***ZAKAT***

**A COMPLEMENTING TOOL IN POVERTY REDUCTION**

**AND ECONOMIC DEVELOPMENT**

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# **1. Background**

Poverty reduction remains the most important challenge for policy makers in Developing Countries including those with significant Muslim communities. The World Bank (2010: *Poverty Profile in Muslim World*, from http://www.worldbank.org) estimates that approximately 3 billion people are living in poverty and 46 million more people will come under the income level of US$1.25 a day due to the recent global economic meltdown and slow economic growth rates. Thirty-five percent of these people are in the Muslim countries ([Muhammad Arif](https://www.omicsonline.org/author-profile/muhammad-arif-203696/), 2017).

Contribution of Islamic teachings to human welfare is not adequately captured, recognized and appreciated in today’s world. This is partly because of the “Islamophobic resulted attitude” of the world today that associate with negative connotation to whatever is associated with Islam, and also due to the Muslims themselves shying away from learning and teaching others such contributions! When we met last year, we talked about Ibn Khaldun, a famous historian, sociologist and philosopher born in Tunis in 1332. We also learned that despite his significant contributions to the discipline of economics, credit given to him was far below what he deserves. This despite the fact that his contributions have led to well known theories in the Eighteenth and Nineteenth centuries by Adam Smith, David Recardo, Loen Wallras, Carl Marx and others.

The global Muslim community has an obligatory role to play in addressing the injustice of global poverty through its noble teachings, including those of Zakat. Zakat is a faith-based institution and is being underutilized for poverty reduction in several Muslim countries. Since Zakat constitutes one of the pillars of Islam, it is logical to assume that policy makers among Muslim communities should pay serious attention to it. However, that is not the case. Handful of Muslim communities apply Zakat in their strategies of combating poverty.

Despite its poor implementation, the Zanzibar Government deserves a credit for including Zakat in its poverty reduction strategy (MKUZA) in early 2000’s. Unfortunately, its implementation has not lived to the expectations of the masses as there was no supportable framework and adequate awareness campaign that could have led to more trust to the collectors.

Ibn Khaldun's writings on economics include theories of value, distribution, growth and development, money, prices, public finance, business cycles, inflation, rent, and benefits of trade. Ibn Khaldun's economic thought is related to Islamic doctrines.

Further to that, our discussion will look into how Zakat can assist in poverty reduction. Unfortunately, due to lack of relevant data in Tanzania, our discussion will remain at theoretical level citing examples from other countries to drive home the ideas.

# **2. Zakat: Its Meaning and Role in Poverty Alleviation**

Zakat, literarily means blessing, growth, development, purity, and neatness. There are two major types of Zakat, Zakat Nafs (*Fitr*) and Zakat Mal. The later implies a compulsory levy that takes surplus money or wealth from the comparatively well-to-do members of the Muslim society and distribute it to the destitute and needy ones (Quran, 9:60).

Zakat beneficiaries are;

1. **The Destitute:** Those who don’t have material possessions nor means of livelihood.
2. **The Poor:** Those with insufficient means of livelihood to meet basic needs.
3. **Zakat Workers:** Those whose job it is to collect and re-distribute Zakat money get their salary from the Zakat money.
4. **New Muslims**: Those who are new to Islam and require help to integrate themselves into the Muslims community.
5. **To Free Slaves**: Zakat money is to be used to free bounded individuals and free them.
6. **The Indebted:** Those who are in debt and have difficulty repaying it.
7. **In the Path of Allah**: Zakat money can also be spent in the path of Allah. This can include many things, basically any project that helps Muslims or Islamic causes.
8. **Stranded Traveler**: The traveler who does not have enough money to complete one’s journey.

# **3. Economic Impact of Zakat**

Proper implementation of Zakat, is expected to result in equitable distribution of income as it is paid by those who have surplus, to the less fortunate. This is expected to improve the poor’s purchasing power, which if properly done leads to more demand on goods or services in the economy, produced mostly by the rich and to certain degree by the poor.

The fact that the main objective of Zakat is the achievement of socio economic justice is not disputed because Zakat disbursement has the ability to increase consumption; the marginal propensity to consume of the Zakat recipient (poor or in need) is higher, so that increasing the purchasing power parity of the poor.

Zakat distribution in the form of income generation programs has been considered as a gradual shift from consumptive to productive distribution of Zakat is mainly due to Muslims’ awareness of the need to transform Zakat from merely personal piety to an Islamic socio economic system. As such, Zakat is expected to play a more significant role in improving the socio economic condition of the communities it is applied properly.

Zakat also plays its role as a fiscal mechanism, Zakat performs some of the major functions of modern public finance, which deals with social security entitlements, social assistance grants for childcare, food subsidy, education, health care, housing, and public transportation in a welfare state. It separates public welfare expenditures from other budgetary items and puts the burden of meeting the economic welfare needs of the society where it belongs. Unlike tax levied by the government for the services provided to tax payers on a quid pro quo basis, the Qur’an and Sunnah, irrespective of the economic conditions of the society, determine Zakat and its heads of expenditure.

Besides that, Zakat creates a balanced growth cycle. When a certain percentage of one’s wealth is spent annually over the foregoing eight categories as prescribed in the Qur’an, Zakat has a significant economic impact on society. Income support provided to the poor and needy would result in a measured increase of the money supply in the economy causing upward shift in demand for goods and services. To support this upward shift in the demand for basic necessities of life such as food, clothing and shelter, the production facilities would gradually expand and begin to absorb the idle capital. In order to support the increased production, the economy would generate more jobs and new employment opportunities. This added employment in turn would generate more demand for goods and services, more room for additional investments, and finally, the growth cycle based on balance consumption would contribute to a balance economic growth.

Ideally, Zakat could ensure, if implemented carefully that the rich do not become poor but the poor cease to be poor. From this perspective Zakat makes an obligatory claim on the property of the wealthy in favor of the poor, it is a duty which the government can extract by the authority of the law and by the power of its administration.

Some Muslim Economists claim that Zakat satisfies the four famous principles of a fair taxation system as set up by Adam Smith; the four principles are fairness, certainty, simplicity and convenience. Zakat is levied on the individual’s savings for the period of twelve months, therefore, people with bigger savings will contribute more. As an effect the poorer people of the community will not be prejudiced, as people with no savings are not obliged to pay Zakat. Smith considered these four pillars as the back bone to a just system of redistribution of wealth.

Earlier, before Adam Smith, Ibn Khaldun had emphasized on how a society's living standards could be affected, either for better or worse, by state policies. He was especially interested in how a state might impose such a high tax rate that economic activity would be stifled and tax revenues ultimately reduced. Taxes and government expenditures determine the strength or weakness of the dynasty at various stages in its development

In terms of convenience, Zakat is considered convenient because it is paid annually and by those who are able to pay it, i.e. those with wealth exceeding *Nisab*. Moreover, Zakat offers the convenience of paying it according to its manner of production (i.e. land produce, cattle, articles of trade or in cash). And finally, when it comes to simplicity of calculation, Zakat is a fixed and understandable rate, therefore making its collection costs lower than other tax systems.

# **4. Zakat Systems in Some Muslim Countries**

Implementation of Zakat is not the same in all countries. For instance, sparing Muslim majority countries in the Middle East including Iran, Pakistan has a centrally managed five tier Zakat system with Central, Provincial, District, Tehsil and Local Zakat Councils This is on the basis of pre-defined quota Central Zakat Council disburses collected Zakat funds to lower councils. In Malaysia Zakat system is decentralized and provinces are allowed to constitute their systems and manage them accordingly however an institute named MAIN supervises overall functions of Zakat.

Similarly, in Indonesia, Zakat system is decentralized with private entities allowed to constitute bodies for Zakat management but recently due to conflict of interest Government has constituted an institution to supervise and control independent Zakat bodies.

In Sudan Zakat is compulsory for all citizens and is managed by state and is distributed through three channels

i) Local Zakat committees;

ii) Committee for urgent cases and travelers;

iii) Committee for people in debt.

Some countries or communities have initiated differing entities to collect and distribute Zakat, such as the Zanzibar Waqf & Trust Commission supported by several Faith Based Organizations. In these countries, Zakat payers still prefer to distribute to the needy people they personally know, especially in the Month of Ramadhan. Of course, this a good gesture that might primarily fulfil the religious obligation, yet it defeats the secondary one, i.e., the spirit of eradicating poverty or easing the need of those deserving.

As evidenced in countries which do not have official Zakat collecting mechanism, Zakat payers distribute Zakat like charity, giving small amounts such as TZS. 50,000/= to a number of people but with little viable long term impact on improving their welfare economically. The better practice could have been to give reasonable amount of Zakat to a group of people, say cooperatives or entrepreneurs, to enable them venture into activities that would have enabled them move out of poverty, which over time would have increased a pool of Zakat payers as their ventures grow.

As far as strategies of poverty reduction are concerned, they can be broadly classified into two

1. Indirect Strategies: that formulate a macro-economic policy framework to ensure sustainable growth, higher employment, higher per capita income, eventually reduce poverty, and

(2) Direct Strategies: that targets the underprivileged population and provides them necessary assistance to ensure credit access, improve health conditions, increase literacy rate and ultimately eradicate poverty (Hassan 2006; Pramanik 1994).

According to Hassan (2006), Indonesia, Malaysia, and Thailand are good examples of countries that have alleviated poverty through indirect strategies. These countries pursued consistent macroeconomic policies that ensured growth of six percent or greater and increased public spending on education, health, family planning, etc. for decades. In contrast, Bangladesh is an example of direct policy application where government and non-governmental organizations provide a set of services for the targeted poor population like ensuring access to credit, health care and educational services to targeted underprivileged individuals. In Bangladesh, still significant level of poverty exists, which can be reduced by developing small business entrepreneurial skills with the help of Zakat mobilization.

# **5. Conclusion**

Ibn Khaldun derived a lot of lessons from Zakat readings that later led to the development of current taxation theories and policies. This is considered one of the very important contributions to the public finance economic thought today.

If properly administered, Zakat helps not only in reducing income inequality by narrowing the gap between the rich and the poor, but it also increases the purchasing power of the masses. Where properly administered and managed, Zakat system achieves its objectives and Muslims can revive their economy and society through proper implementation of Zakat system. Government legislation and education are instrumental in this regard. Public awareness campaign regarding importance and benefits of Zakat on local scale can motivate people to pay due attention to the proper payment of Zakat.

Where ever Zakat payment is voluntary, there is a high rate of non-compliance. Indeed, payers choose their beneficiaries, leading to distributing Zakat to relatives or acquaintances whom they feel are deserving. This is seen in Mainland Tanzania and even in Zanzibar where the Government there has established the Zanzibar Waqf ad Trust Commission with a mandate to manage Zakat. This is approach undermines the objective of allocating the funds in efficacy, such as in entrepreneurship development.

To be effective, Zakat can be used to meet the immediate survival needs of the extreme poor. However, as poverty alleviation strategy, capacity of the poor should be developed through health, education, vocational training facilities etc. so that the poor can get out of the poverty trap. And also business entrepreneurship should be developed on priority basis.

Through entrepreneurship development programs, Zakat can not only remove poverty but also create employment opportunities for several other poor fellows. If a government has not put in place proper mechanism for that, Non State Actors including the Faith Based Organizations can initiate social entrepreneurship schemes to that end. Neither funding alone, nor skills without funding can develop the available resources including untapped talents among our poor fellows.

Poor communities might resemble in their poverty. The phenomenon is not due to lack of resources but in most cases owes to lack of entrepreneurship (skills and funding). As poverty among nations is not homogeneous, it may require a multi-dimensional approach to poverty reduction strategies. The strategies should rely on the development of the available human capital, creativity and building upon the available resources and skills that will ensure their sustainability against poverty. For this to succeed, everyone has a role to play including the Government the Muslim scholars, clerics, academia, and media. Moreover, of special roles are Muslim business communities and financial institutions.

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