

Zakat as an Alternative of Microcredit for Poverty Reduction in Bangladesh

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Abstract: *Multidimensional poverty is a current global issue and nationally still exists in Bangladesh. Microfinance is considered one of the most important programs for poverty reduction. The formal and informal financial sectors are ineffective to serve the poorer section of the communities. Zakat is one of the main philosophies of the Islamic finance, centered on societal well-being and equal delivery of assets. Zakat is mandatory for every Muslim who possesses over a prescribed limit of wealth for at least one continuous year 2.5% of one's wealth is given away to the poor. This research was carried out in the district of Bogra, Bangladesh, to examine the difference of household income between the beneficiaries of only microfinance and beneficiaries of both microfinance and zakat recipients. A total of 400 out of 279,000 women beneficiaries of microfinance were recruited as respondents in which cluster sampling method was deployed. The finding indicates that the average daily, monthly, and yearly income of only microfinance beneficiaries was Tk30.56 (US\$0.42), Tk897.93 (US\$12.48) and Tk9692 (US\$134.62). On the other hand, the average daily, monthly and yearly income of both recipients of microfinance and zakat was Tk69.55 (US\$0.97), Tk2086.36 (US\$28.98) and Tk20845.45 (US\$290) respectively. Using the T values (4.12, 4.14 and 3.70), the study result highlights that there is a statistically significance differences of household income with P. value of 0.00 ($P < 0.05$) in between the two groups who benefited from solely microfinance and those who benefited from both microfinance and zakat. The study findings indicates that appropriate utility of zakat was effectual in increasing the household income of microfinance beneficiaries in Bangladesh.*

Key Terms: *Bangladesh, Zakat, Microfinance, Poverty Alleviation*

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Introduction

Multidimensional poverty is a current global issue and nationally exists in Bangladesh. In Bangladesh, the endeavors of formal and informal financial sectors are ineffective to serve the poorer section of the communities (Swope, 2010). It is also perceived informal financial sectors have failed to help the poor to generate their income and reduce the intensity of poverty. Microfinance is considered as one of the most important programs for poverty reduction. Microfinance is a small financial assistance provided to selected poor with inadequate income to enable them to undertake self-employment, financial uplifts, and to promote small entrepreneurship activities (Nawaz, 2011). There are larger numbers of microfinance programs executed by Micro-Finance Institutions (MFIs) to reduce poverty in the country. It is also conceded by a good number of economists and MFIs that the programs

are successful in the poverty reduction in Bangladesh. However, it is estimated nearly 36% of the country's population lives below poverty line (UCAN Daily, 2019).

An effective poverty reduction program will only consider the poor as change agents. The poor do not need aid; they need opportunity to get empowered to improve their living standard (Swope, 2010). Microfinance is an area which has been subjected to debate of scholars in the field of poverty reduction globally as well as nationally in Bangladesh (Ali & Hatta, 2010; Ali, Hatta, Azman, & Islam, 2017). The largest microfinance sector reaches 37% of Bangladeshi household, which is amongst the highest coverage in the world (Ali et al., 2017). However, the effectiveness of microfinance programs is not considered to improve the living standards of the Bangladeshi poor communities

(Banerjee, 2017; Bateman, & Chang, 2012; Brana, 2012; Ali et al., 2017). The study by Ali et al. (2017) established that 41.25% of microfinance beneficiaries borrowed from multiple MFIs in Bangladesh. Their findings also revealed that 31.23% of microfinance beneficiaries borrowed loan from several MFIs to repay earlier loans and 75.25% the beneficiaries were spending their loan for consumption and unproductive purposes. What is even more surprising in Indian microfinance context is that the borrowers used microfinance loans to buy alcohol along with settling the earlier debt (Rai, 2011). A number of microfinance borrowers committed suicide in India 2010 due to defaulting their payment loans. The investigation report from the incidents published the corruption of MFIs in India as well as research on various loan programs around the world (Levin, 2012). The Indian MFIs crisis resulted from multiple lending, coercive recovery practices and inappropriate upgrading by organizers and senior staffs (Biswas, 2010).

The study from Bangladesh showed that 31.7% of the borrowers were still living below the poverty line and 46% living below upper poverty line and microfinance has so far indicated to be only a partial answer to the problem of poverty in Bangladesh (Nawaz, 2011). The interest rates of MFIs were very high (30-60%) than other conventional bank that was difficult to pay for poor participants (Mull, 2016) and MFIs earning more profits from obligatory savings, hidden service charges and high interest rate (Ali, 2014). This phenomenon clearly indicates that the effectiveness of microfinance loan was very minimal as they were not invested properly in productive businesses, hence a very negligible impact on borrowers welfare.

In the religion of Islam, it has a mechanism to assist mitigating poverty, which is called *zakat*. *Zakat* is an important institution in the socio-economic framework of Islam. *Zakat* is an Arabic word which means “purity” and “cleanliness” and it is an act of giving away part of one’s wealth to the poor – a contribution paid once a year on savings of at least 2.5%. In doing so, one purifies one’s wealth and soul.

Zakat is one of the five pillars¹ in Islam, hence, is obligatory on every Muslim who has financial means (*nisab*). *Nisab* is considered an amount equal to basic needs of a person or family for one year.

Basic needs refer to food, clothing, housing, medical treatment and transportation for oneself and one's dependents like spouse and children. The payment of *zakat* leads to an increase in wealth and considered to be a reason for its cleansing. *Zakat* proceeds are to be distributed among the poor and needy. Within this general outlook, *zakat* has been made mandatory to assist in mitigating poverty; *zakat* could be recognized as a social security system (Ali & Hatta, 2014). Due to its religious nature the Muslim continues to pay it since the time of the Prophet Muhammad until today. Here, *zakat* is defined as a financial obligation on the wealth of Muslim’s male and female who attained puberty, free, and the owner of surplus wealth for at least one continuous year; 2.5% is given to the poor, needy, in debtors, wayfarer, to free slaves, to win hearts, way of Allah and *zakat* workers (Al-Bukhari, 870). Islam has a code of life which includes among other things, the economic side of life. Consequently, the religion has its own scheme of mitigating poverty.

Zakat is one of the basic principles of the Islamic economy, based on social welfare and fair distribution of wealth. It is the rights of the poor who do not have enough to take care of their basic needs, the needy whose basic needs are met but their income does not take care of other important needs, for those whose sole job is to collect and distribute the *zakat* funds, for freeing a Muslim person from bondage (whether a slave in the old times, or a prisoner of war in our times), for those who are indebted and cannot pay their debts, for the wayfarer (*ibn as-sabil*) who is stranded in a foreign land and cannot get enough money to go back to his homeland, even though he might be rich as long as they are cut off from their wealth.

In Bangladesh, *zakat* funds could have contributed up to 21% of the Annual Development Plan (ADP) in 1983/1984 and up to 43% of ADP in 2012/2013; this amounts to US\$438.33 million in 1983/1984 and US\$3142.28 million in 2012/2013 (Shaikh, 2016). For example, GDP of Bangladesh was US\$163,728 million (at PPP) in 2015, and the Muslim population was 88%, therefore, adjusted GDP for the purpose of *zakat* estimation will be $163,728 * 0.88 = \text{US\$}144,081$ million (Shirazi, & Amin 2009). Bangladesh is a Muslim country and therefore, cannot deny the importance of *zakat* for poverty reduction. The objectives of this paper are to examine the microfinance and *zakat* and to establish the difference of household income between the

only microfinance recipients and both microfinance and *zakat* recipients in the district of Bogra, Bangladesh.

History of Zakat in Islam

The concept of *zakat* originated more than 1,400 years ago through a divine mandate to the prophet of Islam, Muhammad (PBUH), as a means of support and relief for the poor. It is a tool to induce equitable growth for all members in a society. However, not everyone is eligible to pay *zakat*. *Zakat* constitutes the basic institution and addresses the needs of the poor in the form of a permanently working social and economic security system. *Zakat*, however, is not only an institution for the purpose of poverty reduction. Poverty could be tackled through other means such as, *waqf*, *sadaqah* (Hassan & Khan, 2007). Islam ordains certain regulations for expending one's wealth considering the welfare of the whole society. From the Muslim perspective, all creatures are the children of God and He is their sustainer and this is why He instructs the believers to take care of the needy.

Zakat and Charity in the Holy Qur'an and the Hadith

In this section, some evidence of *zakat* from the Islamic tradition is presented. Two of the main sources of reference in Islam are the Quran and the *Hadith*. Muslims believe that the Quran is the speech of Allah (the Supreme Creator) that was revealed to Prophet Muhammad, and the *Hadith* is the record of the sayings and actions of Prophet Muhammad. The *Hadith* has come to supplement the Quran as a source of the Islamic religious law. *Zakat* and *sadaqah* have been mentioned on many occasions in Quran and *Hadith*. Below are several verses about *zakat* in the Quran and *Hadith* –

You shall give the due alms to the relatives; the needy, the poor and the travelling alien, but do not be excessive, extravagant. The extravagant are brethren of the devils, and the devil is unappreciative of His Lord, you shall treat them in the nicest manner. You shall not keep your hand stingily tied to your neck, nor shall you foolishly open it up, lest you end up blamed and destitute (Holy Quran, 17: 26-29).

Take sadaqah from their amwal (wealth and income) in order to purify them, and sanctify them with it (Holy Quran, 9:103).

From the *Hadith*, Prophet Muhammad said, "Allah has made obligatory for them (Muslims) in their

wealth, *sadaqah* (charity) to be taken from their rich and handed over to the poor" (Al-Bukhari, 870). From the evidence presented above, the concept of *zakat* has its origin from Islamic scriptures, thus, making it as one of the institutions in the lives of the Muslims. Consequently, any programs in the Muslim community such as Bangladesh in mitigating poverty should take into account the role of *zakat*.

Zakat and Poverty Reduction in Bangladesh

Zakat provides the basis of Islamic social welfare and plays an important role of solving problems such as poverty, unemployment and unequal income distribution in a Muslim society, both at families, communities and the entire country (Ali & Hatta, 2014). Although it is admitted that *zakat* alone cannot provide remedies to all socio-economic problems of the society, nonetheless, it is agreed that *zakat* is prime and it plays the most vital role in impartial distribution of wealth in Muslim society for human well-being and poverty reduction (Dogarawa, 2010). There are six countries in the Muslim world which collect *zakat* by law: Yemen, Saudi Arabia, Libya, Sudan, Pakistan and Malaysia, while in Bangladesh there is no law and well-structured organization for the collection and distribution of *zakat* (Ali & Hatta, 2011). In the private sector in Bangladesh there are number of volunteer organizations mostly associated with religious associations. However, many of these associations do not have transparency in the *zakat* funds management. In the absence of transparency and accountability people are weary and reluctant to contribute to *zakat* in Bangladesh. These ineffective institutions and practices have an adverse effect on the poor as they are denied access to the benefits of *zakat* (Habib, 2008)

Whilst the government of Bangladesh is very keen on poverty reduction, it has never seriously looked at the institutions of *zakat* as a national strategy for poverty reduction (Hassan & Khan, 2007). In fact, during the fiscal year 2018 to 2019, the government in Bangladesh does not consider *zakat* as a poverty reduction programs (Ministry of Finance, 2019). It has been claimed that mainstream economy has changed the poverty scenario in the name of microfinance; however, this policy does not really satisfy the social needs that ultimately could impact the inequality of a society (Hassan & Khan, 2007; Ali & Hatta, 2012). *Zakat* and *sadaqah* funds could be used for other social needs like poverty reduction

(Hassan & Khan, 2007). It is surprising that *zakat*, an expressly designed poverty reduction tool, clearly prescribed in the Holy Quran and the *Hadith*, has been ignored in poverty reduction plans and programmes in Bangladesh, where more than 85% of the population are Muslims (Hossain, 2005). Although microfinance policy is working in poverty reduction, yet it cannot be reduced without the use of *zakat* in an effective manner (Ali et al., 2017).

Materials and Methods

Research Design. Quantitative methods have been dominant in policy-making corridors and popular in social sciences. It has a long tradition of application in psychology as well as in social sciences (Sekaran, 2006). A quantitative approach was the prime method to analyze the difference of household income level between microfinance recipients and combined *zakat* and microfinance recipients.

Population of the Study. This research was carried out in Bogra district of Bangladesh to investigate the effect of microfinance in poverty reduction efforts. The selection of Bogra was influenced by three reasons: Its reality of being a model for microfinance according to Grameen Bank, over 25 years of microfinance support by the Grameen Bank to poor women in Bogra, and a large number of microfinance – 279,000 persons (source: Zonal Office, Grameen Bank, Bogra). Respondents were microfinance beneficiaries of Grameen Bank. A self-established criterion that they should have a minimum couple of years of microfinance experiences was applied for their recruitment.

Calculating the Sample Size. Yamane (1967) provides a simplified formula to calculate sample sizes. His formula includes: n is the sample size, N is the population size, and e is the level of precision. A 95% confidence level and 5% level of precision was used for calculating sample sizes. This size of sample was regarded as representative of the population.

$$n = \frac{N}{1 + N(e)^2} = \frac{279,000}{1 + 279,000 * (0.05)^2}$$

$$n = 400 \text{ sample}$$

Sampling. Respondents were 400 out of 279,000 women beneficiaries of microfinance, recruited from the district of Bogra. In the first stage of sampling, out of 15, a total number of 10 sub-districts were

randomly selected for data collection purposes. In the second stage, from 10 sub-districts, out of 120, a total number of 40 centres of Grameen Bank (four centres from each sub-district) were selected. For the third stage, the study randomly selected 10 members (40 centres x 10 respondents = 400 respondents) from each centre of Grameen Bank. This sampling had served to minimize a likelihood of bias in recruiting beneficiaries. The study cluster sampling was used due to population are indicative of homogeneous characteristics, have an equal chance of being a part of sample, research results are as accurate as possible, convenient for larger sample and cost effective.

Research Instruments. Both close-ended and open-ended questions were employed to collect primary data. In close-ended questions, an array of prescribed answers was distributed and respondents were asked to prefer their answers from them. In open-ended questions approach, they were encouraged to feel free and express their experience and perception of their problems. The research instrument was developed based on the literature review.

Data Collection. The quantitative data collected through semi-structured questionnaires and face to face interviews in 10 areas of Bogra were analyzed with assistance of a computer-directed program known as Statistical Package for Social Sciences (SPSS) Version 24. The 1st set of data was to get baseline information about recipients of microfinance (which included- microfinance, household income, education), while the 2nd set of data involved those who benefited from both microfinance and *zakat* (which included - microfinance, household income, education and *zakat*). T-test was used to test if there was any significant difference in the household income between the two groups (microfinance beneficiaries and combined microfinance and *zakat* beneficiaries).

Results

Demographic Information. This section discusses the demographic information of microfinance beneficiaries in the district of Bogra. The household income of the majority beneficiaries were <Tk60.00 (US\$0.83) in the district of Bogra. The majority of microfinance borrowers were women, most of them (69%) were illiterate, had no formal education. On the other hand, majority of 367 (91%) microfinance beneficiaries did not receive the *zakat*. Only a small

portion of 33 (9%) beneficiaries received the *zakat*. Regarding marital status of microfinance beneficiaries, it shows a majority of beneficiaries, 368 (92%), were married women, living with their husbands, 5 (1.3%) were divorced or separated while 27 (6.7%) widows, living with their sons or daughters or other family members. The results indicated that most of the microfinance beneficiaries were married. Moreover, 168 (42.0%) microfinance beneficiaries membership period was 5 years, of them 97 (24.2%) beneficiaries for 6-10 years, and 54 (13.5%) for 21-25 years and 37 beneficiaries (9.3%) for 16-20 years. The finding shows that most of the microfinance beneficiaries' membership duration was more than 5 years.

The differences of Household Income between the only Microfinance Recipients and both Recipients of Microfinance and Zakat

In determining the findings of the above research question, quantitative data were collected, descriptive statistics and T-test was utilized. In Table 1, descriptive statistics regarding per day, per month and per year household income of only microfinance recipients and both microfinance and *zakat* recipients is shown. The finding indicates that the average daily, monthly, and yearly income of only microfinance beneficiaries was Tk30.56 (US\$0.42), Tk897.93 (US\$12.48) and Tk9692 (US\$134.62). On the other hand, the average daily, monthly and yearly income of both recipients of microfinance and *zakat* was Tk69.55 (US\$0.97), Tk2086.36 (US\$28.98) and Tk20845.45 (US\$290) respectively. In conclusion, the findings showed that there is a statistically significant difference of household income in between the received of microfinance group and two group of microfinance and *zakat* recipients.

Table 1: *The Difference of Household Income between the only Microfinance Recipients and both Microfinance and Zakat Recipients*

	Recipients of Zakat in Last One Year		N	Mean	Std. Deviation	Std. Error Mean
	Yes	No				
Income per Day	Yes		33	69.55	52.832	9.197
	No		367	30.56	52.028	2.716
Income per Month	Yes		33	2086.36	1584.952	275.905
	No		367	897.93	1533.130	80.029
Income per Year	Yes		33	20845.45	15381.423	2677.562
	No		367	9692.00	16691.467	871.287

Table 2 shows Levine's test for equality of variance between the two groups. The F tests of the 2 factors are 0.59, 0.77 respectively show that equality variances are not significant, that is to say that ($P > 0.05$). Therefore, it is proved that population variances are relatively equal. It means there is no difference between two groups. Also, another factor 3 is 0.00 ($P < 0.05$) and it indicated equality variances is significant. Using the T values (4.12, 4.14 and

3.70) result highlights that there is a statistically significance differences of household income with P. value of 0.00 ($P < 0.05$) in between the two groups who benefited from solely microfinance and those who benefited from both microfinance and *zakat*. The finding indicates that appropriate utility of *zakat* was effectual in increasing the household income of microfinance beneficiaries.

Table 2: *The Difference of Household Income between the only Recipients of Microfinance and Recipients of both Microfinance and Zakat*

Factors		Levine's Test for Equality of Variances		T-test for Equality of Means		
		F	Sig.	t	df	P. value
Income per Day	Equal variances assumed	0.583	0.446	4.118	398	0.00
	Equal variances not assumed			4.066	37.799	0.00

Income per Month	Equal variances assumed	0.766	0.382	4.254	398	0.00
	Equal variances not assumed			4.137	37.588	0.00
Income per Year	Equal variances assumed	0.000	0.995	3.699	398	0.00
	Equal variances not assumed			3.962	39.097	0.00

Discussion

As a Muslim country, Bangladesh could utilize the institution of *zakat* which becomes the part for the socio-economic development that could play a similar role for poverty reduction in poor communities (Ali & Hatta, 2011). *Zakat* has now become one of the important instruments to help the poor in contemporary Bangladesh. On the other hand, in the social sphere, *zakat* is perceived as a unique poverty reduction tool by making it as a social obligation on the rich and it is a mandatory contribution of the Muslims to the state (Hassan & Khan, 2007). The descriptive finding from this study indicated that the average daily, monthly, and yearly income of only microfinance beneficiaries was Tk30.56 (US\$0.42), Tk897.93 (US\$12.48) and Tk9692 (US\$134.62). On the other hand, the average daily, monthly and yearly income of both recipients of microfinance and *zakat* was Tk69.55 (US\$0.97), Tk2086.36 (US\$28.98) and Tk20845.45 (US\$290) respectively. The microfinance loan should be given return but *zakat* no returns are expected as these are donations to people who are extremely poor and this could also reduce loans that are giving out to the poor (Hassanain, 2015). In conventional microfinance, collateral is compulsory but *zakat* is a short term or long term charity that has no collateral. In addition, *zakat* funds are provided as interest-free, instead microfinance should be returned with high interest rate (Hassanain, 2015). Form the T-test and using the T values (4.12, 4.14 and 3.70) highlighted that there is a statistically significance differences of household income with P. value of 0.00 ($P < 0.05$) in between the two groups who benefited from exclusively microfinance and those who benefited from both microfinance and *zakat*. Therefore, those who received both microfinance and *zakat* their income have increased more than who did receive only microfinance. It was clear that proper utility of *zakat* helped in increasing the income of the microfinance recipients. *Zakat* helps to increase income since after receiving beneficiaries as it does not require repayment. It was

worth noting that majority of rich people were not paying *zakat*, therefore, a small number of people received *zakat* in the district of Bogra. Chowdhury (2009) mentioned that the microfinance is important for providing social safety nets and consumption but its effect on poverty reduction remains in suspicion. Khavul (2010) established that microfinance is poorly understood, and it remains unclear whether it delivers on its promises and there have been much debate among the development specialist regarding the impact of microfinance. Another study by Islam, Mohajan and Datta (2012) sated that Grameen Bank is the major MFI in Bangladesh. However, the interest rate is very high and as a result poor beneficiaries cannot make profit.

The majority of Muslims in Bangladesh were not conscious about the religious and social importance of *zakat* and its collection due to lack of proper Islamic knowledge (Hassan & Khan, 2007). Additionally, the planners of poverty reduction strategies, both in the public and private sectors are not seeing the urgency to adopt *zakat* in the poverty reduction policies and their perception that religious ideas be seen as “non-progressive” (Habib, 2008). For example during the fiscal periods 2018–2019, the government did not considered the *zakat* in the budget as a poverty reduction tool (Ministry of Finance, Bangladesh, 2019).

The government of Bangladesh could build an institution for collecting and using *zakat* in poverty reduction. The system implemented in Malaysia can be used a guide for Bangladesh. In Malaysia, the authorities have created *zakat* institutions for *zakat* contributors and *zakat* recipients in collecting and distributing *zakat* efficiently. Presently, the development of *zakat* institution in Malaysia is constantly improving in terms of *zakat* collection. In Malaysia, the *zakat* management authority is called Center of *Zakat* Collection (Pusat Urus *Zakat* – PUZ) which is under the supervision of each state and territory (Hairunnizam & Radiah 2010).

Additionally, the government and NGOs could motivate Muslims to increase the awareness and responsibility in order to payment of *zakat*. A *Shariah* Council formed with leading Islamic scholars of the country should monitor that the money is spent according to Islamic jurisprudence and it is better to use *zakat* money for development projects which would give long running benefits to the poor of the society (Habib, 2008).

In developing countries such as Bangladesh, foreign aid from donors contributes a significant portion of the development budget. If *zakat* funds are properly managed, these funds could replace foreign aid and therefore significantly reduce the poverty (Hassan & Khan, 2007). As an example in Malaysia, *zakat* was able to supplement the equivalent of 3.1% of national GDP. By utilizing these funds, it is fully expected that the number of poverty is able to be enormously mitigated in Malaysia (Shariff, Mansor, Hazlina, & Jusoff, 2011). Since microfinance policy is not working in poverty reduction, it is therefore difficult to comprehend as to why a systematic *zakat* procedure is not being implemented in Bangladesh (Habib, 2008). MFI and government policy makers must exercise caution and restraint in applying the microfinance approach universally as a means to reduce of poverty (Westover, 2008). This study agreed with the likes of Habib (2008) that if this institution is revived and fully implemented in Bangladesh then absolute poverty could be reduced. Islam gives equal emphasis on both the spiritual and worldly affairs (Shariff et al., 2011). Muslims fulfill this religious obligation by giving a (2.5%) of their surplus wealth. Muslims see this process also as a way of purifying themselves from their greed and selfishness and also safeguarding future business. In addition, *zakat* purifies the person who receives it because it saves him from the humiliation of begging and prevents him from envying the rich (Ali & Hatta, 2011). As a consequent to giving *zakat*, notwithstanding that it is an altruistic and benevolent act, it will add to their spiritual well-being. Those who pay *zakat* are being enhanced spiritually, and at the worldly level, his or her wealth is being cleansed. Through “cleansing” of the wealth, it receives the *barakah* (grace) and one’s wealth will never be less. *Zakat* is an act of piety through which one expresses concern for the well-being of fellow Muslims, as well as preserving social harmony between the wealthy and the poor. Perhaps, due to the uncharitable characteristics of people in

Bangladesh, i.e., not giving *zakat*, that was one of the reasons why Bangladesh was facing poverty at a serious level. People are not giving; therefore, the Creator is not cleansing the wealth nor making it grow. For a society such as Bangladesh where majority are Muslims, *zakat* has to play a major role in the process of poverty reduction. Muslims in Bangladesh are still believers in the power of spirituality, and it is logical to integrate *zakat* which has many spiritual implications as one of the major tools to reduce the poverty issue. It was proved if the *zakat* system was enforced in latter and spirit then extreme poverty could be reduced.

Policy Recommendations

Social protection programs have been recommended as effective public interventions by World Bank to assist individuals, households and communities for better risk management by preventing, mitigating and coping with risks and shocks from vulnerabilities (World Bank, 2008). The rural poor people often deprived of access to adequate health care, food, education, shelter, and employment in Bangladesh. Accessibility to healthier people is always challenging when people struggle for better health care. Prolonged illness, spread diseases and malnutrition could possibly destroy the livelihood individual, families and societies (Cash et al., 2013). The primary health care in Bangladesh has largely been the responsibility of the government of Bangladesh. Ill-equipped hospitals, corrupted officials and lack of service-minded human resources hamper the improved quality medical services for rural poor in Bangladesh. On the other hand, health care services available at private hospitals and clinics are unaffordable for rural poor. Increased investment and improved health care services would be another potential aspect of improving quality of rural poor’s life.

The very poorest and receivers of microfinance, live in secluded areas struggling with access to food, clothes, shelter, schooling, and healthcare, should be approached with integrated policies to necessitates for integral support mechanism such as social safety nets. The essential tasks needed for such policy formulation should begin with collaboration of governments with private joint venture or MFIs. Policies focusing on poverty reduction, improvement of literacy and early childhood education, health care, income and incentives for

employment provision should be intensified by concerned actors (Islam, 2015).

The most powerful force for pushing the microfinance beneficiaries living the below poverty line were health shocks, such as sickness and disease, findings from this study indicated. Therefore, health insurance found to be fundamental to reduce risk from sickness and health care expenses. Actions required for reducing poverty by providing social safety nets to acquire basic necessities such as food, clothing, shelter, financial assistance and health care with dignity at least for those who are unable to generate income for their livelihood (Barkat-e-Khuda, 2011). Arranging for seasonal public work or supplementing employment also considerable measures to strengthen the safety nets for the poor and microfinance beneficiaries. However, large segments of Bangladesh's poor and microfinance beneficiaries left behind with limited accessibility to such programs and it exacerbates their vulnerability to leaves the unexpected shocks (Ali et al., 2017). The unchangeable poverty level has directed World Bank and other donors to develop new programs for micro-project interventions to build safety nets for the microfinance beneficiaries and rural poor who may fall victim to reforms that taken place in Bangladesh. Inaccessibility to social security mechanism may turn vulnerable and rural poor might face increasingly severe risks as the majority of poor people in Bangladesh are employed in informal sectors. Therefore, social protection and financial assistance are perceived as potential remedies for the challenges faced by microfinance beneficiaries and rural poor. On the other hand, *zakat* could be a potential traditional tool which would play an active role to protect the poor and microfinance beneficiaries from vulnerability. The collection of *zakat* and its timely distribution among the poor households would be an effective remedy for unequal distribution of wealth and government of Bangladesh could play an important role in this regard.

Additionally, the old-age pensions should be introduced. The pension fund by the government and MFIs will create a secure future for the poor microfinance beneficiaries and poor that would otherwise be dependent on the support by their sons at old age. Furthermore, an old-age pension is also highly preferred to create a secure future for

microfinance beneficiaries and rural poor. Dependency of old-age poor on their children can be reduced by introducing old-age pension.

Limitations of the Study and Future Research Direction

This study has some specific limitations. First, this study was conducted in the district of Bogra with location and environment may be different from the microfinance and *zakat* beneficiaries of other districts in Bangladesh. Therefore, the future research could also diversify the study area and sample throughout the Bangladesh. Although there are selection criteria in common with the microfinance beneficiaries in other district, however, the findings should be generalized with caution. Second, data was collected by survey using questionnaires to evaluate the microfinance and *zakat* for selected number of samples was quite a lot. Therefore, there were certain constraints or weaknesses that may impact differently on the findings as the possible. Third, this study was an evaluative study which focused only on information from microfinance and *zakat* beneficiaries and not based on in the field or information from microfinance beneficiaries family members or Grameen Bank officials. Time constraints and the provision of limiting researchers this study did not diversify the data collection techniques such as survey, in-depth interviews of microfinance beneficiary's family members or Grameen Bank officials. Therefore, future research may be undertaken as a respondent the microfinance beneficiary's family members and Grameen Bank officials in a broader arena to identify the real effects of microfinance programs and *zakat* in poverty reduction in the district of Bogra, Bangladesh.

Conclusion

This study was conducted to evaluate role of *zakat* in poverty reduction in the district of Bogra, Bangladesh. The finding indicates that the average daily, monthly, and yearly income of only microfinance beneficiaries was Tk30.56 (US\$0.42), Tk897.93 (US\$12.48) and Tk9692 (US\$134.62). On the other hand, the average daily, monthly and yearly income of both recipients of microfinance and *zakat* was Tk69.55 (US\$0.97), Tk2086.36 (US\$28.98) and Tk20845.45 (US\$290) respectively. Moreover, using the T values (4.12, 4.14 and 3.70) result highlights that there is a statistically

significance differences of household income with P. value of 0.00 ($P < 0.05$) in between the two groups who benefited from solely microfinance and those who benefited from both microfinance and *zakat*. It is also argued that *zakat* should be incorporated with poverty reduction programs due to it helping to increase the household income of microfinance beneficiaries in the district of Bogra, Bangladesh. Conceptually, *zakat* must play a key role in alleviating poverty by mobilizing resources.

Consequently, if Bangladesh wants to make the country ridden of poverty, it is important to empower the community by insuring participation in *zakat*. In conclusion, the multi-faceted nature of poverty requires a multi-dimensional approach to poverty reduction based on the development of human potential, creativity and resourcefulness of the poor and building upon their resources, capabilities and survival skills.

Endnote

¹There are five pillars in Islam, namely, Shahadah (Testimony of faith), Solah (Five daily prescribed prayers), Siyam (Fasting in the month of Ramadan), Zakat (giving of charity) and Hajj (Performing pilgrimage to Mecca once in a lifetime if one can afford)

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