

## Zakat as a Mode of Poverty Alleviation

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### Abstract

Poverty has been an issue of extreme vetting since the dawn of humanity and is currently battering the Muslim World severely with stats indicating that Muslims are only 23% of world's population but have a share of 50% in global poverty. This is quite baffling and perplexing fact as Muslims have been bestowed with an economic system designed by Almighty ALLAH which surely is good enough to eradicate poverty but improper implementation has hurt Muslim World direly. Zakat is an essential component of Islamic Economic System which bounds rich people to transfer 2.5% of their wealth to poor people of society and through proper implementation of Zakat system poverty got completely eradicated during era of Hazrat Umer e Farooq (R.A.). Zakat system has been subject to several modifications as a result of prolonged western domination and rise of secularist views, recent studies have suggested several models of zakat implementation that can rejuvenate the past success but have failed to do so, due to lack of clear path and refusal to build a zakat system on the basis of fundamental principles taught by Holy Prophet (Peace Be Upon Him) considering them obsolete. This study intends to systematically identify the root causes behind the faltering performance of zakat system and try to eliminate them by designing a system that is based upon the fundamental principles as guided by Holy Prophet (Peace Be Upon Him) as well as in line with current economic dynamics. Another important objective of this study is to have a uniform zakat system throughout the Muslim World so that real benefits of zakat can be enjoyed and whole Muslim World may prosper.

**Keywords:** Economic system; Had al Kifaya; Mosque; Secularism; Poverty; Zakat; Zakat system

### Poverty and its Dynamics

In literal terms Poverty means "state of being extremely poor and the state of being inferior in quality or insufficient in amount", it has been derived from old French word "poverté" and Latin word "paupertas" from "pauper" meaning poor. There have been several multi-dimensional definitions of poverty [1]. In 1998 United Nations defined Poverty as "Violation of human dignity where humans are denied of having choices and opportunities". World Bank defined poverty "as someone being destitute of well-being, which encompasses various issues namely low income, lack of access to basic living facilities, malnutrition, lack of education and mental stress". Smelser and Baltes defined poverty as a condition when a family is unable to meet a state defined income threshold. Internationally any family \$1.90 as per World Bank is termed as extremely poor. As per World Bank statistics, 16% of world Population concentrated in High Income countries are the owners of 55% of world income, Low income countries that account for 72% of World Population just generate 1% of global Income. Poverty is caused by several reasons which affect all people equally, more than half of poor people are Muslims, whom constitute 23% of world population and own majority of Energy and natural resources of world although Islam has given a very practical framework regarding economic system, so this statistic about poverty is very baffling, and the sole reason behind this is Muslim countries are not following Islam properly [2], Major reasons of Poverty are i) Deviation from Islamic Principles ii) Usury Based Economy iii) Economic Inequality iv) Corruption v) Lack of Education vi) Adverse Government Policies vii) Lack of Social and Moral Values viii) Low Morale of Poor [3-6].

### Zakat in Islam

Islam is a complete code of conduct for life and the five pillars of Islam as discussed by Prophet MUHAMMAD (Peace Be upon Him) are as follows:

*"Islam is built on five (pillars): Testification that there is no God but Allah, and Muhammad is His Messenger, performing the Salah-Prayers,*

*giving the Zakat-Charity, fasting Ramadan, and performing Hajj if one is able" (Muslim)*

The denotative meaning of Zakat is to Purify and increase [7,8]; "Faizan e Zakat" [9-12]. The main undisputed objective of zakat is to achieve socio-economic justice in society; in simple words Zakat is the transfer of certain portion of a person's wealth to those who don't possess much wealth as per Shariah Laws. ALLAH orders the collection of zakat in Quran as,

*"Take alms out of their wealth, so that thou mayest cleanse them and purify them thereby." (Al-Taubah, 103)*

Poverty as discussed earlier has been a problem since the start of humanity [13], to solve this problem ALLAH gave us the religion Islam which is a complete code of conduct for life. Islam gives us solution for every problem of life however here we will discuss the mechanism of Zakat that has been bestowed upon us so that we can have spiritual gains as well as socio-economic gains i.e. alleviation of poverty [14]. Philosophy of Islam is that everything present in this world is ownership of ALLAH and humans are just vicegerents of God, as Holy Quran says:

*"He it is Who created for you all that is in the earth..." (Al Baqarah, 30)*

It's duty of humans to use the available resources in just manner so that no one is worse off. ALLAH has said in Holy Quran that,

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“And Allah has favored some of you above others in worldly gifts. But those more favored will not restore any part of their worldly gifts to those whom their right hands possess, so that they may be equal sharers in them. Will they then deny the favor of Allah?” (An-Nahl, 72)

From above verse it is clear that worldly gains are just blessings of ALLAH as well as a test of one's character, similarly Poverty is also from ALLAH as a test of one's character, to be successful in the test the rich will have to take care of poor segment of society through Zakat, charity etc. and poor should not lose hope and he should try to elevate his status through lawful means.

### Implementation of Zakat and Impact on Poverty

Zakat has been a successful tool for the reduction or even complete eradication of poverty as during the time (13-22H) of second Caliph of Islam Hazrat Umar Bin Khattab (R.A) and during time (99-101H) of Umer bin Abdul Aziz, the condition of people during that time was so prosperous that there was no eligible recipient of Zakat [15,16]. It is a proven fact from history that if properly managed Zakat can be a mode to alleviate poverty [17].

Implementation stage for any devised model is very critical to its success; flawlessly designed models flop due to their improper execution, similar is the case with Zakat, and no doubt the model of Zakat is flawlessly devised and taught to humanity by ALLAH through Prophet MUHAMMAD (Peace Be Upon Him), its implementation however has been left upon us. History suggests many economies in different parts of world have successfully implemented Zakat system and have achieved benefits of Zakat, one of which is poverty reduction [18]. On contrary after colonial era, Islamic economics as a whole has become vague and zakat system has also suffered. Several models of Zakat have been implemented in world, some of them became successful but some didn't succeed due to improper planning/execution [19]. Historically Zakat has been collected, managed and disbursed by the Islamic Government but after colonial era Zakat has gone through several challenges which has resulted in different models emerging [20], some countries like Saudi Arabia, Pakistan, Libya & Sudan have made Zakat Management compulsory through state institutions but some countries like Egypt, Jordan Kuwait has although formed some institutions for Zakat collection but it is voluntary act of citizens to submit Zakat there or not [21].

### Zakat Systems

#### Era of prophet MUHAMMAD (PEACE BE UPON HIM) and rightly guided caliph

The first system of zakat was implemented by Holy Prophet (Peace Be Upon Him), the system was basically a centralized state managed system revolving around Amils, they were designated personnel appointed by Prophet MUHAMMAD (Peace Be Upon Him) to collect zakat from Sahib e Nisaab and disburse to eligible recipients. The whole Zakat Management System was very simple in terms of organization and management but was up to the mark with modern principles focused on transforming Mustahik to Muzaki. The reign of First Caliph Hazrat Abu Bakar Siddique (R.A.) was a short one from 632-634 A.D., he continued the rules, regulations and management system devised by Prophet MUHAMMAD (Peace Be Upon Him) without any modification however a major development in his rein was the war he fought against those who refused to give Zakat setting precedent for future generations regarding importance of zakat in Islam.

The Era of second caliph Hazrat Umar Farooq (R.A.) is very

important relating to zakat as he made several modifications to system of zakat through *Ijtihad* to coup with changing economics of society. His reign was from 634-644 A.D., he set up the institution of *Bait ul Mal* or State Treasury for the management of Zakat funds. He also conducted *Ijtihad* and excluded category of Muallafa tul quloob (Those whose hearts had to be won) from eligible recipients of zakat as he thought that Islam has now consolidated its position and new comers to Islam don't face the hostilities that were used to face during early days of Islam.

The Era of third Caliph Hazrat Usman (R.A.) lasted from 644-655 AD, during his time the dynamics of economy further evolved and to keep up with changing dynamics he divided property in to two types i.e. Visible Property (Amwal al-zahiriah) and Non-Visible Property (Amwal al-Batinah), he made Zakat on Visible property compulsory to be paid through state institutions and zakat on in-visible properties was left on individual's desire [22].

After caliphate the major period in terms of zakat management was the period of Umayyah Government headed by Umar bin Abdul Aziz, he restored original system of *Amils* with Governor of each province working as *Amil*, at that time the system of zakat along with Islamic economics was so strong that the Governor of Egypt once asked Umar bin Abdul Aziz that What to do with Zakat funds as he is not able to find any eligible people who can receive zakat. Umar bin Abdul Aziz replied “Buy slaves and let them free, build shelter for travelers to rest and help young men and women to get married.”

### Current zakat systems in muslim countries

Pakistan has a centrally managed five tier zakat system with Central, Provincial, District, Tehsil and Local Zakat Councils, on the basis of pre-defined quota Central Zakat Council disburses collected zakat funds to lower councils [23,24]. 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 [25]. 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 BAZNAS to supervise and control independent zakat bodies [26,27]. In Sudan zakat is compulsory for all citizens and is managed by state and is distributed through three channels i) Local Zakat committee's ii) Committee for urgent cases and travelers iii) Committee for people in debt [28].

### Critical analysis of zakat systems

Management of zakat as discussed has gone through several modifications with the passage of time, from fully state owned institution during era of Prophet MUHAMMAD (Peace Be Upon Him), to partially voluntary during era of Hazrat Usman (R.A.), to almost total abolishment of state control during colonization era and then merged system of State-Private ownership in current world. Whatever the system, its performance is judged in terms of the results it gets. Unfortunately after the dynasty of Abbasids ended the zakat system along with Islamic economics started its downfall, after the end of colonization era, many efforts have been made to revive the zakat system across Muslim world but they are yet to be materialized. One of the major reasons for unsuccessful attempts by Governments and researchers is non-uniformity and lack of collaboration on state levels in a country and among countries as a whole. It is possible to devise a uniform zakat management model with the help of successful systems from early Islamic times, partially successful systems of current era

and proposed systems by researchers. It can be argued that when the system designed by Prophet MUHAMMAD (Peace Be Upon Him) was successful, than we need to change it? The reason required for change in quite straight forward that Islamic world has expanded manifolds and Economy has become very complex so we have to make changes as per current requirements but the basic foundation laid at that time should still be the starting point.

### Proposed Framework for New Zakat System

On the basis of above discussion and analysis of several zakat systems following zakat system is being proposed that can be implemented uniformly throughout Islamic world. Following are integral component the proposed ZMS.

#### Government/State ownership

There are five pillars of Islam namely as per mentioned in following Hadees:

*“Islam is built on five (pillars): Testification that there is no God but Allah, and Muhammad is His Messenger, performing the Salah-Prayers, giving the Zakat-Charity, fasting Ramadan, and performing Hajj if one is able” (Muslim)*

Except zakat all other Pillars are individual acts of Muslims and God has advised Muslims to perform them so that they can have blessings of this life and life hereafter otherwise they will be punished. Zakat however is also an individual act but its significance is highlighted by the fact that God has not left it upon individuals rather God has instructed the Ruler/Government to collect zakat from *Sahib e Nisaab*, as stated in Holy Quran,

*“Take alms out of their wealth, so that thou mayest cleanse them and purify them thereby.”(Al-Taubah, 103)*

The significance of this decree is very wide ranging, as zakat is an integral part of Islamic Economic System and is cure to the economic inequality. To maintain a balance in economy it is necessary that people having wealth should transfer some of their wealth to those who don't have enough wealth. For that, state mediation is necessary to make sure that no one runs away from his responsibility and no one is left underprivileged. State supervised structures govern following benefits,

- Uniform rules and regulations for all
- A single authority controlling and assisting all lower level bodies
- If any segment under performs than it's adverse effects can be neutralized through compensation good performing segments
- Any emergency can be dealt through central command and common pool of assets.

#### Had al Kifaya

Had al kifaya as discussed earlier, is an important component though not incorporated in majority of zakat systems. Had al Kifaya is basically setting a standard in monetary terms that is required for a household to fulfill their basic needs or maqasid al shariah. Had al Kifaya need to be defined in terms of items that are required as per *maqasid al sharaih* and value can be calculated as per geographical/local economic conditions.

#### Mosque

Mosque has been a very important institution in Islamic history,

Mosque is primarily a place where Muslims offer their prayers but it has been used as a place for education, creating harmony, devising strategies during wars, to solve disputes and general policy making but now in modern world mosques have been merely used for offering prayers and teaching of Holy Quran. Mosque can again be used as a hub for management of Islamic matters especially zakat management as proposed by Wahid, Kader and Ahmed. *Imam* of mosque is a very respectful person in society and also enjoys a special place in Islam, he is supposed to be well versed with the teachings of Islam. In current world where people don't trust others especially when money is involved, the *Imam* can be considered as a trust worthy personnel in his locality. *Amils* were appointed in Early Islamic Era for collection and disbursement of zakat and are still present although not in as organized form as before, but they are the backbone of successful zakat system, so, *Imam* of mosque can act as an *Amil* with responsibility of collecting and disbursing zakat at local level.

#### Hierarchy for zakat management system

The system best works at four hierarchical levels under central/state institution,

1. Local Zakat Council
2. City Zakat Council
3. District Zakat Council
4. Provincial Zakat Council
5. Central Zakat Council.

**Local zakat council:** Local Zakat Council (LZC) is lowest level of this hierarchy and its scope is limited to a small geographical area e.g. Mohallah, Colony, Housing Scheme and Union Council etc., it will be managed through the designated mosque of that locality with *Imam* of mosque working as *Amil* and chairman of council. The structure of LZC will include minimum of five and maximum of eight members, all residents of same locality preferably most influential and respected residents who are well aware of circumstance of their locality.

**City zakat council:** City Zakat Council (CZC) will be based in main central mosque of the city or any big/prominent mosque of city, with the most senior *mufti* of city acting as its chairman and all chairmen of LZCs as its members. Specialized accounting personnel will also be a member of CZC to conduct audits of LZC randomly and to prepare any analysis regarding their respective city's data as per demand of higher authorities

**District zakat council:** District Zakat Council (DZC) will be based in District Bait ul Mall, with state appointed experienced *Mufti* or judge of a shariah court working as its chairman, all CZCs of district will have their representation through their respective chairmen. DZC will just like CZC will act like an intermediary body with main task being audit, enforcement of rules, education of people and analysis.

**Provincial zakat council:** Provincial Zakat Council (PZC) will be based in Provincial Bait ul Mall or any other government designated office. PZC will be more of an administrative body, with any prominent Islamic Scholar as its chairman and all DZCs chairmen as its members. Accounts, audit, compliance, and HR will have representation in administrative segment of PZC.

**State zakat council:** Central Zakat Council (SZC) is main body of zakat management system acting as parent body for all other councils. SZC's chairman should be highly qualified Islamic Scholar well versed

with Islamic Teachings as well as aware of modern management practices. SZC will have authority to devise all rules and regulations and finally approve members of lower councils.

**Working of proposed zakat management system**

The step by step working of Zakat Management System is as follows,

- SZC will define had al kifaya and Nisaab for the year
- LZC will select its members and will get final approval from SZC or any other office designated by it. Amil along with members will evaluate wealth of all residents of their locality and then prepare lists of eligible zakat recipients and prospective payers of zakat in their designated area.
- The prepared lists will be sent to SZC through proper hierarchal channel, these lists will be helpful in having estimates about requirements and availability of zakat funds for that particular area and nationally.
- Amil at LZC level will receive/collect zakat from their locality and will promptly notify about received amount to CZC. LZC will start disbursing zakat to eligible recipients in their locality as per priority list as soon as enough funds are collected.

- After disbursement of zakat funds in designated area, LZC will transfer any leftover zakat funds to CZC. Similarly all LZC's will transfer excess funds if any to their respective CZCs.
- CZC will honor request of any LZC which has shortage of funds with pool of funds it has accumulated via excess funds of LZCs.
- CZC will transfer funds to DZC which will in turn transfer excess funds to PZC after honoring all requests of fund shortage from CZC's. PZC will finally transfer excess funds to SZC.
- SZC can transfer funds to PZC in case of deficiency of funds. After fulfilling requirements of eligible recipients across country and balance funds with SZC can be used for macro level projects e.g. educational facilities and starting small businesses in underprivileged area's where skillful poor people will get jobs etc.

The most important segment in above mentioned model is Local Zakat Committee, as it will be entrusted to oversee all matters related to zakat collection and disbursement in their local areas. So effective and efficient working on their part is very important, Stage wise working of LZC is as follows in Figure 1.

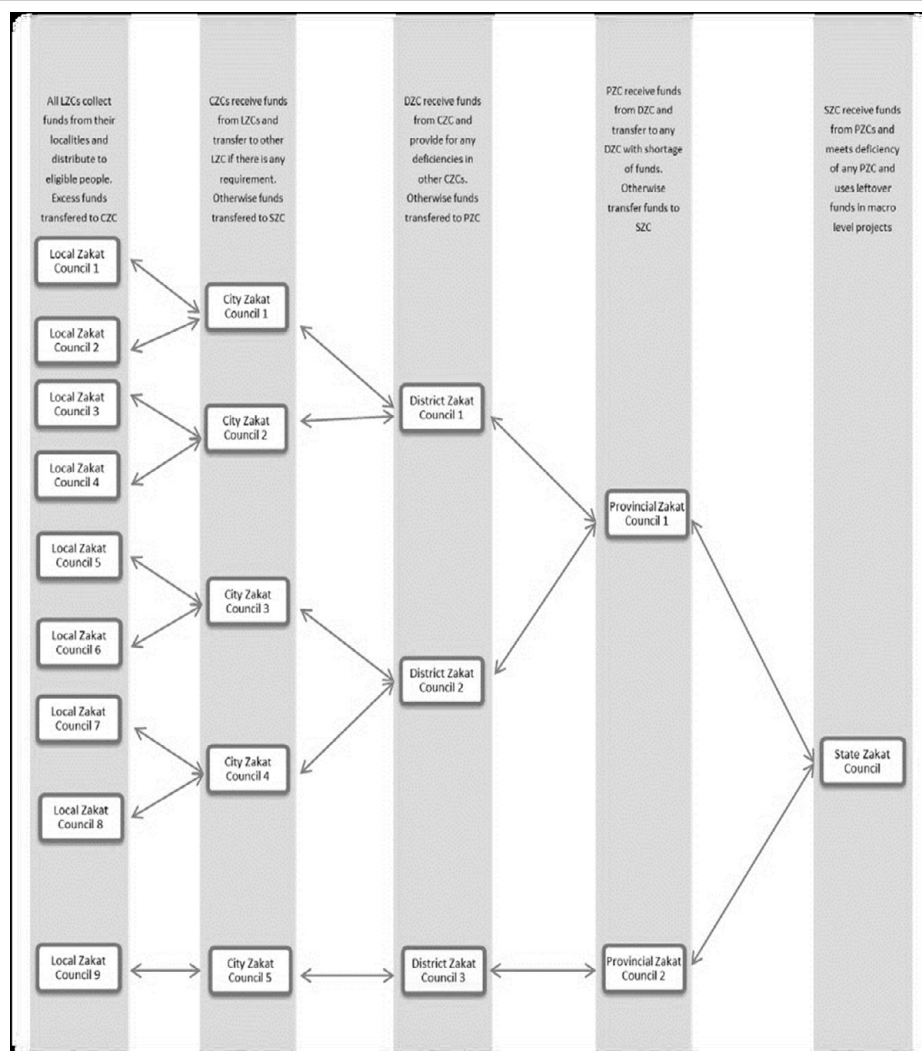


Figure 1: Proposed Zakat management system.

To have a check and balance mechanism, audit of LZCs is very important random. Special audit teams from reputed audit firms may be hired to conduct audit annually, random audit on short interval may be conducted by CZC or DZC through their accounts department.

**Working of provincial, city and district zakat councils:** CZC and DZC are also important party of zakat system but their role is more of moderating and assisting nature. They don't have authority to distribute zakat on their own; however they will insure the rule and regulations at lower levels. SZC can use all three councils for the implementation of macro level projects particularly the PZC.

**Working of state zakat council:** State Zakat Council is the regulatory body and in addition to devising all rules and regulations and selection of DZCs, CZCs, and LZCS, it also has to play active part in proper planning and implementation of zakat system at lower levels, its working is as below in Figure 2.

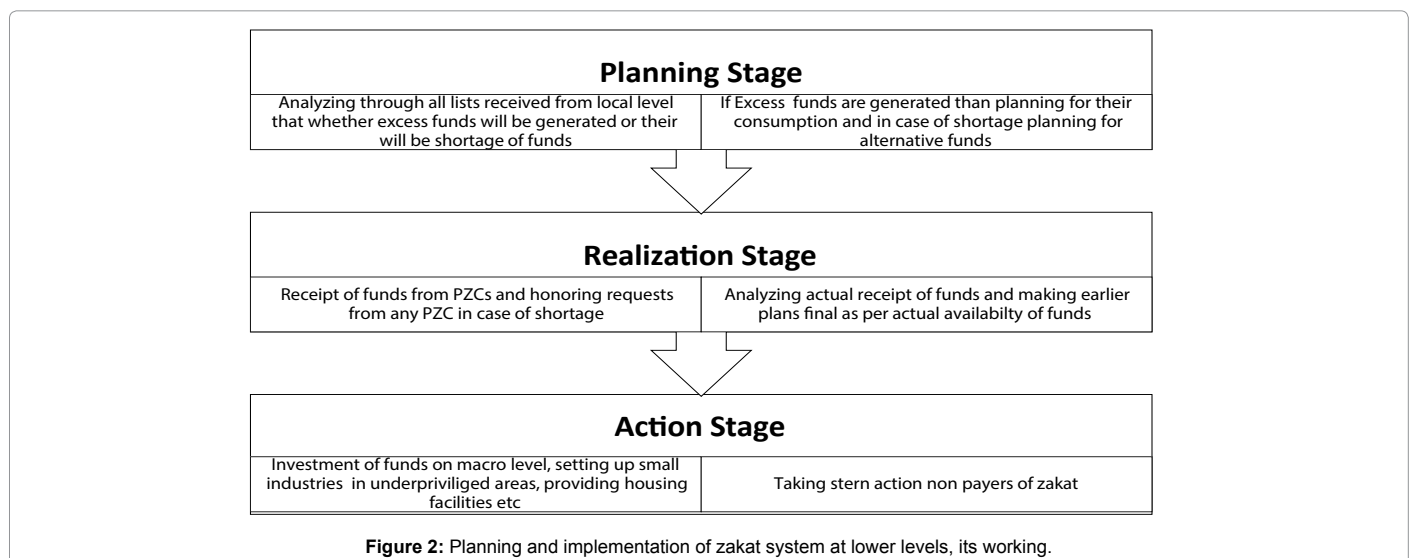
**Proposed working of SZC**

SZC will also have additional responsibilities as discussed above of defining Nisaab, Had al Kifaya and zakat able items every year.

**Analysis and Discussion**

It is a known fact that aggregate income of world is increasing but poor people aren't getting benefit of it, as increased income becomes part of already rich people. Poor is getting poorer and rich is getting richer day by day, the situation in Islamic countries is even worse [29]. To coup with this situation we need to find the solution for underlying causes of poverty, one of which suggested by Islam is Zakat. There is no doubt that zakat is perhaps the most effective tool to eliminate poverty and reduce income inequality, this has been proven in early Islamic times when there was not even single poor person who was eligible to receive zakat, no other system offered in this world can eradicate poverty to such extent, the western world who claims to have a welfare system is just an illusion as in western world, a lot of people live below poverty line and rich people are getting all benefits. The taxation system is unjust as it benefits rich and exploits poor [30]. So we have to revert back towards our basics and identify where we went wrong with zakat system and make remedies. Only 37% Muslim countries have state sponsored zakat institutions out of which only 40% have made zakat collection compulsory, remaining 63% doesn't have zakat management

at state level, in these dire circumstances we can't expect zakat system to benefit us in the way it is supposed to be. The major reasons for the failure of zakat systems where applicable is lack of proper planning and lack of proper implementation [31], In Indonesia there is rivalry among zakat institutions which is hindering progress, in Malaysia too much decentralization have made things complicated and non-uniform, In Pakistan and Bangladesh there are issues with proper implementation as competent personnel are not in charge of process and political gains are first priority and in Turkey whole responsibility has been left upon public to evaluate and pay zakat to whoever they want and how much they want. With so much different systems working it is very difficult to get optimal results out of zakat. The proposed model in this study has in theory at least eliminated many shortfalls of current systems, as it encompasses micro as well as macro aspects of society. It is a blend of micro and macro features of society and management with zakat being collected and disbursed at local (Town, Colony) level by most respectful members i.e. *Imam* of mosque of that particular area, hence eliminating the main obstacle to mistrust in society [32-34]. After fulfilling demand of funds in locality, they can transfer excess funds to other localities through CZC or DZC, excess funds on district level are then transferred to PZC which in turn transfers excess funds to SZC. State Zakat Council then undertakes macro level projects with available funds in an attempt to make people self-sufficient, this is the most important phase however, a state may not be able to achieve this level simultaneously with the implementation proposed system, a state will be able to reach this level when it will be able to satisfy the basic needs of its citizens. Only then there will be excess funds with government to undertake macro level projects which will include starting cottage and small level industries particularly in areas where development rate is low and poverty is high, to make unskillful people skillful vocational training institutes can also be started, free education along with scholarships to needy students can be provided and state funded housing schemes for homeless people can be organized. At local level subject to availability of funds LZC can also provide funds to skillful persons so that they can start their earnings with small investment. In order to eliminate any chances of willful neglect at district level there will be audit team which will randomly audit the LZCs and take stern action in case of any fraud. Currently there is lack of awareness and education among people regarding zakat so, an advantage of this system is that local *Imam* can easily guide people about Islamic rules



and regulations of zakat, Government can also takes step to raise awareness level.

## Conclusion, Recommendations and Future Research

If properly managed zakat system will achieve its objectives and Muslims can revive their economy and society through proper implementation of zakat system, the proposed system is no short term solution to problem rather it will require patience to achieve its objectives. Government legislation and education is very important in this regard as government will have to give authority to *Amils* through public notice to evaluate and collect zakat. Legislation for those who don't pay zakat is also necessary and should include heavy fines and punishment for repeated offences. Public campaign regarding importance and benefits of zakat via prominent scholars and *Amils* on local scale can motivate people to pay zakat. The definition of Had al Kifaya needs great attention, as it will play a major role in the success of system, Had al Kifaya should not be too limited and also should not be too broader rather it should give enough funds to recipient that he should live life in a respectful manner. There are several dimensions for future research i.e.

- Detailed study on definition of Had al Kifaya
- Statistical equation to analyze impact on economy
- Pilot study on implementation of system.

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