

**POTENTIAL OF ZAKAT IN ELIMINATING RIBA AND ERADICATING
POVERTY IN MUSLIM COUNTRIES
{CASE STUDY: SALARY DEDUCTION SCHEME OF MALAYSIA}**

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Abstract: From a mere glance at Muslim countries today, we realize that they are classified as third world countries even though they adopt a secular system. The recent statistical data of 2009 shows the majority of people who live below poverty are found in Muslim countries. Some scholars related this fact to the oppression, humiliation and the bad policies which had been imposed in almost all Muslim countries during colonization and have continued up to the present time. Others related this to the incompetence and the corruption on the part of their governments. We cannot deny the above mentioned reasons as the catalyst for the spread of poverty in the Islamic world. However, we also believe that the main reason is imbued within Muslims themselves since they neglected almost all their Islamic institutions, including the institution of zakat which is meant to eliminate riba and eradicate poverty in their societies. Hence, we believe that ignoring the teaching of Islam is the key factor for the wide spread of poverty in the Islamic world as they have forgotten the advice of the Prophet (pbuh) in his saying“...*I have left two things behind me for you (the Ummah). You will never go astray as long as you follow these two things. One of these two things is Allah’s Holy Book (the Quran al-Kareem) and the other is the Sunnah of his Most Beloved Prophet (pbuh)*” Muwatta Imam Malik.

Key words: zakat, salary, deduction, riba, poverty.

1. INTRODUCTION

From the time when colonization took place in the nineteenth up to the first half of the twentieth century, it has been realized that the majority of Muslim countries are forced to follow the capitalist system which is not the Islamic way of life. One of which is the system of taxation which has been followed by almost all Muslim countries until today,

replacing one of the most important Islamic Institution, the institution of zakat, which is the third pillar of Islam. Since then zakat institution, in almost all Muslim countries, was placed under religious authority and its payment becomes voluntary. This creates an ambiguous situation on the understanding of giving zakat among Muslims today. Some mixed between zakat and taxes and so believes that paying their taxes will cover paying their zakat. Others, who are more sincere, found themselves paying more than others as they are forced to pay their compulsory taxes in addition to their obligatory zakat.¹

The aim of this study is to clarify this ambiguous situation and to highlight not only in principles the importance of the institution of zakat as one of the key institutions in eliminating riba and eradicating poverty but also to provide statistical data to support this fact. To achieve this, the study is divided into five sections including the introduction. Section two provides an overview on the institution of zakat. Section three highlights the zakat on monthly salary. Section four analyzes the statistical data on poverty, external debts and zakat on ten selected Muslim countries; this is followed by the conclusion and recommendation for future research.

Problem Statement: For almost one century the institution of zakat has been neglected in almost all Muslim countries since its administration has been decentralized and its dues become voluntary depending on the piety of the individual. The problem now is how to revive and bring back this institution, within the current system, in order to resume its role in eliminating riba and eradicating poverty in the Islamic world.

Objective: The main objective of this paper is to show how Malaysia succeeded in reviving and bringing back the institution of zakah within their current system, i.e. through salary deduction scheme. A scheme which encourages the author not only to look at the potential of zakat in eliminating riba and eradicating poverty but to provide statistical data supporting the huge amount of money that can be collected in the different Muslim countries from this institution to overcome their problems.

Research Methodology: This paper uses both primary and secondary source. Data

¹ For more information on this issue please refer to Yusuf al Qaradawi, *Fiqh al Zakah*, Mu'assasat al Risalah, Beirut, Lebanon, 2nd editions, 1999 (Arabic). See also Yusuf al Qardawi "Fiqh al-Zakat: A comparative study of zakat, regulations and philosophy in the light of Qur'an and Sunnah", trans. By Monzer Kahf. Scientific Publishing Centre King Abdulaziz University Jeddah, Saudi Arabia, Vol.I & II. See also Mohd Zulkhairi Mustapha and Noor, Sharoja Sapiei, *A Comparative Analysis on Zakat and Conventional Taxation*, Jurnal Syariah, 13:1 2005 p 67-68

collected from primary source include text from the Quran and hadith from the Sunnah of the Prophet (pbuh), while data collected from secondary source includes books, articles, journals, annual reports, besides websites and e-books.

Expected Findings: The expected findings of this paper are to provide guidance for Muslim countries to revive the role of the institution of zakat according to the teaching of Islam on one hand, and on the other to provide statistical evidence showing the huge amount of money that can be collected as zakat if they follow the current practice of salary deduction scheme of Malaysia.

2. OVERVIEW ON THE INSTITUTION OF ZAKAT

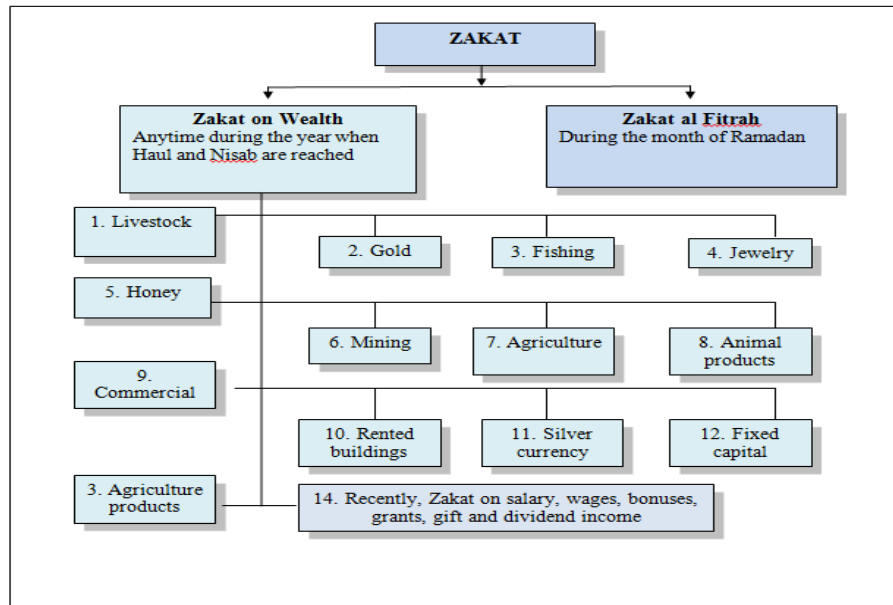
2.1 What is Zakat?

Literally zakat means blessing, purification, increase and goodness. Zakat is the third pillar of Islam, it is obligatory upon all Muslims to give part of their wealth and assets once it reaches *al-nisab*/the minimum assigned on annual basis or once harvested. It is also important to note that zakat has to be paid from lawful wealth and assets, and zakat cannot be calculated on prohibited or unlawful wealth, such as income from interest, stolen property, or wealth acquired or earned through unlawful means. There are two types of zakat, zakat al-Fitrah which has to be given in the month of Ramadan before Eid prayers on every single Muslim, and zakat on wealth. Zakat on wealth includes more than fourteen types of wealth that man possesses such as livestock, gold, silver currency and jewelry, commercial assets, agriculture, honey and animal products, mining and fishing, rented buildings, plants, and fixed capital² and lately zakat includes salary, wages, bonuses, grants, gift and dividend income.³

² Yusuf al Qardawi, *Fiqh al Zakat*, Vol. I, p 52.

³ Nur Barizah, A.B., 2008. Study Guide: Zakat Accounting Concepts and Applications. Wisewords Publishing, Kuala Lumpur, ISBN: 978-983-43538-1-0.

FIGURE 1: TYPES OF ZAKAT



2.2 Administration of Zakat

As highlighted in al-Quran, the administration of zakat must be handled by the state in terms of collection and distribution of the zakat money. The following Quranic verse in *Surah Al-Taubah* (9:103) shows the compulsory collection by the state from all eligible Muslims in order to purify and to increase their wealth;

خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ وَتُزَكِّيهِمْ بِهَا وَصَلِّ عَلَيْهِمْ إِنَّ صَلَاتَكَ سَكَنٌ لَهُمْ
وَاللَّهُ سَمِيعٌ عَلِيمٌ

*Of their goods (wealth), take alms, that so thou mightest purify and sanctify them;
and pray on their behalf. Verily thy prayers are a source of security for them:
And Allah is One Who heareth and knoweth.*

and, the following Quranic verse in *Surah al-Tauba* (9:60) highlights its distribution to eight categories of people as follows;

إِنَّمَا الصَّدَقَاتُ لِلْفُقَرَاءِ وَالْمَسَاكِينِ وَالْعَامِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ
وَالْغَارِمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ السَّبِيلِ فَرِيضَةٌ مِّنَ اللَّهِ وَاللَّهُ عَلِيمٌ حَكِيمٌ

"Zakat is for the poor, and the needy and those who are employed to administer and collect it, and the new converts, and for those who are in bondage, and in debt and service of the cause of Allah, and for the wayfarers, a duty ordained by Allah, and Allah is the All-Knowing, the Wise".

Following the above guidance from the Quran this type of administration was practiced during the time of the Prophet (pbuh) where the collection and the distribution of zakat were directly placed under the state. This was then followed during the time of the first Caliph Abu Bakr al-Siddiq (ra'a) who highlighted that he will fight against those who refused to pay their zakat.⁴ The same was practiced by all Caliphs, after Abu Bakr al-Siddiq, who appointed agents to collect the zakat money from all eligible Muslims and placed it in the *Baitulmaal* to be distributed to the recipients of zakat.⁵ Along centuries the state continued to manage the collection and the distribution of zakat until the end of the Ottoman Empire where zakat administration was placed under religious authority and its collection become voluntary.

2.3 Structure of the Administration of Zakat

As mentioned above it is the responsibility of the state to manage zakah in terms of collecting it from all eligible Muslim and in terms of distributing it to eight categories of recipients as highlight in the above Quranic verse. The following is the modus operandi and the structure of its administration as recommend by Islam:

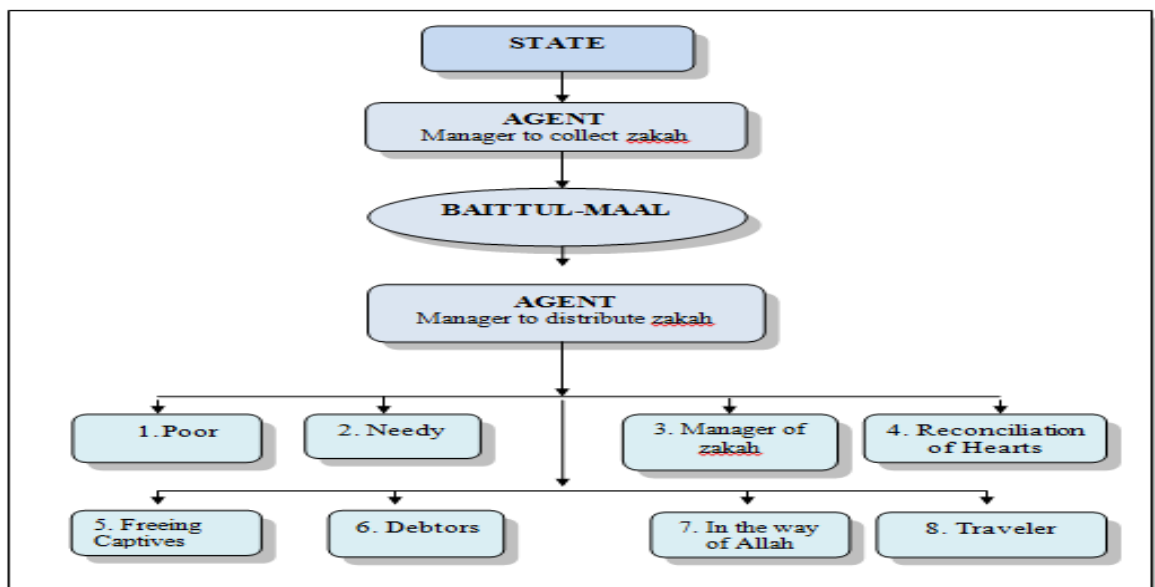
- i. The state appoints agents to manage the zakah, i.e. to collect and to distribute the zakah.
- ii. Then the appointed collector will collect the zakah from all eligible Muslims from their different wealth.

⁴ Abu Hurairah's narration that, "When the Messenger of Allah (pbuh) who was deceased and Abu Bakr was appointed as the first Caliph for the Muslim during that time, some Arab tribes became apostates and refused to pay the zakat. In this case Abu Bakr (ra 'a) said, 'By Allah, I would definitely fight against those who make a difference between Prayer and Zakat, for it is the obligation upon the rich. By Allah, I would fight against them even if they withheld a cord (used for hobbling the feet of a camel) which they used to give to Allah's Messenger (pbuh) as Zakat.'

⁵ Mahmood Namazi, *Bayt al-Mal and the Distribution of Zakah*, unpublished paper.

- iii. The collected amount of zakah will be placed in *Baitulmaal*/State Treasury.
- iv. The appointed distributor will prepare a list of the eight categories of people mentioned in al-Quran, and distribute it accordingly to the poor, needy manager of zakah, reconciliation of hearts, freeing captives, debtors, in the way of Allah and for the travelers.

FIGURE 2: STRUCTURE OF THE ADMINISTRATION OF ZAKAT



2.4 Reasons for the State to handle the Administration of Zakat

As highlighted above, zakat has to be handled by the state in terms of its collection from all eligible Muslims on their wealth and to be distributed to the eight recipients of zakat as mentioned in al-Quran. At the present time many Muslim prefer to give their zakah by themselves rather than giving it to the state to distribute it. This will create doubt of whether the zakah has been disturbed to right recipients or not, and whether their distributed zakah will be accepted as zakah or as *saddaqah*. This doubt has been clearly rectified during the time of the Prophet (pbuh) as highlighted in the following hadith:

عن أنس رضي الله عنه : أن رجلا قال لرسول الله صلى الله عليه وسلم "إذا أديت الزكاة إلى رسولك فقد برئت منها إلى الله ورسوله؟ فقال: نعم إذا أديتها إلى رسولك فقد برئت منها إلى الله ورسوله ولك أجرها وأتمها على من بدلها" رواه الإمام أحمد بن حنبل في مسنده

Anas narrates that "a man asked the Messenger of Allah (pbuh), If I give *zakah* to the person you send, would I be fulfilling it as far as Allah and His Messenger are concerned?' The Prophet answered, 'Yes, if you give it to my messenger, you

are freed from that obligation as far as Allah and His Messenger are concerned. You deserve its reward, and if it is tampered with later, the sin is on whoever changes it."

So this means it is better for every Muslim to give his zakah to the state to distribute it rather than having a doubt of fulfilling ones responsibility towards given zakah. If they still like to contribute more, then they can give through voluntary *sadaqqah*/charity. The following are reasons for the state to handle the collection and the distribution of zakat⁶:

- Collection and distribution of zakat by the state gives the state the responsibility to collect zakat from all affordable people and distributes it in a just and even way to the eight categories of recipients mentioned above.
- Muslim obligation would be fulfilled towards giving the zakat which is the third pillar of Islam.
- Some Muslim may have no concern in paying their obligation if it left to them, so in this case the rights of the eight recipients of zakat will be lost resulting in an unjust society.
- Receiving zakat directly from the state and not from the rich will preserve the dignity of the recipients from direct humiliation.

2.5 Objectives of Zakat

Zakat has many objectives which had been highlighted in both the Quran and the Hadith. Some of these objectives are:

- Spiritual and material purification for the giver, specifically zakat does not only purify the wealth of the Muslim but also purifies his heart from selfishness and greed for wealth.
- Spiritual purification of the recipient of zakat, as it purifies his heart from envy and jealousy, from hatred and uneasiness; and it fosters in his heart, instead, goodwill and warm wishes for the giver.
- Spiritual purification of the society at large from class warfare and suspicion,

⁶ For more information on this please see Yusuf al Qardawi "*Fiqh al-Zakat*: Vol. II, p 113, Mahmood Namazi *Bayt al-Mal and the Distribution of Zakah*.

from ill feelings and distrusts, from corruption and disintegration, and from all such evils.

- Economically, zakat will circulate the wealth from the rich to the poor resulting in a just distribution of wealth.
- Assist the recipients of zakat to be active members in the society, thus from being receiver of zakat, instead will be giver of it.
- Foster poverty eradication from Muslim societies.
- Help the state in establishing eight financial institutions each according to its recipients, which will turn help eliminate *riba* and eradicate poverty from Muslim societies.

3. ZAKAT ON MONTHLY SALARY

3.1 Legitimacy of Zakat on Monthly Salary

It is well understood in *shariah* that zakatable wealth includes livestock, gold, silver currency and jewelry, commercial assets, agriculture, honey and animal products, mining and fishing, rented buildings, plants, and fixed capital.⁷ However, nowadays, income in terms of salaries, wages, profit and professional incomes become the most important source of living for the majority of Muslim population. As such these categories of people cannot be excluded from the compulsory due. This raises the following questions; is the current salary, which is the most important source of income today, is subject to zakat? Can zakat be given on monthly basis? To answer these questions let us first highlight the five conditions that must be observed while imposing zakat on income in general and zakat on salaries in particular.

- i. **Full Possession:** Every Muslim who is of a certain age and has full and legal ownership of enough assets is required to pay zakat.
- ii. **Fulfilling one's Basic Needs:** Fulfilling the basic needs mentioned above, it is a very important requirement before imposing zakat on income. The person who reaches the *nisab* but still does not fulfill his basic need is not subject to pay zakat.
- iii. **Fulfilling the *Nisab* (Minimum Amount Liable to Zakat):** There is a consensus

⁷ Yusuf al Qardawi “*Fiqh al-Zakat*. Vol.I, p 52.

among Muslim scholars that zakat on income can be calculated as follows; 2.5% from the total annual net income (after the actual basic needs expenses are deducted) which exceed *nisab*. The actual basic needs expenses comprises: food, clothing, accommodation, education, transportation and medical expenses, and financial obligations such as outstanding debt within the same year only.

- iv. **Completion of *Haul*/ Lapse of a Full Year:** Although the completion of *haul* (one year) is one of the conditions for the payment of zakat,⁸ some Muslim scholars agreed on the permissibility to advance zakat payment, because the prophet accepted the advance payment of zakat of his uncle al ‘Abbas.⁹ Moreover, Dr. Yusuf al-Qardawi in his book *Fiqh al-Zakat*¹⁰ provided ample evidences which supported the practice of giving zakat from salaries during the early days of Islam. Besides his views on the payment of zakat on income whether salaries, wages, professional income, or return on capital invested in other than trade, such as shipping, planes, and hotels, is *zakatable* once received, without the requirement of the lapse of one year.¹¹

3.2 Zakat Calculation on Income

For the calculation of zakat on income Muslim scholars agreed that zakat from labor and professions can be calculated at the rate of 2.5%.¹² As such three different approaches were given to validate zakat payment on income as follows:

- i. 2.5% from the total annual gross income which exceed *nisab*. Example: RM 34,800
 $\times 2.5\% = \text{RM } 870.00.$
- ii. 2.5% from the total annual net income (after the allowable basic needs expenses

⁸ Zakat is only payable on assets that have been held for at least one year i.e. 1 year Hijri = 354.5 days, 1 year Solar = 365.25 days) <http://www.islamic-world.net/economics/zakat.htm> (access on July 2010).

⁹ For more detail see Yusuf al Qardawi *Fiqh al Zakat* Vol. I, pp 250-270

¹⁰ Ibid, p 252-258

¹¹ Ibid, p 259. For more information on zakah on income please refer to Nur Barizah Abu Bakar, Motivations of Paying Zakat on Income: evidence from Malaysia, International Journal of Economics and Finance, Vol. 2 No. 3 August 2010. p76.

¹² For more details, see Yusuf al Qardawi *Fiqh al Zakat* Vol. II, p269.

deduction) which exceed *nisab*.

iii. 2.5% from the total annual net income (after the actual basic needs expenses deduction) which exceed *nisab*. The actual basic needs expenses comprises: food, clothing, accommodation, education, transportation and medical expenses.

3.3 Zakat Calculation on Salary

The following is an on-line zakat calculator to calculate the zakat from the total annual gross income ahead for one year. After deducting all expenses from the total annual gross income the balance, if it reaches the *nisab*, will be subject to zakat of 2.5%. To facilitate payment for each individual the amount of zakat is then divided for 12 month. The beauty of this scheme is that by the end of each year if the giver of zakah found that his saving is more than the previously calculated one in this case he can give the balance to zakat department. And if he spends more than the previously calculated one i.e. on unexpected expenditure, then he can provide all the bills for this unexpected expenditure to zakat department and they will refund him the balance due.

FIGURE 3: ON-LINE ZAKAT CALCULATOR

A.	Gross income (per year)		RM
B.	Less Expenses (per year)		RM ----- --
	Selves	RM -----	
	Number of wives (from one to four)	RM-----	
	Number of children (from one to twenty)	RM-----	
	Grant to parents (per year)	RM-----	
	EPF (11% x year)	RM-----	
	Contributions to the charity organization Agency list	RM-----	
	Total deduction (B)	RM-----	

3.4 Current Practices on Zakat on Monthly Salaries

At the present time income is the most important source of taxes today. It includes wages, salaries, rents, profits, dividend and other forms of earnings received in a given period. As highlighted above, these categories of people cannot be excluded from the payment of zakat. Recently some Muslim countries enacted laws for the collection of zakat on

income on obligatory basis such as in Sudan and on voluntary basis such as in Malaysia.

In Sudan, the Sudanese Zakat Law of 1986 gives the right to the government to collect and to distribute zakat from all wealth including wages, salaries, professional income and other forms of earnings.¹³ This law also gives the right to the government to deduct zakat on monthly basis, besides income tax, from all Muslims' salaries working inside Sudan as well as from all Sudanese working outside Sudan. However, this raises the issue of double taxation among scholars. Since this is out of the scope of this study will focus more on Malaysian scheme.

In Malaysia, the Malaysia Tax Law via section 44(11A) of the Income Tax Act 1967 allows companies to pay zakat through tax deduction subject to a maximum of 2.5% of the aggregate income.¹⁴ The same Act encourages Muslims to pay their zakat on monthly basis through tax rebate¹⁵ as highlighted in Table (1). This encourages the majority of Muslim to pay their zakat on monthly basis through tax rebate leaving their Net Pay unchanged. The following table shows the payment of zakat through tax rebate. From the schedule of monthly tax deductions in Malaysia we realized that it is divided according to the number of wives and according to the number of children. Hence, to facilitate explanation we used the same schedule to calculate zakat on monthly basis based on one wife and one child only as shown below.

TABLE 1: PAYMENT OF ZAKAT THROUGH TAX REBATE

¹³ The study of the economics of zakat, Monzer Kahf pp 11-13.

¹⁴ Zahri Hamat, Business Zakah Accounting and Taxation in Malaysia, at:http://eprints.usm.my/17152/1/Business_Zakah_Accounting_and_Taxation_in_Malaysia.pdf p16.

¹⁵ The Malaysia Tax Law states that "The equivalent of amount paid in respect of any zakat, fitrah or other Islamic religious dues which are obligatory".

Monthly income	Income tax payment ²⁰	Zakat Payment²¹Tax-Rebate	Balance goes to income tax
	Considered 1 wife and 1 child	Considered 1 wife and 1 child	
2,500	Nil	30.42	--
3,000	Nil	41.92	--
4,000	130	64.92	65.08
5,000	250	87.92	162.08
6,000	424	110.92	322.08
7,000	620	133.92	486.08
8,000	860	156.92	703.08
9,000	1100	179.92	920.08
10,000	1352	202.92	1149.08
11,000	1612	225.92	1386.08
12,000	1872	248.92	1623.08
13,000	2132	271.92	1860.08
14,000	2392	294.92	2097.08
15,000	2652	317.92	2334.08
16,000	2899	340.92	2558.08
17,000	3172	363.92	2808.08
18,000	3432	386.92	3045.08
19,000	3692	409.92	3282.08
20,000	3952	432.92	3519.08
21,000	5460	455.92	5004.08
22,000	5720	478.92	5241.08
23,000	5790	501.92	5288.08
24,000	5980	524.92	5455.08
25,000	6500	547.92	5952.08

To clarify and as seen in the table above, if a Muslim with a monthly salary of RM10,000.00 he can give RM202.92 as zakat (tax-rebate) and the balance of RM1149.08 will go to tax department. This example is not only to explain the current practice of giving zakat from monthly salary in Malaysia, but also to add to the Muslim's knowledge in the different countries the huge amount of money that can be collected from zakat on salary which is one of the many types of zakatable wealth highlighted above. To provide more evidence, let us look at the following examples.

The last years witness tremendous achievement of zakat collection in Malaysia which is attributed to several reasons including increasing level of awareness, introducing new methods of payment such as salary deductions, payments through banks and other non-banks financial institutions.¹⁶ In 2005 a study was conducted on the collection of zakat on salary from 394 academic staff of the international Islamic University Malaysia IIUM. The study shows that almost half a million of Ringgit Malaysia had been collected as zakat from salary within one year¹⁷. Similarly, the total collection of zakat as a whole in Malaysia experienced a tremendous increase of 220.6% i.e. an increase from RM373million in 2002 to RM1.196 billion in 2009.¹⁸

Despite this increase, some argue that zakah collection is yet to reach its full potential in Malaysia, since its collection is still through voluntary basis, while others argue that its fund were not effectively distributed.¹⁹ This is because zakah in Malaysia is collected through the State Majlis i.e. the Islamic Council of each state in the country. This in turn results in having surplus of zakah funds in some states while in others they have shortage of zakah funds.²⁰ Nevertheless, we believe that by following the teaching of Islam, it is permissible to give the surplus, after distributing to all recipients of zakah in State (A) to Sate (B) if they have shortage of zakah and there are still some recipients who are in need of zakah.²¹

4. ROLE OF ZAKAT IN ELIMINATING RIBA AND ERADICATING POVERTY

¹⁶ Mohd. Ma'sum Billah. "Administration of *al-zakat* for the poverty alleviation in Malaysia", unpublished paper.

¹⁷ Nur Barizah Abu Bakar, Motivations of Paying Zakat on Income: evidence from Malaysia, International Journal of Economics and Finance, Vol. 2 No. 3 August 2010 p83.

¹⁸ Hairunnizam Wahid, Radiah Abdul Kader and Sanep Ahmad, Localization of zakat Distribution, Religiosity, Quality of Life and Attitude Change (perceptions of zakah recipients in Malaysia), paper presented at the 13th Malaysia Indonesia Conference on Economics, Management and Accounting 2012 p 2-3.

¹⁹ Abd. Halim Mohd Noor, *Assessing Performance of Nonprofit Organization: A Framework for Zakat Institution*, British Journal of Economics, Finance and Management Sciences, Vol. 5, August 2012 (1) p 12-13.

²⁰ Muharaman Lubis and others, Enhancement of zakat distribution management system: case study Malaysia. Published paper at http://irep.iium.edu.my/4261/1/IMAC2011_EnhancementZakatDistribution.pdf

²¹ For more information on this issue please refer to Yusuf al Qaradawi, *Fiqh al Zakah*, Mu'assassat al Risalah, Beirut, Lebanon, 2nd editions, 1999 (Arabic) pp 809-815.

4.1 Overview of Poverty in Ten selected Muslim Countries

As mentioned previously the recent statistical data of 2009 shows that the majority of people who live below poverty are found in Muslim countries. For example, 42 million people live below poverty in Pakistan, 15 million in Afghanistan, 44 million in Indonesia, 13 million in Iran, 65 million in Bangladesh, 17 million in Sudan, 10 million in Yemen, 8 million in Algeria, 16 million in Egypt and 105 million in Nigeria. Moreover, borrowing with interest for the sake of developing their countries and eradicating poverty worsen the situation and for generations to come. According to Mr. Obasanjo, the ex-President of Nigeria during the G8 meeting, regarding the external borrowing for the sake of developing his country and eradicating poverty said:

“All that we had borrowed up to 1985 or 1986 was around \$5 billion and we have paid about \$16 billion yet we are still being told that we owe about \$28 billion. That \$28 billion came about because of the injustice in the foreign creditors’ interest rates. If you ask me of what is the worst thing in the world, I will say it is compound interest.”²²

As such and due to this compound interest, the statistical data of 2010 show that the external debt of Pakistan reach \$57.2 billion, Afghanistan \$3 billion, Indonesia \$196 billion, Iran \$13 billion, Bangladesh \$24.4 billion, Sudan \$38 billion, Yemen \$7 billion, Algeria \$4.1 billion, Egypt \$30.6 billion and Nigeria \$44 billion.

Table 2: Poverty and the External Debts

²² <http://www.youtube.com/watch?v=SaeRum-GJMY>

Country	Population in 2009 Million	People who live below poverty %	Population who live below poverty Million	External debts \$ Billion
Pakistan	175	24	42	57.2
Afghanistan	28	53	15	3
Indonesia	245	18	44	196
Iran	73	18	13	13
Bangladesh	150	45	65	24.4
Sudan	42	40	17	38
Yemen	23	45	10	7
Algeria	36	23	8	4.1
Egypt	82	20	16	30.6
Nigeria	151	70	105	44

Hence the above statistics shows that riba is the key factor in accelerating poverty in Muslim countries. In addition to the great negligence and the mismanagement of the institution of zakah which has been replaced by the conventional taxation system in those countries. This brings in the question of whether the institution of zakah is capable of eliminating riba from those countries and eradicating their poverty? This will be answered in the following sections.

4.2 Role of Zakat in Eliminating Riba

As highlighted above riba is one of the key factors in spreading poverty in Muslim countries. As we know interest/riba is effortless profit in which its interest money goes from the poor countries to the rich countries as well as from the poor individuals to the rich one which make them even richer, whereas in Islam the rich are supposed to give money to the poor. As such riba has been prohibited in Islam and has been replaced with different alternative institutions to it. One of these institutions is the institution of zakah as mentioned in *Surat al-Rum*, (30:39)

وَمَا آتَيْتُمْ مِنْ رِبَا لِيَرْبُو فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُو عِنْدَ اللَّهِ وَمَا آتَيْتُمْ مِنْ زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَئِكَ هُمُ
الْمُضْعِفُونَ

And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in zakah, desiring the countenance of Allah

- *those are the multipliers.*²³

Moreover, The Prophet mentioned that *riba* causes poverty as highlighted in the following hadith:

عن عمرو بن العاص رضي الله عنه قال:- سمعت رسول الله صلى الله عليه وسلم يقول:
" ما من قوم يظهر فيهم الربا إلا أخذوا بالسنة، وما من قوم يظهر فيهم الرشا إلا أخذوا
(بالرعب" رواه الإمام أحمد

"In any society, when *riba* becomes common, it causes hunger and poverty in it. And in any society, when bribery becomes common, it makes it depressed (as compared to other nations)."

Hence, *zakah* is one of the alternative financial institutions that helps eliminate *riba* from Muslim society. Since the management of *zakah* must be handled by the state, this will give the responsibility to the state to establish eight financial institutions, each according to the recipients of *zakah*. This in turn will help eliminating *riba* and eradicating poverty from Muslim societies at the micro and macro level. At the micro level, through giving the due *zakah* to the eight recipients of *zakah*, this giving will stop the neediest people from borrowing with *riba* to meet their crucial needs. Consequently, at the macro level state will not be forced to borrowing with *riba* from rich countries to finance their poverty eradication programs.

Once the *zakah* is collected by the state this will assist the state in financing the eight recipients of *zakah* through eight financial institutions, which in turn will eliminate dealing with *riba* among these categories as explained below²⁴:

i. Financial Institution for *Faqir/Poor*

This financial institution is meant to help the poor individuals who are without any means of livelihood and material possessions and who will be forced to borrow with *riba* to provide them. Therefore, by financing this category of *zakah* recipients and providing them with the basic needs and with the jobs they need, their situation will improve and they will be active members in the society and hence the following years they will be

²³ Translation, Sahih International at <http://quran.com/30>

²⁴ Al-Qardawi, *Fiqh al-Zakat* (1999) pp 539-744. See also Monzer Kahf, ed., *Economics of Zakah*, Book of Reading, Islamic Research and Training Institute, IDB, Jeddah 1997, p4-6

zakat givers rather than being zakat recipients. This act will help the stop this category of poor from borrowing with *riba* to meet their basic needs.

ii. Financial Institution for *Miskeen/Needy*

This financial institution is meant to finance the needy individuals according to their basic necessities either in cash or in kind or both. They may have job but their income is below the minimum requirement. So in this case, financing this category of people can be in terms of providing them skills and means to find better jobs not only to meet their basic necessities but also to improve their overall situation. This category may take lesser years than the above mentioned category in terms of being zakat givers. Similar to the above, through this financial institution this category of zakah recipient will not be force to borrow with *riba* to meet their needs.

iii. Financial Institution for '*Amil/Zakat Manager*

This financial institution is meant to finance the appointed zakat managers in terms of collecting, keeping records, gathering information and distributing to the mentioned zakat recipients. For efficient management of zakat the state must appoint its staff based on the dignity of each individual in terms of his ethics, honesty and responsibilities towards himself and his society at large. Consequently, this efficient management will result not only in earning lawful earning and gaining good reputation but in increasing their earning through collecting the zakah from all eligible Muslim and hence their portion of earning will increase. Furthermore, the efficient management of this institution will help in eliminate borrowing with *riba* among the rest of zakah recipients.

iv. Financial Institution for *al-Muallafah Qulubuhm/Converts to Islam*

This financial institution is meant to finance people who are inclined to enter or have already converted to Islam. Besides, it also helps in financing *da'wah*/spreading the words of Allah globally to reach all individuals living in this world. Moreover, using this share in spreading the knowledge of the prohibition of *riba* globally e.g. through a global channel this can help people to stop dealing with *riba*.

v. Financial Institution for *fi ar-Riqab/Liberating Slaves/Captives*

Historically speaking this financial institution is meant to finance those who need the

money to pay their master to buy their freedom. Recently prisoners of war, criminal prisoners and family of prisoners had been included in this category of zakat recipients. Therefore, financing them can take the form of liberating prisoners of war or educating criminal prisoners and providing them with the skills to find jobs once they are out from prison or financing their families while they are in prison. This share will also stop this category of recipient from borrowing with *riba*.

vi. Financial Institution for *Gharimin/ Debtor*

This group includes all who do not own *nisab* above what is needed to pay their debts, those whose debts are for personal use and those whose debts are caused by their social and political responsibilities. Therefore, this financial institution for *al-gharimin* can finance those who have financial difficulties in repaying their borrowed loan to meet their crucial needs and also to assist them in finding extra job to meet their needs in the future.

vii. Financial Institution for *Fisabilillah/for the Sake of Allah*

This financial institution is meant to finance any form of struggle or work for the love of Allah. Therefore, it can finance the fighters and the border guards, buying weapons and military ships, building barracks, et cetera without depending on any external borrowing with *riba* to finance this category.

viii. Financial Institution for *Ibnus Sabil/stranded during a journey*

This financial institution is meant to help the travellers who face difficulties in continuing their journey due to reasons such as loss of their money or their belongings et cetera. Hence the presence of this financial institution in Muslim countries is more recommended to encourage more travellers to travel in order to explore, share and gain latest knowledge that can benefit the Muslim Ummah at large.

4.3 Role of Zakah in Eradicating Poverty

One may ask, can zakah eradicate poverty from Muslim society.²⁵ Historically speaking there were two incidents which show that zakah managed to eradicate total poverty during the time of S. Umar ibn al Khattab (13-22H) and during the time of S. Umar bin

²⁵ See M. Kabir, Hassan, *An integrated Poverty Alleviation Model combining Zakah, Awqaf and Micro-finance*. Unpublished paper presented at the Seventh International Conference – The Tawhid/Epistemology Zakah and Waqf, Bangi, 2010.

Abdul Aziz (99-101H).

Abu Ubaid reports from Amr bin Shuayb that Muadh ibn Jabal continued as a governor in Yemen from the time of the Prophet (pbuh) until the time of Umar ibn al Khattab. During the time of Umar ibn al-Khattab, Muadh ibn Jabal send the balance of zakah, after disturbing it to the eight recipients of zakah in Yemen, to Madinah. However, S. Umar rejected this act and informed him to take from the rich people in Yemen to be given to the poor among them. Then Muadh clarified that he already did and this is the balance which he found no one want to take it from him. The same happened for three year. The second incident happened during the time of S. Umar ibn Abdul Aziz when the governor of Egypt wrote to him asking what to do with the proceeds of zakah as he didn't find deserving poor and needy all over the country. S. Umar ibn Abdul Aziz replied to him to buy slaves and set them free, to build rest areas on the highways, and to call to help young men and women get married, to repay borrowers debts, and to give orphans and needy until enriched them all.²⁶

From these two incidents we realized that zakah has to be distributed every year to its people. Moreover, it can be channel to other needy categories, within the society, to satisfy their needs until it enriched them all. Once done, only then it can be transfer to other states or to other Muslim countries.

As we know, collection of zakat today is regulated by the state or religious body in almost all Muslim countries while contributions are made on voluntary basis. Therefore, contribution of zakat cannot be realized in today's Muslims economy since its amount is very minimal. In order to activate the role of zakat as it is the third pillar of Islam, we believe that its administration must be centralized and its collection must be made compulsory upon all eligible Muslim, only then its huge amount will be realized.

One may asked how much fund can be collected from zakat compared to the amount

²⁶ Habib Ahmed, *Role of Zakah and Awqaf in Poverty Alleviation*, IRTI 2004, Occasional Paper No. 8, p 31.

borrowed. A recent study conducted by the author shows that huge amount of zakat can be collected within shorter time and even from one source of zakatable wealth,²⁷ for example, zakat from salary.

If we assumed Muslim population in a given country is 23 million, of which 3 million are rich people, 10 million are middle class people and the rest of the population are unproductive members in the society (young, poor and old age). Assuming that the collection of zakat becomes compulsory, this means on average the rich can give \$1000/year and the middle class can give \$100/year as zakat. Therefore, a total of \$4 billion/year can be collected as zakat as seen below.

Rich people	3 million x \$1000 = \$3.00 billion
Middle class people	10 million x \$100 = <u>\$1.00 billion</u>
Total	<u>\$4.00 billion</u>

Following the same example let us find how much money as zakat can be collected within the above mentioned Muslim countries.

If we assume that the population of rich Muslim population in Pakistan is 20 million, Afghanistan 1 million, Indonesia²⁸ 30 million, Iran 10 million, Bangladesh 30 million, Sudan 8 million, Yemen 1 million, Algeria 5 million, Egypt 10 million and Nigeria 20 million, and they can afford to pay \$1000/year, and if we assume that the population of middle class people in Pakistan is 55 million, Afghanistan 5 million, Indonesia 100 million, Iran 35 million, Bangladesh 60 million, Sudan 2 million, Yemen 5 million, Algeria 15 million, Egypt 40 million and Nigeria 25 million and they can afford to pay \$100/year, then the total money collected as zakat will be \$25.5 billion in Pakistan, \$1.5 billion in Afghanistan, \$40 billion in Indonesia, \$13.5 billion in Iran, \$36 billion in Bangladesh, \$10 billion in Sudan, \$1.5 billion in Yemen, \$6.5 billion in Algeria, \$14

²⁷ Magda Ismail A. Mohsin. *Utilization of Zakat and Waqf as Community Empowerment for Economic Transformation of Muslim Societies*, paper presented at the Life-3 INSANIAH International Conference on Islamic Finance and Economics, organized by INSANIAH & IRTI, Langkawi, 28-31 October 2011.

²⁸ Dimas Bagus and others. *The Power of Zakah in Poverty Alleviation*. Unpublished paper presented at the Seventh International Conference – The Tawhid/Epistemology Zakah and Waqf, Bangi, 2010.

billion in Algeria, \$14 billion in Egypt and \$22.5 billion in Nigeria.. Note that the calculation of this amount of zakat is done only from one source of wealth, specifically zakat from salary and for one year.

Table 3: Poverty, External Debts & Zakat

Country	Population who live below poverty	External debts	Rich people (A)	Zakat collected from rich people (A x \$1000)	Middle class people (B)	Zakat collected from Middle class (B x \$100)
	Million	\$ Billion	Million	\$ Billion	Million	\$ Billion
Pakistan	42	57.2	20	20	55	5.5
Afghanistan	15	3	1	1	5	0.5
Indonesia	44	196	30	30	100	10
Iran	13	13	10	10	35	3.5
Bangladesh	65	24.4	30	30	60	6.0
Sudan	17	38	8	8	20	2
Yemen	10	7	1	1	5	0.5
Algeria	8	4.1	5	5	15	1.5
Egypt	16	30.6	10	10	40	4
Nigeria	105	44	20	20	25	2.5

Moreover, including all types of zakatable wealth mentioned earlier, huge amount of zakat will be collected within one year which will not only eradicate poverty from these countries but stop their governments from borrowing from rich countries with interest.

5. RECOMMENDATION & CONCLUSION

From the above we realized that although zakat is the third pillar of Islam and its level of importance is the same as performing prayers, yet this institution had been neglected for so long. This in turn forced Islamic countries to borrow with riba a matter which help in spreading poverty in Muslim countries. The current practice of the collection of zakat from monthly salary provides evidences that huge amount of capital can be collected through this institution which can stop dealing with riba and eradicate total poverty. Hence, we believe more research is needed to be conducted to show the actual amount of

money that can be collected from all types of zakatable wealth and from all eligible Muslim in the different Muslim countries. Only then its significant contribution in eliminating riba and eradication poverty will be realized within Muslim countries. We hope more research can be done on this remarkable institution which is meant to eliminate riba and eradicate poverty from the Islamic world.

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