

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 mechanism to implement economic justice and to provide sustenance to the economically unfortunate, two issues for which Islam is especially sensitive.

This article consists of four sections. In Section One, the major Fiqhi aspects of Zakah will be briefly discussed. Section Two will provide an update about the implementation of Zakah in the Muslim countries and communities. Section Three will present a short overview of economics of Zakah; and finally, Section Four will offer suggestions for future research on the Fiqh and economics of Zakah.

SECTION ONE

MAIN FIQHI ASPECTS OF ZAKAH

The objective of this section is to give a short profile of the main Fiqhi issues of Zakah, to provide a general Fiqhi framework of the study of the economics of Zakah and to serve as an easy and quick reference to the reader. This is not a comprehensive survey of the Fiqh of 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 authentic statements of the Prophet, pbuh,, it is the third out of five pillars on which this religion is founded. It is an obligation mentioned in the Qur'an thirty times, in twenty-eight of them, Zakah is associated with prayers. Moreover, there are several other verses that mention the term Sadaqah and its derivatives in a general meaning that covers both voluntary contributions as well as Zakah, i.e., the obligatory contribution. In four of these verses (the Qur'an, 9: 58, 60, 74 and 103), the term Sadaqah is used specifically in the meaning of Zakah. In two other verses (2: 267 and 9: 34) reference to the obligation of Zakah is made using the term anfaqa and its derivatives as explained by Ibn Kathir and Al Jassas in their respective comments on these two verses. This obligation of Zakah is also emphasized in a large number of Sayings of the Prophet, pbuh,.

The obligation of Zakah is also unanimously agreed upon among all Muslim scholars without any dissent. This has been the case since the era of the Companions of the Prophet, pbuh, and throughout all schools of jurisprudence as usually mentioned at the introduction of the chapter on Zakah in all the classical works on Fiqh.

2. Items of wealth and income that are subject to Zakah

The Qur'anic reference to items subject to Zakah is rather general. Verse No. 9: 103 mentions the word Amwal, and verse 2: 267 mentions what you have earned and what We (God) have produced for you from the earth. However, several Sayings of the Prophet, pbuh, make specific reference to gold, silver, camels, sheep, kattle, things set or prepared for sale, land produce, crops and fruits.

On the basis of such texts of Qur'an 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: agricultural products, livestock (camels, sheep and kattle), mobile assets acquired for the purpose of resale, gold, silver and other money (currencies) 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 fees.
- C. Those who add to the items mentioned in A and B the fixed assets themselves, in other words, they talk about net worth on the day Zakah is due.

As any general classification overlooks details, we must notice that there are minute differences of opinions within each category as well as between the three categories. For instance, in group A above, there are many differences about the subjectivity of items such as jewelry, debts on others, honey, lumber, wood, vegetables and other produce of the land, domesticated animals other than livestock, etc. By the same token within the views in group B, there are the opinions that include gross return of fixed assets and others that focus on the net return only.

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 precept that Zakah is one of the worships in Islam. Acts of worship can only address believers and followers of this religion. But Zakah is not only an act of worship, it 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 most Muslim societies because they have Muslims and non-Muslims. This urged some scholars 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 objectives similar to those of Zakah but for the benefit of non-Muslim communities in the same country.

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 that relates to wealth and income more than the status of the owner. Additionally, there are several Sayings of the Prophet, pbuh, and some of his

companions indicating that a child and an insane adult are both subject to the payment of Zakah that must be paid, on their behalf, by their guardians. Details of these arguments are found in the Fiqh literature.

3.2 Conditions related to Zakatable items.

Muslim scholars usually talk about five requirements as follows:

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 complete, absolute and not restricted (except, obviously as the law provides) so that it gives the owner all the power (s)he is entitled to by the law. The requirement of this condition is founded on the fact that all verses that mention the obligation of Zakah talk about it being levied on items owned by the potential payer.

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

The application of this criterion takes out of Zakatability properties to which the owner has no accessibility. For instance, an obligatory retirement fund held and managed by other than the owner whereby the owner has no way to benefit from it before actual retirement, or a treasure buried but its whereabouts are unknown to the owner.

This condition also implies that any property which is unlawfully acquired or obtained is not subject to Zakah, since whoever has hands it is not its right owner on the one hand, and whoever legally owns it has no access to it (i.e., her ownership is at present limited) on the other hand.

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

A growing item is that item whose nature is to grow and increase such as camels, 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, though not physically, growing. On the other hand, agricultural products are a result of a growth process.

The condition of growth is derived by a rationalization process based on 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 that are not mentioned by the Prophet, pbuh, to Zakah.

The application of this criterion excludes assets maintained for use and keep purposes, in contrast to investment and growth purposes, such as properties designated for personal and family use.

3) Nisab (minimum requirement of Zakatability): In several of his Sayings, the Prophet, pbuh, set certain minimums for different items and exempted anyone who owns less than these minimums from 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 (a grain volume measure that takes 653 kilograms) of agricultural products, 200 Dirham (a silver currency-cum-weight unit equals 2.975 gram) of silver, 20 Dinar (a golden currency unit equals 4.25 gram) of gold and an amount equal in value to the Nisab of silver or gold for tradable merchandizes, currencies and all other items.

4) Excess over basic needs: The amount of Nisab must be over and above what is required to satisfy the basic needs of the Zakah payer and to discharge of her/his immediate financial obligations including any family responsibilities and 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. 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 and furniture, tools of craftsmen, transportation, books for a student or scholar, etc.

Additionally, the concept of extended family applies in this regard, i.e., family members whose basic needs are considered include, in addition to wife and children, parents, and other relatives for whose expenses a payer is responsible in accordance with Shari'ah.

Moreover, if the payer is under debts that 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 is deductible 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 based on a Saying of the Prophet, pbuh, that indicates: no Zakah is obligatory on any property until one year passes. It also implies that once a person owns a Nisab of an item, 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; they add that earned-income items are subject to Zakah when they are obtained as long as they fulfill other conditions mentioned above. This rule is very obvious in the case of agricultural products.

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 [Himself] gave the judgment on it. He divided it into eight parts." [Reported by Abu Dawud]. This Saying refers to Verse 9: 60 that reads: "Sadaqat are only for the poor, and the needy, and those employed to administer [the funds], and those whose hearts are 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."

Consequently, Zakah proceeds should be distributed to these eight categories or recipients as given in this verse. The first two categories are very often discussed together since, by definition, they are close to each other. Some scholars define the poor as a person who has less than the amount needed to fulfill his/her basic 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. The definitional issue is merely scholastic or linguistic. What matters is that both the poor and needy cannot support all their basic needs by their own means, and they require supplementary support for sustenance.

Although some of the Fuqaha believe that Zakah proceeds must be equally distributed between the eight categories, the majority agrees that these two categories make up the main recipients of Zakah and they must be paid as much as required to satisfy their basic needs provided there are sufficient funds. This view is based on several Sayings that mention the poor only or the poor and needy, and on the general well-known principle of the Shari'ah that the satisfaction of the basic needs of poor and needy in a society is the responsibility of the rich and that the government can force the rich to carry out this responsibility.

The third category is those employed to administer the funds of Zakah, i.e., the workers on 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 agency/organization within 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 and 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 presence of this category among recipients of Zakah indicates that the Zakah agency is made self-sustainable with no dependence on fund appropriation by the government. Many Muslim scholars put a limit of one eighth of the proceeds that may be allocated to this category.

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, avoid an evil and/or harm they would otherwise do or increase their benevolent action.

Since payment to this category reflects the interests of the Muslim society/community as a whole, Fuqaha decree that it must only be done by a collective decision through the Islamic government or national organizations of Muslim minorities. Individuals cannot pay to this category when they distribute their own personal Zakah.

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 become free upon the completion of all payments. This share of the proceeds of Zakah may also be used to ransom Muslims who fell in captivity as prisoners of war in the hands of the enemy.

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 are Muslim.

Helping those under debts is the sixth category of the recipients of Zakah. It doesn't matter whether debts arose from natural catastrophes, business practices, borrowing to spend on family needs or from pledging compensational funds in the process of reconciling differences and disputes between individuals, communities and tribes, especially blood money. By the same token, debts on deceased persons may also be included in this category. Only the unlawful causes of debts such as gambling or drinking deprives debtors from being helped under this category. When debts are caused by payments for reconciliation of tribal and communal disputes, payment out of Zakah to debts-burdened mediators up to the amount they pledged may be done regardless of whether they are wealthy or not.

Some contemporary Fuqaha argue that this category opens the door for the provision of loans out of the proceeds of Zakah to those who may need a temporary relief because. The idea is that if you can give a grant, you can also give loans for those whose needs are satisfied by them.

Zakah may also be spent in the way of Allah. This is the seventh category of recipients. The way of Allah is 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/or to the Muslim community. This includes building bridges, making parks, supplying street lights, building mosques and other constructions of benefits to the whole community, etc. That is in addition to information activities that aim at spreading Islam among non-Muslims and activities of defending the Islamic religion, its land and its people.

Other scholars restrict this category of recipients to those who are engaged in fighting against disbelievers in a war considered permissible in accordance with Shari'ah such as resisting aggression against Islam itself or Muslims as societies and countries. Furthermore, these scholars restrict Zakah payment, under this category, to volunteer fighters. They add that the regular army should be financed by other revenues of the Government. They also add that in defensive circumstances with insufficiency of government revenues, the rich Muslims should be charged with the responsibility of financing army needs and if this did not do the job, then Zakah proceeds may be utilized for helping the regular army.

The third group of Muslim scholars takes a middle of the way position. They argue 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 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 her/his homeland and has no accessibility to her/his wealth and property and at the same time is in need for financial help in order to reach his/her home, i.e., although (s)he may be rich in her/his own place, at the present time (s)he is considered deprived because (s)he has no access to what (S)he owns,.

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.

Before concluding this section, there are a few remarks that 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 9: 103 is addressed to the Prophet, pbuh, as a head of the state; it ordained him "take sadaqah out of their property." The verse 9: 60, that sets the categories of recipients of Zakah distribution, mentions the workers on its collection and disbursement as one of the categories of recipients. 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 Muhammad, 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 and lands 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.

On the other hand, the state may delegate individual payers to dispose of a part 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.

It must also 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.

- 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 any of the categories of recipients. General wisdom and applying one's best judgment in order to maximize the benefit of Zakah are always a general requirement in all actions of any Muslim. Zakah may not be distributed to any of the following: 1) A person who is capable to work or has an opportunity to earn his/her livelihood but does not want to do so; 2) Disbelievers who are in an animosity state 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 should the payer dies. 4) Descendents of the family of the Prophet, pbuh. This is based on several Sayings by the Prophet, pbuh, preventing his family from taking Zakah or any other charity.
- c- 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 interest of the public or the poor.
- d- In principle, the proceeds of Zakah should be distributed within the same area where they are collected, such as a country, a province or even a city or a part of it; 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 the needs in other areas are substantially greater. Furthermore, if a 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.

essentially, 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 is eligible as a recipient of the payer's Zakah as mentioned in (c) above.

- e- 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 actions is warranted by the interest of the public. However, if individual payers distribute 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 advance.

SECTION TWO

IMPLEMENTATION OF ZAKAH IN MUSLIM COUNTRIES AND COMMUNITIES

This section is intended to provide a sketch of 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.

In addition to Yemen, five other Muslim countries enacted laws for the collection of Zakah on an obligatory basis. These countries are: Saudi Arabia, Malaysia, Libya, Pakistan and Sudan. Several other countries established governmental organs to collect and distribute Zakah without making its payment to these bodies obligatory. These countries include Kuwait, Jordan, Bangladesh, Qatar, Oman, Iraq and Bahrain. In several other countries, there are proposals in parliament or in government corridors to enact laws that create Zakah governmental agencies. These countries include Egypt and Morocco. Additionally, several Muslim communities around the world have established national or regional Zakah organizations/funds. These include the Muslim communities in India, USA, South Africa, Canada, Kenya, etc.

In this section, we will briefly discuss two forms of implementation of Zakah: a) under obligatory payment to a governmental organization, and b) under voluntarily payment to a government-created and sponsored agency.

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, trade inventory 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 distribution. Committees consisting of government officials are usually involved in the collection, while cooperatives and local, non-governmental committees help government officials in the distribution of Zakah in Yemen.

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 and individual proprietors such as physicians, lawyers, civil and other engineers, real estate agents, taxi and truck owners, 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 the relevant provincial governorates.

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 stipends to poor families and ad hoc emergency subsidies in case of illness, death, accidents and other calamities.

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 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 are not standardized. All together, they 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 salaries. 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 form.

Zakah in Malaysia is collected by special workers who may be assigned this job on a permanent or temporary basis, or it is deducted by employers out of due wages of those employees who specifically authorize such a deduction. Offices of Zakah that exist in most states and are affiliated with state councils of religious affairs supervise the collection and distribution of Zakah.

The distribution of Zakah covers theoretically all the eight categories of recipients but actually the two categories of those in bondage and those under debts are absent from

distribution. 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.

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 the obligatory levy, and unlike Saudi Arabia, the Libyan law does not impose Zakah on business mobile assets. The law established a General Directorate for Zakah that is charged with the collection only. The distribution is left to the social welfare department of the government. 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 call outside Libya.

Pakistan's Zakah and Ushr Ordinance of 1981 imposed Zakah in this country and established the Administration of Zakah, which is an autonomous body affiliated with the ministry of finance. The act imposes Zakah on 11 items of wealth, that include savings and time deposit accounts in banks, 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 indirectly 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 that 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. 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 consists of 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 distribution agencies. Certain proportion of the funds, usually one half, is divided among local committees for their distribution to the poor and needy in their respective areas. Distribution agencies are charitable organizations, schools and universities for stipend to poor students, hospitals and governmental clinics for ill poor persons, orphanages, and some training centers. The decision on shares of local communities and distribution agencies is left to the central and provincial Zakah councils.

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 and cost of bureaucracy and in

involving a large number of volunteers in the work of Zakah. Consequently, the size of the 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 reached.

The Zakah Act of 1981 has a loophole that proved to be detrimental. In reconciling with the Ja'fari school of Fiqh, the law provided for an optional exemption from the obligatory payment of Zakah to the government and allowed Zakah to be paid directly to religious Ja'fari organizations without requiring any procedure for such a payment. In response to litigation by some Pakistani citizens, the Supreme Court ruled in 1999 that similar exemptions must be given to all Pakistani citizens.

Sudan's first Zakah law came in the year 1980. It provided for voluntary payment of Zakah to a "Zakah Fund" that 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 responsibilities of the collection, management and distribution all together.

The law also equipped the Zakah Chamber with a 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 that 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 was supposed to have started in 1991, but it actually began only in the late 1990's. Until the turn of the century the chamber was still in the process of completing its own facilities and infrastructure in several of the Sudan's eight Northern provinces (let alone the three Southern provinces where military action is still taking place). Most of the revenues of the Chamber still come 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 disbursement 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 9: 60 of the Qur'an and all disbursement is now done by the Zakah Chamber itself.

It should be noted that unlike other countries, the Sudanese Zakah Act of 1990 established a Shari'ah board that is consulted on issues related to religious opinions on the collection and distribution of Zakah.

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

Several Muslim countries established governmental specialized Administrations 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 Social Bank, which is a government owned and run bank has a big department for Zakah. Additionally, in every Muslim country and community one would find a number of voluntary and charitable organizations that 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 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, that also accepts charitable grants, are to be used exclusively for the poor and needy; no more than 10% of it may be utilized for the administrative expenses of the Fund except salaries that are paid from the budget of the Ministry of Awqaf.

Bahrain’s law of Zakah was enacted in 1979. Its main features are similar to those of Jordan.

The Islamic Foundation of Bangladesh, which is a governmental autonomous body, 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 and welfare 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 activities with the help of a network of about 4000 local committees of volunteers who engage in assessing the needs of the poor in addition to actual Zakah distribution. They are also involved in the search for venues, programs and projects for using the proceeds of Zakah in providing stipends and services to poor segments and areas of the society. These local committees cover most of the country and are formed in mosques, schools, 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. The bank has established several rehabilitation training centers, orphanages, elderly shelters, tutoring programs for poor high school and university students. The bank has also established centers for food and cloth distribution.

On the resources side, the bank accepts donations and Zakah payments from individuals and companies. It also receives grants from the public sector’s enterprises at the rate of 2.5% of their profits. The main budget of the Zakah Department is, however, appropriated from the resources of Nasir Social Bank.

Kuwait established its Zakah House by the Act No. 5 of 1982. For its finance, the House depends on two main sources: Zakah and donations given voluntarily by individuals and

companies and an annual government grant. Additionally, as the House is affiliated with the ministry of Awqaf, 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 in Kuwait. 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 through personal contacts. This enabled the House to triple its revenues between 1982 and 1989 and to continue growing at a two digit annual rate in spite of the reduction in the government grant.

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 charge, in kind distribution of food and cloths, cash stipends, assistance to families of incarcerated persons. The House's charitable projects abroad are spread over African and Asian countries. They 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, etc.

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 that accept Zakah and distribute it to the poor and needy. As an example of these communities, Zakah organizations in India are selected.

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). This source of revenue of dini madaris represent 40% – 50% of their total revenues. The dini madaris survive on donations and contributions given by members of the Muslim community. They use their revenues to pay for their expenditures that usually include full lodging, boarding and clothing to their students and in most of the times to their teachers and staff too.

Second, organizations of a general Islamic nature that 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 that are specialized in services like charitable hospitals, clinics, orphanages, social services, rehabilitation and cooperative credit. These societies and institutions are also involved in the collection and distribution of Zakah.

Third, there are organizations that specialize in Zakah collection and distribution in certain regions of India. Some of these organizations attempt to enlarge their geographical scope to reach 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 to the poor and needy. A major part of their distribution is done in kind, i.e., in terms of medicines,

clothing, housing and rehabilitation equipment such as simple tools of trade, repair of houses, marriage of poor girls, and stipends for education.

SECTION THREE

ECONOMICS OF ZAKAH: AN OVERVIEW

Keeping in mind the important place of Zakah in Islam, it was natural for Islamic economists to consider it one of the most essential pillars of Islamic economics. Hence they come across Zakah in practically most of their writings.

The Effect of Zakah on Economic Aggregates

Islamic economics argue that Zakah affects three major economic aggregates: aggregate consumption, aggregate investment and aggregate supply. In a Keynesian framework of declining marginal propensity to consume, it is argued that **Zakah injection in an economy would increase consumption and reduce saving**. However, a closer examination of this effect indicates that the effect of Zakah on consumption depends on four elements: 1) The difference of marginal propensities to consume of the rich and the poor. This may fairly be considered positive in spite of the few empirical studies which give different results. This positive differential is obviously more visible in countries of mass poverty and big disparity in disposable income between the rich and poor. 2) The existence of a large number of poor persons who would receive Zakah. 3) The total Zakah proceeds which goes to the poor, and 4) the method of distributing Zakah to the poor whether cash or in kind and when in kind whether in the form of capital goods or in consumption goods.

In the part of his paper, which deals with aggregate consumption, al Suhaibani examines other writers' propositions and concludes that the effect of Zakah on consumption depends on four elements: 1) The difference of marginal propensities to consume of the rich and the poor. This may fairly be considered positive in spite of the few empirical studies which give different results. This positive differential is obviously more visible in countries of mass poverty and big disparity in disposable income between the rich and poor. 2) The existence of a large number of poor persons who would receive Zakah. 3) The total Zakah proceeds which goes to the poor, and 4) the method of distributing Zakah to the poor whether cash or in kind and when in kind whether in the form of capital goods or in consumption goods. It is also argued that Zakah may have a switch effect on consumption. This effect is a result of reducing the consumption of the rich at its margin which is usually leisurely, and increasing the consumption of the poor which is directed usually toward goods that satisfy the basic needs.

Regarding the effect of Zakah on investment, the following elements should be considered: a) Levying Zakah on cash and unutilized monetary assets discourages liquid holdings, b) the stability of the Shari'ah rulings with regard to the Zakah rates, exemptions, subjected items, collection and distribution creates a psychological environment conducive to investment, c) the choice of Shari'ah opinion of exempting fixed assets from Zakah would enhance construction and other investment in fixed assets as compared to either consumption or

other forms of investment, d) the multiplier effect which results from a rise in aggregate consumption increases investment, e) the share of Zakah proceeds distributed in terms of capital goods, f) the switch effect of Zakah on consumption which influences the composition of new investments, and g) the general social stability created by the transfer of income to the poor and the improvement of their health, training and general living conditions enhance an atmosphere conducive to investment. All these elements are likely to positively influence investment in a Muslim economy.

On the other hand, in a static analysis, the immediate effect of Zakah on investment may be negative because it increases consumption. This is compensated, however, by its positive effect on aggregate demand and its discouragement of leaving funds idle or un-invested. This effect is enhanced the higher the portion of Zakah proceeds that is distributed to the form of capital goods.

The effect of Zakah on aggregate supply focuses on four markets: labor, capital, goods and resource allocation. It may be argued that Zakah may increase labor supply in the society as it improves the health, nutrition and other living conditions of the poor while it does not allow for a rise of dependency mentality since it is prohibited to give persons who are capable of working. Moreover, since the exemptions include books and other teaching and training material, Zakah seems to favor investment in human capital.

Furthermore, the distribution of Zakah in the form of capital goods, which aims at enriching the poor and making them productive elements in the society, also encourages entrepreneurship and increases the supply of entrepreneurs. This effect is further enhanced by the overall Zakah system which provides a social security type of arrangement that stimulates new venture and risk taking.

The effect of Zakah on the supply of goods may be considered from two angles: labor productivity and aggregate demand. By improving the health, nutrition and other living conditions of the poor and providing them with job and professional training and with capital goods, Zakah distribution would increase not only the poor's participation in the labor force but their labor productivity too. Furthermore, the effect of Zakah on the demand for capital goods also induces an increase in the supply of goods produced in the economy. On the other hand, the increase in aggregate consumption and the use of Zakah proceeds to furnish recipients with capital goods represent an increase in aggregate demand. This gives a market signal to the producers to increase their supply of goods and services.

As for the effect of Zakah on the supply of capital, it is noted that since Zakah is imposed on idle funds, it encourages their use in investment especially when combined with the prohibition of interest which eliminates any return on savings unless they are physically utilized in business ventures.

Finally, it is repeatedly argued that the injection of Zakah in an economy would also influence the structure or composition of production. On one hand, it increases the demands for goods which fulfills the basic needs of the poor, and on the other hand, it reduces the demand for luxurious goods on the part of the rich. Both effects give a market signal towards a structural change in production.

The Socioeconomic Role of Zakah

Zakah deals with the poor as a target group with the objective of transforming them into capital owners and/or income producers. By virtue of the principle of tamlik (making the poor own the distributed capital and consumption goods) the system of Zakah enables policy makers to incorporate distribution consideration within its developmental process keeping in mind that after all the poorest class of a society is the number one candidate to be the first target of development.

Additionally, the presence of zakah offers a set of useful instruments of stabilization policy. These are: 1) changes in the mix of consumer and producer goods in the disbursement of Zakah; 2) changes in Zakah collection coverage (i.e. whether to cover certain assets/incomes in selection between different opinions); 3) delaying or advancing the date of collection; 4) changes in shares distributed to different recipients' categories; and 5) changes in the cash/goods (tokens and food stamps) mix of disbursement. By manipulating these policy tools, the policy decision makers would be able to introduce desirable effects in the economy in order to pull out of recession or to alleviate the tone of a boom, etc.

Furthermore, since Zakah penalizes idle material assets, it acts as a motive to drive such assets towards investment or consumption, while at the same time the disbursement of the proceeds of Zakah increases both labor participation, via education, better nutrition and better health care, and labor productivity, via increased investment and better training and family welfare. Hence a multiplier effect of zakah on income can be formulated which can be extended to a positive relationship between zakah and employment.

It should be noted that the Zakah approach to dealing with social problems (such as poverty, unemployment, catastrophes, indebtedness, inequitable income distribution, etc.) is based on and derived from the position of the Islamic religion towards these social malaises. Islam stands strongly against social and economic injustice and puts it in the same category with lack of faith as expressed in more than one instance by the Prophet Muhammad (pbuh). The system of Zakah distribution provides a mechanism to solve the problem of poverty regardless of race, color, religion, ethnicity or former contribution to the fund of Zakah.

SECTION FOUR

FUTURE STUDIES ON THE ECONOMICS OF ZAKAH

The development of the state of art in the field of the economics and Fiqh of Zakah has been encouraging. There has been a real progress in exploring the effects of Zakah on consumption, investment and other economic magnitudes. It is still 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 of items of wealth and income and applicable rates on new items that did not exist in the past.

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

Furthermore, a glance at the numbers indicates that the ratio of Zakah proceeds to GDP is between 0.3% and 0.6% in countries that have obligatory payment to the government supported by strong administration and law enforcement such as Saudi Arabia, Pakistan, Sudan and Yemen. This percentage does down to below 0.1% in Libya and Malaysia whereas in countries that depend on voluntary payment the proceeds of Zakah are just negligible. The question that imposes itself on future research is: what changes in the Fiqh of Zakah are needed to make it function if Zakah would really make a difference?

Additionally, new research is needed to investigate any underlying assumptions and/or problems in the empirical practice of Zakah that led to these numbers. This would in turn call for fresh studies of the Fiqhi positions as well as the administrative and econo-political aspects of the contemporary application of Zakah in the Muslim countries.

Also, more empirical studies that estimate the potential proceeds of Zakah in the Muslim countries is still in high demand. These kinds of studies would be useful to determine the expected volume of Zakah proceeds and consequently extrapolate potential effects on recipients and the economy as a whole. Moreover, these studies would encourage decision makers to take action in implementing Zakah in the Muslim countries.

Such empirical studies would 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, especially eradication of poverty, enhancement of investment, restructuring output composition, etc.

In the theoretical arena, fresh research in the areas of the effect of alternative scenarios of the use of Zakah proceeds, Zakatable items, timing and methods of collection and distribution is very much needed. Studies in these areas would also explore the Shari'ah position on each policy proposition and project the effectiveness of such policy tools.

Finally, theoretical studies that provide an economic explanation of the rates of Zakah and its Nisab are also needed since until today there is no satisfactory economic explanation of the differences between the Nisab and rates of different items of wealth and income.

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