

## (Note Penyelidikan/Research Notes)

## Poverty Measurement in Malaysian Zakat Institutions: A Theoretical Survey

*(Ukuran Kemiskinan dalam Institusi Zakat Malaysia: Satu Kajian Teoritikal)***Mohamed Saladin Abdul Rasool**

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## ABSTRACT

Economists agreed that the concept of poverty cannot be defined objectively. However, poverty in Malaysia is commonly conceptualized from the perspective of monetary or income. This is a narrow view since it does not consider other vital aspects of poverty such as vulnerability and social exclusion. It is now recognized that more attention must be paid to other factors and processes which are either constraining or enhancing the poor's ability to make a living in an economically, ecologically, and socially sustainable manner. This paper outlines the poverty measurement used by zakat institutions in Malaysia. Besides discussing the present had al-kifayah method, the paper presents the formulation of a multidimensional Islamic Poverty Index (IPI). The proposed multidimensional IPI in nature comprises of monetary and non-monetary indicators and is expected to capture a more realistic poverty group. Furthermore, the IPI is envisaged to reflect on the multidimensional phenomenon of poverty in a more holistic way and is expected to have an impact on zakat organizations as it gives a new perspective in measuring poverty.

*Keywords:* Islamic Poverty Index; measurements; poverty; zakat

## ABSTRAK

Kebanyakan ahli ekonomi bersetuju bahawa konsep kemiskinan masih belum dapat dijelaskan secara objektif. Namun begitu, konsep kemiskinan di Malaysia secara umumnya seringkali dijelaskan melalui perspektif kewangan atau pendapatan. Pendekatan ini didapati terlalu sempit kerana ianya mengabaikan aspek-aspek kemiskinan penting yang lain seperti kemudahterancaman dan pengasingan sosial. Kini telah disedari bahawa usaha perlu dilakukan untuk mengambilkira pelbagai faktor dan proses serta halangan bagi meningkatkan keupayaan kehidupan golongan miskin ke arah yang lebih baik sama ada dari segi ekonomi, ekologi dan sosial. Artikel ini menghuraikan pengukuran kemiskinan yang digunakan oleh institusi zakat di Malaysia. Selain membahas kaedah semasa 'had al-kifayah', kertas ini turut membincangkan pembentukan Indeks Kemiskinan Islam (IKI) yang bersifat multidimensi. IKI multidimensi yang meliputi penunjuk kewangan dan bukan kewangan ini diharapkan dapat merangkum kumpulan kemiskinan yang lebih realistik. Tambahan lagi, IKI ini diharapkan dapat memberi gambaran tentang fenomena multidimensi kemiskinan dengan cara yang lebih holistik dan dijangka boleh memberi kesan terhadap pengurusan organisasi zakat kerana memberikan perspektif baru tentang ukuran kemiskinan.

*Kata kunci:* Indeks Kemiskinan Islam; pengukuran; kemiskinan; zakat

## INTRODUCTION

Poverty, in the world today is explained through various ways. Economists agreed that poverty does not have a definite concept objectively (Narayanan et al. 2000; Laderchi 2000; Franco 2003). Hagenaaers and De Vos (1988) describe that although there are numerous definitions of

poverty, almost all definitions could be explained within three main categories: (1) poverty means having less than objectively defined; (2) poverty is having less than the others in the society; (3) poverty is a feeling of not having enough to get along. The definition of poverty is vital as it determines the way how poverty is measured. Each definition would describe the poor differently and would

result in different estimation and the extent of poverty (Benner 2001). Similarly, Laderchi (2003) stresses that choosing a definition is vital as each employs different measurements in terms of variables. Thus, different definitions identify different dimensions of poverty and consequently identify different individuals or households as poor groups. In general there are four different definitions of poverty in conventional economics, namely monetary approach, capability approach, social exclusion and poverty participatory assessment (PPA) (Laderchi 2003; Fauzi Harun 2007, 2009).

From the Islamic point of view, poverty is defined almost similarly to the conventional definitions. However, Islam includes human needs from the *sharia* perspective in explaining poverty. In explaining the concept of poverty from Islamic perspective, Yusuf Qardawi (1980) cites that Imam Nawawi points out that Islam outlines that self-sufficiency for an individual as the availability of basic food and drinks, shelter and other basic needs as defined by the society in which he or she belongs to. This broad definition gives room to scholars to examine and deliberate various components of basic needs of an individual or household in defining the poor in today's socio-economic settings. The objective of the paper is to examine the present poverty measurement practiced by zakat institutions and subsequently propose a more holistic multidimensional poverty measurement by using index.

This paper is organized as follows: The next section outlines poverty from the Islamic perspective; and the role of zakat in poverty alleviation is discussed in the following section. Section four discusses poverty measurement in zakat organizations in Malaysia, while Islamic Poverty Index (IPI) is presented in section five. The final section concludes with the importance of developing the index as an alternative poverty measurement to be employed by the Malaysian zakat institutions.

#### POVERTY FROM ISLAMIC PERSPECTIVE

There are various definitions of poverty in the teachings of Islam. Yusuf Qardawi (1973) describes that although there are numerous definitions of poverty, almost all definitions could be explained within four main categories: (1) do not possess any kind of materials (2) ownership of house and materials (3) insufficient possession of money (4) insufficient ownership of non-monetary wealth. In principle, the poor are defined as those whose needs are insufficient. Muzammil (1995) argues that the conventional definition of poverty from the perspective of monetary as the inability to attain social services, health-care and education. Peerzade (1997) agrees to the Islamic approach in providing provisions to enable the poor to enjoy a reasonable standard of living beyond the basic needs of life. In other words, Islam does recognize the multidimensional nature of poverty. The *sharia* explanation of poverty is much more comprehensive,

integrated and broad-based as compared to the minimum standard of living needed to sustain daily life (Imran Sharif & Shawanaz 2005).

Islam outlines the self-sufficiency for an individual as the availability of basic food, drinks, shelter and other basic needs as defined by the society in which he or she belongs to (Yusuf Qardawi 1980). In addition, Al Sabai explains that the minimum living standard is inclusive of having family, housing and transportation (Monzer Kahf 1982). Failure to attain these stipulated needs qualifies a person to be categorised as poor. Poverty is not only complex and multidimensional in nature, but it goes beyond the notion of income and encompasses social, economic and political derivations (Shirazi 2006).

In addressing poverty and income distribution, Islam is dedicated to universal brotherhood, social and economic justice. Islam advocates equitable distribution of income and to individual freedom within the context of social welfare. It aims at establishing a social order in which all individual members are united by the bond of brotherhood and the affection like a member of a family. This concept of brotherhood is not bound by any geographical boundaries and encompasses all mankind. The concept of universal brotherhood and equal treatment for all individuals emphasizes on economic justice so that everyone gets his dues for his contribution in the society and each individual should not deprive others of their share. In fulfilling this mission, Islam has introduced income distribution mechanisms such as zakat to achieve an equitable society. Zakat is one of the five pillars of Islam where wealth is transferred from the wealthy to the needy.

#### ZAKAT AND POVERTY ERADICATION IN MALAYSIA

Islam is the official religion of the country as stated by the Federal Constitution. The power to enact Islamic laws such as zakat, fitrah and other Islamic religious revenue are under the jurisdiction of every state. The state is fully authorized to establish enactments to ensure smooth functioning of Islamic practices in the states including the laws on zakat and supervising the operation of zakat through the State Religious Council. The mechanism of wealth transferring mentioned above is carried out by formal zakat institutions, and sometimes it is distributed directly by the zakat payers to the *asnaf* or recipients of the zakat. In Malaysia there are 14 zakat institutions under the religious department of various states. In principle, the main role of zakat institutions is to distribute wealth from zakat payers to the *asnaf*. *Asnaf* comprises the poor, destitute (needy), *amil* (zakat collector), *muallaf* (newly converted Muslim), *al-gharimin*, *fi sabilillah* (striving in the path of Allah), *ar-riqab* (slave) and *ibn-sabil* (needy traveller). Among these eligible recipients, the poor and the destitute are the prime targets of zakat institutions as they are assumed to be the neediest among the eight.

Each of the state religious authorities is empowered to manage and govern the overall activities of zakat which mainly consist of collection and distribution of zakat funds. The structure and the form of zakat institutions within the State Religious Council differ from each other but are coordinated by JAWHAR (Department of Zakat, Wakaf and Hajj) in the Prime Minister's Department. The structure of each of these zakat institutions varies and a few of them are even corporatized with the intention of upgrading and enhancing their efficiency and effectiveness in fulfilling the role of zakat as a tool of achieving social justice. One important issue that needs to be addressed by zakat institutions is the ability of zakat funds in reaching the intended *asnaf* besides providing confidence to the Muslim society that the zakat is fairly distributed. One key factor in achieving this is the process of identifying the rightful *asnaf* especially the poor and destitute.

The main issues surrounding the zakat institutions are their efficiency and effectiveness in managing zakat especially from the perspective of distribution of zakat funds. If the management of zakat distribution is implemented professionally as stipulated by the *sharia*, then the confidence of the society towards these institutions will be strengthened and the feeling of suspicion that shrouds the thinking of the society today would be erased. One element of effectiveness of zakat is viewed from the perspective of eradicating poverty. Many zakat institutions are judged from their ability to address the issue of poverty. The Muslim society is interested to see how many poor families and individuals are alleviated from being poor to being able to live a decent life or even to a situation where they are able to pay zakat to other poor individuals (Sanep 2005). The poor single mothers and the older persons are amongst the group be considered to receive zakat (Doris Padmini et al. 2009, Norlaila et al. 2009 & Diyana et al. 2009).

Studies conducted shown that although there are some evidence on the ability of zakat to reduce poverty in the short run, the overall poverty reduction is still lacking in Malaysia. Authors such as Ismail Salleh & Rogayah Ngah (1980) and Zulkarnaen Yusoff (2008) mention that various zakat distribution channels are able to reduce the number of poor. Ismail and Ragayah (1980) find that zakat enhances income distribution in Malaysia in their study conducted in the four northern states in Peninsular Malaysia namely in Terengganu, Kelantan, Kedah and Perak. Another study conducted by Zulkarnaen (2008) shows that zakat is able to enhance the income of the poor in Kelantan, a state in the east coast of Peninsular Malaysia. Besides cash, other kinds of distribution are in the form of capital for small businesses and building shelters for the *asnaf*. However, the total contribution in monetary terms to the poor is not correlated to the number of poor. Areas with high number of poor do not necessarily receive higher value of zakat monetary aids. However, a study by Hayyun Nawawi et al. (2008) show that zakat does not only unable to alleviate

the standard of living of the poor in the long run, but the poverty phenomenon would most likely be passed to the next generation or next of kin.

From a macro perspective, Patmawati (2007, 2008 and 2009) discovers that zakat is able to reduce the gap in income distribution in Selangor, the most populated state in Malaysia. However, she suggests that using *had al kifayah* is more appropriate in achieving a more balance income distribution as compared to the PLI (Poverty Line Income) method. In addition, a comprehensive action plan involving the various stakeholders in zakat should be undertaken. In another study, Rosbi and Sanep (2010) stress that the five components of *maqasid al sharia* or human needs are essential in fulfilling an individual needs and zakat funds should address these components (Rosbi & Sanep 2010). *Maqasid al sharia* comprises of religion, physical self, knowledge, family and wealth.

#### POVERTY MEASUREMENT IN MALAYSIAN ZAKAT INSTITUTIONS

Commonly, zakat institutions use the monetary approach in measuring poverty through the *had al kifayah* (necessities of a household) or the Poverty Line Income (PLI) method. Both methods are almost identical as they use income as the variable to determine whether the individual or household is poor or otherwise. PLI is set by the Economic Planning Unit (EPU) of the Prime Minister Department, while the *had al-kifayah* is determined by the respective zakat institution. *Had al kifayah* determines the level of necessity needed by a household to sustain daily needs. It is calculated based on various variables such as the number of members in a household, age group of members etc. JAWHAR (2007) has outlined the main components in determining *had al- kifayah* (necessity) of a household as shelter, food, clothing, health, education and transformation based on *maqasid al sharia* (human needs). However, it is up to each zakat institution to decide on the details of each of these components. Different states have different *had al kifayah* based on different variables used and prices would differ according to location and area. It is important to note that *had al-kifayah* in a state varies from one household to another depending on the number of household members and age group in the household.

For example, Table 1 below depicts the determination of *had al- kifayah* or the necessity of a household in Selangor with both parents working, an unemployed adult above 18 years old, a child within the 7-17 age group and a child within the 1-6 age group. From the table it is obvious that the necessity of this household is RM 1650. Thus, if the total income of the household is less than this figure, then they are considered poor and are eligible for zakat funds. In addition, if there is any situation such as households with disable or with chronic sickness, the total amount of *had al kifayah* increases. However, the execution of *had al- kifayah* practiced by LZS is

comprehensive and more detail as compared to other zakat institutions in Malaysia. However, there are few weaknesses in this method. Firstly, it is not easy to determine the needs of each individual as the needs of individuals differ. Secondly, the needs of different genders are different and are not addressed in the calculation of *had al-kifayah*. Thirdly, non-monetary items which reflect on the quality of life are not included such as size, type and ownership of house, education level etc. Fourthly, it can be argued on how economic factors such as inflation and price changes are incorporated in determining household necessities.

TABLE 1. *Had al-kifayah* Determination of a Household in Selangor

Quantity	Category of Household	Rate of <i>had al kifayah</i> (RM)
1	Head of household	680
1	Working adult	420
1	Unemployed adult (above 18 years old)	240
1	Child within 7-17 age group	180
1	Child within 1-6 age group	130
	TOTAL	1650
	Additional <i>had al kifayah</i> (special case)	
1	Disable	200
1	Child care	190
1	Household with chronic disease	200
	TOTAL	590

Source: Lembaga Zakat Selangor (LZS)

Economists have argued that the current poverty measurement using monetary approach described above is not able to reflect the multidimensional nature of poverty which has developed due to rapid economic development process and changes in the economic structure (Nair, 2000). Thus, there is a need to look at poverty from the multidimensional outlook by taking into account non monetary indicators from the Islamic perspective. Hence, poverty could be analyzed in a more comprehensive manner by the policy makers.

According to Mohd Shukri Jusoh (a Senior Officer at EPU), the poverty rate among bumiputera, primarily Muslims was at 5.1% in 2007, the highest among the ethnic groups in Malaysia. Although reports from EPU have shown that poverty rate has reduced significantly over the last thirty years, zakat authorities have contradicted by reporting that the number of applicants for zakat aids under the category of poverty and destitute has increased from year to year. As an example, Mohd Rafie Zakaria, Assistant Director of Zakat Distribution, Majlis Agama Islam Wilayah Persekutuan (MAIWP) stated that there is a sharp rise in the number of applicants in recent years. This point is concurred by Pn. Adibah Abd. Wahab,

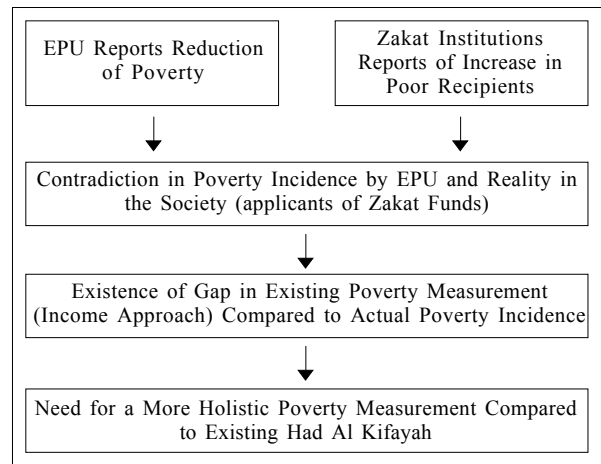


FIGURE 1: Gap in Existing Poverty Measurement

Director of Dakwah, Lembaga Zakat Selangor (LZS). She mentioned that during the recent economic crisis, the number of applicants is on the rise and there are currently 20,000 zakat recipients for the poor in Selangor (2008).

It is obvious that despite the official data from EPU reporting a continuous decline in the overall poverty rate, the zakat authorities are experiencing an increase in the application for zakat funds especially from the poor and destitute. Question arises on how poverty is perceived by the authorities against the real phenomenon of poverty faced by the poor. So, why the number of poor applicants is rising whereas EPU reported reduction in the poverty rate? This situation could be explained by the lack of depth in the existing *had al-kifayah* method in identifying the poor group. In other words, the existing measurement method used by the authorities could not explain the increasing trend of poverty from the perspective of the poor. This could explain the existence of gap in measuring poverty from the existing monetary method as compared to the actual poverty situation faced by the poor (Figure 1). Thus, a more holistic approach is needed to conceptualize poverty in a more realistic way suited to current economic situation. Nolan & Whelan (2009) stress that non monetary indicators together with financial or income data would be able to improve the measurement and understanding of poverty. Due to its multidimensional nature, poverty today is considered as a complex set of deprivation (Islamic Relief Worldwide 2008). Therefore, the inclusion of more comprehensive Islamic indicators would enable a more holistic poverty measurement by incorporating various monetary and non monetary components besides religious dimensions such as *maqasid as-syariah* (human needs according to *sharia*) as emphasized by JAWHAR (2007).

The proposed poverty measurement method mentioned above would enable the identification of a more realistic poverty group. This would allow the authorities especially the zakat institutions to draw a more appropriate and effective distributive methods and programmes that would be able to reduce the incidence of poverty in the

country. The determination of this poverty measurement would enable the Department of Zakat, Wakaf and Haji (JAWHAR) to coordinate the efforts to reduce poverty in each state more efficiently. This could be achieved through the proposed poverty measurement method as it would be able to address the multidimensional factors that prevail in Malaysia, and additionally includes the Islamic indicators as outlined by the *sharia*. The introduction of the proposed IPI would provide an alternative in identifying the poverty group to the zakat institutions from a different perspective. By using index as a method to measure poverty, the IPI is envisaged to reflect the multidimensional phenomenon of poverty in a more holistic way.

### FORMULATION OF AN ISLAMIC POVERTY INDEX (IPI)

This paper proposes to use the concept of index which is a statistical method used to measure the magnitude of change over time, place or individuals in the construction of IPI. By using this method, comparisons can be made with greater ease. For instance, the Human Development Index (HDI) developed by United Nations (UN) is able to compare the level of human development from one country to another. Specifically, HDI looks at the level of development in seven categories such as trade structure, gender empowerment and unemployment. Thus, index is a useful tool to measure changes according to time. For example, Economic Development Index (EDI) and Malaysian Quality of Life Index (MQLI) are used to measure the effectiveness of the development policies of the country. For example, EDI is used to measure economic achievements from the perspective of economic development indicators. On the other hand, MQLI compares socio-economic achievements in areas such as health, education and entertainment.

The proposed IPI would be based on the Human Poverty index (HPI) which was developed by Mohd Fauzi Harun (2006) in his study on Malaysian natives. The HPI was originally introduced by Sen (1997) and used by United Nation Development Program (UNDP). The formula for IPI is as below:

$$IPI_w = \left\{ \frac{W_1Z_1 + W_2Z_2 + \dots + W_nZ_n}{W_1 + W_2 + \dots + W_n} \right\} \times 100\%$$

where  $Z_1, Z_2, \dots, Z_n$  – dimensions of wellbeing  
 $W_1, W_2, \dots, W_n$  – weightage

The construction of the IPI would be based on dimensions mentioned by JAWHAR (2007), Islamic Relief Worldwide (2008) and Rosbi and Sanep (2010). These authors mention the five dimensions of well-being in Islam as religion, physical self, knowledge, family and wealth (Figure 2). Religion is considered as an important

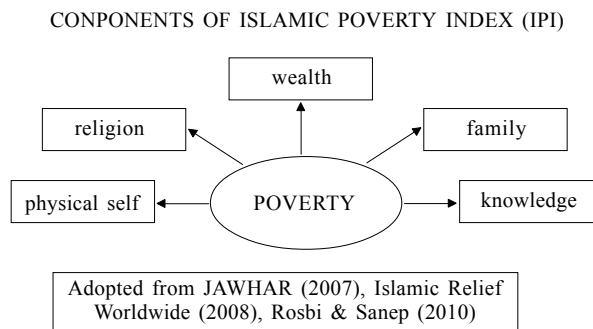


FIGURE 2. Components of Islamic Poverty Index (IPI)

dimension of human needs especially the belief or *tauhid* in the creator. Physical self are the needs for; such as shelter, clothing, health and transportation. Knowledge is essential in developing the intellectual level and skills of individuals. Family or offspring is an important element of human being. Wealth accumulation is related to the ability of fulfilling the needs of human being. The index would incorporate items from these dimensions which would be based on the opinion of scholars and experts. Islamic Relief Worldwide (2008) suggests that a comprehensive method such as the IPI would be able to capture a more holistic poverty measurement.

To formulate the index, role of experts are vital as their opinion would be used in determining the dimensions, the variables of each dimension and their weightage will be based on *sharia*. The first step would be getting the consensus of experts who are experience in the practice of zakat in deciding the dimensions which would form the components of the index and the variables in each of the components. Secondly, the weightage of each component would be calculated based on the ranking given by the experts. Thirdly, interpretation of the index and threshold determination would be undertaken.

### CONCLUSIONS

The proposed measurement method would be able to capture/recognize a more realistic poverty group. The identification of this poverty group would enable the authorities especially the zakat institutions to draw more appropriate and effective distributive methods and programmes that would be able to reduce the incidence of poverty in the country. The determination of this poverty measurement would enable the Department of Zakat, Wakaf and Haji (JAWHAR) to coordinate the efforts to reduce poverty by the various zakat institutions in each state more efficiently. This could be achieved as the proposed poverty measurement method would be able to address the multidimensional factors that prevail in Malaysia besides including the Islamic indicators as outlined by the *sharia*. The introduction of the proposed IPI would provide an alternative in identifying the poverty group to zakat institutions from a different perspective.

By using index as a method to measure poverty, the IPI is envisaged to reflect on the multidimensional phenomenon of poverty in a more holistic way. The introduction of the IPI would have an impact to the zakat organizations as it gives a new perspective in measuring poverty using index. Thus, a study to develop this proposed index is deemed necessary and should be undertaken with immediate effect to address the issues highlighted in this paper with regards to poverty measurement.

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