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## Article

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RESEARCH

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# Poverty alleviation by *Zakah* in a transitional economy: a small business entrepreneurial framework

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## Abstract

Around 3 billion people are living in poverty of which 35 % are from Muslim World (World Bank 2010). In this case, global Muslim community has prime role to address the injustice of global poverty through *zakah* as an Islamic faith-based institution and having potential annual fund of \$139.32 billion in Muslim world. This study designed an explanatory sequential mixed method. For qualitative data, 17 managers were interviewed and 85 *zakah* recipients were purposively surveyed (disproportionate sampling) for quantitative purpose between August 1 and December 30, 2013. The results indicate that *zakah* has significant bearing on the conditions of *zakah* recipients and lie the foundation of developing small business entrepreneurship by mobilizing *zakah* as seed money (investment) and not as spent money (consumption). A five-phased process model underpinned by two well-grounded theories: Becker's human capital theory and Kirkpatrick's training evaluation taxonomy has been proposed for developing entrepreneurship having universal application. The model's implications for alleviating poverty by governments, *zakah* management institutions, and policy makers also discussed in the paper.

**JEL Codes:** I32; L26; P36

**Keywords:** Poverty alleviation; *Zakah*; Entrepreneurship development; Skills development

## Background

The World Bank estimates that approximately 3 billion people are living in poverty and 46 million more people will come under the income level of US\$1.25 a day due to the recent global economic meltdown and slow economic growth rates (Ali and Hatta 2014; World Bank 2010). Thus, poverty has become one of the severe problems for many transitional economies like Bangladesh. Indeed, poverty is considered as a severe disease in any country (Affandi and Astuti 2013) which may exist amidst plenty even in those countries that have been doing better (Ariffin 1994). Poverty is the state of one who lacks a usual or socially acceptable amount of money or material possessions (Encyclopedia Britannica). Actually, poverty is a situation in which people lack necessary income to satisfy essential needs such as food, clothing, energy and shelter. There are many types of poverty such as absolute poverty and relative poverty. Absolute poverty (extreme poverty) refers to the deprivation of basic human needs, which

commonly includes food, water, sanitation, clothing, shelter, health care, and education (UN declaration 1995). Relative poverty is defined contextually as economic inequality in the location or society in which people live. Indeed, relative poverty exists as long as there is inequality in income and wealth distribution. Thus, relative poverty is not a serious problem as long as it does not imply absolute poverty (Dogarawa 2009).

There exists an argument that elderly, disabled, and children significantly contribute to the cause of poverty and unemployment. But the study claims a shifting focus from this traditional economic view point to the religious and social commitment perspective where *zakah*, as an Islamic faith-based institution can be effective vehicle of poverty alleviation. The study argues that if *zakah* is distributed as seed money (investment) within the entrepreneurial framework, is sufficiently capable of alleviation of poverty in Muslim countries as well as elsewhere. Several studies described 'seed money' as start-up financing, investment or pre investment expenses (List & Lucking-Reiley 2002; Seelos and Mair 2005), and the present study considers 'seed money' as the amount spent for investment purpose.

The structure of the paper is as follows. "Background" section threw light on the issues of poverty in Muslim countries, the application of *zakah* as an Islamic faith-based institution centered on the argument of mobilizing *zakah* as seed money within entrepreneurial framework. "Methods" section is consisting of qualitative and quantitative research approach employing explanatory sequential mixed method. "Results" are divided into qualitative and quantitative parts which inform the proposed entrepreneurial framework for *zakah* mobilization. Finally, "Conclusion and policy implication" section concludes and puts forward suggestions for governments, *zakah* management institutions, policy makers, and researchers followed by "Limitations and future research".

### **Poverty in the muslim countries**

Today, despite the possessing of 70 % world energy resources, 40 % natural resources (Laghari 2013), rising Muslim population from 1.6 billion in 2010 to 2.2 billion by 2030 (Pew Research Centre 2014), with strategic geographical location (Hoque et al. 2013a), Muslims are world's poorest nation. At present, out of 1.7 billion world's poor, 44 % (The Nation 2011) or 35 % (World Bank 2010) are residing in Muslim countries and only 8 (eight) percent of world's GDP is produced by Muslim countries, whereas, only paltry sum of 0.81 % of GDP is spent on research and development (*The Express Tribune, June 15<sup>th</sup> 2013*). But, Muslims can reduce poverty scenario permanently in a dramatic way by developing entrepreneurship by mobilizing their *zakah* fund in a prudent and deliberate way and thereby can increase gross domestic product (GDP). In fact, Islam as a religion of universal brotherhood wants to ensure social and economic justice for all human being in general and Muslim in particular (Choudhury 2002). But, Islamic teaching of brotherhood and social justice would not be meaningful unless accompanied by economic justice so that everyone gets his due for his contribution to society or to the social product and that there is no exploitation of one individual by another. To meaningfully realize social justice, therefore, all the resources at the disposal of human beings must be utilized efficiently and equitably to fulfill the needs of all and to bring about an equitable distribution of income and wealth (Sadeq 1996). Hence, Islam emphasizes distributive justice and incorporates in its effort to foster

brotherhood among Muslims by collecting and distributing *zakah* and enforcing Islamic teachings related to law of inheritance to accelerate distribution of income and wealth in the community of Islamic brotherhood (Dogarawa 2008).

### **Causes of poverty in muslim countries**

A country is poor not because of the lack of resources. Among others it lacks sufficient number of good entrepreneurs (Gupta and Srinivasan 1992; Hoque et al. 2014). In the last decade, there has been a growing interest in entrepreneurship as a mechanism for poverty alleviation across international boundaries (Murphy and Coombes 2009). Entrepreneurship can help alleviate poverty is not new, rather from long before it was assumed that entrepreneurial activity leads to economic growth (Schumpeter 1934) and vice versa. According to Sadri (2010) entrepreneurship is both cause and consequence of economic growth; technological advancement and conceptual innovation and they are interknitted, interconnected and interwoven with one another. Indeed, poverty does not only depend on resource endowments, population size, economic and social policies, but also on the kinds of economic activities that are being undertaken (Dogarawa 2009).

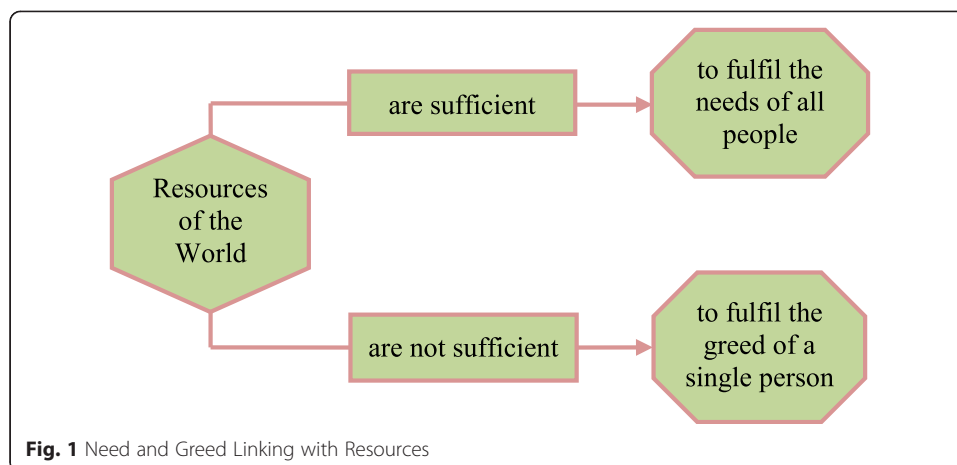
Empirical studies revealed that the problems faced by Muslim countries are chronic absolute poverty, high unemployment, inequality of income distribution, low levels of productivity in primary sector, increasing inequality of living standards, less optimal fulfillment of public facilities (education and health), a worsening balance of payments and the most severe is the foreign debt and the weakening of the institutional structure and system of values and customs are increasingly faded due to external influences (Affandi and Astuti 2013; Djumiarti 2005). According to Hanafiah (2009:1) the causes of high rate poverty in Muslim majority countries as compared to non-Muslim countries are very reasonable since the majority of Muslim countries were former colonies of the colonial western countries that resulted in a sluggish of national economy. This is evidenced from unequal distribution of resources and huge gap between the poor and wealthy people (Affandi and Astuti 2013). Indeed, poverty in the Muslim world is the outcome of many factors out of which lack of effective policies and strategies to develop entrepreneurship is one of the key factors (Hoque et al. 2014).

Furthermore, due to improper distribution of the resources, poverty exists in the world in general and Muslim world in particular. In fact, the resources of the world are sufficient to fulfill the needs of all people but resources of the world are not sufficient even to fulfill the greed of a single person (Gandhi 2013) as depicted in Fig. 1.

Allah has created sufficient resources for his creatures (Quran, 41:10). Allah says:

*It is Allah who created the heavens and the earth, and sent down from heaven water wherewith He brought forth fruits to be your sustenance. And He subjected to you the sea at His commandment; and He subjected to you the rivers and He subjected to you the sun and the moon constant upon their courses, and He subjected to you the night and the day, and gave you all that you asked Him. If you count Allah's blessing, you will never number it; surely man is sinful, unthankful.* (Quran, 14: 32–34)

In another verse Allah says: “*Verily, thy lord doth provide sustenance in abundance for whom He pleases and He straiten it, for He doth know and regard all his creatures*” (Quran, 17:30).



Allah further says:

But seek, through that which Allah has given you, the home of the Hereafter; and [yet], do not forget your share of the world. And do good as Allah has done good to you. And desire not corruption in the land. Indeed, Allah does not like corrupters. (Quran, 28:77)

Though Allah has created sufficient resources still there is poverty and one of the key reasons is that a few greedy people own majority of world's resources. The word greed appears eight times in the Quran. The greedy rich have more thirst for resources. Allah says, "The craving for ever-greater worldly gains and to excel others in that regard keeps you occupied and which continues until you reach your graves" (Quran, 102:1–2). The Prophet (SAW) says "Watch out for greed because the people before you perished from it. Greed led them to be miserly so they became misers. Greed led them to break the ties (of kinship) so they broke it. Greed led them to sins so they committed sins" (Abu Dawud). Ibn Abbas narrated that "I heard the Prophet saying", "If the son of Adam (the human being) had two valley of money, he would wish for a third, for nothing can fill the belly of Adam's son except dust, and Allah forgives him who repents to Him" (Bukhari). Surely, if all rich play their effective and efficient role in removing poverty, within short span of time the word poverty would be no more in the world.

### Strategies of poverty reduction

There are many anti-poverty programs which can be broadly classified into two strategies – (1) Indirect Strategies: that formulate a macro-economic policy framework to ensure sustainable growth, higher employment, higher per capita income, eventually reduce poverty, and (2) Direct Strategies: that targets the underprivileged population and provides them necessary assistance to ensure credit access, improve health conditions, increase literacy rate and ultimately eradicate poverty (Hassan 2006; Pramanik 1994).

Indonesia, Malaysia, and Thailand are good examples of countries that have alleviated poverty through indirect strategies. These countries pursued consistent macroeconomic policies that ensured growth of six percent or greater and increased public spending on education, health, family planning, etc. for decades. In contrast, Bangladesh is an example of direct policy application where government and non-governmental organizations provide a set of services for the targeted poor population like ensuring access

to credit, health care and educational services to targeted underprivileged individuals (Hassan 2006). But, still significant level of poverty exists in Bangladesh which can be reduced by developing small business entrepreneurial skills with the help of *zakah* mobilization.

### **Entrepreneurship development as a tool of poverty alleviation**

Entrepreneurship is the dynamic process of creating value to achieve rapid, profitable growth (Low and Macmillan 1988), to exploit the business opportunities (Schumpeter 1934) and business success (Islam et al. 2011). It is the skills and innovativeness by which people take initiative to become involved in productive pursuits for achieving their objectives (Chowdhury 2008). On the other hand, entrepreneur is that person who has ability and mentality to start an enterprise either for producing goods or rendering services for making profit. Entrepreneurs are called forth factor of production (Glancey and McQuaid 2000), engine of economic growth (Azim 2011), because economic development of a country is accelerated by the activities of qualified entrepreneurs (Matlay 2005).

According to Sadri (2010) entrepreneurship is both cause and consequence of economic growth; technological advancement and conceptual innovation and they are interknitted, interconnected and interwoven with one another. In a later study, Islam et al. (2011) found that entrepreneur's characteristics significantly affect on the business success of SMEs in Bangladesh. Indeed, due to many factors, sufficient numbers of small, medium and large business enterprises are not being developed and managed in the Muslim countries but lack of entrepreneurial skills and seed money for organizing business enterprises are the paramount factors for which poverty is seen among the large number of people of Muslims, though; Muslim countries possess huge natural resources.

But Islam as a complete and comprehensive way of life (Quran, 5:3) highly encourages the development of agriculture, industry, trade and commerce (Ubaid 1975; Hoque et al. 2014), because, resources are mobilized and increased for fulfilling the needs of people through business (Ariff 1991) and business enterprises are developed and properly managed by the entrepreneurs. So, for developing business enterprises, entrepreneurial skills should be developed properly. Allah the almighty says "Business is lawful for you" (Quran, 2:275). Chapra (2008) opined that 'need fulfillment' of all in a society is of utmost importance in Islamic jurisprudence. Prophet Mohammad (SAW) was himself engaged in trade and commerce before he became a Prophet. He was a successful businessman, known for integrity, he bore the honorific title Al-Amin (the Trustworthy). The Prophet (SAW) says "Search for your livelihood much below the soil - at every layer of the earth surface". It is the spirit of Islam that no piece of cultivable land is allowed to be left unused, because; Islam directs its followers to be productive and efficient in all spares of life. Allah says "Don't waste your wealth; those involved in misusing wealth are the brothers of the devil" (Quran 6: 141). Allah also says "When your prayer is over, spread over the earth and seek the bounty of Allah (Quran 62:10). Prophet Mohammad (SAW) says nine-tenth of the livelihood lies in business activities and one-tenth in cattle raising (agriculture).

Indeed, without having entrepreneurial skill, no business enterprise can be developed. Again, sufficient numbers of business enterprises (preferably small business) can be



developed by *zakah* fund if proper policies and strategies are devised by the *zakah* management organizations (individual/group/institution). Consequently; poverty can be reduced significantly and dramatically from the society in general and Muslims' society in particular. So, *zakah* fund can be used for developing entrepreneurship as a tool of poverty alleviation from Muslim society.

But, there may have a contradiction regarding the use of *zakah* fund, because; the argument of this paper is that *zakah* fund should be used as seed money (investment) rather than spent money (consumption). This is due to the fact that a significant proportion of population of Muslim countries are poor and who require basic needs and some or even most parts of the *zakah* fund is allowed to spend for meeting emergent needs of the poor. In this case, the argument of the study is that once the capacity of poor is enhanced for doing business then the opportunity to employ other poor people will also be increased, consequently; the poverty would be reduced geometrically.

### **Zakah and its measurement**

Every Muslim having resources beyond a certain limit (which is very low) has to pay *zakah* on annual basis. The low limit on the ownership of resources that qualifies the owner to discharge *zakah* obligation is meant to keep a broadened base to generate resources for the poor. The rate at which *zakah* is to be paid out of one's resources is also too low (which is only a reflection of the objective for encouraging the payment). Injunctions are very strong relating to the payment of *zakah* obligation of which a few are as follows;

Allah says in the Qura'n:

... And there are those who hoard gold and silver and spend it not in the way of God; announce unto them a grievous penalty. On the Day when heat will be produced out of that (wealth) in the fire of Hell, and with it will be branded their foreheads, their flanks and their backs [and it will be said to them], "This is what you hoarded for yourselves; taste ye, then, what you hoarded. (9: 34–35)

Allah also says "Eat from their fruits, and give the due alms on the day of harvest" (Quran, 6:141). In other verses of Quran, Allah says (2: 215), "They ask you about giving: say, the charity you give shall go to the parents, the relatives, the orphans, the poor, and the travelling alien". Any good you do, God is fully aware thereof." Allah further says in Quran that (2:3) who believe in the unseen, observe the Contact Prayers (Salat), and from our provisions to them, they give to charity. Allah further says, "And We made them leaders guiding by Our command. And We inspired to them the doing of good deeds, establishment of prayer, and giving of *zakah*; and they were worshippers of Us (Quran, 2:73).

Allah also says:

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. Even if you have to turn away from them, as you pursue the mercy of your 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 sorry. (17: 26–29)

The Prophet (SAW) is reported to have said: If a single person were to sleep hungry [Muslim or non-Muslim] in a town, God's protection is lifted from such a town (Masnud Imam Ahmed). *Zakah* is an obligation related to defined types of property from

which a part is to be paid every year to the poor as their right. There is a minimum amount of property to be owned in order to qualify as payer of *zakah*. It will be payable only if one owns the property beyond that limit. This limit is called *nisab*. There is a minimum amount that becomes due to be paid every year. Table 1 shows the *nisab* (minimum amount of ownership of different kinds of property, beyond which owner becomes liable to pay *zakah*) along with the minimum rate of *zakah* to be paid. The table is only indicative of a broad picture about the structure of *zakah* obligations (Al-Qaradawi 1973). It is to mention that some Shariah scholars draw the line of difference between *zakah* and *khoms*, some are not. Hence, this paper considers the term *zakah* in common.

### **Zakah and its distribution**

The *zakah* is to be distributed among people of the following categories (Quran, 9:60), depending on need such as;

1. The Destitute: Those who don't have material possessions nor means of livelihood.
2. The Poor: Those with insufficient means of livelihood to meet basic needs.
3. *Zakah* Workers: Those whose job it is to collect and re-distribute *zakah* money get their salary from the *zakah* money.
4. New Muslims: Those who are new to Islam and require help to integrate themselves into the Muslims community.
5. To Free Slaves: *Zakah* money is to be used to purchase slaves and free them.
6. The Indebted: Those who are in debt and have difficulty repaying it.
7. In the Path of Allah: *Zakah* money can also be spent in the path of Allah. This can include many things, basically any project that helps Muslims or Islamic causes.
8. Stranded Traveler: The traveler who does not have enough money to complete their journey.

### **Zakah as a means of developing entrepreneurship**

*Zakah* is an important institution in the socio-economic framework of Islam (Kusuma and Sukmana 2010; Muhamat et al. 2013) which is being underutilized for poverty reduction in many poor Muslim countries, though, is considered as third pillar of Islam. The main objective of *zakah* is to achieve socio-economic justice (Wahab and Rahman 2011). It is considered as an effective divine tool for alleviation of poverty because Islam

**Table 1** Nisab and Rates of *Zakah* for some of the contemporary items

	Rate	Nisab
Cash	2.5 %	Equivalent of 85 g of Gold
Bank Deposits	2.5 %	Same as for cash
Stocks in Trade	10 %	Same as for cash
Agricultural Produce	5 %, if investment is made in inputs and irrigation (10 % otherwise) 10 %, if there is no cost of inputs	653 KG
Real Estate	2.5 % from their income	Same as for cash
Professionals	2.5 % from their income after deducting cost	Same as for cash
Shares/Stocks	10 % When dealing in the trading of shares	Same as for cash
	2.5 % from income if for the purpose of investment	Same as for cash

Source: Al-Qaradawi (1973)



looks upon poverty as a religious and social problem, since poverty pushes a person to lowliness, sin, and crime (Hassan 2006). But, as a divine tool, *zakah* fund can alleviate poverty effectively and promptly when it is used as seed (investment) money not as spent (consumption) money for the greater and better benefits of the poor of society; otherwise, it will produce no fruitful result. And only due to effective and efficient implementation of *zakah*-based economic system, the world had experienced a poverty-free-society in human history in the domain of Islamic State (where there was not a single poor to receive *zakah*) under the leadership of Prophet Mohammad (SAW) and His successors (Khalifa).

Unfortunately, in spite of having a divine tool of poverty alleviation like *zakah*, almost 35 % of world's poor are Muslims (World Bank 2010) and many Muslims still pay no or little attention to the Islamic guide lines while distributing *zakah*. This is because, in one side, many Muslims lack due Islamic spirits as well as knowledge about the depth and breadth of *zakah* and on the other side, absence of effective *zakah* management institutions both in government and private level in Muslim societies. As a result, the practices and applications of Islamic injunctions regarding *zakah* management have deteriorated considerably over time. But, payment of *zakah* is still carrying significant importance in the daily life of many Muslims. This is partly reflected through donations given to NGOs and charitable organizations working for the poor in Muslim societies. Yet, the donations to charities and their injunctions form a rather small part of the *zakah* obligations constantly discharged by Muslims in their societies through personal and informal channels. In most of the cases, these channels may not be serving the purpose of fighting poverty as *zakah* is not given to the right target groups (poor) in a planned and organized way. So, poor remains poor, even after receiving a handsome amount of *zakah* while in the glorious history of Muslims, once *zakah* had uprooted poverty from society and still can alleviate it.

So, the research questions are;

1. Why *zakah* is not uprooting poverty from Muslims society?
2. Is it due to lack of effective and efficient *zakah* management organization(s) in the Muslims society?
3. Is it due to spending *zakah* fund for consumption purpose not for investment purpose?
4. Is it due to lack of an entrepreneurship development model by *zakah*?

Therefore, this study is conducted through a mixed method approach in which 17 managers of seven *zakah* management organizations were interviewed and 85 *zakah* recipients were surveyed through questionnaires to investigate into their poverty alleviation programs so that a comprehensive process model can be suggested for developing entrepreneurship by *zakah* mobilization for removing poverty. The rationale lies in the fact that comprehensive research regarding entrepreneurship development by *zakah* has been lacking. There are few studies addressing this issue, though, were not analytically written and theoretically underpinned.

## Methods

The aim of the research is to propose a process model for developing small business entrepreneurship by mobilizing *zakah* with a view to alleviation of poverty having universal application. In the progression of the proposed process model, the authors

designed a mixed method approach called *embedded design* which combined the qualitative and quantitative data collection methods with a judicious blending of interview and questionnaire survey to better comprehend the nature of the problem domain (Creswell and Plano Clark 2011). This research is a cross-sectional study. The embedded design of study consists of interview and questionnaire which is mainly explanatory and to some extent exploratory in nature. During the exploratory stage, the primary data regarding the different types of poverty alleviation programs have been collected from 17 managers of seven *zakah* management institutions through unstructured interview protocol. Unstructured interview were employed in order to keep ample space between the questions to write responses to the interviewee's comments (Creswell 2007). Managers' comments helped to get initial idea regarding the effectiveness of their programs which eventually contributed to the final formulation of the close-ended questionnaire (Creswell 2007). Closed-ended format is chosen in order to make the respondents feel easy to answer and to increase the number of completed responses and also to make data analysis convenient and more objective (Sekaran and Bougie 2010).

Subsequently, employing structured questionnaires, data have been collected from 85 *zakah* recipients, especially who received in the form of seed (investment) money. This is due to the fact that the research is based on the argument that *zakah* should be used as seed money not as spent (consumption) money. Thus, the *zakah* recipients who received money in the form of consumption were dropped from the list of preference. Data collection was conducted during the period August 1 to December 30, 2013 employing purposive disproportionate random sampling technique from three representative districts - Chittagong, Cox's Bazar, and Banderban under Chittagong<sup>a</sup> division. Finally, the collected data were tabulated and analyzed by using simple statistical tool such as frequency and percentage.

## Results

### Qualitative data analysis (interview)

In an exploratory intervention, 17 managers of seven *zakah* management institutions have been interviewed through an unstructured protocol. The elicited data, thus tabulated, and depicted that the *zakah* fund is not used as seed money (see Table 2).

**Table 2** Distribution of *zakah* by sample *zakah* institutions

Year	Total money distributed (million)	Distribution of <i>zakah</i> fund As	
		Seed money (investment)	Spent money (consumption)
2005	\$ .9	13 %	87 %
2006	\$ 1.47	11 %	89 %
2007	\$ 1.72	17 %	83 %
2008	\$ 1.75	16 %	84 %
2009	\$ 1.90	21 %	79 %
2010	\$ 2.16	23 %	77 %
2011	\$ 2.18	19 %	81 %
2012	\$ 2.59	24 %	76 %
2013	\$ 2.7	23 %	77 %
<b>Average</b>	–	<b>18.5 %</b>	<b>81.5 %</b>

Results in Table 2 shown that on an average only 18.5 % of *zakah* fund was used as seed money, whereas, 81.5 % was used for consumption purposes. The results indicate that *zakah* fund is not used for productive purposes; as a result, *zakah* is not uprooting the poverty from the society as it could be. The findings of the study also manifested that there are many types of programs (Table 3) such as training programs for developing tailoring skills of female, distribution of tailoring machine, distribution of Rickshaw (a small two-wheeled cart), distribution of agricultural material, distribution of cattle, and distribution of money for organizing business. Interestingly, it was found that there are some methodological mistake while distribution of *zakah* as investment mode. For example, though in small scale, there is a program of developing business entrepreneurship, but unfortunately the methodology is defective because while giving money to do business, experience is not the compulsory precondition. As a result, it was found that the success rate is much low.

#### Quantitative data analysis (survey)

In the subsequent part of the mixed method design, 85 *zakah* recipients were surveyed through a structured questionnaire. Survey results showed that (Table 4) after receiving *zakah*, 44.71 % reduced their poverty significantly and 42.35 % reduced moderately. That is, *zakah* reduced poverty condition of 87.06 % recipients. Whereas, though received in the form of investment mode, *zakah* could not improve the poverty condition of 12.94 % recipients. On the contrary, the programs like distribution of Rickshaw, agricultural materials and cattle were somewhat effective while distribution of tailoring machines was also effective.

Furthermore, the study reveals that out of different modes of *zakah* programs, training on tailoring skill development was almost 100 % successful followed by sewing machine distribution program (87.5 %). But it is found that there is no fruitful program in the *zakah* management organization regarding the entrepreneurship development. Though, small amount of money was distributed for doing business but it was the unplanned exercise resulting 75 % failure rate. It was also found that in case of unplanned distribution of *zakah*, after a certain time the receivers come again for asking *zakah* which is the clear indication that unplanned distribution of *zakah* could not alleviate

**Table 3** Available programs of *zakah* management institutions in Bangladesh

Programs of <i>zakah</i> Institutions	Recipients' Status	Precondition	Use of <i>zakah</i> fund as
Cattle distribution	Abject poor, disable, handicraft, aged, widow	–	Seed money
Rickshaw distribution	Capable male poor	Experience	Seed money
Sewing machine distribution	Widow, poor female	Experience	Seed money
Cloths, food stuff distribution	Abject poor, disable, handicraft, aged, widow	–	Spent money
Providing tailoring training	Widow, poor female	–	Seed money
Money given for doing business	Poor	Experience is preferable	Seed money
Distribution of agricultural materials to farmers	Poor	Experience	Seed money
Offering scholarship to poor students	Poor students	–	Seed money (indirectly)

**Table 4** Summary of survey with the *zakah* recipients

Demography		No. of receipts				
Age	25 or below	14				
	26–35	29				
	36–45	17				
	46 and above	25				
Gender	Male	32				
	Female	53				
<i>Mode of receiving zakah by the poor (recipients)</i>		<i>Gender</i>	<b>No. of receipts</b>	<b>Poverty is reduced after receiving zakah (any mode)</b>		
				<b>Agree</b>	<b>Somewhat agree</b>	<b>Disagree</b>
Training on tailoring skill	Male	–	–	–	–	
	Female	28	16	12	–	
Rickshaw distribution	Male	14	8	5	1	
	Female	–	–	–	–	
Cattle distribution	Male	11	2	5	4	
	Female	17	7	8	2	
Sewing machine distribution	Male	2	1	–	1	
	Female	6	4	2	–	
Money given for doing business	Male	3	–	1	2	
	Female	1	–	–	1	
Distribution of agricultural materials to farmers	Male	2	–	2	–	
	Female	1	–	1	–	
<b>Total</b>	Male	32	11	13	8	
	Female	53	27	23	3	
	Total	<b>85</b>	<b>38</b>	<b>36</b>	<b>11</b>	
In percent (%)			<b>44.71 %</b>	<b>42.35 %</b>	<b>12.94 %</b>	

poverty. So, most of the organizations have been utilizing *zakah* fund without proper plan as well as having no vision-driven objective such as entrepreneurship skill development. Thus, the empirical findings regarding the activities of *zakah* management organizations motivated the authors to develop a process model for developing entrepreneurship skills relating to small scale enterprises.

#### How *zakah* can be mobilized for developing entrepreneurship to alleviate poverty?

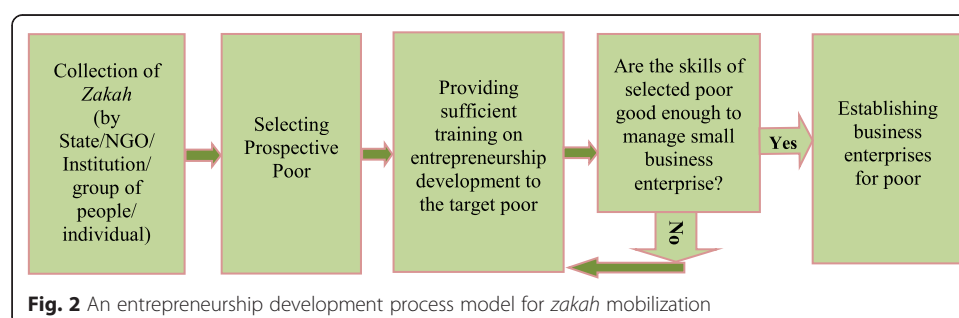
From the very dawn of Islamic history, *zakah* has been playing remarkable role not only in reducing poverty but also in ensuring social development of less privileged members of the society (Khan 2007; Sulaiman 2003). *Zakah* is also expected to increase savings since it takes away a part of the precautionary savings (Choudhury 1983). Undoubtedly, *zakah* is a tested and proven divine tool of Islam for uprooting poverty from every society in general and Muslim society in particular. History proves that by applying *zakah*-based economic system, poverty was alleviated from society in human history in Madina and Arabian Peninsula under the leadership of Prophet Mohammad (SAW) and his successors for which hardly any one was in need of charity. As a result, Muslims were finding hard to locate poor and hungry in order to discharge their religious obligations of paying *zakah*.

Indeed, *zakah* management is the responsibility of Islamic government and Islamic governments used to do the job. But, after the fall of Ottoman Empire in 1925, *zakah* collection has been the function of individuals and groups of people aiming at discharging their Islamic duty and prevents the institution from total forgotten. With no state power to enforce this injunction, *zakah* collection shrink over time and only small part of *zakah* due are paid by Muslims within their community through this personal and informal channel (Kahf 2000; Yusuf and Derus 2013). Even today, among the Muslims there is a debate regarding the method of collection and distribution of *zakah*. If *zakah* is collected through institutional arrangements then should it be given as consumption subsidy or should it be used to develop entrepreneurial capacity and thereby improving the economic conditions and status of the poor. For the extreme poor faced with starvation and death and disease, this debate is hardly relevant.

In fact, *zakah* can be used to meet the immediate survival needs of the extreme poor. However, as poverty alleviation strategy, capacity of the poor should be developed through health, education, vocational training facilities etc. so that the poor can get out of the poverty trap. And also business entrepreneurship should be developed on priority basis. Because, through entrepreneurship development programs it would be possible not only to remove poverty but also to create employment opportunity for many other poor. As a result, poverty can be removed promptly from society. Such initiatives, however, should be taken by the government in an Islamic state.

Unfortunately, in the Muslim world, Governments are neither performing these responsibilities fully nor efficiently, rather in many places Government institutions are misusing the *zakah* fund. As a result, *zakah* payers are reluctant to give *zakah* to government for such purposes. But whatever the situation, it is the responsibility of Muslims leaders, clerics (Imam) and scholars to come forward in developing awareness among the Muslims of different class to play their due roles (Hoque et al. 2014). The payment of *zakah* in proper amount with proper method for removing the poverty from Muslim society will ultimately help in bringing peace, harmony, and prosperity of the Muslim world.

Based on the above discussions it can be said that *zakah* can be utilized for developing entrepreneurship (especially small business) with a view to alleviation of poverty promptly. But how *zakah* can be used as seed money (investment) rather than spent money (consumption) is a research question? Hence, this study has developed the following process model (Fig. 2) for developing small entrepreneurship by mobilizing *zakah*.



### Discussion of the model

The proposed entrepreneurship development process model (Fig. 2) of *zakah* mobilization consists of five phases: collection of *zakah*, selection of prospective poor, developing skills of target poor, evaluation of skills of poor, and establishment of business enterprises. Two well-grounded theories underpinned the phases 3 and 4 of this process model: Becker's (1964) human capital theory, and Kirkpatrick's (2005) four-level taxonomy of training evaluation. Entrepreneurship research cuts across disciplines and integrates multiple theories to explain phenomena. Thus, the authors assess the degree of multi-theory research within this stream (Marvel, Davis, and Sproul 2014). In respect of unit of analysis, Marvel et al. also found human capital entrepreneurship research stream, though carried out at varying levels of analysis, the prominent existence portrayed the unit of analysis in the individual level accounting for 67.5 % (Marvel et al. 2014) which is also in line with the present study. The detailed descriptions of the process model is given below.

### Zakah collection

Collection of *zakah* from every single *zakah*-able Muslim will not be an easy job rather a lot of activities are to be performed thoughtfully and delicately for that job. As part of *zakah* collection, awareness should be developed among all Muslims including businessman, farmers, industrialist, professionals and service holders etc. Education should be provided in all education institutions (schools, colleges, universities and madrasas) so that every single Muslim can acquire sufficient knowledge about *zakah* and also state should make the *zakah* payment compulsory for every single Muslim. Clerics of Mosques (Imam) have very influential position in the Muslim society (Hoque et al. 2013a). They should come forward in creating awareness and motivation as to the importance of *zakah* payment, since Islamic motivation is superior comparing to traditional motivational approach (Ather et al. 2011).

Surprisingly, even in Malaysia, the actual *zakah* potential was not realized until the early 1990s. Several reasons were responsible for that such as lack of proper information on the concept of *zakah* on various *zakah*-able items in the community and skepticism of the public on the effectiveness of *zakah* management office (Yusuf and Derus 2013). Thus, there were three categories of *zakah* payers: those who know and pay *zakah* willingly, those who know but were unwilling to pay and those who were completely unaware of *zakah* payment (ATTAIC 2006; Yusuf and Derus 2013). Throughout Islamic history, *zakah* collection and distribution had been among the functions of Muslim governments until the end of Ottoman Empire. Furthermore, during all this period, besides government, *zakah* had been managed through other institutional arrangements notably like Awqaf (Trust) organizations. Indeed, payment of *zakah* is the inextricable part of Islamic organizational culture (Hoque et al. 2013b).

In contemporary societies, NGO organizational type set-up is considered more suitable for *zakah* management. Some contemporary Muslim governments, however, are taking the responsibility of collecting and distributing *zakah*. According to Khan (2007), Yemen is one of those few countries where government continued to manage *zakah* collection and distribution even after the fall of Ottoman Empire. Currently, Saudi Arabia, Malaysia, Libya, Pakistan, and Sudan are the major Muslim countries having enacted laws for government bodies to formally collect and distribute *zakah*.



These countries make provisions, in the law, making it obligatory to pay *zakah* on some specific items, defined in the law, to bodies created by the government while the *zakah* on other items, not specified in the law, is left to be voluntarily paid either to government body or elsewhere.

There are many Muslim majority countries where government has established institutions to collect and manage *zakah* only voluntarily contributed by *zakah* payers. These countries include Bahrain, Bangladesh, Egypt, Indonesia, Jordan, Kuwait, Oman, and Qatar (Khan 2007). Majority of the contemporary countries, however, leaves it entirely to the private (charity) organizations or NGOs to manage (collection and distribution) *zakah*.

Indeed, there is no country, where all *zakah* obligations are made to pass through formal channels (whether government bodies, or NGOs or charity organizations). In all countries a substantial amount of *zakah* passes through informal and unorganized or personal channels that hardly have the capacity to ensure that the *zakah* fund is being used as seed money (investment) effectively with a view to alleviate poverty from their societies. The most important reason to organize formal management of this institution at community level, national level and global level in the contemporary socio economic set-up is the permanency of this institution to generate predictable and stable resources for meeting the needs of the poor. Some studies conducted in Muslim countries indicate the following potential of *zakah*. As there are juristic differences on rate of *zakah* and *nisab* on certain items, the *zakah* potential has been shown under three main juristic views such as pessimistic (view 1), most likely (view 2), and optimistic (view 3), which has been depicted in Table 5. Pessimistic view indicates the minimum rate of *zakah* collection, while optimistic indicates highest rate of *zakah* collection and most likely indicates in between optimistic and pessimistic.

No country, however, is reported to have collected the *zakah* to the full potential mentioned above. According to some other views, these estimates seem to be far conservative. A study conducted in 1980s on the basis of UN statistics on national accounts in eight oil producing countries and 10 non-oil producing countries concluded that oil producing countries can potentially collect 10 to 14% of their GDP as *zakah* and non-oil producing countries can collect 3.5 to 7% of their GDP as *zakah* (Khan 2007). The economy of the 57 Organization of Islamic Conference (OIC) member states (of which 49 are predominately Muslim) have a combined Gross Domestic

**Table 5** Estimate of *zakah* potential as percent of GDP

Country	View 1 (%) of GDP	View 2 (%) of GDP	View 3 (%) of GDP
Egypt	2.0	3.9	4.9
Indonesia	1.0	1.7	2.0
Pakistan	1.6	3.5	4.4
Qatar	0.9	3.7	3.2
Saudi Arabia	1.2	3.7	3.4
Sudan	4.3	6.3	6.2
Syria	1.5	3.1	3.1
Turkey	1.9	4.9	7.5
<b>Average percent of GDP</b>	<b>1.8 %</b>	<b>3.85 %</b>	<b>4.34 %</b>

Source: Khan (2007)

Product (at Purchasing power parity; PPP) of USD7,740 billion (CIA 2014). If only pessimistic view is considered, then total *zakah* amount of Muslim countries accounts for \$139.32 billion (1.8 % of \$7740 billion).

### Selecting prospective poor

In this stage it is the responsibility of the *zakah* management body (person/team/institution) to select those poor (male and female) who have enough potentials from the stand point of physical fitness, vision of being business man, and mental capability; because only careful selection can ensure the proper development of skills of poor and thereby can generate fruitful results. Of course, on situation, widows, orphans and handicaps should get priority.

### Skill building

Management trainings have significant impact on the success of small business enterprises (Marshall et al. 1995). Indeed, there are three types of skills: technical, human, and conceptual for running business enterprises successfully (Katz 1974). As part of skills and knowledge development activities, various types of training programs and workshops relating to small business management should be organized for the selected poor. For this, both experienced practitioners and skilled academics with sound knowledge and skills in small business management would provide training to the selected poor for developing human capital so that they can run and manage small business enterprises (Hoque et al. 2014).

The notion of human capital within the entrepreneurship literature has emerged as a highly utilized theoretical lens (Marvel et al. 2014). But entrepreneurship education and training (EET), until recently, lacked linkage to established theories that would explain the relationship between education and entrepreneurship behavior (Martin, McNally, and Kay 2013). A number of seminal arguments and meta analysis well described why human capital is of distinctive importance to the field of entrepreneurship development (Ardichvili, Cardozo, and Ray 2003; Martin et al. 2013; Unger, Rauch, Frese, and Rosenbusch 2011). Considering the defining importance of entrepreneurial opportunity to the field of entrepreneurship, human capital researchers should conduct studies across opportunity discovery and opportunity creation contexts (Alvarez and Barney 2014) through skills development. Indeed, it has been found that 65.6% of the critical success factors of entrepreneurship management are related with the skills of human resources (Ibrahim et al. 2012). With the help of good training programs it is possible to develop the abilities of people so that they can run their business more confidently and rightly.

### Evaluation

For evaluating the skills of the selected poor *zakah* management institution (authority, individual, and team) can develop some evaluation criteria such as honesty, sincerity, intelligence, interest to business, customer handling skills and necessary information can be collected from the manager, owners, peers, and customers of those business enterprises where the poor are doing jobs as part of their skill building training. Through evaluation, if the skill of the selected trainees is at satisfactory level then necessary suggestions and guidelines can be provided to them so that they can take initiatives to

set up small business enterprises, the next phase of the model. To evaluate this particular phase, the study proposes to employ Kirkpatrick's four-level training evaluation model as it is related to issues of efficiency, effectiveness and impact (Kirkpatrick 2005) which has been widely examined and implemented (Holton 2005). Kirkpatrick's four-level model answers the following questions: Level 1: how the participants feel about the training; Level 2: what the participants acquired from the training; Level 3: how much the participants applied what they learnt; and Level 4: how much the organization benefited from this exercise (Khan and Ali 2014; Khan, Ali, and Arefeen 2014). If the skill of trainees is not up to the mark, further training programs should be organized for them. It is obvious that the success of small business management depends not only on the knowledge and skills of the managers but also on the external factors such as political and economic. But managers having sound knowledge and skills can properly handle numerous problems relating to small business management and thereby can save the business from the failure. In addition to that there should have problem solving services wing/window in the *zakah* management institution to provide necessary services relating to many aspects of small business enterprises with a view to help the entrepreneurs at any time regarding any problem.

#### **Establishing business enterprises**

In this phase, *zakah* institution will assist in establishing small business enterprise to those poor whose skill is at satisfactory level. Since a lot of activities are required to set up a business enterprise, it can be very difficult for the poor to set up business enterprises. On the contrary, *zakah* institution (authority/individual/team) should take initiatives to establish as well as run the business enterprises (where the poor will be the real owner) on behalf of those whose skill is not at satisfactory level. In fact, for being the real owners of enterprises, the poor will enjoy profit or bear loss. But, since the management of the enterprise would be in the hand of an expert body, the management will receive salary/allowance for their valuable time and expertise from the income of business enterprises. Because, it is the experiences of many countries (such as Bangladesh) that only due to poor managerial skills, the poor cannot run their business enterprises successfully, consequently poor remain poor even after receiving *zakah* in a good form like an organized business enterprise. But, the poor (owners) will be able to do job in the business enterprises as per their skill.

#### **Discussion**

The focus of the paper is poverty alleviation through *zakah* as a vehicle to establish entrepreneurship development. Despite three decades of development efforts by philanthropists, non-government organizations, and governments, abject poverty still dominates many parts of the globe (Stiglitz 2002). The abject poor are those who survive on less than the equivalent of \$2 per day (London and Hart 2004). Alvarez, Barney, and Anderson (2013), in their study first suggested that entrepreneurship is a source of economic growth across borders in conditions of abject poverty. And theory of entrepreneurship drawn on the opportunities: discovery and conditions (Alvarez and Barney 2014). Subsequently, this entrepreneurial opportunities defined as self-employment opportunities. Alvarez and Barney (2007) depicted on the notion that opportunities exist when competitive imperfections exist in factor or product markets. That means,

economic wealth can only emerge when competition is not perfect (Alvarez et al. 2013). Entrepreneurs exploit these competitive imperfections to generate economic profits and growth.

Human capital theory assumes that economic growth is only possible if there is investments in education and training (Cohen and Soto 2007) that enable individuals to acquire business skills to exploit opportunities for their new venture that are more sophisticated. But what is still lacking is a bottom up entrepreneurial solution that may increase productivity and innovation generating growth and wealth that ultimately may ensure sustainability of the poor in abject poverty. The understanding that connects how entrepreneurship—and specifically the formation of different types of opportunities - transforms and leads to economic development with a view to alleviation of poverty is also lacking. Hence, in the present study, the authors believe that the proposed process model as a bottom up entrepreneurial solution will fill this research gap to channel *zakah* for the purpose of alleviation of poverty with this entrepreneurial framework.

### Limitations and future research

There are a number of limitations of this study which is worthy of being mentioned. First, this research is limited to *zakah* recipients who received *zakah* for investment purpose. Second, the study conducted only in Chittagong, the second largest division in Bangladesh. In order to overcoming these shortcomings, future studies can include consumption-purpose recipients for comparison. Broad-based samples drawn from a number of Muslim countries and cultures to ensure the generalizability of the findings. A longitudinal research would also contribute to capturing the possible changes that would occur over time.

### Conclusion and policy implication

In a modest attempt, the study investigated the cause of poverty in Muslim countries, the effectiveness of *zakah* management institutions, the mode of *zakah* distribution, and the necessity for an entrepreneurial framework. Cause of poverty is not due to lack of resources, rather in most cases due to lack of entrepreneurship (Gupta and Srinivasan 1992; Hoque et al. 2014). *Zakah*, being faith-based institution is coming within the spotlight of development circles among practitioners, funding organizations, philanthropists, policymakers, and also in academia. Developing entrepreneurship by *zakah* for poverty alleviation is a new concept opening a new avenue to argue and discuss. It is argued that *zakah* should be incorporated into the literatures of entrepreneurship development also put into practice through poverty reduction programs of international communities. The governments of the Muslim countries should take the pioneering roles having the authority to formulate necessary policies (considering the Islamic Sharia) and strategies. In this regard, government should use the every opportunity and option effectively and efficiently. Moreover, every single Muslim, especially the clerics, Islamic scholars and Islamic personality should play sincere roles in developing awareness among the mass people of Muslims (Hoque et al. 2013a; Hoque et al. 2014) to pay their *zakah* in such a way so that *zakah* fund can be used in the productive way such as for developing skills of poor for establishing and managing business enterprises successfully. But again, on situation, policy should not hinder that *zakah*

can be allocated for consumption mode with priority for old and disabled. Since, it is to know that sometimes basic education become difficult to obtain as individuals in poverty often are more focused on securing their next meal than on attending school (Yunus 1999).

In conclusion, the multi-faceted nature of poverty requires a multi-dimensional approach to poverty reduction based on the development of human capital, creativity, and resourcefulness of the poor, building upon their resources, capabilities, and survival skills ensuring their sustainability against poverty. Conclusively, the most mentionable aspect of this study are the results of an empirical attempt to complement existing, mainly conceptual, literature on the role of *zakah* within entrepreneurial framework in alleviation of poverty.

## Endnote

<sup>a</sup>Chittagong is the second largest division and commercial capital of Bangladesh.

## Competing interests

The authors declare that they have no competing interests.

## Authors' contributions

NH and MAK carried out the data gathering and analysis. KDM help us in literature review of the Holy Quran and Sunna and drafted the manuscript. All authors read and approved the final manuscript.

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