**FISCAL ANALYSIS OF ZAKAT FOR ECONOMIC GROWTH AND DEVELOPMENT**

**Introduction**

The corner-stone of the financial structure in an Islamic economy is *Zakat*. Apart from its financial importance, it is one of the five columns on which the entire structure of Islam has been placed. Zakat is a compulsory payment levied on the members of the Muslim community, so as to take the surplus money (wealth) from the comparatively well-to-do members of the society and give it to certain categories of people among them are the destitute and needy. Paying Zakat is a sign of good character and a proof of one’s sincerity as a Muslim (23:1-4) (9:11). Zakat is not just a form of charity or alms giving, nor is it simply an expression of kindness. It is all of these combined together and much more this is why this paper focused on the issue of Zakat as a tool to analyze its significance for economic growth and development.

What is Zakat?

Zakat is literally means “increase”, “growth” and “purification” as well as “blessings”. The technical meaning of the word designates the annual amount in kind or coin which a Muslim with means and ability must distribute among the rightful recipients. *Zakat* is the third amongst five fundamental pillars of Islam as prescribed by Allah “…. Establish *Salat* and give *Zakat* and hold fast to Allah….”[[1]](#footnote-1) *Zakat* is a portion of asset that is made mandatory to be spent in the ways specified by Allah. This amount is deducted only when the amount of wealth has reached the *Nisab* [[2]](#footnote-2)and has completed a year. The portion of asset could be of cash or kind.

The concept of Zakat is of paramount importance for socio-economic prosperity. Modern scholarship can draw a lot of economic benefits from this concept. The word Zakat has no equivalent in any other language. It is not just a form of charity or alms-giving or tax, nor is it simply an expression of kindness. It is all of those combined together and much more. There are eight prescribed categories of the recipients of *Zakat[[3]](#footnote-3)* .

*Fuqaraa*’ (who cannot support themselves) - those who have earnings but not enough to meet their needs; they live in precarious circumstances but do not ask for help.

*Masaakiin* (the needy) – these are very miserable people who do not have anything for food, clothing and shelter. The khalifah ‘Umar ibn Khattab also included in them those who are fit to earn but do not have means to earn.

*Al’Amiliina‘Alaiha* (the collectors) – these are the officials who administer the collection and disbursement. *Zakat* can be given to them from the fund as the salary for their effort in collecting *Zakat* even if they are Sahib *Nisab* or rich. On this note, since Amana Bank is the collector it shall be entitled to a share on the *Zakat* fund.

*Mu’allafat Al qulub* (those whose hearts to be inclined towards Islam) – this category includes new Muslims. They are given *Zakat* for the express purpose of strengthening their hearts and making them more inclined towards Islamic practices. And also because they had to abandon their *haram* means of earning.

*Fir–Reqa’ab*(Releasing of slaves) – freeing of those who are in captivity. (since at the moment there is no slavery practices this group might be excluded in our computations)

*Al Gha’rimin* (ones in excessive debts) – *Zakat* money could be received by the debtors who do not have any hope of paying off their debts.

*Fi sa’biil Allah* (in the cause of Allah)– those who going out or working in the cause of Allah. This includes those in task of conveying the message of Islam.

*Ibn as–sabiil* (the traveller) – Traveller who is in need of help during his travel

**Economic Growth and Development**

Economic development is the process whereby the real per capita income of a country increases over a period, normally one year. There should be an increase in the volume of goods and services in physical or real terms. This definition focuses on the increase on income as the objective of development. In many countries, money income has been used to measure the level of economic development.

The term growth in economic sense is compared to output. An increase in the output level is designated as growth. Increase in output involves greater quantities of inputs and efficiency per unit. Economic growth is generally defined as a sustained increase in per capita national output or net national product over a given period of time.

In certain cases the two terms are used interchangeably although they differ in meaning and contents, the term development is much wider than the growth. It does not only include output increase per unit of input but it takes into account changes in technical matters by which production takes place. These changes pertain to the whole range of production techniques and methods.

Economic development based on Islamic principles not only limited to economic variables such as income, but have comprehensive characteristics include social, moral, material and spiritual. In other words, economic development must be related to improving people’s welfare in every aspect of life including eradication of poverty. This is precisely the objective of Zakat in Islam.

**Theoretical Analysis of Zakat in relation to Economic growth and Development**

1. **Purification of Wealth**

Zakat is a religious duty for every Muslim male and female who has qualified to fulfil this obligation, no one is exempted from paying out Zakat to the rightful beneficiaries. Zakat thus becomes an expression of obedience and gratitude to Allah. By paying out Zakat an individual is purifying himself and his wealth.

1. **Zakat base and Coverage**

Zakat is taxable all most on all properties including cash in hand or at bank, gold and silver; held for trade inventory; real estate purchased for the purpose of resale; animal wealth, agricultural production, honey and animal products, mineral wealth, and all kinds of modern financial investment in shares, bonds, national saving schemes and mutual funds.

1. **Zakat and earmarking approach**

Zakat revenue is earmarked to be spent on certain items detailed as indicated above. It is interesting to note that the earmarking of Zakat is useful for resources allocation purposes. At times earmarking of public finance could be a solution to the problem of disappointing behaviour of public savings. Taxes can be imposed and allocated for special development projects. The main advantage of earmarking is to reduce the discretionary powers of officials who would have used differently.

1. **Financial organization**

Zakat is meant to be collected in an organized way. In the time of Caliphs Abu Bakr and Umar, Zakat was collected by the government; however, during the reign of Caliph Uthman, individuals were allowed to pay Zakat privately. It is much easier if there is central command or authority to monitor the exercise of collecting and disbursing Zakat to measure its significance and impact on the economy. The Qur-an mentions among the beneficiaries of Zakat include the cost of collection and administration of it. This means that matters pertaining to tax collection must be organized in order to achieve economic development. Since Zakat fund can be used for various social needs such as education, health, community development, economic empowerment and entrepreneurial development, hence there is a need to measure so as to establish its empirical impact.

1. **Poverty Measurement**

In Islam, poverty can be defined in the context of savings as envisaged in the concept of zakat. People with low income or wealth below certain amount do not pay zakat and are referred to as either poor or deprived. In Tanzania the minimum amount is about TZS 11,000,000/= equivalent to US$ 5000 to be served per annum. If a person, after deducting his/her basic expenditure, left with less than US$ 5000 per annum is defined as poor and therefore should be helped. On the other hand, whoever remains with US$ 5000 and above in the same period is not among the poor and therefore should be taxed. This means that any person who cannot serve more than US$ 13.8 (TZS 11,000,000/=) a day is regarded as poor. This is against to what the modern conception of determining the level of poverty by way of spending US$ 1 (TZS 2330/=) a day.

Islam does not conceive of poverty as a normal fact of the social order. Nor does it envisage that the treatment of this distortion be the free generosity of some towards others. The obligation of z*akat* places this question in the domain of law and morality and cannot be left to the discretion of each person. Caliph Abu Bakr (r.a), the first successor to the Prophet Muhammad (s.a.w) decided against the advice of Umar (r.a) to fight those who refused to pay z*akat*[[4]](#footnote-4)*.* Therefore, it is the responsibility of any established and organized society not only to protect the rights of poor people, but also to work out instruments for poverty alleviation.

Zakat has introduced a very important economic concept of Nisab in determining the level of poverty. Nisab is calculated on a possession that remains with one on a Zakatable category of wealth after one fulfils all basic living expenses for an entire lunar year. Those Muslims with low income or wealth below minimum do not pay Zakat and are referred to as either poor or deprived. Zakat thus introduces the concept of a minimum exemption limit, of persons below the level which should be helped and above the level which should be taxed. Poverty in many countries today is measured only by income criterion, so that poor people are identified as those which fall below the so called poverty line. Through Zakat institution we learn the need to identify poverty level and how to tackle the problem. In this regard, measures and strategies must be designed and developed to combat poverty in the communities.

The holy Quran is well aware that resources are not equally distributed among people. Inequality in wealth distribution is often the result of income differences arising due to various reasons. There are five causes of poverty[[5]](#footnote-5); two causes are based on income level and three are the result of the casual factor. The first one under income level is described when income level is under poverty line or the amount of income is not enough to fulfill the minimum life needed. This type of poverty is counted by incapability to prepare daily needs, food and clothing, healthy, and education. This type of poverty is referred as absolute poverty.

The second one is relative poverty, this type of poverty is described when income level is over the poverty line, but still poorer than any other society group. Third, natural poverty is the poverty that is caused by natural factors such as the difference of age, health, geographical location. The people of this category do not have proper resources, both human and natural resources, and other developing resources.

Fourth, cultural poverty is the poverty that is caused by different customs and traditions, work ethics, etc. it is referred to the individual's behaviour that is caused by life style, life habitual and culture. This individual is difficult to participate in raising his or her standard of living, to make a changing and to develop. The last one is structural poverty that is caused by human brand factors such as inequitable of productive distribution of resources, unsound and discriminatory of economic policies, corruption and economic arrangement that do not aim to raise living standard of majority of the people.

**(vii) Zakat and Inflation**

Monetary hoards are subject to the 2.5 per cent Zakat rate annually when the minimum subject to Zakat is reached. This rate of 2.5 per cent is so significant for inflation consideration. The value of money will go down as a result of monetary hoarding in a period of one year. Inflation is defined as persistent increase in the general price level in the economy and thus tends to reduce the value of money over time. However, it should be known that a certain level of inflation must be maintained to allow new investment projects. Inflation level of 1 per cent to 3 per cent per year are generally considered acceptable, while inflation rates greater than 3 per cent represents a dangerous zone that could cause the currency to become devalued. Households and investors can reasonably expect inflation to remain low and stable, they are able to make sound decisions regarding saving, borrowing and investment, which contribute to a well-functioning economy.

**(viii)** **Zakat as an incentive for Saving and Investment**

Zakat as mentioned earlier is a pillar of religion without which Islam is incomplete. Every pious Muslim must strive to observe this worship by being among Zakat payer. In order to do that one is compelled to have discipline in earning, spending and saving. All these three components are vital for economic development.

An Islamic investor will be aware to avoid any unlawful gains as this may deprive reward for Zakat payment to beneficiaries in the sight of Allah. As for spending part, Zakat payer will not waste resources unnecessarily due to the fact that spending on luxurious commodities and services are not considered for computation of Zakat. Resources would have to be utilized in the most economically efficient manner to maximize the value of output in relation to that of the input. In connection to spending, the holy Quran identifies two terms; Israf and Tabzir. The word Israf is defined as extending the level of consumption beyond the level of basic needs, while Tabzir in an economic sense is the unnecessary use of economic resources, i.e. wastage of economic resources. Therefore, a Muslim consumer is expected to behave in such away that he will avoid extensive use of resources and the wasteful use of those resources (17:27)

A Muslim consumer has clearly defined limited wants and would attempt to satisfy these wants with resources as small as possible (economizing utilization of resources) as per *Shariaʻh* requirements and hence left with substantial amount of saving for investment. His consumption allocation is different from that of a conventional one as his utility function embodies ethical features and his constraints include both income and religious considerations.

Savings play an important role in the economy without which no investment projects could be carried out. There is considerable agreement in standard economic theory that the level of investment depends on the level of saving, that is why economy is regarded to be at equilibrium when saving is equal to investment (S = I). Investment creates various opportunities for the economy to grow and develop; among others are employment, income generation, creation of more value of goods and services. In Islam, people are forced to save and at the same time must be creative for investment activities otherwise they may loose the value of their wealth; but at as a pattern of life to meet other motives, such as investment. In Islam the slogan is, invest your money or let others do and share profit, otherwise the imposition of Zakat which reduces the value of money.

**(ix)** **Consumption consideration**

In the economic view, Zakat becomes also significant part of the process of creating purchasing power of the poor, with which they can absorb the goods and services produced in the economy. Islam recognizes the differences between people that may lead to differences in their ability to earn and, hence, in the amount of wealth they may accumulate (16:71) (6:141).

**Conclusion**

Despite deducing important implication of Zakat for economic growth and development, it is important to note that Zakat cannot be used as a fiscal weapon to achieve economic stabilization. A major objective of Zakat is to achieve poverty alleviation. It cannot be even used as a source of revenue for financing State expenditure. However, Zakat can be used as a directive instrument on designing and structuring a tax system for economic development in a country.

1. Qur-an (22: 78) [↑](#footnote-ref-1)
2. The minimum amount of wealth whose owner is obligated to pay Zakat [↑](#footnote-ref-2)
3. Qur-an (9:60) [↑](#footnote-ref-3)
4. Ramadan, T, *Islam, the West and the Challenges of Modernity,* The Islamic Foundation, 2001, p.140 [↑](#footnote-ref-4)
5. Kusuma, D.B and Sukman, R., The Power of Zakah in Poverty Alleviation, 7th International Conference-*The Tawhid Epistemology: Zakat and Waqf Economy*, Bangi, 2010, pp.410-432 [↑](#footnote-ref-5)