



Al-gharimin agency: A new wing of Islamic social finance

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ABSTRACT

Over-indebtedness is a widespread phenomenon among households in Malaysia. This issue has become even more pressing with the economic downturn caused by the pandemic. According to the literature, *zakat* institutions are focusing more on other categories of beneficiaries while giving less priority to *al-gharimin*. Besides, other Islamic social finance institutions has focused on reducing poverty while overlooking over-indebtedness as one of the main drivers of household poverty. Hence, this study attempts to identify limitations and challenges facing these institutions to address excessive debt among Malaysian households. To achieve this objective, the research adopts a qualitative approach based on a desk research and semi-structured interviews with prominent scholars and experts. It was concluded that the main obstacles facing *zakat* institutions are the lack of funding, the prioritization of other pressing issues (poverty), and the absence of proper policies, etc. Based on this, and other limitations, the researchers propose the establishment of an Integrated ecosystem based on *al-gharimin* agency for over-indebtedness alleviation. This agency brings together expertise and funds from different players. A collaboration between these institutions is believed to have a great impact on the efficiency of the collection and management of funds, the identification of genuine debtors and the provision of an appropriate assistance.

1. Introduction

The world has never known a system that includes in its constitution the rights of debtors to financial assistance. When becoming a burden, Islam frees debtors from the obligation and humiliation of their loans by prescribing for them a share from *zakat* funds. In doing so, Islam relieves indebted people without forcing them to liquidate essential assets necessary for their lives. *Zakat* is the main solution to indebtedness as Allah SWT gave *al-gharimin* the right for eligibility to *zakat* funds.

Scholars have categorised individuals who contracted debts, without extravagance, for personal reasons (such as marriage, medical bills, building a home for personal residence, debts resulting from accrued liability towards others, etc.) and do not have sufficient assets and income to pay off their debts in addition to meeting their basic needs. Al Tabari reports from Abu Ja'far from Qatadah that the state must pay from its treasury the debt of those who have borrowed without extravagance and do not have enough funds to repay their creditors. This group also includes people

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affected by natural disasters or accidents that have destroyed their assets and forced them to borrow to continue meeting their basic needs. Mujahid is reported to have said that “three kinds are included in this sub-category: a person whose wealth is destroyed by flood, a person whose wealth is destroyed by fire, and a person with many dependents and no means, who borrows to support his/her family” (Qardawi, 2009).

This instrument is the main instrument used within Islamic social finance to address the issue of excessive indebtedness among households. However, funds institutions alone might not be sufficient to address this issue as they face many challenges. Based on that, some researchers suggested the integration of and temporary *waqf* to assist those who are burdened with debt (Khalil et al., 2020). According to Haneef et al. (2015) it is necessary to mobilize more resources to fight over-indebtedness as the availability of *waqf* and resources that can be used to tackle the threat of over-indebtedness is potentially high.

In fact, several studies have warned about the higher levels of indebtedness of households in Malaysia. Some researchers found that more than half of Malaysia's civil servants' monthly income is used to repay debts (Lajuni et al., 2018), while the Malaysian Department of Insolvency (2019) pointed out that there is an increasing number of bankruptcies especially among the younger generation.

Considering the rising concern over-indebtedness of households in Malaysia (AKPK, 2018) and the country's highly sophisticated Islamic social finance infrastructure, it is expedient to leverage on the existing framework in proposing a solution for the excessive household indebtedness in the country. Therefore, in this study, the researchers attempt to explore the challenges and limitations facing Islamic social finance institutions when it comes to addressing excessive indebtedness among households in Malaysia and to explore the concept of *al-gharimin* agency.

2. *Al-gharimin* assistance

In order to explore the assistance provided to *al-gharimin* in Malaysia and to identify issues pertaining its efficiency, it is important to examine the concept of *al-gharimin* as defined in this jurisdiction.

2.1. The concept of *al-gharimin*

Al-gharimin is a plural of the word “*gharim*” which means the individual who is responsible for repaying his debts (Jabatan Wakaf, Zakat dan Haji, 2018). The concept of *al-gharimin* refers to (i) an individual who is in debt to fulfil the needs of himself, his family, or dependents, (ii) a rich individual who is in debt due to the public interest and (iii) a guarantor for others who are in debt, (iv) people who suffered deterioration of life in consequence of a pandemic, (v) people who are afflicted with a terrible disaster resulting on destruction or loss of property (Ishak et al., 2021).

Hanafi school considers as beneficiaries of *zakat* those in debt who do not have a nisab above what is needed to pay their debts. While other schools of thought (Maliki, Shafi'i, etc.) distinguish two types of debtors, those whose debts are for personal use and those whose debts are caused by their social and political responsibilities. This distinction implies differences in the judgment of these two categories (i.e., indebtedness for personal reasons and Indebtedness for social reasons) (Qardawi, 2009).

2.2. *Al-gharimin* in Malaysia

Al-gharimin are not necessary people who are classified as poor and needy. Can be qualified as “*gharim*”, a person who earns up to RM 15,000 per month but who has a financial or health problem

which, if the problem has not been solved by the institution of *zakat*, will lead him to get into over-indebtedness. Under this category, *zakat* is given to people who have burdens to bear. Some of *al-gharimin* recipients may already have jobs and income, but due to incidents that prevent the individual from continuing their daily life to earn income, the individual may receive *zakat* under the category of *al-gharimin* (Razali et al., 2021).

However, since eight categories of *zakat* beneficiaries (*mustahiqin*) are eligible to receive *zakat* funds, there has always been debate on how to prioritize and distribute *zakat* funds among these categories. Below is the prioritization of distribution from the perspective of the four Shariah jurisdictions (Hassan & Nasir 2016):

- Shafi'i school of thought: *Zakat* should be distributed equally (*ta'mim*) to all recipients if they are available.
- Hanbali school of thought: *Zakat* must first be given to the Amil before it is distributed to other recipients. This is because the Amil receives *zakat* from his work.
- Maliki and Hanafi schools of thought: There is no specific order or sequence as to who should receive *zakat* first. The order or sequence should be based on the needs of the recipients. Any beneficiary group that has a greater need for *zakat* will be prioritized to receive *zakat*.

Although Malaysia follows the Shafi'i school of thought, distribution of *zakat* gives priority to any group of recipients deemed most in need of these funds. (Hassan & Nasir, 2016). The Shafi'i school considers as beneficiaries of *zakat* those in debt who do not have a nisab above what is needed to pay their debts (Qardawi, 2009).

Some researchers have found that the general definitions of *al-gharimin* recipients that have been used by *zakat* institutions are the same, but the determination of *al-gharimin* recipient eligibility is different. For example, indebted people whose debt comes from loan sharks or student loans are considered *al-gharimin* and are assisted accordingly, while other institutions exclude these profiles. The researchers argue that these differences need to be reconsidered by *zakat* institutions and coordinated at the federal level to ensure an effective *zakat* distribution system (Mohammad et al., 2014).

2.3 Assistance to *al-gharimin* in Malaysia

Zakat institutions have long been criticized for their management and allocation of funds (Ahmad et al., 2015; Al Haq & Wahab 2017; Lubis et al. 2011; Migdad, 2019; Pitchay et al., 2019; Mahmood et al., 2021; Ahmed & Zainuddin, 2017). Thus, although the institutions of *zakat* are the first institutions directly responsible for tackling the problem of households' over-indebtedness in each Muslim country, in Malaysia, these institutions tend to prioritize other recipients (*asnaf*) while giving less importance to this category of beneficiaries (Hassan & Nasir 2016; Ibrahim, 2020; Ibrahim & Sahrim, 2019; Razali et al., 2021; Shah & Hassan, 2017; Vinet & Zhedanov, 2020).

In a study conducted by Migdad (2019), the researcher analyzed annual reports and interviewed senior management of ZCCs and religious councils and concluded that the Malaysian experience in managing *zakat* is advanced in both distribution and collection. However, he believes that the practice of distribution should be more sustainable, less consumption based. Furthermore, he identifies the need to establish a database of people in need with the national welfare system and other relief NGOs to reduce duplication of expenditure (Migdad, 2019).

Accordingly, researchers argued that there are many loopholes in *zakat* institutions. One of the problems with this is the surplus of millions of ringgits of *zakat* funds that are not distributed to beneficiaries, which makes the performance of *zakat* distribution low compared to *zakat* collection. The development of *zakat* management institutions should be in line with the development of other

sectors in the country. They concluded that to improve the performance of *zakat* institutions, more attention needs to be paid to the governance structure. The governance structure and mechanism of *zakat* institutions should provide financial and managerial responsibility for the collection and distribution of *zakat* (Ahmed & Zainuddin, 2017).

Similarly, other researchers stated that even though *zakat* is duly distributed, the point to note is that the effectiveness of this distribution has undoubtedly remained in question. This discrepancy is a problem that has been observed by *zakat* payers, and if the collection is to increase further, the question of effectiveness in the distribution of *zakat* must show a healthier trend to convince these worried payers (Al Haq & Wahab, 2017).

Pitchay et. al (2019), argue that *zakat* practices in Malaysia are facing many issues and challenges. They believe that the distribution of *zakat* is still inefficient and unable to trace the potential *zakat* beneficiaries. Also, the collection of *zakat* is still far from its real potential (Pitchay et al., 2019).

Despite the increase in the amount of *zakat* distributed to beneficiaries, there are complaints received from *asnaf* regarding the quality of services rendered to them. Surprisingly, despite the advances in technology, the researchers found that the primary means used to obtain *zakat* information was by word of mouth. The results of this study could be beneficial to the institution of *zakat* to assess the effectiveness of *zakat* management in meeting the needs of *zakat* recipients (Ahmad et al., 2015).

When it comes to the focus on *al-gharimin*, in a study conducted in 2017, researchers analyzed the annual reports of three major Islamic banks in Malaysia, namely, Maybank Islamic Berhad, Bank Kerjasama Rakyat Malaysia Berhad and Bank Islam Malaysia Berhad over the period 2009-2013. With reference to the Majlis Agama Islam Wilayah Persekutuan (MAIWP) assistance scheme, none of the banks have affected a portion of the collected funds to the *al-gharimin* category. The same study found after analyzing reports of MAIWP from 2009 to 2013 that the portion of *zakat* allocated to *al-gharimin* category represented 2.2, 2.5, 3.7, 2.6 and 6.6 million RM (which constitutes 1.3%, 1.2%, 1.5%, 1% and 1.4% respectively) (Shah & Hassan, 2017).

Some researchers examine the differences in the management of the distribution of *zakat* to *al-gharimin* in Lembaga Zakat Selangor (LZS) which represents Malaysia, and Badan Amil Zakat Nasional (BAZNAS). The study concluded that both institutions need an efficient and effective debt financing model for *al-gharimin* so that debt problems among Muslims can be well managed. Researchers argue that there is a need for support systems for *al-gharimin* to manage their financial and emotional disruptions in order to survive the debt crisis. Finally, the researchers suggest that the two institutions should actively collaborate with other institutions to identify and reach out to Muslim debtors. This is because a decent Muslim normally never asks for help out of embarrassment. Ideally, *zakat* institutions should make an effort and commitment to find this particular group (Vinet & Zhedanov, 2020).

Another study providing a comparative analysis of *zakat* distribution practice to *al-gharimin* groups conducted by LZS and Baitulmal-MAIWP have shown that there are some differences regarding the *zakat* distribution scheme offered by LZS and Baitulmal-MAIWP. The researchers argue that uniformity in the methods provided for the distribution of *zakat* to *al-gharimin* should be implemented so that more *al-gharimin* who are still unknown can be helped, especially those who are indebted to basic necessities such as food, clothing, and housing. This study also clearly shows that support to *al-gharimin* is very low. The distribution of *zakat* to *al-gharimin* in each state of Malaysia is less than 7.8%. The author is of the opinion that this percentage gives the impression that the distribution of *zakat* in Malaysia to *al-gharimin* is too low and that it needs to be doubled so that more of *al-gharimin* can be assisted (Ibrahim, 2020).

Hassan and Nasir (2016) believes that, in recent years, the distribution of *zakat* in Selangor and in

the federal territory to *fi sabilillah* recipients constitutes the highest percentage compared to other groups of recipients (Hassan & Nasir, 2016).

In a study conducted by Razali et al. (2021), the researchers aim to analyze *asnaf al-gharimin* practices based on LZS. The researcher found that each state in Malaysia interprets *asnaf al-gharimin* differently due to the different *ijtihad* of the mufti. Additionally, the results show that LZS focused on four categories of debts to which *zakat* assistance should be given according to *al-gharimin*, including medical assistance/dialysis, assistance with necessities, management of the corpse in the absence of heirs, and debt association due to public concern (Razali et al., 2021). Similarly, other scholars have attempted to analyze the effectiveness of distributing *zakat* to help alleviate debt in Malaysia. The study shows that the distribution of *zakat* to *al-gharimin* is very low in all states (Ibrahim & Sahrim, 2019).

3. Discussion and analysis

The researcher conducted a series of semi-structured interviews (9) with scholars and experts in three main areas, namely, Shariah (SB), consumer loans (DA), and Islamic social finance (ISF) to understand the limitations that prevent Islamic social finance actors from stepping in to address this issue, and to explore their potential to support debt-burdened households. The themes of the study and the interviews questions are shown in Table 1 below.

Table 1. Categorical Themes and Interview Questions.

Research Objectives	Categorical Theme	Interview Questions
Identify factors preventing Islamic social finance institutions from contributing more to solve the over-indebtedness issue, and explore their potential contribution to support households burdened by debt	Islamic Social Finance Institutions implication	Do you think Islamic social finance institutions in Malaysia are contributing enough to solve over indebtedness issue? What are the measures taken by your institution to reduce this issue?
	Islamic Social Finance Institutions limitations	What are the limits that prevent ISF institutions from contributing more to solving this problem?
Propose an integrated ecosystem based on <i>al-gharimin</i> agency for over-indebtedness alleviation	Need for a solution	Do you think it is necessary to create an institution dedicated to providing financial assistance to over-indebted households?

The experts are divided into three areas of expertise. The first group consists of three interviewees who have a background in Shariah and who are researchers, members and even heads of Shariah committees of different Islamic financial institutions in Malaysia. These experts are from ISRA, BNM, AFFIN bank Islamic. The second group consists of three interviewees who have a background in consumer loans in Malaysia. This category included a member of the Research and Analysis Unit in charge of Household Sector (BNM), Head of Research Department (AKPK), Regional Head, as well as Deputy CEO of Affin Islamic Bank. While the third group consisted of three respondents who have a background in Islamic social finance in Malaysia. This category included member of the Board of Trustee (Malaysia Wakaf Foundation), Chairman of MAIWP Waqf Centre, CEO of Yayasan Waqaf Malaysia.

3.1. Islamic social finance institutions implication

Household debt is one of the main drivers of poverty. Allah SWT even gave debtors the right to

receive financial assistance from *zakat* funds. In our modern world, and as *zakat* institutions have emerged, these institutions have an obligation to provide assistance to this category of recipients (*mustahiqin*). In addition to this, other Islamic social finance institutions should also step in if the institution of *zakat* alone is not able to solve this issue in the society. Therefore, the main question we can ask is: to what extent do the ISF institutions in Malaysia contribute to the fight against household over-indebtedness? The answer to this question is discussed under this theme where respondents were asked the following sub-questions (a) do you think Islamic social finance institutions in Malaysia are contributing enough to solve over indebtedness issue? (b) does your institution distribute *zakat*? (c) what are the measures taken by your institution to reduce this issue?

Overall, most of the respondents believe that ISF institutions are not efficient when it comes to addressing household's indebtedness. Respondents agreed that among all ISF institutions, only *zakat* institutions are involved in tackling household indebtedness. However, the difference in their opinions mainly concerned the degree of implication of these institutions.

The opinion of our interviewees supports previously discussed finding stating that although *zakat* institutions are the primary institutions responsible for tackling the problem of household over-indebtedness in Malaysia, these institutions tend to prioritize other *asnaf* while giving less importance to this *al-gharimin* (Hassan & Nasir 2016; Ibrahim, 2020; Ibrahim & Sahrim, 2019; Razali et al., 2021; Shah & Hassan, 2017; Vinet & Zhedanov, 2020).

Furthermore, respondents were asked about the implication of their respective institutions in solving indebtedness of households in Malaysia. Table 2 below summarizes their implications of some ISF institutions and Islamic banks.

Table 2. Implications of some ISF institutions and Islamic banks.

Respondents	Assistance to <i>al-gharimin</i>	Ways of Assistance
SB1	No	N/A
SB2	Yes	Fulfill basic needs
SB3	No	N/A
DA1	Yes	Appropriate regulation
DA2	Yes	Debt rescheduling
DA3	Yes	Fulfill basic needs
ISF1	No	N/A
ISF2	No	N/A
ISF3	Yes	Fulfill basic needs

The above finding supports the previously discussed findings indicating that there is more focus on other categories of *zakat* recipients, as most institutions (represented by our respondents) do not provide assistance to debtors to settle their debts. The assistance that debtors receive from certain institutions is aimed at meeting their basic needs and in most cases, they are assisted as needy and not as *al-gharimin*.

3.2. Islamic social finance institutions limitations

Under the current theme, our respondents were asked about the limitations of Islamic social finance institutions when it comes to tackling over indebtedness. Most respondents agreed that only *zakat* institutions are responsible for this issue and these institutions are focusing more on other categories of recipients such as *faqeer* and *miskin*. The main stated reasons is the lack of funding, the prioritization of other issues (poverty), conflict of interest and the absence of proper policies.

The limitations laid out by the interviewees supports previously discussed findings stating that

the main limitations of *zakat* institutions to contribute more to curb indebtedness issue in Malaysia is the ineffective collection and distribution strategies (Al Haq & Wahab 2017; Hassan & Nasir 2016; Ibrahim, 2020; Migdad, 2019; Pitchay et al., 2019), lack of strong management and governance (Ahmed & Zainuddin, 2017), moral hazard and inability to identify beneficiaries (Ahmad et al., 2015; Ibrahim 2020; Mahmood et al., 2021), lack of an efficient support systems for *al-gharimin* to manage their financial and emotional disruptions to survive the debt crisis (Vinet & Zhedanov, 2020).

3.3. Need for a solution

Under this theme, respondents were asked if they think there is a necessity to create an institution dedicated to providing financial assistance to over-indebted households. Most of the people agreed that such institution will have a great role in addressing this issue. However, some respondents believed that there is no need for more institutions and that Credit Counselling & Management Agency (AKPK) and *zakat* institutions should become more efficient and should play this role while others believe that such an institution will give people more comfort to take on more debt and create moral hazard.

Most respondents (5 out of 6) agree that there is a need to establish a dedicated institution that centralizes efforts and funds to address this issue. Respondents who disagree justify their positions with the following reasons:

- Such an institution will encourage customers to take on more debt as they will be careless about reimbursing their obligations.
- Existing institutions need to be strengthened to reduce the debt problem in the country.

Table 3. Respondents' position on the need for a dedicated institution to help indebted households

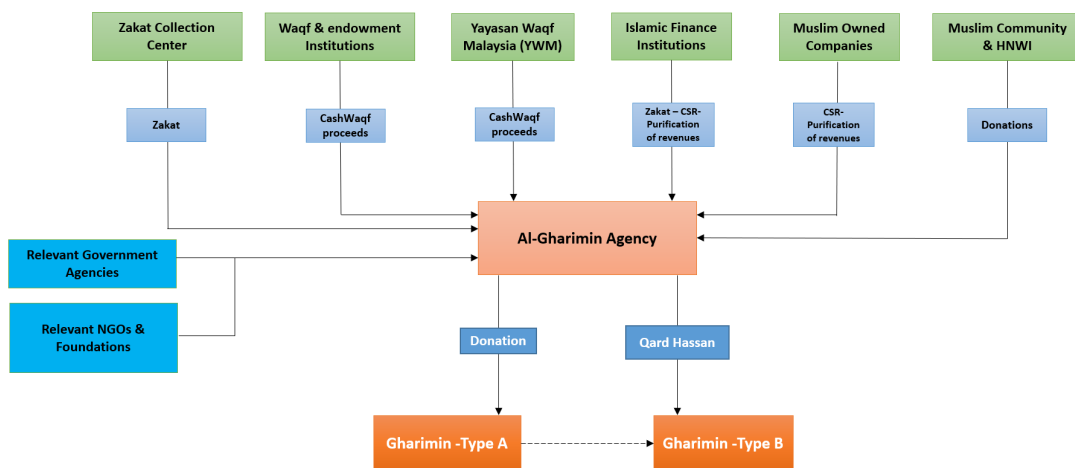
Respondents	Opinion	Respondents	Opinion
SB1	Agree	DA3	Agree
SB2	Agree	ISF1	Agree
SB3	Agree	ISF2	Agree
DA1	Agree	ISF3	Disagree
DA2	Agree		

In fact, the researcher agrees with both arguments. However, the researcher believes that with a strong screening process and well-established policies, such an institution will be able to identify genuine cases and reduce moral hazard to the minimum. Moreover, Islamic social finance institutions absolutely need to be strengthened and improved, especially from a management and governance perspective. One of the aspects to make them more effective is to unify their efforts and create channels of communication and collaboration between them. This can be done by creating an institution that will bring these institutions together to tackle one of the problems facing the Ummah. In fact, some researchers have analysed the utilisation of *zakat* and temporary *waqf* as financial assistance to *al-gharimin*. They concluded that integration between *zakat* and temporary *waqf* is able to financially help *al-gharimin*. They suggested that the State Islamic Religious Council (SIRC) should widely implement the temporary *waqf* as it has significant potential as a support mechanism for the economy (Khalil et al., 2020).

4. Conceptual framework of the integrated ecosystem for over-indebtedness alleviation

4.1 Overview

Household over-indebtedness in Malaysia has become an increasingly pressing issue, and with the economic downturn caused by the COVID-19 pandemic, this issue is becoming more pressing than ever. By capitalizing on ISF funds and institutions, this study introduced the concept of *al-gharimin* agency as an agency that is dedicated to assist households in genuine financial difficulty. This agency is backed with an entire ecosystem made of different stakeholders ranging between institutional contributors, such as ISF institutions, Islamic financial institutions (IFIs), and Muslim-owned companies, and individual contributors (e.g., Muslim community and High-Net Worth Individuals). The entire ecosystem is illustrated in Figure 1 below.



Source: Authors' own

Figure 1. Conceptual framework of the integrated model for over-indebtedness alleviation “collection and distribution of funds”.

This ecosystem is being proposed as a support system not only for households suffering from debt but also for the existing institutions that have been involved for several years to curb this issue in Malaysia. This proposal intends to relieve the burden on *zakat* institutions by joining efforts with other institutions and incorporating *zakat* funds with other funds, as illustrated in the model. It is important to mention that this proposal takes the federal territory as a pilot environment to see how such an agency can interact with existing institutions and regulations. If deemed practical by the authorities, the model can be implemented in the federal territory and then replicated in the different states of the country.

In the heart of this ecosystem is *al-gharimin* agency, which is an institution that centralizes Islamic social finance funds for the purpose of assisting those in critical financial situations. The agency will interact with the various stakeholders as follows:

- *Zakat collection centre (ZCC)*: First of all, *al-gharimin* agency will not collect *zakat* from the public but will manage the *zakat* funds already collected by the authorities mandated to raise it. In the context of the federal territory, the ZCC will collect the *zakat* and transfer the share dedicated to the *al-gharimin* category of recipients to this agency.
- *Waqf institutions*: Two scenarios are possible. In the first one, endowment and *waqf* institutions will create a cause (named *al-gharimin* support for example), collect cash *waqf* funds, invest them and allocate the proceeds to this *al-gharimin* agency. In this case, the agency will manage

cash *waqf* already collected by *waqf* institutions. In the second scenario, the agency will collect cash *waqf* jointly with Yayasan Waqaf Malaysia, invest the funds and manage the proceeds.

- *Islamic financial institutions*: The agency should be backed by Islamic banks and other Islamic finance institutions. The support received from these institutions can be in different forms (*zakat*, CSR, donations, or purification of revenues) depending on the type of the institution and its capacity to contribute.
- *Muslim-owned companies*: Similar to IFIs, companies owned by Muslims should assist this agency through the aforementioned forms (CSR, donations, or purification of revenues).
- *Muslim community and high-net worth individuals*: The agency should also seek support from the public by showcasing the issue and crowdfunding donations to curb it. Additionally, officers from the agency should privately approach high-net worth muslim individuals for further support.
- *Relevant Government Agencies*: More support can be provided by government agencies whether through grants and donations.
- *Relevant NGOs & Foundations*: *Al-gharimin* agency shares the same vision with many NGOs and Foundations aiming to do social good. Hence, these organization can come together and unit their efforts and funds to tackle indebtedness issue.
- *Beneficiaries (al-gharimin)*: This agency is dedicated to supporting households suffering from the burden of debt. Initially, these households are divided into two categories (A & B). Each category is assisted differently.

It is very important to mention that, although this agency centralizes ISF funds, *zakat* will not be mixed with other funds (cash *waqf* proceeds, CSR, donations, etc.) and that it will be used for a specific purpose according to the Shariah guidelines and directions.

4.2 Governance structure

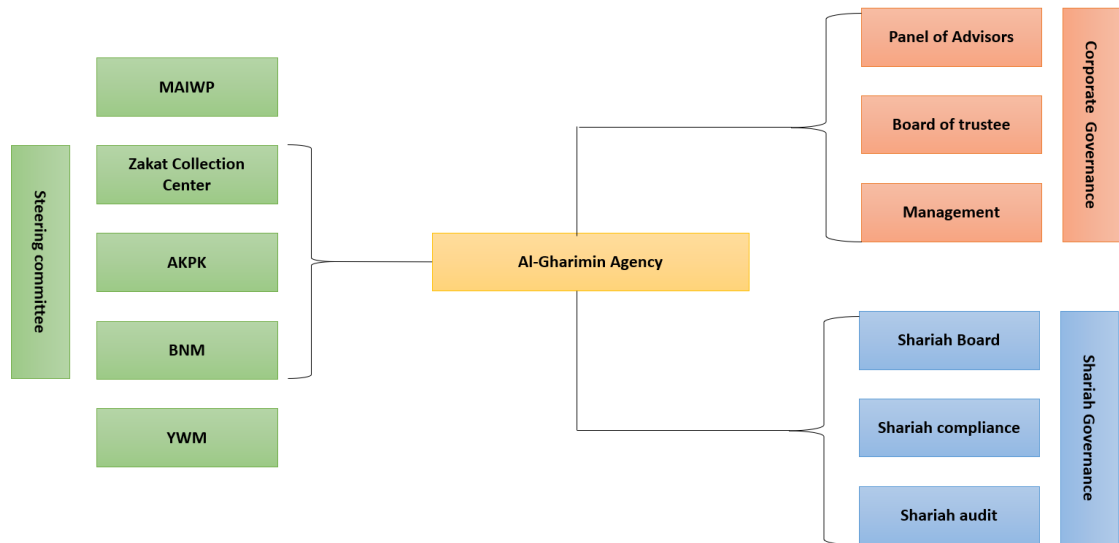
The governance aspect of *al-gharimin* institution is very important, firstly because the agency deals with a critical problem in society and secondly because it represents an intersection between financial institutions, regulators, and religious institutions. Therefore, *al-gharimin* agency must include in its governance structure three main aspects: (i) steering committee; (ii) corporate governance; and (iii) Shariah governance. An illustration of the governance structure of this agency is shown in Figure 2 below.

Al-gharimin agency is part of a well-structured ecosystem. It works with multiple players in various fields related to indebtedness of individuals in Malaysia. Therefore, it is important that the agency has a steering committee including representatives from each area in which the agency operates. This committee shall include the following:

- *Bank Negara Malaysia (BNM)*: As the regulator of Malaysia's financial institutions, it is important to have representatives from BNM in *al-gharimin* agency steering committee.
- *Majlis Agama Islam Wilayah Persekutuan (MAIWP)*: In Malaysia, religious matters (like *asnaf*, *al-gharimin*, *zakat*, *waqf*, etc.) fall under the SIRC of the states. Since the proposal focuses on the Federal Territory and involves all of the aforementioned examples of religious matters that fall under the Islamic Religious Councils, it is very important to have representatives from the MAIWP.
- *Zakat Collection Centre*: ZCC of the Federal Territory Islamic Religious Council (PPZ-MAIWP) is the institution that has the right to collect, manage and distribute *zakat* funds within the federal territory. As in the proposed ecosystem, this institution will mandate *al-gharimin* agency to manage *zakat* funds allocated to *al-gharimin* category of recipients. Hence,

representatives from the ZCC must be part of *al-gharimin* agency steering committee.

- *Yayasan Waqaf Malaysia (YWM)*: Representatives from YWM must be part of *al-gharimin* agency steering committee in order to be involve in all the matters pertaining Waqf funds.
- *Credit Counselling & Management Agency (AKPK)*: As this agency is created by the central bank to educate, advise as well as provide assistance to individuals suffering from debt burden, it will play a huge role in the good functioning of *al-gharimin* agency.



Source: Authors' own

Figure 2. Governance structure.

Given the fact that *al-gharimin* agency will centralize, manage, and allocate different types of funds, having strong corporate governance is essential for the smooth running of the agency as well as building trust among different stakeholders. A good corporate governance implies the existence of the following:

- *Panel of advisors*: This panel is made up of experienced individuals from a broad representation across different sectors (ISF, Islamic banking, retail credit authorities, wealth management and financial advisors).
- *Board of trustee*: This board is responsible for ensuring that the agency complies with laws and regulations as well as the established policies. It should always adhere to the agency's mission.
- *Management*: The agency must have a qualified management team made up of experts in the fields of finance, corporate management, and governance.

Furthermore, the agency must have a strong Shariah governance to ensure that it operates according to Shariah principles. A good Shariah governance implies the existence of the following elements:

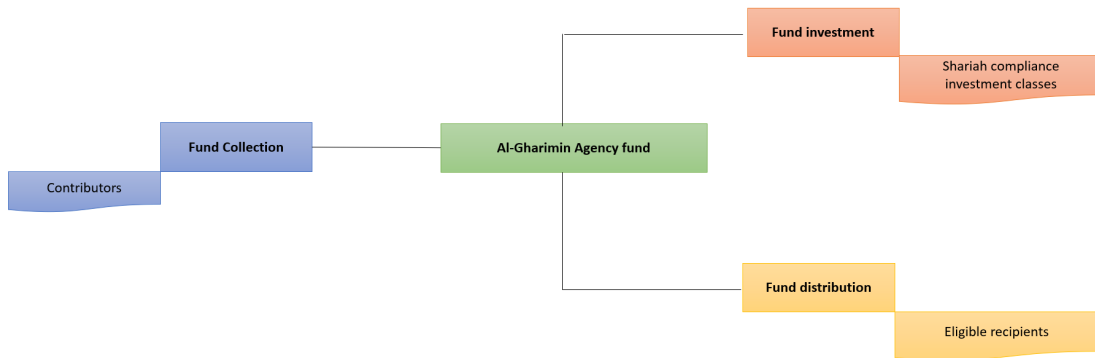
- *Shariah Board*: This board has the overall authority on Shariah governance framework and policy. It has a responsibility towards the agency's stakeholders.
- *Shariah compliance*: The Shariah Board must ensure that the activities of the agency comply with the guidelines of Shariah.
- *Shariah audit*: A periodical evaluation should be performed to provide an independent

assessment and objective assurance designed to add value and improve the degree of compliance with respect to the agency’s business operations, with the primary objective of ensuring a strong and efficient internal control.

These various actors are dedicated to ensuring that the agency not only achieves its mission, which is to curb households' debt in Malaysia, but also to achieve its independence and sustainability.

4.3 Sustainability approach

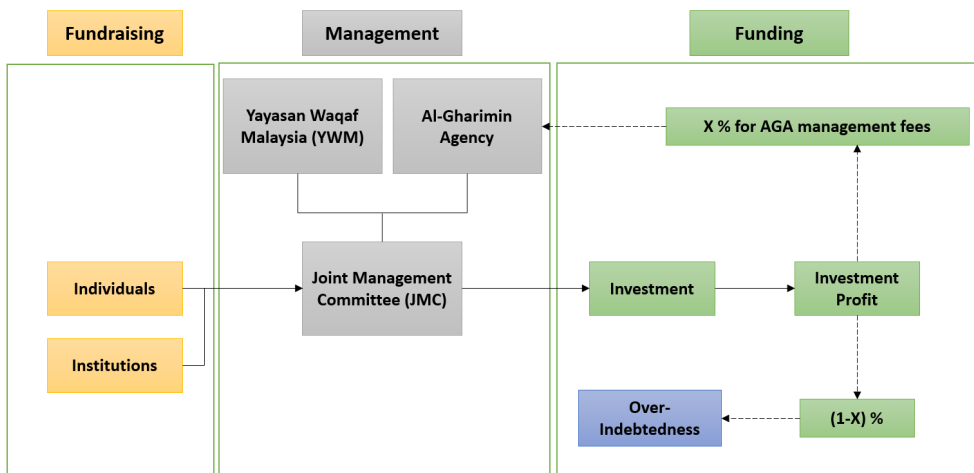
In order for the agency to ensure its sustainability, it must manage professionally the collected funds. Figure 3 below introduces a cycle of fund that the Agency will adopt.



Source: Authors’ own

Figure 3. Cycle of fund, collection, investment, and distribution “Sustainability Approach”.

Before allocating the collected funds to eligible beneficiaries, these funds must be invested in different Shariah-compliant assets and sectors to ensure the preservation and growth of the seed fund. A portion of the return will be used to cover the operating expenses of the agency while the rest will be used to assist eligible profiles. The agency will rely on its aforementioned strong governance structure (both corporate and Shariah) to manage the fund, identify attractive but low-risk investment opportunities, optimize operational costs, and select genuine beneficiaries.



Source: Authors' own

Figure 4. Raising cash waqf for over-indebtedness alleviation.

Besides managing *zakat* and *waqf* funds allocated by different stakeholders, the agency might raise these funds as well. To collect cash *waqf*, *al-gharimin* agency may create a joint management committee together with YWM. The fund collected from individual and institutional donors will be invested in low-risk assets to preserve the *waqf* corpus. Part of the investment profit will be used to cover the agency's management costs, while the other part will be used to help over-indebted households.

Another source of funds to cover management costs can come from the ZCC. *Al-gharimin* agency can be appointed by the ZCC to assist in identifying profiles of *zakat* beneficiaries who fall under *al-gharimin* and distributing *zakat* funds. This appointment can be subject to remuneration.

4.4 Eligibility of beneficiaries

Initially, the beneficiaries to be targeted by the agency are those qualified under *al-gharimin* category of *zakat* recipients. Based on the definition concluded by the 135th Federal Territory Religious Council Meeting (1/2016) on the 29th of March 2016 as follows, *al-gharimin* are people who are in debt due to fulfilling the self-basic needs and also for the sake of family members and those who are under the guardianship or for the sake of community or people that struck by a calamity or disaster according to the Shariah.

Based on criteria defined by the Shariah board, the applicant to the assistance program will be screened and classified according to the priority. However, the scope of the potential beneficiaries might be widened to include other Muslim debtors depending on the gravity of the situation. As *al-gharimin* agency manages not only *Zakat* funds but other funds (Donations, CSR, etc.), it will have the flexibility to assist more debtors under the conditions that they have been approved by the Shariah board and the panel of advisors.

As mentioned in Figure 1, the potential beneficiaries can be divided to two categories, category of *al-gharimin* A and category of *al-gharimin* B. *Al-gharimin* type A are those in a critical financial situation. Those who are besides being burdened by debt (lawful debt), can't meet their basic needs such as food, medical aid, shelter clothing and education. While debtors in *al-gharimin* category B can fulfil their primary needs, but they are trapped in the vicious circle of debt. They are considered as over-indebted as they can't, although willing, fulfil their financial obligations on a structural basis.

Households in this category are not necessarily poor, they can be part of M40 or even T20, but due to some unfortunate life shocks or mismanagement of their finances, they find themselves in a critical financial situation.

Besides the Shariah board that will decide about the qualification of the beneficiaries and whether or not they are eligible for assistance, the panel of advisors that is made up of AKPK representatives as well as psychometric experts will participate in the screening process and approve the genuine cases.

Finally, potential beneficiaries who have higher chances to be selected are those who can be referred by Islamic finance institutions, Islamic social finance institutions or AKPK as these profiles have a history and a track record with institutions that are part of the entire ecosystem. The referral acts as an initial screening to these profiles, but the last decision will be to the agency's experts and advisors.

4.5 Assistance to beneficiaries

Assistance could be divided into pre-debt assistance and post-debt assistance. The pre-debt assistance consists of organizing awareness programs for the public and to talk more about the issue of households' indebtedness in the country as this topic requires social attention. People must first know the seriousness of the problem and then they must be educated about it in order to promote a sane financial planning culture.

When it comes to post-debt assistance, the first solution is to curb the spending behavior. The agency will attempt to re-shape the spending behavior of people who are indebted by implementing some restrictions on them preventing them from bearing more debt liability and incentivizing them to get more sources of income.

There are customized solutions that the agency might suggest when it has the adequate information (assets, liabilities, terms, cashflows, type of income) about the beneficiary. Based on this information the agency can advise the debtor how to manage his/her debt portfolio. However, more suggestions and advisory will be made by the agency's experts and financial planners. If the problem persists even though the debtor has followed the advice suggested by the agency for a reasonable period, the agency will provide financial assistance.

In fact, with more households falling into poverty due to their high debt levels, this agency aims to take type A *al-gharimin* out of the cycle of debt as well as prevent type B *al-gharimin* from falling to type A category.

Zakat funds will be allocated to help *al-gharimin* A who are in a critical financial situation by meeting their basic needs such as food, medical aid, shelter clothing and education. This category of beneficiaries can also be assisted, through funds other than *zakat*, in order to repay their debts and rebuild their capacities and qualify them to meet their basic needs independently. The agency can train debtors from this category and qualify them by providing education on how to do business so that they can earn money by themselves.

Regarding *al-gharimin* type B, based to the household profile, *al-gharimin* agency can assist these debtors by providing them an interest-free loan (*qard hassan*) based on funds other than *zakat*. *Qard hassan* provided is considered to be debt restructuring. It will allow households to repay their debts taking into account their ability to reimburse the interest-free loan.

Although the agency provides financial assistance, recipients will not directly receive money at any stage of the assistance program. As the beneficiaries proved their inability to manage properly their finances, they will have to graduate from a financial education program that might be facilitated by the agency or by its partner (AKPK). However, the assistance the agency provides as mentioned above will take two forms. Financial assistance to cover basic needs and financial assistance to set-off the debt.

To cover their basic needs, the agency will provide the beneficiaries with vouchers that are only redeemable in some selected hypermarkets (e.g., AEON, Econsave, Giant, Mydin, NSK, Tesco, etc.) and/or online groceries shops (such as Lotus, Grab, Foodpanda, ShopeeFood, etc.). Some of these operators may be part of the ecosystem as they may contribute to the assistance provided by the agency. Special discounts and multiple facilities can be granted to the voucher holders by these operators.

In *al-gharimin* agency, the focus is not only on the collection and distribution of funds to the beneficiaries, but redemption is of a crucial importance as well. The vouchers might be tangible or virtual. Hence the need for the use of technology. A technology that will facilitate and trace the redemption of the vouchers provided by the agency. An E-Wallet based on tokens (virtual representation of vouchers) might be adopted by the agency in order to facilitate the assistance

provided to the beneficiaries. The use of this technology will also restrict the use of the assistance provided to only certain usage like food, beverage, and even clothing and some other selected necessities. The agency will pay afterwards the groceries provider and settle the vouchers.

To set-off the debt, the agency will follow the standards regulating the transfer of debt where the agency will be considered as the payer (*Muhal Alaih*) while the beneficiary will be the transferor (*Muheel*). The agency will not provide the debtor with funds to settle his debt but will take in charge this debt. Hence the debt liability is transferred from the beneficiary to the agency. Therefore, the agency will be required to settle the debt. These debts can be negotiated with the creditors in order to get a discount for a settlement of the entire amount. Creditors are expected to grant such discount as the loan will shift from a non-performing loan to a loan which they can recover immediately. However, before the debt transfer and based on the client profile the agency has three options:

- *Option 1*: The agency will cover 100% of the debt liability and forgive the beneficiary. In this situation, no reimbursement is expected, and the settlement of the debt will be considered as a donation which is not paid directly to the debtor, but which is used to settle his debt.
- *Option 2*: The agency will partly cover the debt liability ($X\%$) and ask the beneficiary to pay gradually the remaining part ($1 - X\%$). In this situation, the beneficiary is expected to reimburse the agency based on pre-agreed interest free instalments. The portion that the agency will waive will be considered as a donation which is not paid directly to the debtor, but which is used to settle his debt.
- *Option 3*: The agency will ask the beneficiary to repay to the agency, on the basis of interest-free instalments agreed in advance, the total amount that the agency has paid on his behalf. The instalments will be adapted to the repayment capacity of the beneficiary and the amount used to settle his debt on his behalf is considered as a *qard hassan* which will be gradually repaid.

In both options (two and three), the agency must declare any discount granted by the creditor and must therefore apply it to the amount that the beneficiary is required to settle to the agency. Additionally, the partial waiver that the agency provides in option two must be greater than the discount granted by the creditor.

5. Conclusion

Household indebtedness in Malaysia is increasing alarmingly, and although *zakat* institutions are doing their best to curb this issue, these efforts remain minimal compared to the seriousness of the problem. Based on a desk research and semi-structured interviews, we have identified few challenges and limitations facing *zakat* institutions in Malaysia when it comes to reducing excessive genuine indebtedness of households. The respondents of our study have expressed a unanimous consensus regarding the considerable scope for enhancement in providing aid to financially burdened households in Malaysia. Consequently, the majority of respondents have demonstrated their endorsement of the proposition to establish a specialized institution devoted to addressing this pervasive issue which was suggested through this paper.

From the proposed ecosystem, it can be seen that Islamic social finance funds can be brought together in order to tackle one of the most pressing issues in Malaysia. As many households suffer from a high level of indebtedness (formal and informal), it becomes more and more urgent to find solutions to curb this issue. The proposed ecosystem responds to the main limitation of *zakat* which is the lack of funds. As the *zakat* funds collected by *zakat* institutions are limited, more priority is given to other *asnaf*. Hence, the main aim of the agency is to prioritize this category of *asnaf*, otherwise over time they will fall into the category of *Fuqara* and *Masakin*. This prioritization is achieved

through bringing together different stakeholders that are currently acting independently to solve the same issue.

The ecosystem also involves experts from the banking sector whose contribution is deemed important, in particular with regards to the management of funds and the sustainability of the institution. These experts not only have the knowledge required to deal with insolvent debtors, but also the expertise to professionally manage such an agency. Additionally, the proposal can be seen as a remedy to the conflict of interest created when banks want to assist their own clients who are struggling with their respective debts. In fact, this situation is even questionable from a Shariah perspective. Finally, the proposal is expected to bring a significant benefit to the debtors as well as the society and economy as a whole.

As far as policymakers and government bodies are concerned, it is hoped that these findings shed light and sensitise them on the factors driving high household indebtedness behaviour in the country. It is also hoped that policy makers will facilitate the introduction of the proposed solution (the integrated ecosystem for reducing over-indebtedness) first in the Federal Territory and then in the country. In an ideal scenario, financial support is also hoped to be provided to *al-gharimin* agency which will be at the forefront of the ecosystem.

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