

4. Introduction

Islam prescribes a legal share, in the wealth of affluent people, for the poor sections of the society in the form of Zakat. Thus, wealth starts flowing from the rich to the poor. Zakat plays very important role in distribution of wealth and ultimately in alleviation of poverty; the payment of Zakat narrows the wide gulf between the rich and the poor, the standard of living of the poor people begins to improve. As a result the friction between the two classes disappears and their relations become harmonious. The system of Zakat plays a very important role in employment generation. The jurists are of the opinion that professional people i.e., tailors, iron smiths, launderers, butchers etc. may be given monetary grants to buy tools of their trade. A cultivator may be granted capital from the Zakat fund to buy a plot of land to grow crops. In this way the system of Zakat increases the employment opportunities for the people and helps in poverty alleviation. This system provides economic security to the poor, the destitute and the needy.¹

Zakat is an integral part of the Islamic economic system based on the Islamic teachings and it is aiming at economic well-being of the Muslim communities, universal brotherhood and equitable distribution of income. It is designed to establish a community in which every individual or group is committed to social justice, equity and freedom.

Zakat is universal in its scope can be seen in the manner in which it is collected and distributed. After providing for the needs of eligible near kin, the Zakat fund is designed to cover the needs of those who live in the community where Zakat is collected and then to those eligible recipients living in the county, state, country, and finally the world at large.²

4.1- Zakat as a Mode of Economic Security

Zakat is as basic to Islam as other forms of Ibadah, Salah and Sawm (fasting). Its fundamental importance lies in the fact that it fosters in us the quality of sacrifice and rids us of selfishness and plutocracy. Islam accepts within its folds only those who are

1. Mian M. Akram and Muhammad Afzal, "Dynamic Role of Zakat in Alleviating Poverty: A Case Study of Pakistan" available at: Online at <http://mpra.ub.uni-muenchen.de/56211/> MPRA Paper No. 56211, posted 29 May 2014

2. Marghoob A. Quraishi, *The Institution of Zakat and Its Economic Impact on Society* Proceedings of the Second Harvard University Forum on Islamic Finance: Islamic Finance into the 21st Century Cambridge, Massachusetts. Center for Middle Eastern Studies, Harvard University. 1999. pp.77-81.

ready to give away in Allah's way some of their hard-earned wealth willingly and without any temporal or personal gain. It has nothing to do with misers. A true Muslim will when the call comes sacrifice all his belongings in the way of Allah (الله), for Zakat has already trained him to do so.

Muslim society has much to gain from the institution of Zakat. Islam instructs certain duties upon believers such as to visit the sick people, to help the needy, poor, destitute and orphans. If the sick are visited, the poor and needy are helped, and the weak are assisted, then these will grow socially and economically in the society.

Prophet Muhammad (ﷺ) said:

“Smiling to your brother's face is an act of charity”.

Islam orders believers to be nice to other people, kind and sympathetic. Certainly, the smiling to your brother is a symbol of your love to him, a symbol of respect, a symbol of sympathy, and a symbol of affection.

Further Prophet Muhammad (ﷺ) said:

“The Muslims is the brother of the Muslim: he does not wrong with him or let him down”.

Brotherhood is advance stage of sociability. Islam always emphasizes the brotherhood of believers. This brotherhood implies sociability. It is the bounden duty of every well to do Muslim to help his lowly-placed poor brethren. His wealth is not to be spent solely for his own comfort and luxury.³

Zakat is a determined right of the have-nots in the wealth of prosperous Muslims. It is a religious obligation rather than an ordinary tax which served as a primary source of revenue in the early days of Islam.

The Zakat is the first most important measure which has separate distributive mechanism. It brings the wealth of the rich and the prosperous for the general benefit of the needy and poorer sections of the society. One of the most important measures of redistribution of income and avoidance of concentration of wealth was the decision taken by Caliph Hazrat Umar (R.A.) to not distribute the conquered lands of Iraq and Syria amongst the fighters who were present at the battle. Rather he decided to leave

3. Abul Ala Mawdudi, *Towards Understanding Islam* 92 (The Islamic Foundation, U.K, 1st edn., 1996).

them in the hands of tenants and imposed land tax as a permanent service of income to the exchequer. The act of Caliph Hazrat Umar (R.A.) in fact prevented the accumulation of lands in a few hands. It was of great benefit to the common public as the income collected from these lands was spent on the general welfare of the people.

The institution of Zakat is the cornerstone of the Islamic economic system. The Holy Quran emphasizes Zakat as a critical component of socio-economic justice. The institution works to ensure an equitable distribution of wealth and establishes a safety net for needy members of society. Both the sources and disbursement categories of Zakat are specified in Islamic doctrine. The Holy Quran identifies eight categories of disbursement, each of which carries clear social benefit. One positive economic effect of Zakat is an increase in the money supply and a consequent increase in the demand for goods and services. Zakat also provides debt relief and enhances price stability. If accumulated in times of prosperity, Zakat funds can aid society through times of depression. Though Zakat has widely fallen out of use in modern times, it can have great economic impact if properly re-established.⁴

4.1.1- Security of Basic Necessities

It is an established principle in Shariah that the basic needs of every human being must be fulfilled. The individual himself, his near relatives, the neighborhood, and the society must all recognize and fulfill their responsibilities in this regard. But the ultimate responsibility of implementing this principle in practice rests with the Islamic state.

Islam does not let a person die of hunger, thirst or other necessities while others have a lot of means to satisfy these dire needs. A person faced with such situation is permitted to take forcibly from 'haves' that which would sustain him. The one who denies him such necessities, while, having surplus with him will be held responsible for his death in case he dies.

4.1.2- Security of Non-Believers in Islam

An Islamic society is not formed of Muslims only, but of Muslims, Christian and Jews living together under the Legal System of Islam. The legal principle applying to Christians and Jews is: "They have the same rights, and owe the same duties (as we do)." Simple root cause: that we humans and, unfortunately, we must also add, we

4. *Supra* note 2.

Muslims too have not properly obeyed Allah's essential instruction and thereby have missed our main goal.

Prophet Muhammad (ﷺ) stated that it is not good for a Muslim who ill-treats a non-Muslim. He told:

“He who unethically delights a non-Muslim living in an Islamic State, or undercuts his rights, or burdens him outside his capacity, or takes something from him without his consent; I will be his opponent on the Day of Judgment”.

It is well-known that Islam compares the killing of one person to the killing of all humanity. Prophet Muhammad (ﷺ) is stated to have specifically prohibited Heaven to those who hurt non-Muslims. He warned:

“Whoever kills a person protected by a treaty will never smell the fragrance of Heaven. Verily, its fragrance can be found a distance of forty years of travel”.⁵

4.1.3- Security of Religion

Islamic Law requires Muslims not to force non-Muslims to embrace Islam. ***“There shall be no compulsion in (acceptance of) the religion. The right course has become clear from the wrong. So whoever disbelieves in Taghut and believes in Allah has grasped the most trustworthy handhold with no break in it. And Allah is Hearing and Knowing”.***⁶

Non-believers are allowed to practice their religion in Islamic state. As far as their religious matter is concerned such as Marriage, Divorce and Inheritance non-Muslims are free to appeal in their own religious court.

Non-Muslims and Muslims are subject to the same public laws. They are to be preserved similar in matters of honour, theft, adultery, murder, and damaging property. They have to be punished in accordance with the Islamic law regardless of their religious affiliation. Non-Muslims and Muslims similar are subject to Islamic laws in matters of public business, financial transactions such as sales, firms, and establishment of companies, farms, securities, mortgages, and contracts. For example, theft is punishable by cutting off the thief's hand whether he is a Muslim or a non-Muslim.

5. Sahih Bukhari

6. Al-Quran, II: 256

In Islam, Muslim and non-Muslim inhabitants are equally protected by law, since justice can only be justice when applied equally.⁷

4.2- The Quranic Perspective of Economic Justice

The Holy Quran itself sheds light on the economic importance of Zakat. The commandment to establish Zakat is mentioned more than 80 times, usually in conjunction with Salah (prayer), as two means of purification. Allah commands Muslims to pay Zakat on their total wealth in excess of *Nisab*, (minimum wealth) to the poor for benefit of the society's social and economic welfare. The following Quranic verses, among others, emphasize that all resources belong to Allah and that these resources are thus a trust (Holy Quran LVII: 7) that must be used to satisfy the basic needs of all those who, for no fault of their own, cannot afford the basic necessities of life in a humane and dignified manner.

*“And He it is who causes gardens to grow, (both) trellised and untrellised, and palm trees and crops of different (kinds of) food and olives and pomegranates, similar and dissimilar. Eat of (each of) its fruit when it yields and give its due (Zakah) on the day of its harvest. And be not excessive. Indeed, He does not like those who commit excess”.*⁸

*“And what Allah restored to His Messenger from the people of the towns - it is for Allah and for the Messenger and for (his) near relatives and orphans and the (stranded) traveler - so that it will not be a perpetual distribution among the rich from among you. And whatever the Messenger has given you - take; and what he has forbidden you - refrain from. And fear Allah; indeed, Allah is severe in penalty”.*⁹

*“And from their properties was (given) the right of the (needy) petitioner and the deprived”.*¹⁰

Because the known economic resources at a given point in time are relatively limited, establishing the Quranic perspective of economic justice and providing general well-being for all members of the society requires a focus on three critical economic factors:

7. *Supra* note 2.

8. Al-Quran, VI: 141

9. Al-Quran, LIX: 7

10. Al-Quran, LI: 19

- i. Earning halal (permissible) income;
- ii. Ensuring an equitable distribution of wealth; and
- iii. Creating an economic safety net to assure need fulfilment of those who, for no fault of their own, cannot afford the basic necessities of life.

Since Zakat primarily relates to the second and third factors, let us first briefly define Zakat. Zakat is one of the five pillars of faith. It is a unique, spiritually charged filtering device primarily designed to cleanse one's possession or wealth necessary to protect the owners of wealth against spiritual poverty. While protecting the rights of "haves" and "have nots," its main objective as an act of worship are: (1) the promotion of stable economic growth through investments, employment and balance consumption, and (2) the achievement of greater income equality through an equitable distribution of wealth, thereby eliminating poverty and extreme disparities of wealth between the rich and the poor.

Zakat is a cornerstone of the values that govern Islamic economics. Being directional and normative, Zakat defines the norms of economic activity and, through its effects on economic variables, determines the direction along which the economy should move. On the revenue side, it specifies the manner in which revenue (Zakat) is to be raised and who pays it, and on the expenditure side, it sets forth the uses (recipients) of the revenue. Like any modern budget, it describes the economic order that it attempts to establish and express the ideals and aspirations of society.

From a microeconomic perspective, Zakat is a mechanism for self-help. Everyone contributes to need fulfilment and the general well being of society according to one's ability and from a macroeconomic perspective, similar to the inheritance laws in Islam, the institution of Zakat is designed to deal with the distribution of wealth in society. Being a re-distributive fiscal policy based on wealth and not on income, it provides insurance against unjust alliances between economic monopolies and political power, which leads to a social imbalance, exploitation, and eventually anarchy. As such, it guards against the concentration of wealth in the hands of a few persons, families, or even the state.

Finally, 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, Zakat and its heads of expenditure are determined by the Holy Quran and Sunnah, irrespective of the economic conditions of the society. That Zakat is distinct from taxes can be seen from a saying of the Prophet Muhammad (ﷺ) that *“in your wealth there are also obligations beyond Zakat”*. By paying Zakat, a Zakat-payer fulfils his/her fard, (religious obligation), whereas a taxpayer by paying his/her taxes only enables the state to perform its functions effectively.

To better understand the institution of Zakat as an economic safety net for the society, we will now look at the disbursement categories of Zakat.

Disbursement Categories of Zakat

The Holy Quran also defines its disbursement categories in the following verse:

“Alms expenditures are only for the poor and for the needy and for those employed to collect (Zakah) and for bringing hearts together (for Islam) and for freeing captives (or slaves) and for those in debt and for the cause of Allah and for the (stranded) traveler - an obligation (imposed) by Allah. And Allah is Knowing and Wise”.¹¹

The rightful recipients of the alms, as pointed out by the practice of Muhammad and his disciples are,¹² eight categories mentioned in this verse clearly define the disbursement of Zakat as an economic safety net to assure need fulfilment of those who, for no fault of their own, cannot afford the basic necessities of life.

The *first two* categories, namely fuqara (the indigent/the poor) and masakeen (the needy) includes those people who, being underemployed or unemployed, have no means of support or insufficient income to meet their basic necessities of life and therefore are indigent or live below the poverty level. This may be because they are incapacitated, disabled, orphans, sick, homeless, or of similar status.

To maintain the integrity and the independence of collection and disbursement of Zakat, the *third* category ameelen-a-alaiha refers to those expenses that are necessary to administer the Zakat fund, including personnel salaries. Muallafat-ul-quloob, the

11. Al-Quran, IX: 60

12. Syed Ameer Ali, *The Spirit of Islam* 176 (Islamic Book Service, Lahore, 1st edn., 1989).

fourth category, includes those people whose hearts are to be won over. According to some scholars this apparently means such non-Muslims who are too close to understanding and perhaps accepting Islam, and for whose conversion every effort should be made, either directly or indirectly (i.e., by means of the widest possible teaching of Islam).¹³ The *fifth* category fir-riqaab relates to both ransoming prisoners of war and freeing slaves. The *sixth* category, al-gharimun, includes those people who are overburdened with debts contracted in good faith, which - through no fault of their own-they subsequently are unable to redeem. The *seventh* category fee-sabeelillah embraces every kind of struggle for a righteous cause, both in war and in peace, including expenditures for the propagation and defence of Islam and for all charitable purposes.¹⁴ This may include education, medical care, and social welfare work. Finally the *eighth* category ibn as-sabil (son of the road) denotes any person who is far from his/her home and who, because of circumstances beyond his/her control, does not have sufficient means of a livelihood at his/her disposal. In its wider sense it describes a person who, for any reason whatsoever, is unable to return home either temporarily or permanently: for example, a political exile or refugee.

4.3- Methods of Spending

The items of the expenditure of Zakat are thus expressly stated in the Holy Quran in Verse IX: 60.¹⁵

The role of government with regard to the collection and distribution of Zakat is essential. The Quranic verse IX: 103 is addressed to the Prophet (ﷺ) as a head of the state and ordained him “take sadaqah (Zakat) out of their property”. The verse IX: 60, which stipulates the distribution, mentions the workers on its collection and disbursement as one of the categories of the recipients of its proceeds. This clearly indicates that Zakat of obvious wealth (farm produce and cattle) is not to be handled by the payers individually but by a government agency which hires its own employees. This principle is very much emphasized by several sayings of the Prophet Muhammad (ﷺ) and by his own practice during his reign as head of the state in Medina as well as by his four successors after him. Zakat of hidden wealth (such as

13. Muhammad Asad, *The Message of the Quran*, 270 (Dar Al Andalus, Gibraltar, 1984).

14. *Supra* note 2 at 85, 270.

15. Maulana Mohd Ali, *The Religion of Islam* 389 (Anjum Ishaat Islam Publishers, Lahore, 1st edn., 1973).

cash and stocks of investments) on the other hand, may be handled by payers themselves.

Zakat is an instrument practiced in the Muslim world, which is capable of reducing poverty and Income Inequality. That is why Zakat has emerged as an effective social safety net.

The modes have been prescribed for Muslims of spending in the way of Allah (الله):

i. Pleasure of Allah (الله)

Giving alms is really a way of giving thanks to Allah for the benefits received, both by sharing them and by using them to perform good deeds that will benefit others. By paying poor due we seek blessing of Allah on us and our family. Poor due is a loan to Almighty Allah which will be repay in this this world and hereafter.

ii. Favour

After payment of alms do not expect anything in return or any favour from the recipient. Alms should be pay as a religious duty imposed by the Almighty Allah. Poor due is the share of poor in the property of wealthy. The recipient should not be harassed or exploited in return of charity.

iii. Secret

The rule is that charity should be done privately as far as possible. The practice of charity is not prohibited publicly but it is better to do in privately. It is also for the social respect of the recipient and the feelings of not to be hurt.

*“If you disclose your charitable expenditures, they are good; but if you conceal them and give them to the poor, it is better for you, and He will remove from you some of your misdeeds (thereby). And Allah, with what you do, is (fully) acquainted”.*¹⁶

iv. Limitation of Charity

The poor due should not be given more than the needs of the recipients otherwise they spend it in wrong activities. It should be given as per the need and position of the person.

16. Al-Quran, II: 271

*“And do not give the weak-minded your property, which Allah has made a means of sustenance for you, but provide for them with it and clothe them and speak to them words of appropriate kindness”.*¹⁷

*They ask you about wine and gambling. Say, "In them is great sin and (yet, some) benefit for people. But their sin is greater than their benefit." And they ask you what they should spend. Say, "The excess (beyond needs)." Thus, Allah makes clear to you the verses (of revelation) that you might give thought.*¹⁸

Further Almighty Allah said in the Holy Quran that not to give whole property in charity so that you become insolvent.

*“And do not make your hand (as) chained to your neck or extend it completely and (thereby) become blamed and insolvent”.*¹⁹

4.4- Socio-Economic Role of Zakat

The Institution of Zakat is assumed to be a part of the socio-economic structure and that it is collected and distribute in accordance with the Holy Quran.²⁰

When a certain percentage of one's wealth is spent annually over the foregoing eight categories as prescribed in the Holy Quran, Zakat has a significant economic impact on society.²¹ The effect of Zakat on the income-allocation decision of Zakat recipients is to increase their disposable income, hence, increasing both saving and final spending together.²² 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, shelter etc., the production facilities would gradually expand and begin to absorb the idle capital. 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.

17. Al-Quran, IV: 5

18. Al-Quran, II: 219

19. Al-Quran, XVII: 29

20. Khurshid Ahmad, *Studies in Islamic Economics* 26 (International Centre for Research in Islamic Economics, Jeddah, 1st edn., 1980).

21. Multinational Enterprises and Social Policy, an ILO publication on multinational enterprises, p. 70.

22. *Supra* note 20 at 28.

As noted above, *fir-riqaab*, the fifth category of Zakat expenditures, (in addition to ransoming prisoners of war), relates to freeing of slaves. Today, obviously, human beings are no longer bought and sold as property. But by extrapolating the intent of this category, it can be safely stated that one of the basic purposes of Zakat is to free human beings from economic slavery as well. The majority of people living in poor countries suffer from abject economic slavery at the hands of many local landlords, rich industrialists, and multinational corporations²³ that exploit natural resources. One of the best ways to free people from economic slavery is to first give these oppressed people temporary relief and then, for economic rehabilitation through essential financial resources to acquire training, equipment, and material. For example, small businesses or privately owned “cooperatives” could be created. A regular flow of income of these entities would accrue to the recipients. Depending upon the rate of profit and retained earnings, the value of these enterprises would progressively grow. The income multiplier effect not only would benefit the economy several times the original investment in these enterprises, it would enable the poor to eventually become self-sufficient and free themselves from economic slavery while contributing to the economic stability of the society.

Expenditure on the sixth category, *al-gharimun*, is designed to assist those people who, being overburdened with debts, are unable to fulfil their obligations. A closer understanding of this category would reveal that Islam does not allow bankruptcy where creditors, whether individuals or financial institutions, eventually pass on their bad debts to the consumers in the form of increased prices. Such increases, if not offset by other elements of consumer price index, eventually contribute to inflation.

To provide for such contingencies where debtors who contracted debts in good faith but due to conditions beyond their control, such as sudden sickness, natural or economic catastrophes, cannot redeem them, expenditure of Zakat for redeeming the debts of *al-gharimun* not only helps maintain price stability, it eliminates one of the important factors which contributes to inflationary cycle.

To satisfy the seventh category, *fee-sabeelillah* (in the cause of Allah), Zakat funds when spent for education, medical care, and social welfare of those who otherwise cannot afford them or are oppressed, provide moral stability and human dignity to the

23. *Supra* note 21 at 70-71, 75- 78.

recipients, essential elements in maintaining economic harmony. Likewise, by providing financial assistance to *ibn as-sabil* who may be refugees or political exiles, the expenditure of Zakat, while maintaining the human dignity and general well being of the recipients, contributes toward their economic self-sufficiency. Over a period of time they no longer will be a burden on the society.²⁴

4.4.1- Economic Advantages of Zakat

The advantages and merits concerning to the financial matters of the Muslims are called economic advantages. Zakat purifies the soul of the taxpayer against the evils of greediness. It makes them more humble and righteous. It also creates the wealth of love between people discouraged. Zakat showed a healthy growth of the economy and the community and amounts to less fortunate in Society.

i. Equal Distribution of Wealth

The main problem of modern economic system is unequal distribution of wealth which is the main cause of social and economic problem. Islamic economic system solves this problem with Zakat in a good manner. Once government implements Zakat, it will automatically solve the problem of unequal distribution of wealth because the rich people will give Zakat to poor for consumption.

ii. Circulation of Wealth

To gain economic development it is very important that any country's capital should circulate instead of accumulation. If capital goes towards accumulation the economic activities will become slow. Zakat is the best tool to circulate the money in economy.

iii. Economic Stability

Zakat avoids interest system. When the economy is prosperous the amount of Zakat increases among poor. All these bring a balance in economic condition.

iv. Unemployment Solution

Once Dr. Keynes said, the basic reason of unemployment is the shortage of an effective demand. It is Zakat through which unemployment decreased by increasing the level of effective demand. In Islamic economic system unemployment allowance can be given to unemployment persons. Zakat is an important tool to eliminate

24. *Ibid.*

unemployment. The money can be received by the people and the poor can start a business.²⁵

v. Important Instrument of Fiscal Policy

There are three basics of government finance tax, expenditure and national loan. In Islamic economy Zakat is an important essential of government finance.

vi. Protection of Needy

There are different people living in a society, there are some people unable to earn and depend on other for financial help through Zakat. Such can be honourably protected with necessities of life.

vii. Source of Government Income

Islamic state is a welfare state that has to fulfil the responsibility of the society. For the fulfilment of this duty there should be surety of National Income. Zakat occupies a central position in the financial structure of a Muslim state because it contributes significantly to the state treasury and provides sufficient funds to the government.

viii. Collective Welfare

Another economic advantages or benefit of Zakat is that it is the most basic source of social welfare. In Islamic society Zakat funds can be utilized in school and hospitals to help poor. This promotes collective welfare of the society.

ix. Social Security

Zakat funds to cover not only the poor and disabled, but also social security for the unemployed. Hospitals, schools and craft for the poor can be built with Zakat funds. This promotes the social welfare of the country.

x. Combat Crime

The main cause of crime, including theft is because of the poverty of the population. The problem of poverty can be easier Zakat. Thus, the crime can be controlled.²⁶

Zakat institution is an integral part of the Islamic socio-economic system. Zakat Payment has been ordained by the Almighty Allah through his Messenger Prophet

25. By Umar available at: <http://www.studylecturenotes.com/management-sciences/economics/387-economic-advantages-and-benefits-of-zakat> (Visited on 10 October, 2017).

26. *Ibid.*

Muhammad (ﷺ) with a view to achieve social harmony among various sections of the Ummah.

At the core of Islam is the promotion of social justice. Its directive on Zakat is based on specific stipulations, whereby the well-to-do pays it for onward distribution amongst the destitute, the poor and other beneficiaries. This according to Al-Faruqi is “a sort of social insurance whereby member of the society enjoys basic necessities of life. Becoming a millionaire in an Islamic society is not out of place so far the conditions for acquiring wealth and that of Zakat are met. This will be regarded as a special blessing of Allah on His servant who in turn is expected to show same on fellow men.”

Zakat improve distribution and reduce disparity. It also ensure fulfillment of basic needs.²⁷ Zakat also helps to promote the brotherhood spirit of Islam, which regards all believers as one family. Giving it will bridge the gap between the poor and the rich. Both will recognize their divinely placed status without resenting or blaming the other. So, when the giver does so, it does not count himself as doing any favour to the beneficiary; rather he regards it as a social responsibility. This spirit is more decent and protective of the dignity of the destitute than dolling out coins to them as charity while standing or moving around as beggars. There is no way such society will not be socially balanced as the well –to-do carries out this as a trust.

In addition, Zakat promotes cooperation, humanitarianism and welfare. The society becomes a network whereby wealth is properly circulated. This goes to the extent of the recipient at another end becoming givers. It is purely helping others to prosper to reduce dependency. This will eventually bring about equality in the society.

Economically, Zakat is an instrument for social stability and empowerment. Its various kinds provide an avenue for people to diversify their material pursuits. By so doing, it prevents the society from over reliance on just one means of living. It opens channel for agriculture, merchandise and other modern alternatives. Its distribution strategies go a long way to promote equitable circulation of resources. This also helps to cater for every sector of the economy as establishing a peaceful society is the goal of Islam. This peace commences with individuals and then the society at large. In addition, Islam lays emphasis on the purity or source. Thus, people are prevented

27. Dr.F.R. Faridi, *The Principles of Islamic Economics and the State of Indian Economy* 31 (Dawat offset Printers, Delhi, 1st edn., 1995).

from amassing wealth from illegal means like embezzlement, monopoly, hoarding and the like.

Another role Zakat plays in this regard is that the centralisation of its collection will on one hand allow knowing the economic strength of the community and on the other hand it allows for proper distribution so that some will not be disadvantaged. Aside, the state or the organization may identify people's area of need and empower them accordingly.

Moreover, it helps to overcome the scourge of materialism, a sort of cancer, which manifests itself in aesthetic tastes and obsession. Man has been created to be a combination of matter and spirit. Allah has created abysmal desires in him to the extent that the entire earth may not be sufficient to satisfy his single desire. Hence, we have the rich getting richer with the end justifying the means amidst fleet of cars, array of clothes and magnificent mansions; while the poor get poorer and is consigned to hell of depression. As a concept, it forecloses any deep, significant, transcendental consideration of the worldly affairs. It breeds greed and avarice, narrow-mindedness and cruelty, selfishness and money worship, exploitation and monopoly, colonialism and unending strife and war. It is thus the great role of Zakat to cleanse man of this material tendency by giving him limitations.

The Holy Quran identifies eight eligible beneficiaries of Zakat in Holy Quran IX: 60.

"Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth), for those in bondage and in debt; in the cause of Allah and for the wayfarer, (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom".

These classes as identified by the Holy Quran many centuries ago are not circumscribed by time or environment. They are ever relevant to any given society. There may however, be some circumstances which warrant that some new strategies be adopted as in the case of whose hearts are to be reconciled or 'Fi-Sabilillah'. The modern setting of the society will definitely require that entitlement of these groups be channeled on some projects.

4.4.1- Zakat as a Mode of Eliminating Poverty

The Islamic approach of eradication of poverty and containment of inequities of income and wealth within acceptable limits has several features which distinguish it

from capitalist economies to tackle this problem. The most distinguishing feature of the Islamic approach to eradicate poverty is the mandatory character of social security system.²⁸

Al-Qardawi contended that Zakat is the cornerstone of the economic, financial and social systems of Islam. Zakat has a multiplier effect as it tends to increase a society's employment rate and income. When this happens, the standard of living is raised and this leads to more Zakat being collected. It should be understood that Zakat in Islam is not just handing over peanuts to the poor. It is much more than that. Basically, Zakat aims at reducing inequality and poverty.²⁹

Islam deals with the problem of poverty and hunger in a perfectly effective way. No other religion can claim such a comprehensive system of poverty alleviation in all its aspects. Poverty is a complex phenomenon; the Islamic system of Zakat would provide social security at the local level.³⁰

*“Nor did we used to feed the poor”.*³¹

4.4.2- Zakat and Poverty Alleviation: Evidence from History

There are two reports that give an account of the role of Zakat on poverty alleviation during classical times. These two reports are from the time of Umar bin al Khattab (13-22H) and the period of Umar bin Abdul Aziz (99-101H). Although there are no figures of the amount of Zakat collection, there are indications regarding its quantitative effect. Abu Ubaid (1353H) reports from Amr bin Shuayb that "Muath bin Jabal continued as a governor since the Messenger of Allah (ﷺ) sent him to Yemen during the time of Abu Bakr and then Umar. Then (one year) Mu'ath sent to him (in Medina) one third of the sadaqah (collected) from people (in Yemen). Umar rejected it and told him: I did not send you as a collector and we don't take duties, I rather sent you to take from the rich people and to render it to the poor among them. Mu'ath said: I didn't send a thing that I find anyone who would take it from me. In the following year he sent to him (in Medina) one half of the (collected) sadaqah; then the same exchange of talks happened between them. When the third year came, he sent him all the (collected amount of) sadaqah; Umar discussed it with him as in the past but

28. Ziauddin Ahmad, *Islam, Poverty and Income Distribution* 81 (The Islamic Foundation, U.K, 1st edn., 1991).

29. Adamu, Ummulkhayr, Musa Yusuf Owoyemi, Rafidahbinti Mohamad Cusairi, "Zakah Administration and its Importance: A Review" 21 *IOSR-JHSS* 4 (June 2016).

30. Mohd Akram Khan, *An Introduction to Islamic Economics* 22 (Kitab Bhava, New Delhi, 1st edn., 2001).

31. Al-Quran, LXXIV: 44

Mu'ath insisted: (this year) I did not find a single person who (needs/accepts to) from me anything (of the sadaqah).”

The second report appears in the biography of Umar bin Abdul Aziz. The governor of Egypt wrote to him asking what to do with the proceeds of sadaqah because he found no deserving poor and needy all over the country. Umar answered: 'buy slaves and set them free, build rest areas on the highways and help young men and women get married'. Ibn Kathir (1997) reports “Umar appointed a person to call throughout the streets and cities on a daily basis 'Where are the persons who are under debts? Where are those who intend to get married? Where are the needy? Where are the orphans? (This process continued) until he enriched all these people”³²

The Prophet of Islam Muhammad (ﷺ) dislikes poverty and starvation. Poverty, in all probability, leads to unbelief (kufr). If system of Zakat follows properly then there will be no poor in the society. The Almighty Allah himself described the categories of valid recipients in the Holy Quran (IX: 60). There are eight classes of recipients who have been described in the Holy Quran as entitled to receive Zakat.³³

There are number of Hadith (traditions) ascribed to him to this effect. A tradition reported by Nissin says.

“O Lord! Seek refuge in thee from being oppressed and from oppressing (others)”.

It is very significant tradition as it links poverty scarcity, indignity and oppression one aids and abets the other. The Prophet, by seeking refuge from all this makes it incumbent on all the Muslims to declare war against poverty. Another tradition reported by Abu Daud says-

“O Lord! Seek refuge in thee in from Kufr (unbelief) and poverty”.

Baihaqi and Tibrani says, ***“Poverty in all probability leads to unbelief (Kufr)”***

All these traditions ascribed to the Prophet make it clear that a Muslim must declare war against poverty. Poverty is as condemnable as unbelief and a Muslim should fight against Kufr he should fight against poverty perpetuating poverty amounts to

32. Habib Ahmed, *Role of Zakah and Awqaf in Poverty Alleviation* 31 (Islamic Development Bank, Jeddah, Saudi Arabia, 1st edn., 2004).

33. *Id.* at 32.

perpetuating unbelief. Thus, war against poverty becomes an integral part of Islam faith.³⁴

The institution of Zakat could serve the end of mitigating the rigours of economic injustice in an emerging mercantile society.

Islamic finance provides more equity Islamic financial institutions, if given the right tool, can contribute to the efforts taken by the whole society reduce poverty. Islam prescribes a tax subsidy approach to reducing poverty. Zakat is paid by the wealthy (those whose wealth exceeds nisab level) in proportion to their property. Zakat proceeds are earmarked for certain uses, including income and wealth maintenance for the poor. Income maintenance is provided within narrow limits to those incapable of work, and wealth maintenance is provided to the rest of the poor. The latter policy entails giving the poor productive assets which they can use to produce goods and services and sell them for profit such redistribution is mostly directed towards making the poor more productive which in turn contributes to economic development. Income maintenance would involve regular (monthly) payments to needy, wealth maintenance meanwhile, involves transferring to the poor a combination of productive resources which would be capable of generating sufficient income to maintain at least one thousand. Wealth maintenance can be implemented through the establishment of micro enterprises that would own and operated by the poor. The experience of Islamic banking and financial institutions in project financing should come in handy in eradicating poverty and increasing equity through. Proper use of Zakat proceeds.³⁵

The imposition of an organized Zakat collection system should be the objective of every Islamic state, both for the benefit of social peace and religious fulfillment. This might create a problem where Muslims live side by side with non-Muslims. It would not be just to charge the Muslim with both civil and religious taxes while the non-Muslim neighbour pays only one tax. In the past, non-Muslims used to pay Jizya which was the counterpart of Zakat from Muslims.

Economy occupies a large part of our life. We cannot pass even a day without undertaking any economic activity, whatever it is. Even eating or sleeping for a while comes within the purview of economics. As for example, why do we eat? We eat to

34. Mohammad Shujaat, *Islam and War* 31 (Gyan Publishing House, Delhi, 1st edn., 2004).

35. Munawar Iqbal and Ausaf Ahmad, *Islamic Finance and Economic Development* 21 (Islamic Research and Training Institute, IDB Group, Riyadh, KSA, 1st edn., 2005).

survive. Why do we survive? We survive for work. Why should we work? We work just to earn our bread. How do we get bread? We get it either for money or by producing. Therefore, both money and production are the two most important parts of economy. The Holy Quran and Sunnah involve a lot of texts that exhort for charity, Zakat and doing works that benefit human society. If the system of Zakat in Islam is understood well and properly it verifies the divine nature of Islam. Truly, the system came from none other than the Almighty Allah (الله), who created everything including people and the universe. Man made theory may be wrong. But, there is no slightest degree of doubt that Allah's System is perfect and beneficial for all.

4.4.3- Zakat: The First Universal Welfare System

The achievements of the Prophet Muhammad (ﷺ) were based not on ephemeral but on the permanent values of the Holy Quran. He brought about the greatest revolution, even an economic and political miracle, in human history. In a very short time after the Prophet Muhammad (ﷺ) migrated to Al-Medina and implemented the system of Salah and Zakat, the economic condition of the people changed and improved immediately.

The Prophet Muhammad (ﷺ) is reported to have said:

“If a single person were to sleep hungry in a town, then Allah’s protection is lifted from such a town”.

This hadith emphasizes that no one (Muslim or non-Muslim) under this system should go hungry. Thus, the Zakat system created the first universal welfare system in human history. It also gradually transformed the existing slave-based economy to a universal welfare-based economy. By the end of Prophet Muhammad's period, the entire Arabian Peninsula enjoyed economic as well as political security. In fact, we abandoned the system implemented by our Prophet Muhammad (ﷺ).

Consequently, common Muslims have continued to live in poverty and suffer intergenerational economic misery. Islam's system of Zakat has nothing to do with this sad state of affairs.

The effective control of Muslim land and its vast resources have slowly passed into the hands of the enemy, while we are exhorting ordinary, working-class Muslims to

give Zakat. While thousands of children die from malnutrition and lack of medicine, religious Muslims spend millions of dollars on food and decorations to celebrate the departures and arrivals of Hajis (pilgrims) in hundreds of cities and towns around the world. Many religious and rich Muslims firmly believe that performing multiple Hajj and `Umrah is the highway to heaven. While many of the Imams and religious leaders join in and participate in the celebrations of the rich by praising their religiosity, all the while they exhort the poor to be patient and accept their predetermined fate.

If we will implement the economic system of Zakat as effectively as was demonstrated by our Prophet Muhammad (ﷺ) then there will be no poor and needy in our society.³⁶

4.4.4- Zakat as an Economic Institution

Although, Zakat aims is to giving out specific percentage of one's wealth to a specific set of people at a specific time. It, on the other hand, establishes the equilibrium of Islam. As against communism which denies individuals from having personal pursuits to own wealth based on ability, it allows individuals to engage in lawful business and become prosperous. It only rules that when the wealth gets to a particular taxable limit, the due of Allah (الله) which is meant to cater for other members of the society must be given.

This allows for healthy and natural striving to earn. It does not turn individuals into slaves of the nation whereby people's capacity and natural differences are jettisoned. Also, it liberates the society from the scourge of materialism which is orchestrated by capitalism. The latter allows individuals to be rich by whatever means at the expense of the society and encourages monopoly, fraud and materialism at its peak. Furthermore, Zakat guides against evil by purifying hearts of men from excessive and unlawful acquisition of wealth. Islam declares the monopolists as wrongdoers and the one who hoards as a sinner whom Allah will renounce. To prevent accumulation of resources in a few people's hand, Islam institutionalizes Zakat at a fixed rate. By this, those concerned will give for the sake of Allah. This act of giving makes them realize their loyalty to Allah. Thus, their mind will become free from abuse of their wealth. They will rather use it to empower fellow men to be meaningfully engaged and freed from shackles of economic downturn.

36. <http://www.islam-hinduism.com/en/significance-of-zakah/>. (Visited on 10 Nov., 2017).

4.4.5- Zakat as an Economic Development

Zakat is one of the important instruments to increase the welfare of individuals both in the temporary and permanent stages of their life.

Economically, Zakat is one of the important instruments to increase the wealth of the poor. Zakat aims at eliminating poverty and the desire for personal accumulation at any cost, and encourages socially orientated behavior. It aims for the reduction of socio-economic differences by providing financial help to the 'have-nots' to bring them closer to the 'haves'. This can be done in two ways. First, the person capable of working will be given what he/she needs to become a productive earner so that he/she can earn an income that satisfies his/her basic needs. This may include education, training and capital to start a business. The distribution of Zakat in the form of education, training and capital goods, (such as a taxi, sewing machine etc.) not only enriches the poor and makes them productive elements in society, but also encourages entrepreneurship and increases the supply of entrepreneurs. This effect is further enhanced by the overall Zakat system which provides a social security type of arrangement that stimulates new business ventures. This increases employment and productivity. Second, the unproductive members of society such as the elderly, sick, widows, the handicapped etc., will be provided periodic income to support them to afford consumption of their basic needs. Therefore, Zakat increases the demand for goods which fulfills the basic needs of the poor. Hence, Zakat also influences investment because the multiplier effect which results from a rise in aggregate consumption which increases investment.

4.4.6- Zakat as an Economic Equilibrium in Society

Islam has made the circulation of currency between all citizens an obligation and it has forbidden the restriction of such circulation to a certain group of people to the exclusion of others. Allah (ﷻ) says:

"Whatever spoils from the dwellers of the township Allah has bestowed on His Rasool, shall belong to Allah, His Rasool, Rasool's relatives, and to the orphans, the needy and the travelers in need; so that it may not become the property of the rich

among you. Whatever the Rasool gives you, take it and from whatever he forbids you, refrain from it.³⁷

*“And what Allah restored to His Messenger from the people of the towns - it is for Allah and for the Messenger and for (his) near relatives and orphans and the (stranded) traveler - so that it will not be a perpetual distribution among the rich from among you. And whatever the Messenger has given you - take; and what he has forbidden you - refrain from. And fear Allah; indeed, Allah is severe in penalty”.*³⁸

If there were an excessive disparity between individuals within society in terms of securing the needs, and if society needed to be rebuilt a new, or if this disparity was caused by neglect of or the indifference in the implementation of the Islamic rules, the State would be under obligation to redress the situation by handing out financial assistance to those in need, until these basic needs were satisfied, and until a balance in distribution was struck. The State should endeavour to provide both movable and immovable commodities, for its aim should not only be to temporarily fulfill one's needs, but also to provide the means which would assist the individual in his quest to fulfill his own needs over the long term. If the State were short of funds, and if its revenues were insufficient to generate such a balance within society, it would be wrong for it to impose taxes on its citizens for the sake of bringing about such balance, for this matter is not the duty of all the Muslims. Therefore, whenever the State feels that there is a disparity in the economic balance within society, it should address this disparity by handing out financial assistance from the funds of the State to those in need.

When the Messenger of Allah (ﷺ) realised that there had been a disparity in wealth between the Muhajireen and the Ansar, He (ﷺ) divided the booty gained from Bani Nadheer exclusively among the Muhajireen, in order to generate an economic balance. It has been reported 'that when the Messenger of Allah (ﷺ) peacefully conquered Bani Nadheer and then expelled the Jews from it, the Muslims asked the

37. Economic Equilibrium in Society available at: <http://systemofislam.com>. (Visited on November 10, 2017).

38. Al-Quran, LIX: 7

Messenger of Allah (ﷺ) to divide the booty among them; so, Allah (ﷻ) revealed the following verses:³⁹

"And what Allah restored (of property) to His Messenger from them - you did not spur for it (in an expedition) any horses or camels, but Allah gives His messengers power over whom He wills, and Allah is over all things competent".⁴⁰

So Allah (ﷻ) had placed the wealth gained from Bani Nadheer exclusively at the disposal of the Messenger of Allah (ﷺ), to spend in whichever way he deemed fit.

The Messenger of Allah (ﷺ) divided it among the Muhajireen and did not give any of it to the Ansar except to Abu Dajana Sammak ibn Kharsha and Sahl ibn Haneef who both were at that time poor just like the Muhajireen.' It has been reported on the authority of Ibn Abbas that the Messenger of Allah (ﷺ) said to the Ansar:

"If you wish I could ask you to share your homes and your wealth with the Muhajireen and divide among you this booty, otherwise if you wish you could keep your homes and your wealth and I shall not have to give you anything from this booty." Upon this the Ansar said: 'We would rather share our homes and wealth with our brothers and let them have the booty as well.' Allah (ﷻ) then revealed:

"But they give them preference over themselves even though poverty was their own lot".⁴¹

Therefore, Allah (ﷻ) saying:

"And (also for) those who were settled in al-Madinah and (adopted) the faith before them. They love those who emigrated to them and find not any want in their breasts of what the emigrants were given but give (them) preference over themselves, even though they are in privation. And whoever is protected from the stinginess of his soul - it is those who will be the successful".⁴²

This means lest it circulates only amongst the rich. The Arabic word "Doola" means the object that circulates or changes hands amongst people; it also refers to the

39. *Supra* note 34.

40. Al-Quran, LIX: 6

41. Al-Quran, LIX: 9

42. Al-Quran, LIX: 7

circulated wealth; this means that the booty that by right should be granted to the poor to help them secure a living should not be exclusively circulated among the rich.

The booty of Bani Nadheer, which was part of the funds of the State, was exclusively shared among the poor while the rich were excluded, in order to strike a balance in the provision of the basic needs within the society. Handing out financial aid from the treasury is performed by the State, provided these funds have not been collected from the Muslims, but rather from the war booties. If the funds have been collected from the Muslims, it should not be spent on generating such a balance. This approach should be followed at all times, for the precept lies in the generality of expression not in the particularity of the cause. Therefore, the Caliph must ensure that the economic balance is established by handing out financial assistance exclusively to the poor from the funds of the State in the treasury (Bayt ul-Mal), thereby ensuring that economic balance is maintained. However, this is not considered to be part of the fixed expenditure of the treasury, but rather a remedy for a specific situation from specific funds.⁴³

4.5- Conclusion

Lastly, In Islam the concept of personal wealth is quite different from other system. A true Muslim believes that his wealth is something that is entrusted to him by Allah. He has not earned it through his intelligence and hard work, rather his wealth is only under his temporary custody and he is obliged to spend that wealth in a manner mandated by Allah who remains its original owner and proprietor. Thus, a Muslim does not get a feeling of being taxed when he is ordered by Allah to pay 2.5% of his annual savings towards the poor and needy. Zakat is not a tax that one tries to dodge but remains a sought after decontaminant and a purifier of one's wealth.

Zakat funds to be used for the salaries of those who collect Zakat, is an indirect indication to the fact that Zakat has to be collected by the state and disbursed to those indicated by the Holy Quran and the Prophet Muhammad (ﷺ). The two main categories who receive Zakat are: (1) The poor (*Fuqara*) – This refers to someone who has no income. The sheer volume of Zakat funds collected centrally will help formulate a long term plan for poverty alleviation and will help make the poor stand on their own feet. (2) The needy (*Masakeen*) – They may be who, for instance, may

43. *Supra* note 34.

have a job, a house and a car, but their income is below the minimum requirement. Zakat funds can run projects like employment guarantee schemes, minimum wage programmes, and car and housing interest free loans, thus improving the quality of life for its citizens. Thus we see that purifying one's wealth by paying Zakat not only leads to more equitable distribution of wealth but also leads to a welfare state where everyone avails of the minimal provisions of a good life.