

INTRODUCTION

TO THE STUDY OF THE ECONOMICS OF ZAKAH

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Zakah, the third pillar of the Islamic religion, is probably the first pillar of its economic system. It represents the first and most important tool of implementing the economic justice and to provide sustenance to the economically unfortunate, two issues for which Islam is especially sensitive.

This introduction consists of four sections. In section one, major fiqhi aspects of *Zakah* will be briefly mentioned. Section two will provide an update about the implementation of *Zakah* in Muslim countries and communities. Section three will present a short overview of the papers included in this book of readings, and finally, section four will make suggestions about areas where there is need for further research on the economics of *Zakah*.

SECTION ONE: MAIN FIQHI ASPECTS OF ZAKAH

The objective of this section is to give a profile of the main issues of fiqh related to *Zakah*. It makes an easy and quick reference to the reader and provides a general fiqhi framework of the study of the economics of *Zakah*. It should be kept in mind, however, that I do not intend to survey the fiqh of *Zakah* in this brief introduction since this is covered by many other writings and it requires a lot more than an introduction to deal with. This section is essentially based on the Qaradawi book, *Fiqh al Zakah*.

1. The obligation of Zakah

To begin with, it is well established that *Zakah* is one of the most fundamental obligations in Islam. According to a statement of the Prophet (pbuh), it is the third out of five pillars on which this religion is founded. That it is an obligation mentioned in the Quran thirty times, in twenty-eight of which, *Zakah* is associated with prayers.

Moreover, there are many other verses which mention the term *sadaqah* and its derivatives in a general meaning which covers both voluntary contributions as well as *Zakah* i.e., obligatory contribution. In four of these verses, the term *sadaqah* is used specifically in the meaning of *Zakah*¹.

¹ These are all in surah No. IX, verses 58, 60, 74 and 103. See for details the comments of Ibn Kathir and Abu Bakr bin Al Jassas on these verses.

Additionally, two other verses (2:267 and 9:00) refer to the obligation of *Zakah* using the term *anfaqa* and its derivatives².

This obligation of *Zakah* is also emphasized in a large number of sayings of the Prophet (pbuh)³.

The obligation of *Zakah* is also unanimously agreed upon among all Muslim scholars without any dissent. This has been so since the era of the Companions of the Prophet (pbuh) and throughout all the schools of jurisprudence⁴.

2. Items subject to *Zakah*

The Quranic reference to items subject to *Zakah* is rather general. Verse No. 103 of surah IX mentions the word *amwal*, and verse 267 of surah II mentions what you have earned and what we have produced for you from the earth. However, several sayings of the Prophet (pbuh) make specific reference to gold, silver, camels, sheep, cows, whatever which is prepared for sale, land produce, crops and fruits⁵.

On the basis of such texts of Quran and *Sunnah*, scholars, both classical and contemporary, formulated many views, opinions and rules about subjecting items of wealth and income to *Zakah*. The different positions of *fuqaha*' on this issue may generally be categorized into three main stances as follows:

- A. Those who believe that items subject to *Zakah* are: agriculture products, livestock, mobile assets acquired for the purpose of resale, gold, silver and other money on hand.
- B. Those who add to the above: return generated by fixed assets and earning of human capital, be it in the form of wages, salaries or professional income.
- C. Those who include in the items subject to *Zakah* not only these items mentioned in A and B, but also the fixed assets themselves.

It is also to be noted that in any classification, one loses certain details. Hence, in group A above, there are many differences about the subjectivity of items such as jewelry, debts on others, honey, lumber and wood, domestic animals other than livestock, etc. By the same token within the views in group B, there are the opinions of including gross or net return of fixed assets among the items subject to *Zakah*.

² See the respective comments of Ibn Kathir and Al Jassas on these two verses.

³ Yusuf al Qaradawi, *Fiqh al Zakah*, (Arabic), 2nd ed., Mu'assat al Risalah, Beirut, 1393H, V. 1, pp 69-75.

⁴ One finds this at the introduction of the chapter on *Zakah* in all the classical works on *fiqh*.

⁵ Al Qaradawi gave an excellent survey of the texts of the Quran and the sayings related to these items; refer to the relevant sections of chapters 1-5 of part III of his book.

3. Conditions for subjection of a property to *Zakah*.

3.1 Conditions related to the *Zakah* payers.

With regard to *Zakah* payers, there are two conditions. First, a payer of *Zakah* must be Muslim. This is based on the fact that *Zakah* is one of the worships in Islam and acts of worship address only believers and followers of this religion. But it is to be mentioned also that *Zakah* is a financial duty as well, and it is to be collected by the government. Hence, this condition may create a discriminatory situation against Muslims in all societies which have Muslims and non-Muslims in their population. This urged some scholars (e.g. al Qaradawi) to call for imposing an equalizing tax on non-Muslims under the name of social solidarity tax, the proceeds of which are to be used for the same objectives as *Zakah* but for the non-Muslim community in the same country⁶.

Second, there is the condition of being qualified for an act of worship. This means that a *Zakah* payer should be a sane adult, (children below the age of puberty as well as insane adults should not be subject to *Zakah*). Here again, this condition is challenged on the ground that *Zakah* is a financial obligation which must related to wealth and income more than the status of the owner. Additionally, there are several sayings from the Prophet (pbuh) and some of his companions indicating that a child and an insane adult are both subject to the payment of *Zakah* and that it must be paid by their respective guardians⁷.

3.2 Conditions related to *Zakah* items.

As for the conditions related to the items subject to *Zakah*, Muslim scholars usually talk about five requirements as follows⁸:

1) Ownership: This means that for an item to be subject to *Zakah*, it must be owned by the potential payer. This ownership must be absolute and not restricted (except, obviously as the law provides) so that it gives the owner all the power he/she is entitled to by the law. The requirement of this condition is founded on the fact that all verses which mention the obligation of *Zakah* talk about it being levied on items owned by the potential payer.

The implications of this condition are interesting. They include that items not owned by any human being are excluded from being subject to *Zakah*. These include property of the state since it belongs to the whole Ummah and no one in particular has a right of ownership over them. They also include the property of charitable *awqaf* (trusts) since such property is not owned by anyone.

This condition also implied that any property which is unlawfully acquired or obtained is not subject to *Zakah*, since whoever possesses it is not its right owner on the one hand, and on the other hand, whoever legally owns it, has no access to it.

2) Growth: This condition means that for an item to be subject to *Zakah*, it must be either a growing one or itself a result of a growth process.

⁶ Al Qaradawi, pp. 97-104.

⁷ Ibid, pp 105-119.

⁸ The presentation of these conditions is fully based on al Qaradawi, Ibid., pp. 123-166.

A growing item is that item whose nature is to grow and increase such as camels and cows or merchandise set for sale. Money (including gold and silver) is also considered growing as it is usually made to grow through exchange. It is, therefore, considered by Muslim scholars as potentially growing though not physically.

This condition is derived by surveying all the items made subject to *Zakah* by the Prophet (pbuh). Using this criterion of growth, scholars were able to judge the subjectivity of new items which are not mentioned by the Prophet (pbuh) to *Zakah*.

This application of this criterion takes out of *Zakah* things like property to which the owner has no accessibility, e.g. retirement fund or treasure buried but its whereabouts are unknown. Also excluded are assets maintained for use and acquisition purposes and not for growth purposes, such as property for personal and family use.

3) Nisab (minimum exempt or criterion of zakatability): In several of his sayings, the Prophet (pbuh) set certain minimums for different items and exempted anyone who owns less than the minimum of the payment of *Zakah*. However, once a person owns the minimum of an item, the whole amount of that item becomes subject to *Zakah*.

Called *Nisab*, these minimums are: 5 camels, 30 cows, 40 sheep, 5 wasq (equals 653 kilos) of agricultural products, 200 dirham (a currency-cum-weight unit equals 2.975 gram) of silver, 20 dinar (a currency unit equals 4.25 gram) of gold and an amount equal in value to the *Nisab* of silver or gold for all other items.

4) The amount of *Nisab* must be over and above what is required to satisfy **basic needs** and to pay immediately due debts: In addition to the minimum exempt, Shari'ah perceives that for an item to be subject to *Zakah*, it must not be preoccupied by the basic needs of the owner and his/her family. In this way, apparently, the *Zakah* institution takes consideration of the personal and family needs of the payer.

According to many Muslim scholars, basic needs cover biological as well as social and religious requirements for normal living without hardship. This includes food, medicine, clothing, shelter, furniture, tools of craftsmen, transportation, and books for a student or scholar.

On the other hand, the concept of extended family applies in this regard, i.e., family whose basic needs are considered includes: wife, children, parents, and any other relative for whose expenses the payer is responsible in accordance with Shari'ah.

Additionally, if the payer is under debts which are due in such a way that payment of these debts will have to be made out of the present assets, the amount of the debts should be deducted from the assets before they are subjected to *Zakah*.

5) Passage of one year: *Zakah* is a yearly obligation. Therefore, if an item was subjected to the payment of *Zakah* on a certain date, there ought to pass one year before another payment of *Zakah* becomes due. The ultimate result of this condition is that no two payments of *Zakah* may be effected during one fiscal year. The fiscal year of *Zakah* is lunar.

This condition is justified by a saying of the Prophet (pbuh) which states that no *Zakah* is obligatory on any property until one year passes⁹. This also implies that once a person owns a

⁹ Ibid., pp. 162-163

Nisab of an item, then *Zakah* is due only after one year passes and that minimum amount is still owned by that person.

However, some Muslim scholars argue that this condition only applies to items in stock and that earned items are subject to *Zakah* when they are obtained as long as they fulfill other conditions mentioned above.

4. Distribution of the proceeds of *Zakah*

The Prophet (pbuh) is reported to have said: “God verily did not accept the judgment of a Prophet or anybody else in [the distribution of] *Zakah*, so He gave the judgment on it. He divided it into eight parts.¹⁰” This saying refers to Verse 60 of Surah 90 which reads: “Sadaqat are for the poor, and the needy, and those employed to administer [the funds], and those whose hearts been reconciled [to the truth], and for those in bondage, and those in debt, and in the cause of Allah, and for the wayfarer; [thus is it] ordained by Allah, and Allah is full of knowledge and wisdom.¹¹”

Consequently, *Zakah* proceeds should be distributed to these eight categories or recipients as mentioned in this verse¹².

The first two categories are very often discussed together since they are close to each other by definition. Some scholars define the poor as a person who has less than his needs in terms of wealth and income, whereas the needy is that who owns nothing. Some others, however, consider that the poor is in a worse situation than the needy. But really it is immaterial who is in a worse condition. What matters is that both the poor and needy cannot support all their needs by their own means that they require supplementary support for sustenance.

These two categories make up the main recipients of *Zakah* and they must be paid as much as required to satisfy their needs provided there are sufficient funds.

The third category is those employed to administer the funds of *Zakah*, i.e., those working in the collection and distribution of *Zakah*. Here there is a clear reference that *Zakah* is in principle a function of the Islamic government for which there ought to be an autonomous organization within the structure of the government. In this regard, Muslim scholars discuss the qualification of *Zakah* workers. They argue that the *Zakah* workers should be Muslim, adult, sane, knowledgeable of the Shari’ah rulings on *Zakah*, suitable for the kind of job assigned to them. Payment to this category must be in accordance to their performance, efficiency and market rates of wages and salaries.

The fourth category of recipients consists of those whose hearts are reconciled to the Islamic religion. It includes people who recently embraced Islam, people who are expected to do so, and people whom by giving them you may expect to benefit the cause of Islam by avoiding the evil and harm they would otherwise do or increasing their benevolent action.

¹⁰ Ibid., p 542.

¹¹ Translation from Yusuf Ali.

¹² The presentation of the categories to whom *Zakah* proceeds are to be distributed depends on part 4 of al Qaradawi’s book, Ibid., pp. 544-744.

Zakah payment to this category can be done only by the Islamic government, i.e., when *Zakah* is collected and distributed by the authority. If, in a Muslim country, the government does not take up this function, individuals cannot pay to this category when they dispose of their own *Zakah*¹³.

The fifth category is to liberate slaves by purchasing them from their masters and setting them free as well as by helping those among them who have initiated a self liberation agreement, called *mukatabah*, with their masters. Such an agreement usually stipulates that a slave would be permitted to work on his/her own, pledge a certain amount of money to be paid to the master on installments and the slave would be free upon completion of all the installments.

Several contemporary Muslim scholars argue that since slavery does not exist any more in today's world, this part of *Zakah* distribution should be used to spend on supporting the struggle of colonized peoples to gain self-determination, especially if these people become Muslim¹⁴. This share may also be used to ransom Muslims who fell in captivity as prisoners of war in the hands of the enemy.

Helping those under debts is the sixth category of the potential recipients of *Zakah*. Debts included here are those which may arise from natural catastrophes, business practices or borrowing to spend on family needs.

Debts may also arise from reconciling differences, disputes among individuals, communities and tribes, especially disputes caused by killing and revenge whereby those who mediate in the reconciliation may accept to carry the responsibility of blood money. By the same token, debts on deceased persons may also be paid out of *Zakah* proceeds.

Only unlawful causes of the debt such as gambling or drinking deprives debtors from being helped under this category.

When debts are caused by payments for reconciliation of tribal and community disputes, payment out of *zakah* to debts-burdened mediators may be done regardless of their wealth.

Al Qaradawi argues that this category opens the door for the provision of loans out of the proceeds of *zakah* to those who may need as a temporary relief¹⁵.

Zakah may also be spent in the way of Allah. This is the seventh category of recipients. The way of Allah is obviously a very wide cause, so Muslim scholars have three main views in defining this category.

Some of them believe that this category covers any act of general service to Islam as a religion and to the Muslim community. This includes building bridges, creating parks, supplying street lights, building mosques and other construction of benefit to the whole community, etc. That is in addition to activities aiming at spreading Islam among non-Muslims and defending its land and people.

Some other scholars restrict this category of recipients to the fighting against unbelievers in a war considered permissible in accordance to *Shari'ah*. Furthermore, *zakah* payment may only be given, under this category, to volunteers but not to the regular army which should be financed by other financial resources of the Government. However, in defensive circumstances

¹³ Ibid., p. 608.

¹⁴ Ibid., pp. 620-621.

¹⁵ Ibid., p. 634.

with insufficiency of other financial resources, the rich among the Muslims should be charged the responsibility of financing army needs and if this did not do the job, then *zakah* proceeds may be utilized¹⁶.

Yet, another opinion takes a middle of the way position, arguing that the phrase “in the cause of Allah” includes fighting for the sake of Allah as well as such activities that contribute to the prosperity of the Islamic religion and to making it known to non-Muslims by the way of writings, publishing, broadcasting, etc., as long as such activities aim at making the “World of Allah” supreme and most predominant on earth.

Helping wayfarers is the final category of the recipients of *zakah*. A wayfarer is a person who is away from his/her homeland and has no accessibility to his/her wealth and property and at the same time is in need for financial help in order to reach his land, i.e., although he/she may be rich in his/her own place, but at the present time, while he/she is away and has no access to what he/she owns, is considered deprived.

The help a wayfarer needs is an amount sufficient to make him/her reach home. Muslim scholars usually put an important condition on this category of recipients that the journey undertaken by such a person must not be for a bad cause.

Lastly, there are a few remarks which deserve to be mentioned in regards to distribution:

- a- The role of the government in regards to the collection and distribution of *zakah* is essential. The Qur’anic verse IX:103 is addressed to the Prophet (pbuh) as a head of the state and ordained him “take sadaqah out of their property.” The verse IX:60, which stipulates the distribution, mentions the workers on its collection and disbursement as one of the categories of the recipients of its proceeds. This clearly indicates that *zakah* is not to be handled by the payers individually but by a government agency which hires its own employees. This principle is emphasized very much by several sayings of the Prophet (pbuh) and by his own practice during his reign as head of the state in al Madinah as well as by his four Successors after him.

Until the end of the Ottoman empire, it was the tradition of Muslim governments throughout the history to assign a special fund or account in the treasury for *zakah* so that its proceeds are distributed in accordance to the Shari’ah requirements. This is also the position of Muslim scholars in their writings from *Abu Yusuf’s Al Kharaj* to *Ibn Abidin’s Al Hashyah*¹⁷.

On the other hand, the state may delegate individual payers to dispose of their own *zakah* to proper recipients as long as it is generally known that individuals are keen to pay it out of their religious enthusiasm.

Lastly, it must be noted that the obligation of *zakah* is not affected if governments neglect it. Individual Muslims remain religiously obligated to give away their due *zakah* by distributing it directly or through charitable voluntary organizations.

¹⁶ Ibid., p.641.

¹⁷ Ibid., p. 757.

- b- According to the majority of Muslim scholars, *zakah* may be given to anyone in any of the eight categories mentioned above. An individual payer of *zakah* may give his/her due *zakah* to one deserving person or more in one or more of these categories. General wisdom and applying one's best judgment in order to maximize the benefit of *zakah* payment is always applicable as this is a general requirement in all actions of any Muslim¹⁸.
- c- Certain kinds of people are excluded from the payment of *zakah*. These include the following: 1) A person who is capable to work and earn his/her livelihood but does not want to do so; 2) Unbelievers and enemies of Islam and Muslims; 3) Close relatives of the payer for whose provision the payer is responsible. It is unanimously agreed upon that these include parents, wife, male children under the age of puberty and unmarried female children. However, some scholars include in this group all relatives who may be heirs if the payer dies. 4) Descendants of the family of the Prophet (pbuh). This is based on several sayings by the Prophet (pbuh) preventing his family from taking *zakah* and any charity¹⁹.
- d- Permissibility of cash payment instead of payment in kind is disputed among Muslim scholars. The majority's view is that it is permissible as long as it is more convenient or in the public interest²⁰.
- e- In principle, the proceeds of *zakah* should be distributed within the same area where they are collected, although there are differences about the geographical definition of a *zakah* area. However, it is unanimously acceptable to transport the proceeds of *zakah* from one area to another if it is established that potential beneficiaries in the collection area are fairly satisfied and that if government actually takes charge of the collection and distribution of *zakah* it may transport the proceeds as long as it is in the public interest.

On the other hand, an individual payer may also transport a payer's own *zakah* in order to respond to a more dire need or to give it to a relative (provided that relative may become a recipient of the payer's *zakah* as mentioned in © above²¹.
- f- It is permissible for the government to collect the *zakah* in advance before its due date or to delay it until a later date if any of these is warranted by the interest of the public²². However, if individual payers are disposing of their own *zakah*, the view of most scholars is that it may not be delayed without a good reason, while it may be paid in advance²³.

¹⁸ Ibid., pp. 686-694.

¹⁹ Ibid., pp. 700-739.

²⁰ Ibid., pp. 799-808.

²¹ Ibid., pp. 809-820.

²² Ibid., p. 828.

²³ Ibid., p. 822-830.

SECTION TWO: IMPLEMENTATION OF ZAKAH IN MUSLIM COUNTRIES AND COMMUNITIES

This section intends to provide an update on the contemporary implementation of *zakah*. There is no doubt that the economics of *zakah* can only be meaningful if *zakah* is implemented in Muslim countries. Moreover, a good part of the economics of *zakah* deals with the macroeconomics, and the *zakah* implementation by government is a prerequisite for it.

Since *zakah* was first implemented in the year two of Hijrah (the migration of the Prophet, pbuh, from Makkah to Madinah), its implementation continued to be one of the functions of Muslim governments throughout the history of Islam. It remained so during the Ottoman empire until its fall after the first world war. Yemen is probably the only Muslim country in which the government has retained the task of collecting and distributing *zakah* without interruption since it was imposed by the Prophet (pbuh)²⁴.

In addition to Yemen, five other Muslim countries enacted laws imposing *zakah* on an obligatory basis. These countries are: Saudi Arabia, Malaysia, Libya, Pakistan and Sudan. Several other countries established government organs to collect and distribute *zakah* without making its payment to these bodies obligatory. This section is a brief exposition of the implementation of *zakah* in the first six countries that made its payment obligatory to a governmental organization, and in some of the other countries in which *zakah* is paid voluntarily to the government.

A. *Zakah* implementation under obligatory payment to the government.

Zakah in Yemen has been collected and distributed by the government since the arrival of the first Muslim governor, Mu'adh, who was sent by the Prophet (pbuh) around the year 9 of Hijrah. *Zakah* on agricultural products, livestock, stock of trade and money is collected regularly by a government directorate called "the Agency of duties." This agency also collects the *zakah* of al fitr (breaking the fasting) at the end of the month of Ramadan.

The distribution of *zakah* in Yemen is done through the relevant headings in the general budget. Hence, several ministries, including those of social welfare, health and education are involved in the distribution²⁵. Committees, which consist of government officials are usually involved in the collections, and cooperatives and local, non-governmental committees are also involved in the distribution of *zakah* in Yemen²⁶.

²⁴ Muhamma Yahya al 'Adi, "*Zakah* management and application in contemporary Yemen," (Arabic), paper presented at the Third International Conference on *Zakah*, Kuala Lumpur, 19-22 Shawwal 1410, P. 6 of the Arabic text.

²⁵ Monzer Kahf, "Modes of collection and distribution of *zakah* in Muslim countries and communities," (Arabic), paper presented at the Third International Conference on *Zakah*, Kuala Lumpur, 19-22 Shawwal 1410, P. 27.

²⁶ Ibid., p.27.

Saudi Arabia reintroduced the System of *Zakah* in 1951. *Zakah* in Saudi Arabia is levied on agricultural products, livestock, stock of trade and other mobile business assets and on the income of certain professionals such as physicians, lawyers, civil and other engineers, real estate agents, taxi and truck drivers, TV program producers, etc. *zakah of al fitr* and *zakah* on monetary assets other than those which are part of business mobile assets are not collected by the government.

The collecting agency in Saudi Arabia is an administration within the ministry of finance called the Agency of *Zakah* and Taxes. However, for the collection of *zakah* on agriculture and livestock, there are special committees consisting of officials from the ministries of finance and interior and relevant governorate.

The distribution of *zakah* is done by means of the general budget through the ministry of labor and social welfare. Two kinds of disbursements are given by this ministry: regular periodical subsidies to poor families and ad hoc emergency subsidies in case of illness, death, accidents and other calamities²⁷.

The political structure of Malaysia has its stamp on the administration of *zakah* in the country. *Zakah*, as one of the religious affairs, is considered a function of the state government and there is a little advisory role only played by the federal government. Most of the Malaysian thirteen states have councils of religious affairs that administer the collection and distribution of *zakah* all over the state territory.

State *zakah* laws in Malaysia provide for obligatory payment of the *zakah* of al fitr and the *zakah* on agricultural products, especially padi, stock of trade, savings, other wealth items and recently salaries²⁸. However, since these laws do not authorize the administrators of *zakah* accessibility to necessary information about the assets and incomes of potential payers and do not impose sufficient penal measures, the actual payment of *zakah* on business, savings, wealth and salaries takes only a voluntary form²⁹.

Zakah in Malaysia is collected by special workers who may be assigned this job on a permanent or temporary basis, offices of *zakah* which are affiliated with state councils of religious affairs, or deducted by employers out of due wages of those employees who specifically authorize such a deduction³⁰.

The distribution of *zakah* covers theoretically all the eight categories of recipients but actually the two categories of those in bondage and those in debts are absent from distribution³¹. The share of workers is paid on the basis of one eighth of the total proceeds collected by them and the administrative expenses of the councils of religious affairs are often partially covered from *zakah*³².

Libya issued its *Zakah* Act on October 28, 1971. It provides for the collection of *zakah* on livestock and agricultural products. Hence monetary assets are not made subject to obligatory

²⁷ For *zakah* collection and distribution in Saudi Arabia, see Abd al-Aziz Jamjum, "*Zakah* application in Saudi Arabia," paper presented at the Third International Conference on *Zakah*.

²⁸ Aidit bin Ghazali, Jamil bin Osman and others, "*Zakah: a case study of malaysia*," paper presented at the Third International Conference on *Zakah*, pp. 19-23.

²⁹ Ibid.

³⁰ Ibid., p. 17.

³¹ Ibid., table 14, p. 103.

³² Ibid., p. 23.

levy, and unlike Saudi Arabia, the Libyan law does not impose *zakah* on business mobile assets. The law established a General Directorate for *Zakah* which is charged with its collection only, whereas the distribution is left to the social welfare department. The law, however, stipulates that 50% of the proceeds should be designated to the poor and needy and no more than 10% to the workers of the directorate, while the share of heart reconciliation, wayfarer and in the cause of Allah is determined at 30% and is to be used by the organization of Islamic Call, a semi-government body specialized in servicing the Islamic cause outside Libya³³.

Pakistan's *Zakah* and Ushr Ordinance of 1981 imposed *zakah* in this country and established the administration of *zakah*, which is affiliated with the ministry of finance. The act imposes *zakah* on 11 items of wealth, which include savings and time deposit accounts, insurance policies, debentures, post office savings accounts, shares of common stock companies, etc., in addition to agricultural products. Stock of trade, business assets, money on hand and in demand deposits, deposits in foreign currencies, and livestock are all left to what the act called schedule two where *zakah* is not collected in an obligatory manner.

The collection of *zakah* is actually done through collecting agencies. The act requires parties other than the *zakah* payers such as banks, common stock companies, post offices and insurance companies, etc., to deduct the due amount of *zakah* out of the assets subject to *zakah* which they hold for their customers and shareholders. Consequently, there is no direct contact between the administration and the payers in Pakistan.

On the other hand, the collection of ushr (*zakah* on agricultural products) is left to the local committees. These committees are established by law for the collection of ushr and for the distribution of the proceeds of both ushr and *zakah* on the rest of the 11 items. Committees are established for small communities, usually 1000 to 7000 people each. They are supplied with funds, controlled and supervised by the administration of *zakah*. All committees consist of volunteers who are selected for a 3-year term in a public gathering usually held in the mosque.

In regards to distribution, the law stipulates that the only category to receive *zakah* is the poor and needy. All other potential recipient categories are not provided for in the law. The distribution of the proceeds of *zakah* is done through two channels: local committees and distributing agencies. Certain proportions of the funds collected through collecting agencies, usually one half, is divided among local committees for their distribution to the poor and needy in their respective areas. Distributing agencies are charitable organizations which take care of poor and needy people, schools and universities for poor students, hospitals and governmental clinics for ill poor persons, orphanages, and some training centers.

The central and provincial administrations of *zakah* are charged with the responsibility of supervising the collection, distributing funds to local committees and to other distribution agencies, and supervising these committees. This model of collection and distribution proved to be advantageous in terms of reducing the administrative burden of the bureaucracy and in involving a large number of volunteers in the work of *zakah*. Consequently, the size of the

³³ The *Zakah* Law of Libya, Proceedings of the First International Conference on *Zakah*, Kuwait, May 1984, Published by the Kuwait *Zakah* House, pp. 132-148, and Muhammad 'Uglah, "Historical and Contemporary Applications of *Zakah*," in the same proceedings, pp. 173-270.

central and provincial administrations of *zakah* is rather small relative to the amount of service performed in the collection and distribution of *zakah* and the number of poor people reached³⁴.

Sudan's first *zakah* law came in the year 1980, and it provided for voluntary payment of *zakah* to a "Zakah Fund" which was established by the act itself. In 1984, a new law was enacted making the payment of *zakah* obligatory to the budget of the state, the name of Directorate of Taxes was changed to become "The Chamber of *Zakah* and Taxes" and most taxes were abolished on an assumption that *zakah* will make a substitute for them. This act was revamped twice, in 1986 and 1990, in order to take its present form.

Zakah in Sudan is obligatory on livestock, agricultural products, stock of trade and other business mobile assets, monetary and financial assets, wages, salaries, professional income and other forms of earnings. In this respect, it represents the most comprehensive experience in the contemporary application of *zakah*. Similar to Yemen, *zakah* in Sudan covers all Muslims, Sudanese or otherwise, who own assets or earn income in the country and exempts all non-Muslims regardless of their citizenship. Established by the law, the newly founded *zakah* chamber is affiliated with the ministry of religious affairs and is charged with the responsibility of the collection, management and distribution all together.

The law also equipped the *zakah* chamber with large authority and accessibility to documents and records of payers in order to discharge its assignments. However, the actual implementation of the law depends on many elements which are related to the vastness of the country, available infrastructure, the size and growth of the chamber itself, social structure of the Sudanese society, and the economic and political stability of the country.

Accordingly, collection of *zakah* on livestock is supposed to have started only in 1991, and until the end of 1990 the chamber did not have its complete facilities in several of Sudan's eight provinces (even with the exclusion of the three southern provinces where are still military actions), and until 1990, most of the revenues of the chamber came from the *zakah* on agriculture in the eastern and central provinces.

In the distribution process, local committees of volunteers are involved. These committees prepare lists of the poor and needy in their areas but actual payment of the subsidies is usually done by the offices of the chamber. However, *zakah* is distributed to all eight categories of recipients mentioned in the verse IX:60 of the Qur'an and all disbursement is now done by the *Zakah* Chamber itself.

Lastly, the *zakah* act of 1990 established a Shari'ah board which is to be consulted on issues related to religious opinion on the collection and distribution of *zakah*³⁵.

³⁴ For more information on the application of *zakah* in Pakistan, see Parvez Ahmad Butt, "Zakah Collection: A Case Study of Pakistan," paper presented at the Third International Conference on *Zakah*.

³⁵ Muhammad Ibrahim Muhammad, "Practical in the collection of *zakah*: a case study of Sudan," paper presented at the Third International Conference on *Zakah*.

B. Application of Zakah without obligatory payment to the government:

Several Muslim countries established governmental specialized institutions or funds for the collection and distribution of *zakah*. Among these countries are Kuwait, Jordan, Iraq, Oman, Qatar, Bahrain, Bangladesh and Indonesia. In Egypt, Nasir Bank, which is a government bank has a big department for *zakah*. Additionally, in every Muslim country and community you would find a number of voluntary and charitable organizations which collect and distribute *zakah*.

The *zakah* act in Jordan was issued in 1978. It provides for the establishment of a *Zakah* Fund affiliated with the Ministry of Awqaf and to which *zakah* may be paid by whoever “wishes to do so.” To encourage people to pay to their *zakah* to the Fund, the law exempts 25% of the *zakah* paid to the Fund from income tax by allowing its deduction from taxable income. In a 1982 amendment, this proportion was raised to 100%. Proceeds of the Fund, which also accepts charitable grants, are to be used exclusively for the poor and needy and needy wayfarer, and no more than 10% of it may be utilized for the administrative expenses of the Fund³⁶.

Bahrain’s law of *zakah* was enacted in 1979. Its main features are similar to those of Jordan³⁷.

The Islamic Foundation of Bangladesh accepts and distributes *zakah* among its other functions in servicing the Islamic cause in the country. However, in terms of volume of activities and coverage of services, the most significant experience of voluntary-*zakah* based institutions are those of the Nasir Social Bank of Egypt, established in 1971, and the *Zakah* House of Kuwait, established in 1982.

Nasir Social Bank of Egypt aims at improving social solidarity among people by mingling together social and economic activities. It provides loans to small businesses and to individuals. It also distributes grants and help to the poorer segments of the society. Founded in 1972, the bank’s large department of *zakah* accepts *zakah* from the rich and distributes it to the poor. It runs its work with the help of about 4000 local committees of volunteer workers who are engaged in the search for venues, programs and projects for using the proceeds of *zakah* in their actual distribution. These local committees cover most of the country and are located in mosques, schools and universities, places of work, social clubs and charitable organizations. The range of their activities runs from helping poor nursing women to meeting the cost of funerals and burial of the deceased. They have established training centers in order to help the poor and needy find employment, orphanages, elderly shelters, tutoring poor school and university children and physical distribution of food and clothing.

On the resources side, the bank accepts *zakah* payments from individuals and companies. It also receives grants and donations from the same as well as from the public sector’s enterprises at the rate of 2.5% of their profits³⁸.

³⁶ Muhammad ‘Uqlah, Op.Cit. pp. 246-248.

³⁷ Ibid., p. 248.

³⁸ Muhammad Mahmud Zaghlul, “Acceptance and distribution of *zakah*: the experience of Nasir Social Bank,” paper presented at the Seminar on *Zakah*, Khartoum, 19-30 May, 1990, and sponsored by the Islamic Research and Training Institute and the Chamber of *Zakah* of Sudan.

Kuwait established its *zakah* House by Act No. 5 of 1982. The House depends on two main sources of finances: *zakah* and donations accepted from individuals and companies who wish to pay their *zakah* to the House, and an annual government grant. Additionally, as the House is affiliated with the ministry of Awqaf and Religious Affairs, all its administrative expenditures are carried out by the general budget of the government.

Realizing that its future growth depends on increasing its financial resources, the House took rigorous advertisement policy and introduced information about its benevolent activities to most of the potential payers of *zakah*. It also worked hard on creating awareness about *zakah* in the Kuwaiti society by means of publication of pamphlets and booklets, advertisements in new papers, posters, radio and TV, and personal contacts. This enabled the House to triple its revenues between 1982 and 1989 in spite of the reduction in the government grant³⁹.

The distribution of its proceeds is done within the country as well as overseas, and the kinds of programs cover regular and ad hoc assistance to the poor and needy, loans without any charge, in kind distribution of food staff and clothes, poor student stipends, assistance to families of incarcerated persons. Their projects abroad include distribution of sacrificial meat in poor Muslim communities, sponsoring orphans and orphanages, establishment of schools, digging wells in poor dry areas, establishment and running of medical clinics, etc., and their activities reach out to several Muslim communities in Sudan, Lebanon, Palestine, Burkina Faso, Philippine, Afghanistan's refugees, Pakistan, Bangladesh, Somalia, etc⁴⁰.

In addition to government institutions, one finds in almost every Muslim community, in the Muslim as well as in the non-Muslim countries, certain voluntary organizations which accept *zakah* and distribute it to some of its recipients especially the poor and needy. As an example of these communities, *zakah* organizations in India were selected for a presentation in the Third International Conference on *Zakah* held in Kuala Lumpur, May 1990.

In addition to the individual, private, direct distribution of *zakah* by payers, three forms of collective management of *zakah* exist within the Indian Muslim community. First, *zakah* is collected and distributed by the religious schools (dini madaris). According to Faridi, this source of revenue of dini madaris represent 40% – 50% of their total revenues⁴¹. The dini madaris survive on donations and contributions given by members of the Muslim community. They use their revenues to pay for their expenditures which usually include full lodging, boarding and clothing of their students and in most of the times their teachers and staff too.

Second, organizations of a general Islamic nature which are active in the general call to Islam also collect and distribute *zakah*. An example of this kind of organization is the Jamaat-e-Islami whose activity is spread all over the Muslim community of India. About 5% – 10% of its income is generated from *zakah*. However, Jamaat-e-Islami has many affiliated institutions and societies which are specialized in services like charitable hospitals and clinics, orphanages, social

³⁹ Abd al Qader al 'Ajil, "Study of *zakah* institutions' activities: case of the Kuwait *Zakah* House," paper presented at the Third International Conference on *Zakah*, p. 5.

⁴⁰ For details of the activities of the *Zakah* House, refer to al 'Ajil, Ibid.

⁴¹ F. R. Faridi, "An analysis of *Zakah* System in India," paper presented at the Third International Conference on *Zakah*.

services, rehabilitation and cooperative credit. These societies and institutions are also involved in the collection and distribution of *zakah*⁴².

Third, organizations specialized in *zakah* collection and distribution were created in certain areas in India. Some of these organizations attempt to enlarge the geographical scope of their activities to cover the whole Muslim community in the country. Examples of these specialized organizations are *Baituz zakah* of Bombay and Crescent Charitable Trust of Aligarh. Both of these organizations accept *zakah* given to them by individual Muslims and distribute them to the poor and needy. A major part of their distribution is done in kind, i.e., in terms of medical provisions, clothing, housing and rehabilitation works such as simple tools of trade, repair of houses, marriage of poor girls, and provision on education⁴³.

SECTION THREE: ECONOMICS OF ZAKAH: OVERVIEW

Skipped

SECTION FOUR: FUTURE STUDIES ON THE ECONOMICS OF ZAKAH

Having a grasp of the major writings on the economics of *zakah*, it is useful to conclude with some projection and hope of the direction of future studies and research on the subject.

Although it may be irrational to claim that there is a sufficient body of knowledge on theoretical analysis of the place *zakah* occupies in an Islamic economy, it may be justified to allege that the already accumulated amount of theoretical research on the economics of *zakah* warrants launching serious applied and empirical studies and analyses on the actual application of *zakah* in those Muslim countries that have enacted laws incorporating *zakah* in their fiscal systems.

Such empirical and applied analyses would essentially help in testing the hypotheses provided by theoreticians and hence open new directions for further research. Additionally, only an empirical examination of the existing body of theoretical knowledge would, in the final analysis, be able to challenge the wide variety of *fiqhi* opinions on issues related to *nisab*, *zakatability* and applicable rates on new items of wealth and income.

For instance, it would be very important to analyze the reasons behind the gap between the theoretical estimation of the proceeds of *zakah* in certain countries and the actual amount collected.

⁴² For more information on the application of *zakah* in Pakistan, see Parvez Ahmad Butt, "Zakah Collection: A Case Study of Pakistan," paper presented at the Third International Conference on *Zakah*.

⁴³ *Ibid.*, p. 17.

Furthermore, take a look at the amount of *zakah* collected in Saudi Arabia, Pakistan and Yemen as shown in tables 1-3 below:

Table 2

<u>Year</u>	<u>1406-1407</u>	<u>1407-1408</u>	<u>1408-1409</u>
<i>Zakah</i>	1300	870	900
GDP (incl crude oil & gas)	271091	275453	285145
GDP (w/out crude oil & gas)	209262	212163	223434
% of <i>zakah</i> to GDP (incl crude oil & gas)	0.4%	0.3%	0.3%
% of <i>zakah</i> to GDP (w/out crude oil & gas)	0.6%	0.4%	0.4%

Source:- Statistical yearbook, 1989, Ministry of Finance, Kingdom of Saudi Arabia, p. 554, and Statistical summary, 1410/1411, SAMA, p. 132.

Table 2

Zakah and ushr collection and GNP in Pakistan in current prices (millions of repees):

<u>Year</u>	<u>1405/06</u>	<u>1406/07</u>	<u>1407/08</u>	<u>1408/09</u>
Ushr	483	423	405	395
<i>Zakah</i>	1439	1512	1944	2190
	-----	-----	-----	-----
	1922	1925	2349	2585
GNP	507678	551809	630120	711143
% <i>Zakah</i> /GNP	0.3%	0.3%	0.3%	0.3%

Source:- Pakistan Statistical Yearbook, 1990, pp. 389-390 and 458.

Table 3

<u>Year</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
<i>Zakah</i>	166	215	305	333	337
GDP	46129	57892	N/A	N/A	N/A
Publ. Revenues	7604	11128	12740	17955	228
% <i>zakah</i> /GDP	0.4%	0.4%	-----	-----	-----
% <i>zakah</i> /PR	2.2%	1.9%	2.4%	1.9%	15%

Source:- Central Bank of Yemen, Quarterly Financial Reports, 2nd quarter, 1190, and Statistical Yearbook of Yemen, Central Planning Organization, 1986, p. 378.

These figures indicate that the *zakah* collected does not exceed 0.3% to 0.4% in any of these countries. Yet, they are the countries that have mandatory payment of *zakah* to the government and a wider coverage of *zakatable* items than other countries⁴⁴.

If these figures represent a reality about the amount of *zakah* in a Muslim society, its effect must be very meager or negligible. New research is needed in this area which should investigate any underlying assumptions and/or problems in the empirical practice of *zakah* and may call for fresh studies of the fiqhi positions and the administrative and econo-political aspects of the contemporary application of *zakah* in Muslim countries.

Also more empirical studies which can estimate the potential proceeds of *zakah* in the Muslim countries are still in demand. These kinds of studies would be useful to determine the volume of *zakah* and consequently suggest possible effects on recipients. Moreover, these studies would encourage decision makers to take action in implementing *zakah* in the Muslim countries.

Additionally, such empirical studies must encourage further and deeper analysis of the effect of *zakah* on major economic and financial variables as well as its efficacy in regards to each of its objectives of eradicating poverty, encouraging investment, restructuring output composition, etc.

In the theoretical arena, fresh research in the areas of the use of *zakah*, *zakatable* items and timing, and methods of collection and distribution is very much needed. These kinds of studies may explore the *Shari'ah* position on each policy proposition and project the effectiveness of suggested policy tools.

Finally, theoretical studies which provide an economic explanation of the rates of *zakah* and its *nisab* are also needed since until today there is no satisfactory economic explanation available of the differences between the *nisab* and rates of different items of wealth and income.

⁴⁴ Among the other three countries, Libya, Malaysia and Sudan, that have certain forms of obligatory payment of *zakah* to the government, Sudan has the wider coverage of items of wealth and income. The writer has obtained personal information from the *Zakah* Chamber in Sudan to the effect that *zakah* collected does not exceed 0.3% of GDP.