**INVESTMENT OF ZAKA FUND ITS IMPACT ON HUMAN AND ECONOMIC DEVELOPMENT**

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1.      **Introduction**

Inequality in the world has increased over the years, a phenomenon that has received considerable attention by many world leaders and President Obama called widening income inequality the “defining challenge of our time”. It is estimated that almost half of the world’s wealth is now owned by just 1 percent of the population, which amounts to 65 times the total wealth of the bottom half of the world’s population. In most countries where there is data availability, the portion held by the 1 percent wealthiest population is increasing whilst 90 percent population at the bottom bare the cost (Fuentes Nieva and Galasso 2014, IMF 2015). All these observations lead to unleashing of poverty in the world.In the context of this global narrative, It is observed that significant number of Muslim countries are plagued with high rate of unemployment, acute scarcity of skills development programs, low per capita income, high population pressure, unduly large subsistence sector and low agricultural productivity.

The concept of Zakat as an injunction by Allah serves as one of the fine tools for tackling poverty among Muslim societies. Islam holds Zakat as one of the five pillars. According to the Quran: “The Zakat is meant only for the poor and needy, those who collect the tax, those whose hearts are to be won over, for the freeing of human beings from bondage, for the relief of those overwhelmed by debts, for the cause of God, and for the wayfarer: [this is] an ordinance from God- and God is All- Knowing, Wise”(9:60). The word zakat means growth, increase, cleanness, and purity in Arabic (Ibn Faris 1998).The importance of the institution may be established from a saying of the Prophet (pbuh) in which he indicates that refusing to pay it represents a rebellion against the Islamic State. Zakat is thus considered among the essential forms of worship. Zakat is defined in Fiqh as ‘a due right on specific items of assets/properties, in specific percentages with consideration of the passage of a year and satisfaction of the condition of nisab’.[[1]](#footnote-1)Various schools of Islamic jurisprudence maintain that zakat is compulsory on all adult (who reach maturity), sane Muslims, female or male, who own properties that fulfill certain conditions”(Al-Qaradawi, 1973).  
Most of the items that are subject to zakat are mentioned in the texts of the Qur’an and hadith. These include gold and silver, herds of camels, sheep and cows, goods readied for sale, and agricultural products. Islamic jurists (Fuqaha’) classify zakatable items in to apparent and non-apparent assets. The apparent assets (amwal zahirah) are ones that can be easily observed. These would include agricultural products and livestock. The non-apparent assets/goods (amwal batinah) are not readily observable by outsiders. Goods for trade and cash fall under this category. The nisaf of zakat refers to the minimum amount of zakatable assets which is subject to paying zakat. The zakat is calculated on the total amount of the asset including the nisab amount. Zakat is due on certain items after the passage of bawl (lunar year), while for some other items this condition does not apply. The former items include livestock, cash, gold, silver, and goods for trade. The latter type includes agricultural products on which zakat is not due annually but at their harvest time. Zakat rate is fixed at 2.5 percent on cash, gold, silver, debts (receivables) and goods for trade. While the rate of zakat is 10 percent on agricultural products that are rain-fed, or by rivers and springs, it becomes 5 percent in case of the crops irrigated by water extracted from wells by animal power.

**2. State of Poverty in the Muslim world and need for human and economic development**

Poverty has been the serious problem and a great challenge especially for Developing Countries. Most of the IDB member countries (MCs) are also facing the same problem, where the level of poverty is sever and housing more than 50 percent of their population living on less than $ 1.25 a day. Among these countries are Burkina Faso (56.5%), Chad (61.9%), Mali (51.4%), Mozambique (60%), Niger (64.4%), Nigeria (64.4%), Sierra Leone (53.4%), and Uganda (51.5%). Incidence of Poverty is also sever in countries such as Bangladesh (49.6%), Benin (47.3 %), Comoros (46.1 %), Guinea-Bissau (48.8 %) and Uzbekistan (46.3 %). These results are based on the international poverty line (under $1.25 a day ), which overestimate the incidence of poverty in some of the IDB MCs, such as Benin, Burkina Faso, Mali, Mozambique , Nigeria and Uganda compared to their national poverty lines(See figure 1). In contrast, countries like Albania, Azerbaijan, Egypt, Iran, Jordan, and Malaysia, Kazakhstan, Morocco, Tunisia, Turkey and Gabon have been underestimated compared with their national poverty lines. Under international poverty line of US $ 2 a day, the incidence of poverty, in most of the countries, is found to be more than 70 percent of their total population.

Different policies and strategies have been adopted in different countries in the past to reduce poverty, but the fact remains that poverty persists especially in the member countries. The Muslim countries inherited very strong institutions of *Zakat*, *ṣadaqat* and *waqf* for fighting against poverty. In the past, these institutions were used very successfully for the rehabilitation and welfare of the poor. Unfortunately, these institutions have been neglected by the Muslims countries and consequently housing many poor in their countries. There is therefore an urgent need for Muslims to pragmatically stem the tide of poverty which is inimical to human and economic development.

Figure 1 Poverty levels in some OIC member countries

Source: data from IDB

**Literature Review**

The literature is replete with studies on the area of zakat and development. Some these studies are Ali (1963), Khan (1974), Qadri (1963), Qureshi (1980; 1979;1978). Abdus-Salam (1976), Ahmad (1981), Hasanuzzaman (1976), Abdul et al (1995), Al-Qardawi (1999) and Shirazi (1996). They variously analyze how zakat contribute economic development of Muslim societies. Though the studies contribute of significant measure to the literature, much still need to be done as they could not touch on other aspects of the topic. The discussion is usually focused on to very important but it could not be able to cover the whole issue. Some of them are discussing development only whilst others are discuss zakat only. The relationship between human development and zakat is yet to be explored.

Suhaib(2009) investigated the role of zakat in human development in Indonessia.

**3.      The Role of Zakat in human and economic development**

The term “development” has been at the centre of controversy amongst Islamic economists as some have observed that it is too value-laden and misguiding term (Nienhaus, 2015). This criticism may be legitimate as the international benchmark for development is understood in the Western world as an economic catching-up process, and “developing countries” should aspire to the living standards of the West. And in the mist of these models where implemented, there is growing inequality and rising poverty levels in developing countries. This definition has no consideration for the spiritual aspect of human development but only focuses of the maximization of output. Many Islamic Economist reject this model of development and begin to propose the development model that put justice at the center stage. Islamic development models departed

from the conventional neoclassical economics with and policy recommendations which were parallel the so-called Washington Consensus (IMF, World Bank, US government). Islamic economists emphasized the crucial importance of justice, basic needs fulfillment, and poverty alleviation. Of course some Islamic Scholars did not agree with the position that Islamic Economics view of development is markedly different from the mainstream view. They argued that, the wave of globalization is going to diffuse in future whatever is still remaining of cultural differences among countries, Muslims or non-Muslims (Yousri,2013).Development as offered in Islamic Economics can be seen as:

a structural change in the socio-economic environment, taking place concurrently with adoption of Islamic laws and adhering to ethical values; thus triggering off human productive capacities towards maximum and best possible utilization of available resources, within due balance between material and spiritual targets(Yousri 2013)

In mainstream economic theories, structural change in output is the core of economic development and this is realized by reallocation of economic resources, which increases productivity and thus the rate of growth. The output of growth is what is considered but how the change occurs is usually not well considered and this forms the major concern of many Islamic Economics. For economic development will be difficult to justify is there is no commensurate development in human productive capacity. This stems from the fact that economic growth is engineered by human incongruous to see a de-link between the human and economic development.

It has to be understood that structural change in output is the outcome of development and not its prime mover and in other words it is an effect and not the cause. (Yousri,2013). Its believed that when the shariah is applied in the mist of Islamic faith then the required structural change can be realized as revealed in the Holy Quran that:

“Verily never Will Allah change the condition of a people until they change what in themselves” (Sura 13 - Verse 11).

Consequently the view is that the structural change that is needed for development in the Islamic sense will be an illusion except the people in society by themselves successfully carry their responsibility towards it(Yousri, 2013).

Its in the nature of Islam towards realizing human and economic development that many tools are used for redistribution of wealth and advocating for economic and social justice and zakat comes handy is this respect. Zakat occupies a central position in Islamic philosophy of wealth redistribution and the support of the poor to live dignified lives and by this the right to receive zakat is accrued to the poor. Among the roles of zakat in human development and by far economic development are discussed below.

**3.1 Fair Redistribution of Income and Wealth**

(Akram & Afzal, 2014) espoused that Islam advocates humanity, justice and kindness among society, and encourages giving and forbids bad conduct and oppression to the handicap. Thus encourage circulation of wealth among all sections of with a common responsibility to look after one and another, relatives, neighbors, locality and society at large including the poor and destitute. These under taking is believed to have an important economic and social implication as it narrows the gap between rich and poor and attain ‘Falah’ (happiness) and well-being of mankind. It realizes the aim and objective of Islamic economic system which is to achieve equitable distribution of resources as narrated in the following verse: “Indeed, Allah orders justice and good conduct and giving to relatives and forbids immorality and bad conduct and oppression. He admonishes you that perhaps you will be reminded” (Qur’an 16:90).

Chapra (1979) contribution on Zakat opined that Islam, through zakat underscores the distributive justice roles and out them together an effort to inspire brotherhood among Muslims. This will lead to developing a system that is capable of creating a productive program, and then provide assistance in finding gainful employment for the poor and unemployed according to their ability.

In Islam, income and wealth are distributed via three stages(Abdelbaki,2013). First is the initial distribution of wealth through acquisitions, where Islam recognizes private property according to specific conditions and procedures based on the principle (that wealth is the wealth of God and human beings are appointed as successors / care takers to that wealth). Islam also regulates the investment of private property by a set of rules and restrictions to ensure the provision of community needs and well-being of its members. Islam also recognizes public property in order to achieve specific goals, such as achieve balance between individuals in one generation, achieve balance between successive generations, and achieve development of the Muslim community. Second, through which revenues are distributed are over the factors of production in the community. Finally in the third stage, some changes are introduced to the existing distribution of income and wealth, or the so called redistribution of income in favor of certain groups such as the poor and destitute. With this, resources move from rich people to the poor and there by leading to redistribution of income and wealth in the society. This creates an opportunity for human dignity of the poor to be enhanced and thereby develop and ultimately lead to economic growth.

**3.2 Better Consumption for low income categories**

The productive households experience poverty because they cannot use the full potential of their resources due to some constraints. These constraints are related to the limited human, physical and financial capital needed for an economic activity that provides the household a decent income. Thus, the institutions of zakat provides an opportunity for this category of people to be able to access the necessary inputs like human, physical and financial capital in order to have a decent life(Ahmed ,2004). There is consensus that the main objective of zakat is the achievement of socio economic justice. Yusoff (2011) stated that the zakat disbursement has the ability to

increase consumption since the marginal propensity to consume of the zakat payer is lower than

the zakat recipient, so that increasing the purchasing power parity of the poor. In order to sustain the consumption of the productive poor specific programs have to be designed to provide support for education and skill development and provision of physical capital (like a taxi, sewing machine, etc.), and making financial capital available to start a business so that the poor can be productively employed and earn a living. This will lead to enhanced human development as they are able to improve their economic and social life. For the unproductive members of the society such as the elderly, sick, widows, handicapped, etc., the institutions of zakat should be able to provide them with periodic stipends to afford consumption of the basic needs. The zakat is therefore acting as an enabler of consumption by both the productive and unproductive poor. Consequently, in

Islam transfer payment, from the wealthy to the poor for the purpose of redistribution of wealth

and income in the society has been taking a central principle in building the Ummah

(Semerdjian, E. 2010). Metwally 1981 & 1985;Khan 1984; Ahmad 1985 and Darwish & Zain 1985)

**3.3 Investment of Zakat for the interests of Zakat recipients**

Zakat beneficiaries usually receive zakat sufficient to cover their expenses for a full year. But zakat is received once a year, while the expenditures are spread over the entire year. Therefore the recipients of zakat carry some idle balances throughout the year. It’s therefore prudent for them to invest the some of the funds in order to get some returns throughout the year. They should, by all means, be encouraged to avail the opportunities leading to self-help. The Prophet has encouraged investment by helping a needy person to buy an axe to cut wood instead of just giving a dole to meet the immediate requirements of the needy (Anwar 1995).

When the funds are invested on their behalf it can be used as a spring board for them to lift themselves from depending on solely on zakat to more sustainable source of livelihood. With this they will be able to pay for their children school fees, provide food for the family, access health care and others. This will enhance the welfare of the people and ultimately will lead to human development.

**4. Investment of Zakat funds: Shariah Issues, Strategies and Methods**

**4.1 Islamic Issues of Zakat Investment**

The investment of zakat funds can only be attainable after careful consideration of shariah permissibility and the level of poverty in the targeted society. There need to be a proper definition of the poor in the contemporary Muslim countries and Muslim minority countries. In the light of this, the weak status of the poor regarding the ability to save has to be analyzed and the need to invest zakat funds for purposes of poverty alleviation must be well understood.

In coming out with a policy for zakat investment on behalf of the poor, special attention must be given to the areas that affect the core of human dignity of the poor. Paramount to these are health, knowledge and skills (Yousri 2013). For direct productive ventures priority should be given to agriculture, low-cost housing food, clothing, and education. Projects designed to meet essential needs of the community. The size of investment, and technology choice should reflect the specific economic needs and the level of skills of the poor

**4.2 Issues and Sharia Rules to Consider In Investment of Zakat Funds**

As earlier presented in the introduction, significant major Muslim countries all over the world, from Asia to Africa, there are high and rising poverty levels in those countries and some are even living under ultra-poverty conditions. The situation is worsened by the current instability in some Muslim countries which has led to some people barely surviving. To tackle this condition there is the need to for a conscientious effort to mobilize all available resources available to Muslims to address this social canker. This effort should be geared towards alleviating poverty by allocating resources in a better way that will ensure direct impact of the human resource development of the people.

Islamic faith requires Muslims to be rational in the of their resources. This is noticed in the teachings of the Prophet (PBUH) when he advised the Ansari man who came to him asking for charity to work. This means the poor should not be condemned to begging but should make effort to work for their sustenance. Its therefore encouraged that, the poor and needy are imbibed with the value of saving part of the zakat received. They may be supported by giving guidance on the type of investment required. At the macro level, the savings can be managed and invested in an manner that will be beneficial for zakat receivers. This will ultimately help them in improving their lot.

The Philosophy of Islam is against material poverty. It was reported that the Prophet (PBUH) in his prayer to Allah was saying that: ‘I seek refuge with you from the affliction of poverty’. Zakat for the poor and needy and other receivers is geared towards easing the hardship of the recipients. This will help in reducing their dependence on others. Further to this, the spirit of Islam serves as a motivation for people to extend helping hand to others. In summary investment of zakat in contemporary days needs special religious and economic reorientation that will provide the motivation for people who receive zakat now to become helpers in future and this may require little sacrifices of their current consumption (Yousri 2013).

Another important consideration has to do with the consent of zakat receivers in the investment decision of their funds. Shariah requires that the zakat receipient must give their free will without any coercion or forced to invest. This can be done directly by them or managed on their behalf by an agency which is mandated by them. This requirement will discourage situations where the zakat recipient defers current consumption in order to invest in the future. This is very important as it will put a strain on the discretional use of zakat funds by collectors or governments in the name of investments. The zakat receiver gets the qualifying share and then decide how much will be spent and saved for future accordingly. There is an exception to this rule in the case of a safih ( minor, insane and aged persons as found in Quran 4:5). Any contrary move that seeks to circumvent the right of the zakat receivers over their property in the investment of zakat funds should be disregarded.

**4.3 Innovative Mechanisms for Investment of Zakat funds for the benefit of Human Development**

In tackling the yawning poverty levels in Muslim societies, there is the need for conceited effort geared towards maximizing Zakat investments and benefits in favour of the poor and needy. Many proposal are discussed in the literature and five of such proposals are considered below.

**4.3.1. Increasing Zakat share of Poor and Needy**

The opinion of Grand Imams Abu Hanifa and Malek that authority that is vested with the responsibility of Zakat collection and distribution is allowed to assign all Zakat to only one or more of the eight categories mentioned earlier.

When it comes to the Poor, the Marginal propensity to Consume is usually high which means that that cannot practically save. This would be generally quite true in the poorest Muslim countries where per capita income averages $200-$600 per annum. Zakat is therefore seen as a potent tool in increasing savings only in the high and middle income Muslim countries

In the poorest Muslim countries, it is not expected that the poor or needy should be able to save anything out of their extremely low incomes. There, in these countries living conditions are so hard and miserable. Zakat, at the macro level, because of low GNI levels, is not expected to change these conditions, even if assumed collected and distributed justly and efficiently. Zakat share of the Poor and Needy might just support subsistence. If unfair distribution of GNI is taken into consideration, which is true in most cases, the picture will further be blackened. Hence we have to explore possibilities for augmenting financial resources that are needed for poverty elimination‘s investment projects.

Furthermore, with the general phenomenon of contemporary poverty classified as structural poverty, the tendency of utilization of Zakat funds are now increasingly focused on development and empowerment programs. Utilization of traditional Zakat programs that are exclusively charitable and consumptive oriented is no longer sufficient to liberate humankind from the downturn. By joining the development and empowerment programs, the poor people will have both physical and financial capital enable them to grab opportunities to be wealthier. It is expected that these people will have the ability to help themselves, regardless of dependency on social structure, political economy that is not aligned to them(Mohamad Soleh Nurzaman)

**4.3.2 Investment of Zakat Assigned To Other Categories within Anti-Poverty Strategy**

There can be movement within the categories of zakat recipient for purposes of investment that is geared towards supporting the Poor and Needy. For instance, investment in public health, medical care, primary education that will directly benefit the poor and needy will be recommended for investment. Also, there can be a mechanism for identifying some other categories who are more vulnerable such as way-farers and highly indebted persons. This class may be assigned more of the zakat funds relative with those of captives and new converts to Islam. The low income way-farers and unskilled who are searching for jobs and the additional share of the zakat can be used to invest in making them acquire valuable skills that will enhance their job prospects.

**4.3.3 Adopting Special Methods of Mobilizing Dwarf Savings**

Saving culture is not an easy pick and this is even more difficult for the poor and needy as they barely survive and always think of the next meal. With this it will be difficult to push for them to save part of the zakat they receive as their marginal propensity to spend is not much less than one which justifies the need to allocate them more share of the zakat. A mechanism can be put in place through a blend of zakat and awqaf to create saving products. With this, the zakat recipients who make an attempt to save will be rewarded. This can be done by matching poor household’s savings with the matched saving scheme.

This means that, for any saving made by the household for the following year’s education costs, the welfare institution could match or through other saving scheme assist to incentivise their savings and reward the household towards cultivating a saving habit. This method could be argued to being more beneficial than welfare approaches that basically provide cash without recourse to the needs of the poor who receive this support. By establishing the financial needs of net deficit households in general and their saving motives in particular. The duo objectives that will have been achieved with this is that there will be a more effective poverty alleviation program, whilst at the same time instilling households to nurture a saving behaviour(Hasnol Ak Md, Alwee Pg, Salleh Md (2015).

Islamic banks and non-bank financial services have a role to play in this. A synergy can be drawn between zakat and awqaf where non-bank financial vehicle can be formed. Also, as a financial inclusion objectives and meeting the social obligation, there can be cooperatives who will be mobilizing dwarf saving through the support of the Islamic banks and even direct involvement of the banks themselves. With this, the poor and needy will be able to access this saving for investment in productive projects.

**4.3.4 Earlier Collection of Zakat**

There is no consensus on the forward collection of zakat by Muslim scholars but Abu Hanifa and Al Shafi hold the view that zakat can be collected in advance just like any other financial liability that may be settled in advance.

The completion of haul(one year) is set as a condition for the payment of zakat but some fuqaha agreed on the permissibility to collect zakat in advance with the supporting evidence that the prophet accepted the advance payment of zakat of his uncle al ‘Abbas[[2]](#footnote-2). In addition to this, Dr. Yusuf al-Qaradawi in his book Fiqh al-Zakah provided a lot of evidence to buttress the permissibility pf the practice of given zakah from salaries during the early days of Islam. Moreover, al-Qaradawi view on the payment of zakah on income whether salaries, wages, professional income, or return on capital invested in other than trade, such as shipping, planes, and hotels, is zakatable once received, without the requirement of the lapse of one year.

It is of notice that this is supposed to be done in a voluntarily basis without any reward to the payer. Zakat collected in advance can be invested in viable projects and managed efficiently by financial experts in a shariah compliant manner. When many people pay in advance, it can be pooled and put into a fund which are then invested in a diversified projects for the benefit of the Poor and Needy for both short term and long term. As a novelty, sukuk can be issued against real assets in the fund that has accumulated in the permanent fund thereby serving as an investment vehicle for Poor and Needy.

**4.3.5 International Zakat management**

Hanafl, Maliki, Shafi, and Hanbali jurists are in consensus that Zakat funds collected in one country, if not needed by its people can be transferred to benefit Zakat receivers in another country. It is essential, though, to recognize and accentuate the judicial condition jurists put forward, that “Zakat in the country of origin where it is collected is not needed by any one”. This is because Hadith of the Prophet (Pbuh) made quite clear that Zakat funds collected in any country is a recognized right of its poor inhabitants.

But while it is difficult to find one country in the world, even rich ones, without poor people it is expected to find Zakat funds in many rich countries more and above the needs of its low-income minority. In this case a surplus of Zakat funds would be realized and this would remain idle in the country unless transferred to poor Muslims in another country. Transfer of Zakat funds from rich Muslim countries or from rich Muslims living in foreign countries to poor Muslims anywhere in the world should be organized by a recognized International Islamic Institutions such as the Islamic Development Bank (IDB). The IDB in co-operation with OIC, may establish a specialized new agency for an International Zakat Fund (IZF), which would officially organize and supervise international Zakat transfer. One portion of this fund may be employed directly to aid the poor Muslims in many countries against hunger, serious diseases or some catastrophic events that hits them such as the current Syria crisis. The other portion of the said fund should be directed towards investment projects that would help in improving the living standard of the Poor population in Muslim countries over the long run.

**4.3.6 Policies of Zakat Investment**

Even though total Poverty eradication is not feasible in the near future in most of the contemporary Muslim countries, it is undoubtedly a desirable target in the long run. For the short or medium run, it would be reasonable and practical to concentrate efforts on poverty alleviation. Zakat Investment, which targets the poor for poverty alleviation, should take into consideration actual economic and social conditions of the Poor and Needy population in contemporary Muslim world and to support small businesses. The current system does not provide the eco-system to support SMEs and micro businesses in general and the Poor and Needy situation is even worse.

It may be, in fact, quite difficult to sustain dwarf investments carried by low-income Zakat recipients under present financial interest-based secular system. Islamic banking offers the most suitable solution to dwarf and small enterprises. The experience of Islamic banking in Sudan and Malaysia proves that Islamic modes of finance can really help small enterprises to grow.

As we are looking forward for a revival of an Islamic economic system, the role of the government in Zakat collection and distribution is necessary to revive as well. Under Sharia rule the government and other concerned public entities should have policies, which conduct Zakat investment within a frame that would observe Islamic economic and human development criteria. Thus Zakat investment would be part and parcel of national investment, which is assigned for poverty eradication in the long run(Yousri 2013).

Yousri 2013 outlines some of the policies and patterns of zakat investment that should be considered. To start with, priority should be given to investment in human resource within the poor and needy. This should be aimed at improving their health, eliminating illiteracy, helping them acquire new skills and raising their efficiency in their professions.

Also, pattern of investment should reflect the level of zakat recipient small savings and the tools for work should be simple tools and inexpensive equipment. This will target the increase in the productivity of those with professions or helping them start small and micro businesses.

Further, in investing in capital equipment or expensive technology, the needy can come together in a co-operative vehicle. With this, a village group of the needy can collectively buy a tractor and irrigation machines which will be used for their own farming.

Additionally, choice of technology should recognize the level of skills, employment, education and training who are at the center stage of the investment. In case of collective investment, labour –intensive technology may be most suitable as it will create more jobs with simplicity of technology.

Lastly, the pattern of zakat investment should factor in the location needs of the zakat receivers bearing in mind that in most Muslim societies, the low income zakat recipients are engaged in agriculture, fishing, quarry and forest woodcutting.

There need to be quality research in identifying the Needy and Poor in Muslim countries by properly classifying them according to their unique needs and geographical reach in order to formulate policies that will help in efficient zakat investment.

**5.       Potential Impact of Zakat Investment on Human and Economic Development**

To buttress the potential of Zakat in human and economic development when properly managed and invested, some historical cases will be handy. Abu Ubadah reports from Amr bin Shuaib that Muaz bin Jabal was the governor of Yaman during rulings of Abu Bakar Al Siddiq and Umar Al Khattab. Umar Al Khattab during his time provided an amount of collection (sadaqah) to be given to people in Yaman. One year later, Muaz bin Jabal returned one third of the collection to Umar Al Khattab. He explained to Umar Al Khattab that no one deserved to receive one third of the collection.

Also, it was reported during the ruling of Umar Abd Aziz, the governor of Egypt asked for his opinion on what he is supposed to do with the balance of collection (sadaqa). This happened after he could not find people who deserve to receive it. Umar Abd Aziz replied to him by suggesting that he buy slaves and free them, build rest areas on the highways and help the young people to get married. It has been reported by Ibn Kathir that Umar Abd Aziz has ensured that people could settle their debts, no poor people, orphans being protected, no needy in the society(Ahmed, 2004).

Hassan and Khan (2007) observed the potential of Zakat to alleviate poverty in Bangladesh with the caveat that provided everything being handled efficiently through proper management. It has been estimated that Zakat funds would contribute substantially 21 % of the Annual Development Plan (ADP) in 1983/1984 and 43% of the ADP in 2004/2005 in Bangledish. The amount can replace the government budgetary expenditure which could be used for other development and social expenditures. Allocating Zakat funds into the budget expenditure would help the poor through increasing the employment opportunities and productivity and ultimately increase the tax potential to the government at the macro level which will then lead to human and economic development.

Sadeq (1996) finds that RM 293 million (which is about 73 percent of estimated potential Zakat collection) in Malaysia will be needed annually to change the status of hard-core poor households to a status of non-poor households. The rest of the amount (23 percent), as the study suggests, could be used for uplifting the economic condition of others.

While discussing the distributive effect of Zakat, Awad (1989) estimates that in Sudan about 3 to 4 percent of GNP is collected as Zakat revenue which implies that one third of GNP can be redistributed from the rich to the poor in a decade. However, some studies find that the proceeds of Zakat will not exceed 1 to 2 percent of GNP, when all the existing Fiscal rules are followed, especially in Sudan and Saudi Arabia [Khan (1985) and Salama (1990)].

**5.1 A Study of the Potential of Zakat of Selected Countries[[3]](#footnote-3)**

This section aims to analyse the potential of Zakat in selected countries from Africa including Nigeria, Sudan, South Africa, Tanzania and Kenya..

**5.1.1 Estimating the Resource Gap and Zakat Potential for Poverty Alleviation**

The resource gap has been estimated by using the poverty gap index, which is defined as the mean shortfall below the poverty line, expressed as a percentage of the poverty line. The World Bank has used the recently updated poverty lines of US $1.25 a day in 2005 PPP terms for hard core poor and US $2 a day for the relatively moderate poor, which represents the mean of poverty lines found in the poorest 10 to 20 countries ranked by per capita consumption.

Kahf (1989) estimated Zakat potential for eight Muslim countries by using National Income Accounts. His estimates of potential Zakat were based on three different opinions of jurists regarding Zakatable items. Those three definitions were named as Z1, Z2 and Z3. Z1 was estimated in accordance with the majority traditional view according to which Zakat was levied on agriculture, livestock, stock in trade, gold, silver and money. Z2 was based in accordance with the views of contemporary Muslim scholars where Zakat can be deducted from net returns of manufacturing concerns and building rents and from net savings out of salaries. Z3 was based on Malikite views, where Zakat base includes buildings and other fixed assets except those assigned for personal and family use.

Resource gap reflects the depth of poverty as well as its incidence. Table 1 presents estimates of resource gap and zakat potential in the listed countries. Except Sudan, all other countries are Muslim minorities. In some countries, Muslims are in a small proportion of the total population and hence zakat potential is very low in those countries. For example Muslim minority is 1.5 percent of the total population of South Africa and they would be able to collect about USD 189 million (0.03 % of GDP) under Z1, USD 383 million (0.06% of GDP) under Z2 and USD 431 million under Z3 (0.07 % of GDP) in 2013. The Muslim minorities of Kenya would be able to collect zakat in the range of USD 126.56 million (0.13 percent of GDP) underZ1 to USD 305.16 million (0.30 percent of GDP) under Z3 in 2013. Similarly, zakat potential in Tanzania is in the range of 0.54 percent of GDP to 1.30 percent of GDP.

Zakat potential of Nigeria is in the range of 0.86 percent of GDP to 2.08 percent of GDP. Sudan is the only Muslim dominant country among the listed countries, where zakat potential is in the range of 1.44 percent of GDP to 3.47 percent of GDP under different scenarios. Table 1 shows money required to reduce poverty of the selected countries. Comparing zakat potential of the listed countries in same table with their resource required to reduce poverty (defined in terms of USD 1.25 a day); it is found that countries like Sudan, Nigeria and South Africa can easily generate resources for poverty alleviation. For instance, South Africa and Sudan will have no Muslim below the poverty line if zakat funds are collected as shown in both figure 2 and 3. Nigeria is able to reduce the proportion of Muslims below the poverty line by 58% whilst Kenya and Tanzania will have reduced by 40% and 17% respectively. The money required for Muslim minorities in country like Kenya is 0.32 percent of GDP, whereas corresponding potential zakat collection is 0.30 (Z3) percent of GDP. The gap between resource required and potential zakat collection of the country is marginal. However, Tanzania would be unable to bridge the resource gap by potential zakat collection.

Table 1 Resource shortfall

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Country** | **Resource Shortfall under USD 1.25 per annum as % of GDP** | **Resource Shortfall under USD 2.0 per annum as a % of GDP** | **Z1 (% of GDP** | **Z2 (% of GDP)** | **Z3 (% of GDP)** |
| **Kenya** | 0.32 | 0.96 | 0.13 | 0.27 | 0.3 |
| **Nigeria** | 1.47 | 3.5 | 0.86 | 0.84 | 2.08 |
| **South Africa** | 0.001 | 0.01 | 0.03 | 0.06 | 0.07 |
| **Sudan** | 0.49 | 2.2 | 1.44 | 3.08 | 3.47 |
| **Tanzania** | 3.02 | 8.17 | 0.54 | 1.15 | 1.3 |

Figure 2: Potential of Zakat in poverty alleviation

Source: author calculation based on IDB data

Figure 3: Potential of Zakat in poverty alleviation

Source: author calculation based on IDB data

**6.       Conclusions**

The paper attempts to discuss the role Zakat investment can play in human and economic development. From the above its established that poverty levels in some Muslim countries remain high which inhibits the human and economic development of these societies and this points to the need for pragmatic policies in tackling poverty to unearth the human potential to develop. Zakat plays a role in wealth and income redistribution and better consumption for the poor. In the contemporary days, Zakat investment if done in well thought manner can serve as a strategic tool that can be used to support the Needy and Poor in the society to uplift them from the shackles of poverty. The investment of zakat funds efficiently has a huge potential in reducing poverty levels in Muslim countries as demonstrated in the paper.

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1. The fiqh encyclopedia [↑](#footnote-ref-1)
2. Please see Yusuf al Qardawi *Fiqh al Zakah* Vol I, pp 250-270 for more on this [↑](#footnote-ref-2)
3. Much of the work in this section is drawn from Islamic Social Finance Report(2015) released by IRTI [↑](#footnote-ref-3)