empirical investigations of the zakat-growth relationship are always devoted to one country such as Saudi Arabia (Mousili & Tayachi, 2021), Indonesia (Aisha et al., 2019; Alim, 2015; Haq & Yusufarto, 2021; Kamal et al., 2021; Nur Iman et al., 2022; Ridwan et al., 2019; Suprayitno, 2020), Malaysia (Yusoff dan Densumite, 2012). The relationship between zakat and economic growth is very complex, including:

1. “Zakat is a determinant of economic growth (zakat-led growth hypothesis) or the so-called 'supply-leading view' (Triyawan et al., 2022);
2. Zakat follows economic growth (Shaukat & Zhu, 2021) (*growth-led zakat hipotesis*), otherwise called 'demand-following view'; reciprocal relationship between zakat and growth (two-way causality view); and Zakat and growth are interconnected (Aisha et al., 2019)” Zakat–Islamic bank–GDP is circular (Alam Choudhury & Syafri Harahap, 2008).

Unlike a linear, the circular causal relationship between systemic entities assumes that zakat not only affects GDP through consumption,

investment, public expenditure and development financing variables, but also this last variable has an impact on the growth and flow of zakat income.

Furthermore, the effect of zakat on growth can be channeled through financial inclusion (Mazhar Iqbal, 2015; Zabelina Olga Victorovna & Sergeeva Maria Vyacheslavovna, 2022). Zakat increases the financial inclusion of the poor can increase economic growth (Mazhar Iqbal, 2015).

It should be noted that the relationship between zakat and growth is strongly influenced by the effectiveness of zakat collection and distribution (Ridwan et al., 2019). On the one hand, the ability and willingness to pay zakat determine the amount of zakat collected, and thus the potential role of zakat in encouraging growth. In this regard, the intention to pay zakat is used to predict the strength of an individual's willingness to perform zakat compliance behavior (Bin-Nashwan, Abdul-Jabbar, Aziz, & Haladu, 2020).

Muzakki's level of knowledge about zakat significantly affects Muzakki's intention to pay zakat (Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020). Currently, in Indonesia, the higher the level of attitude, subjective norms and literacy of zakat owned by muzakki, the higher the intention of muzakki in paying zakat compliance. (Maazouz, 2020). One of the problems faced by zakat is the low level of muzakki literacy to calculate the amount of zakat that must be paid (Ridwan et al., 2019).

3. Efficiency of zakat institutions in economic growth;

Zakat management is not as effective in countries where Muslims are not the majority as in Muslim-majority countries (Ridwan et al.,

2019). Obstacles to a good and effective zakat system include the implementation of a fragmented zakat system, the absence of zakat accounting standards, low compliance behavior, and the absence of generally accepted fatwas/regulations, weak government (law, management and administration). In addition, the loss of trust between zakat payers and collectors affects the willingness of payers to give zakat to zakat collectors (Ridwan et al., 2019).

So it can be concluded that several factors are ineffective in the distribution of zakat, especially in terms of not receiving zakat funds as they should, thereby reducing public trust in zakat institutions, insensitivity in identifying the poor, and lack of knowledge in calculating the amount of zakat.

4. Literature support on the role of zakat and economic growth.

Empirically, the limited studies conducted have revealed various types of evidence of the relationship between zakat and economic growth. Aisha et al (2019) examines the possibility of zakat as an alternative source of economic growth in Indonesia. Then Haq & Yusfiarto (2021) considering macroeconomic data from sharia banks in Indonesia on sharia financing. Furthermore, Suprayitno, (2020) dan Triyawan et al (2022) concluded that zakat can be an effective mechanism to achieve sustainable development through reducing social problems and increasing economic activity.

Zakat leads to the distribution of income, and hence, increases consumption, investment and public spending, and thus promotes economic growth (Kamal et al., 2021). Zakat is believed to be able to stimulate the growth of the country (Shaukat & Zhu, 2021).

So it can be concluded that zakat is an additional growth factor in the Muslim economy. However, the potential magnitude of zakat may be higher by increasing the effectiveness of zakat collection and distribution in a more professional manner.

CONCLUSION

Zakat has an economic function in alleviating poverty and even zakat has a significant influence on the macro economy. However, in reality the economic function of zakat has not been optimal in alleviating poverty due to unprofessional management. One of the wisdoms and benefits is that zakat functions to help, assist and nurture them, especially the poor, towards a better and more prosperous life, so that they can fulfill their needs properly. Zakat worship is worship that has a consequence of obligations that must be carried out by every Muslim. Zakat is a form of social worship that is able to alleviate the poverty of the ummah. Not only for Muslims if everyone wants to pay zakat will then mankind prosper. From a sociological perspective, zakat funds will greatly help those who receive them (mustahik). Zakat will:

1. Reduce social inequality,
2. Minimize the gap between the rich and the poor,
3. Foster the value of kinship and brotherhood.

While the wisdom of zakat is to purify the human soul from vile, miserly, stingy, greedy, and greedy traits. Zakat can clean and purify the person who pays it because it cleans his morals and purifies and cleanses his soul from stinginess and various despicable morals.

Then in the economic field, zakat plays a role in preventing the accumulation of wealth in only a few people and obliges the rich to distribute their wealth to a group

of the poor and needy. Thus, zakat also acts as a potential source of funds to alleviate poverty. In general, zakat funds received by mustahik will increase their purchasing power. This increase will encourage increased production of goods and services. This increase will encourage an increase in production capacity, which in the end will collectively encourage national economic growth.

Some of the managerial implications offered include, firstly, it is important to increase muzakki's knowledge of zakat regarding the terms, conditions, calculations, recipients and laws of zakat, which will most likely increase the muzakki's intention to pay zakat, so that their ability and willingness to pay zakat obediently. Second, it is recommended that charitable organizations adopt procedural transparency and improve the methods of collection, distribution, and utilization of zakat. Third is the improvement of the service quality of zakat institutions which are expected to attract more donors and increase the amount of zakat.

Poverty is a big problem and has been around for a long time. Islam views that the problem of poverty is the problem of not meeting primary needs including clothing, food and shelter. Healthy Islamic banking institutions and organizations will be able to manage zakat professionally. Islamic banks in their operations collect public funds to be redistributed in financing by taking a certain margin or ratio based on the business object being financed. The partnership between Baznas and Islamic banks is very important in an effort to reach the unbanked poor who can be educated and introduced to the concept of banking so that when they reach the level of independence. This is also a form of financial inclusion of Islamic banks.

RECOMMENDATION

This study has not analyzed related to secondary data that can better show the role of Zakat for economic growth, has not shown the amount of zakat received in a period and its impact on society is clear. Then, the collection and distribution of zakat besides being a Muslim's obligation, zakat contributions also play a very important role in economic growth.

However, the magnitude of the potential for zakat may be higher by increasing the effectiveness of zakat collection and distribution in a more professional manner. In this study, a comparison of zakat management between zakat institutions and Islamic financial institutions has not been carried out.

The research begins with a literature study on the concept of zakat, Islamic banking and poverty alleviation. Based on the literature, a basic model of zakat management was constructed using the bank concept. However, there has not been a descriptive analysis related to the proposed zakat bank model along with a description of the zakat distribution process at the zakat bank. So that research related to the construction of the basic model of the zakat bank model will be a very interesting research subject.

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