# THE PRINCIPLE OF SOCIO-ECONOMIC JUSTICE IN THE CONTEMPORARY *FIQH* OF *Zakah*

**BY**

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# INTRODUCTION

In the last few years, several Muslim countries introduced new laws for the implementation of *Zakah*. Some countries, e.g., Jordan and Kuwait, established *Zakah* funds without making the payment of *Zakah* to these funds obligatory, while some other countries such as Pakistan and Sudan made such payments obligatory. In both cases, the actual implementation of *Zakah* raises several issues that require candid attention.

These issues include the modalities of collection and distribution of *Zakah*, its financial versus worship aspects, management of its funds, its relations to non-Muslim citizens, its effects on investment and on idle funds, the geographical boundaries localization principle in collection and distribution, the consideration of social and economic justice, the effect of *Zakah* on development, etc.

Out of this bundle of issues which await for solutions that should be theoretically viable from both *Shari'ah* and economic points of view, and practically feasible, the present paper deals with only one: the socio-economic justice in *Zakah* contemporary *Fiqhi* ideas. In the opinion of the present writer, this is one of the most important issues. It has far reaching practical implications with regards to the implementation of *Zakah* in contemporary context of Muslim societies.

Additionally, it relates to the very essence and nature of *Zakah* and to its validity as a major pillar of the Islamic economic system. This paper is an attempt to show the requirements of justice and consistency that should be embodied in any contemporary formulation of a *Zakah* package aimed for application and to discuss the implications of these requirements with regards to *Fiqhi* positions on *Zakah*.

The objective of this paper is, thus, to present an economic viewpoint about the contemporary *Fiqh* opinions on *Zakah* and to show that some of them may not be consistent from the point of view of social and economic justice. This is certainly done within the limits of the *Qur'an* and *Sunnah*, which are the foundation of this religion. What the paper does not intend to do at all is to indulge in *Shari'ah* arguments purported at formulating new opinions because it is not a study in *Fiqh*.

In other words, I want to show what I think is a flaw in today's *Ijtihad* and call upon specialized scholars to reconsider these issues. Since this is a critique from an economic point of view, I shall not carry out my discussion in the *Fiqhi* traditional approach. This may require introducing certain concepts such as flow and stock which are not familiar to many traditionalists *Fuqaha'.*

This paper consists of four sections. Section one presents a brief survey of the literature on the principle of justice in contemporary *Fiqh* of *Zakah*. Section two looks into the validity of distributive justice as an objective of *Zakah*. Section three examines *Zakah* as a levy or a tax from the point of view of the fulfillment of the requirements of socio-economic justice. It discusses the rates of *Zakah*, criteria of *zakatability*, and *zakatable* items from the angle of distributive justice. Section four is devoted to studying the speed with which *Zakah* can achieve the objective of redistribution of income and wealth in a contemporary society, i.e., how quick can *Zakah* bring about the desired changes. This section explores the impact of different *Fiqh* opinions on the achievement of distributive justice and the effects of practical administrative considerations on the efficiency of *Zakah* in achieving this target.

Lastly, it should be noted that *Zakah* in this paper is defined to include what is usually known as *Zakah*, *'Ushr* and *Rikaz*, all together. *Sadaqat al Fitr* or the *Zakah* of breaking the fast at the end of the month of *Ramadan* is not included on the ground that the latter is usually given away directly by the payers without interference from the state.[1]

At the end of this introduction, I must express my indebtedness to the great *Fiqh* work of Professor Yusuf Al Qaradawi on which this paper depends in most *Fiqh* matters.

[1] It should be noted, however, that Yemen and Malaysia make payment of *Zakah* of *al Fitr* to the government obligatory.

## SECTION I

## A BRIEF SURVEY OF THE PRESENT LITERATURE ON THE PRINCIPLE OF JUSTICE IN THE *FIQH* OF *Zakah*

In a recent paper, Shaikh Mustafa Zarqa (17) argues that there are several areas in the *Fiqh* of *Zakah* that need a fresh consideration because of changing circumstances. His argument is based on the consistency and justice conditions that should always be fulfilled in *Zakah*. He contends that contemporary economic structure produced forms of wealth not known earlier and that the application of "certain" known "*Fiqhi* ideas to these new forms of wealth results in views which are "awkwardly intolerable" from the point of view of the intentions of *Shari'ah*. According to Zarqa, this calls for a "reconsideration" of established "*Ijtihadi*" concepts and approaches in understanding texts related to *Zakah* in the Qur'an and Sunnah (17: p. 84).

Furthermore, Zarqa maintains that, according to the principles of justice and consistency, agricultural products not mentioned in the sayings of the Prophet (pbuh), rented buildings, huge equipments, ships and airplanes, etc., should be *zakatable*.

But since he was only bringing the issue under attention, he did not look at the whole problem of the fulfillment of the conditions of justice and consistency in the *Fiqh* of *Zakah* in its totality and did not treat the new forms of wealth and income in a global manner in comparison with old forms which were prevailing at the time of the Prophet (pbuh).

For instance, he did not consider the case of richness measured in terms of income in contrast with richness measured in terms of wealth, nor the consistency between *Zakatability* of idle immobile assets and that of idle mobile assets. Additionally, he did not study the effects of *Fiqhi* views from the angle of their practical implementation and their achievement of the desired and stated objectives of *Zakah*.

Feeling the pressure of the justice and consistency requirement in the assessment of *Zakah*, M.R. Zaman in a 1987 paper (16) introduced an almost totally new system of *Zakah* with little attention to its *Fiqhi* foundation. He proposed *Zakah* on manufactured products (16: p. 16), private sector mining industry at the rate of 2.5% and state owned mining industry at the rate of 20% (16: p. 15), building materials and fixtures (16: p. 16). He further suggests that "the actual rate of levies should be determined by each state with consultation of the people especially with those who have knowledge about *Shari'ah*", (16: p. 13), adding that there should be a different *Nisab* for each income bracket (16: p. 18).

On the other hand, Ismail Mohammad Saleh and Rogayah Ngah (10) cried for a "review in the *Zakah* system" because most of the *Zakah* in Malaysia is born by padi producers while property owners and high salaried people are exempt (10: p 82) and because *Zakah* is assessed at 10% of total output of padi in a sector that increasingly depends on paid for inputs such as seeds, fertilizers, insecticides and even labor which makes the rate of the levy to net income exorbitant.

In a paper presented at the International Seminar on Fiscal Policy and Developmental Planning in Islam held in Islamabad in July 1986, Rafiq Misri (8) argues that all kinds of fixed assets, including buildings, construction in process and machinery and equipments, should be *zakatable* if they are used for business purposes. This position of Misri, which differs from the predominant view that business fixed assets are not *zakatable*, is based on the principle of consistency since business fixed assets are similar to business mobile assets in being wealth invested for the objective of making profit (8: p. 3).

Additionally, business fixed assets are substantially different from the small tools of craftsmen, which are exempted of *Zakah*, because fixed assets are forms of growing wealth necessitated by the technology of "indirect production" whereby machines are first produced, then consumption goods and services are produced with the help of this machinery (8: p. 5).

Additionally, in his contemporary *Fiqh* of *Zakah*, Abu Saud (2) calls for a new structure of *Nisab* based on *Shari'ah* objective in "realizing the benefit of people and implementing justice among them". Since, according to Abu Saud the existing *Nisab* structure does not fulfill the requirement of justice[2] (2: p. 23).

On the basis of what he believes to be just and coherent, Abu Saud revamps the system of *Zakah*. For instance, he suggests that: (a) grazing livestock of all kinds should be subjected to a fixed rate *Zakah* on the basis of their value regardless of the sayings of the Prophet (pbuh) on the subject (20: p. 36); (b) property extorted from its owner and property unlawfully earned should be subjected to *Zakah* (2: p. 61); (c) there should be one *Nisab* for all *zakatable* items. This unified *Nisab* should be based on minimum living requirements (2: pp. 73-75); (d) cost of living should be deductible from the value of crops (2: pp. 78 and 124); (e) only the income generated from trade should be subject to *Zakah* and not the total of stock in trade (2: pp. 110-112); etc.[3]

Moreover, in disputing the exemption of business immobile wealth from *Zakah* Hasan al Amin (3) maintains that such an exemption may "violate the intention of *Shari'ah* and its major objectives" in achieving "social justice between the rich and the needy." He adds that this may result in removing most of the wealth of the society from the obligation of *Zakah* and restricting this pillar of Islam to an extent that does not permit "the achievement of its social and economic goals (3: p. 6).

Qaradawi agreeably quotes Muhammad Ghazali that "it is not even imaginable that Islam would impose *Zakah* on a peasant who cultivates a five *faddan* [a Faddan is

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[2] I do not agree with most of Abu Saud positions as I believe that the *Shari'ah* postulated *Nisab* is itself a manifestation of justice. However, for items which did not exist at the time of Revelation, we are required to make a new opinion derived from all the texts on *Nisab* together and not necessarily from one to one simple analogy as discussed later in this paper.

[3] I think that Abu Saud emphasis on the principle of justice and consistency in *Zakah* is very important, but he is carried out of preparation in neglecting correct texts since justice and consistency in *Zakah* can only be established on the basis of the authentic texts, otherwise we will not be able to establish rules of *Zakah*, the third pillar of Islam, but we would then be formulating a tax from our own mind and reason.

# one acre] lot and ... leave out a physician who earns in one day the equivalent of that which the peasant earns in a whole long year" (9: p. 511). According to both Qaradawi and Ghazali, *Zakah* must be levied on salaries and professional income on the ground that this satisfies the principle of justice in distributing the burden of supporting the poor among the rich regardless of the form their richness may take.

The discussion in the rest of this paper attempts to continue the line of thinking suggested by Shaikh Zarqa and other prominent scholars and to present more cases and arguments in favor of an overall reconsideration of the *Fiqhi* views on *Zakah* from the point of view of consistency in the application of the principle of social and economic justice.

# SECTION II

## DISTRIBUTIVE JUSTICE AS AN OBJECTIVE OF *Zakah*

What is the objective of Zakah?

The fact that the main objective of *Zakah* is the achievement of socio-economic justice is not disputed. One finds this in every book and article about *Zakah*. *Zakah* is simply a transfer of a certain portion of *Mal* from the have to the have not.

It is, however, interesting to observe that this objective in not specifically mentioned in the *Qur'an*[4]. The *Qur'an* (9:103) states that the objective of taking *Zakah* out of their *Amwal* is *Tathir* (purification) and *Tazkiyah* (sanctification). In addition to sanctification, the word *Tazkiyah* means material and\or spiritual growth (9: p. 37). Many commentators believe that this pillar of Islam is called *Zakah* because the act of discharging of it purifies the wealth and the soul of the payers and makes them grow.

Yet it is apparent from verse 9: 60 which deals with the use of *Zakah* proceeds that the most important categories of those enumerated as recipients are among the poorer segment of the population. Qaradawi (9: p. 38) quotes Azhari that *Zakah* also makes the poor grow both in wealth and in spirit. Referring thus to the redistributive function of *Zakah*.

On the other hand, when he sent Mu'adh to Yemen, the Prophet (pbuh) refers to *Zakah* as "to be taken from the rich and given to the poor" (9: p. 544).[5] The Prophet (pbuh) also mentions that all *Sadaqat* (including *Zakah* since it is a kind of *Sadaqat*)

[4] It should be noted that verse 7 of *Surah* 59 talks about disliking that circulation of wealth between a few hands of the rich with respect to the distribution of war booties not with respect to *Zakah*. However, verses 51:19 and 70:25 talk about giving to the poor but they both are Makkah verses, i.e., they came before the obligation of *Zakah* in year 2 of *Hijrah*.

[5] The saying is reported by Bukhari and Muslim (see Qaradawi p.96.(

should only be made out of richness (8 : p. 154).[6]

Moreover, although the eight categories which are mentioned in the *Qur'an* include some non-poor, the sayings and the practice of the Prophet (pbuh) and the opinions of *Fuqaha'* place a lot of emphasis on the poor and needy in the disbursement of *Zakah* to the extent that it is overwhelmingly believed that giving to the poor and needy has first priority.

Consequently, it is well established that *Zakah* is a transfer payment from the rich to the poor for the purpose of redistribution of wealth and income in the society.[7]

Furthermore, it is also established that the *Qur'an* and the *Sunnah* have overwhelming evidence which indicates that the Islamic system does not like any form of concentration of wealth or income in a few hands and considers their redistribution, by means acceptable in *Shari'ah*, one of the major objectives of the Islamic economic system. (see for example 7: pp 112-125 and 15).

The existence of other economic objectives of *Zakah* can hardly be disputed as long as such other objectives do not contradict its redistributive function that is substantially established on the basis of the Qur'an and the Sunnah. The purification, sanctification and growth characters of *Zakah* though spiritual and moral may, however, be manifested in many incidental economic effects which *Zakah* may induce.

For instance, discouragement of keeping substantial amounts of wealth idle, pro-

[6] Reported by Ahmad with a correct chain of narrators (8 : p. 154.(

[7] It goes without saying that as a pillar of religion ,*Zakah* is first of all a worship [*Ibadah*] whose spiritual impact in purification and sanctification is its most important function. Therefore it should remain in practice even if the objective of socio-economic justice is fulfilled to the complete satisfaction of the society at a certain point of time. Such a possibility might be the reason for having open ended destinations for its disbursement, especially the eighth category of "in the way of God."

tection against theft, looting and arsenal actions by the deprived through inculcating a feeling of belonging, brotherhood, togetherness and satisfaction, and setting certain bottom floor for the expected rate of profit in the economy, all these may be attributed to *Zakah* as long as such incidental functions do not obscure the basic and vividly stated objective of redistribution.

Moreover, such "other" purposes must not influence the different rulings [*Ahkam*] of *Zakah*, rather, these purposes must be derived from the *Zakah* rulings by means of economic analysis.

Since such incidental functions of *Zakah* fall outside the scope of this study, the rest of this paper will only elaborate on the fulfillment of socio-economic justice and how it is achieved through *Zakah*.

This will be dealt with from two angles. Firstly, the consistency of contemporary positions of *Fuqaha'* concerning the *zakatability* of different kinds of wealth and income with this objective, and secondly, the speed of the process of fulfillment of this objective. In dealing with the first point, I shall examine the contemporary positions of *Fuqaha* about *Zakah* as a tax or a levy, while in considering the efficiency of *Zakah* with regards to redistribution, I shall study the expected effect of *Zakah* in eliminating poverty in real life.

<u>Definition of the rich</u> :

A rich may be person who has high income or a person who owns a lot of wealth since richness is a command on resources regardless of whether these resources are in stock or flow terms. In the past, i.e., before the accumulation of large sums of technological know how, income expression of richness was always attached to wealth forms of richness because people used to earn high income only through trade and agriculture both of which require ownership of certain wealth to start with.

Investment in human capital and labor income were very little. There is some evidence that labor income used to be about 1 *Dirham* a day at the time of the Prophet (pbuh).[8]

The distinction between income and wealth is necessary to understand the implication of social economic justice in contemporary economic context. Income is a flow of resources within certain period of time usually a year. Wealth is a stock of resources at a certain point of time. Income may either be used for consumption or it may be saved. What is saved makes an increase in wealth. Therefore, the part of income that is not consumed becomes part of wealth as defined at the point income period ends.

Interestingly the word *Mal* may be interpreted to cover both income and wealth since it literally means funds or resources. It is not restricted to wealth or income.

Moreover, *Zakah*, as will be shown later, is imposed on the rich and on *Mal* regardless of whether it is a flow or a stock, income or wealth. This distinction between flow and stock does not appear in *Fiqh* literature because it is not an ancient distinction.[9] But through the analysis of *zakatable* items one can easily trace that our *Fuqaha'* did not exclude richness in terms of income from their discussion. Therefore, *zakatable* items can be reclassified according to the concept of flow and stock or income and wealth.



[8] Monzer Kahf "Relative Prices in Madina at the time of the Prophet (pbuh)" in Review of Islamic Economics, V.1, 1411, pp1-44, see p.p. 16-17.

[9] It is interesting to note that the Prophet (pbuh) came very close to the stock/flow concepts with regard to Zakah in his saying "(Payment of) Sadaqah is not lawful to a rich or to a strong and healthy person", (reported by the five) and "there is no share in it (zakah) to a rich or to a strong and earning person" (reported by Ahmad, Abu Daud and Nasa'i and characterized as correct by Nawawi), (see 9: pp. 557-558).

## SECTION III

## Justice in the levy of Zakah in a contemporary Muslim Society.

Principles of Zakah levy in the early time of Islam :

It is known, in *Shari'ah*, that *Zakah* is the only tax which is charged on *Mal* because it is owned or possessed, i.e., one has to pay *Zakah* simply because one is rich (9: pp. 990-991).[10] The *Qur'an* and the *Sunnah* impose this levy on *Mal* that covers wealth and income. The Prophet (pbuh) gave a listing of *zakatable* items and rates to be charged on each of them and determined exemptions and the criteria of *zakatability*.

Hence, in the society of Madinah at the time of the Prophet (pbuh), it became clear that *Zakah* is levied on camels, sheep, cows, gold, silver, agricultural output and goods designated for trade.[11] Certain items were clearly exempted. Exemption included things used for personal purposes such as cloth and furniture. The rates of this levy were exactly determined so were the criteria of *zakatability* (*Nisab*). Since the texts of the *Qur'an* and the *Sunnah* in this regards are very well known, there is no need to reproduce them here. Instead, I will try to make a list, as comprehensive as possible, of the justice related principles that can be derived from these texts.



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[10] This means that all other taxes are justified by the need for them, while Zakah is a permanent and unchangeable duty payable regardless of any needs.

[11] The disagreement of Ibn Hazm on the *Zakatability* of goods designated for trade is disregarded because it lacks supportive evidence, (see Qaradawi, p.p. 323-326).

On the basis of the *Qur'an* and the *Sunnah*, the following levy-related principles of *Zakah* can be derived:

A- Items subject to this levy are:

- i- Major kinds of wealth known at that time. Namely, livestock, inventory of trade, gold and silver (all these are stock).
- ii- The part of income (flow) which is saved during the year so that it becomes an increment in the above mentioned items of wealth, i.e., income which is saved in the form of any of the mentioned kinds of wealth regardless of its source. For instance, this includes the increments in the trade assets, livestock, gold and silver, etc.[12]
- iii- Agricultural products, i.e., output of agriculture (flow).
- iv- Found treasures and minerals extracted from the ground (flow).

B- Items excluded from *zakatability* are :

1- Human skills and human resources.
2- Income used for consumption regardless of its sources.
3- Items of wealth used for personal and family purposes whether such items are perishable or not. These include horses, slaves, personal weapons, residence, etc.
4- Trivial things not meant as trade inventory such as laborers' tools. There was no machinery and equipment at that time and prices of craftsman tools were generally not expensive.

Items included in 3 and 4 indicate that not all the personal net worth is subject to *Zakah*.

C- The criterion of *zakatability* is set at two hundred *Dirham*, or its equivalent for

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[12] It is to be noted that once this income is saved, it becomes part of wealth at the end of the period. Therefore, item (i) is to be understood as wealth at the beginning of the income period.

stock items and their increments[13] and at 300 *Sa'* (approximately 653 kg) for agricultural output. According to Shah Walliullah al Dahlawi (circa 1176H; 4: V2: p. 43), either of these two amounts is sufficient for the minimum food requirement of a family of three for a year. It is obvious that this amount is below the subsistence level today since housing, clothing and miscellaneous needs assume more weight in today's definition of subsistence level of living than they used to have in the Arabia at the time of the Prophet (pbuh).[14]

D- The rates of *Zakah* were set at 2.5% for stock items, 10% for agricultural output when they are irrigated by rivers, canals or rain, 5% for output irrigated from well water extracted by human or animal power, and 20% for found treasures and minerals.

It should be noted that at the time of the Prophet (pbuh) in Madinah, livestock, gold and silver (whether used as money, raw materials or jewelry), trade inventory and agricultural land were the only forms of wealth (stock) people used to hold. Madinah did not have any form of capitalized industrial or service sectors. Labor-base handicrafts were considered demeaning. Slaves existed but they were not generally kept for breading (3: V2, p. 43).

Why land was not *zakatable* ?

Charging the products of land instead of land itself can be quite understandable in the context of the nature of Madinah agriculture at that time where land was nearly free and land which does not produce worthless. This shift in the levy base from stock

[13] It is shown by more than one scholar that the value of the *Nisab* of each of gold, which is 20 *Dinar*, camels, which 5 heads, and sheep, which is 40 heads is equal to 200 *Dirham*. (See Qaradawi and others). Qaradawi, however, argues that the *Nisab* of livestock is double that of other items.

[14] The *Nisab* seems to be below one year income for unskilled labor since there is evidence which indicates that a laborer would make one *Dirham* a day, (See footnote 8 for reference).

to flow may also explain the increase in the rate from 2.5% to 5% or 10%.

It should be noted that no allowance is reported to have been given for any expenditures involved in farming except the change in the rate with respect to the mode of irrigation, although we have some reports about the existence of certain out of pocket expenses for hired labor and it is obvious that there was always the cost of seeds.

It is further worth noting that there was high cost in extracting water from wells by human or animal power and the quantity of water extracted was usually small if compared with what modern pumps can do today. In other words, the capacity of such an old method was very limited, at least, in Madinah at that time. Such a high cost may justify the reduction of the rate of *Zakah* by 50% from 10% to 5%.

*Zakatable* items after the Prophet:

There was no important change in the pattern or structure of wealth and income during the first several centuries after the Prophet (pbuh), although a tremendous quantitative increase took place especially during the time of 'Umar and 'Uthman.

However, in the following few centuries, analytical *Figh* writings started to appear and it seems interesting to take a look at the main points of dispute among the *Shari'ah* scholars in an attempt to discover certain guidelines which would help in suggesting criteria of *zakatability* of new forms of wealth and income. These points include the cases of debts, jewelry, horses and other domestic animals, herds sustained on fodder, honey and other animal products, agricultural products other than those mentioned in the authentic Sayings, income, and fixed assets which are not designated for personal use.

A) Debts :

For debts which are on the person, i. e., a liability item on the balance sheet, there are three views about their deduction from the *Zakah* base: (i) debts are always deductible, (ii) debts are deductible except from agricultural output, and (iii) debts are deductible except from the apparent items whose *Zakah* is usually collected by the state.

The rationale of deduction of debts is derived from the principle of justice, i. e., one who is under debt is poor, and how can you take *Zakah* from the poor? While the rationale of the exceptions is based on the lack of any indicative reports from the Prophet (pbuh) (9: pp. 157-159).

On the other hand, debts owned by the person, i. e., as an item of the payer's stock of wealth are *zakatable* if they are in good standing. This indicates that what matters for *zakatability* is being a real part of the net wealth of the payer.

<u>B) Jewelry</u>:

The views about jewelry can be summarized in four as follows: (i) Jewelry whose use is prohibited is *zakatable*. This is an application of the exemption of items designated for personal use as the prohibition disqualifies an item of being for personal use. (ii) Permissible jewelry is not included in the *Zakah* base if it is not in excess of customary or normal personal use and it is not very excessive. (iii) All permissible jewelry is *zakatable*, and (iv) all jewelry is not *zakatable*. (9: pp. 282-311). In addition to quoting the Prophet's sayings, the arguments for and against these views center on the concept of customary or normal personal use and its boundaries, i. e., whether holding jewelry is tantamount to holding an item of wealth. For example, Jewelry becomes subject to the levy if it is excessive, not customary or its use is not recognized in *Shari'ah*.

<u>C) Horses</u>:

The controversy about the *zakatability* of horses and other domestic animals reveals the following points: i- whether horses are used for personal purposes or as a Stock of wealth. ii- their similarity, or lack of similarity, to *zakatable* livestock (9 : pp. 222-232).

D) Fodder livestock:

Herds sustained on fodder are *zakatable* according to Malik and some others on the ground that they are included in the general texts of *Zakah* on animals. These scholars argue that the descriptive adjective "being fed by free pasture" which appears in some sayings of the Prophet is a general description of what used to be most common at the time of the Prophet (pbuh), i.e., it is not intended as a determinant of *zakatability*. Consequently, it is not meant to exclude fodder herds (9: p. 171).

E) Honey :

The argument in favor of *zakatability* of honey is mainly based on the general texts of *Zakah* on farm products since the few sayings on honey itself are controversial. Qaradawi (9: pp. 426 and 431) argues that there should be a levy on the product of any thing whose substance itself is not made subject to *Zakah*, accordingly not only honey but eggs and natural silk must be *zakatable* too.

F) Other agricultural products:

As far as agricultural products are concerned, there are differences about the extent of the coverage of these products by the levy of *Zakah*. While the restrictive views derive support from certain sayings which mention by name *zakatable* products, opinions which extend the coverage to other products are founded on ground of consistency, that is, all kinds of land produce and fruits are similar from the point of view of being products of the land, therefore, they should equally be covered by the general texts of *Zakah* on agricultural products.

G) Income:

There are four income items which are subject to *Zakah* :

I - Income from trade,

Ii - The increase in the number and value of *zakatable* livestock,[15]

Iii - Gross output of agriculture, which is, in a sense, gross agricultural income, and

Iv - All other income, including labor compensation, professional income, income from financial and other assets,[16] grants, inherited assets, etc.

The first three categories of income are *zakatable* according to the overwhelming majority of scholars while charging the fourth one is only the opinion of a few *Fuqaha'*[17]. It must be noticed, however, that out of the first two categories income that is consumed during the year is not included in the Zakah base. The main reasons given by those who believe in the *zakatability* of other forms of income (item iv above) are summarized in the following:

I - Texts of *zakatability* are general and inclusive.

Ii - Excluding this category of income is not consistent with levying *Zakah* on agricultural income as well as on other kinds of *zakatable* income.

Iii - Exempting this category results in relieving many of the rich persons while low-income merchants and others are charged *Zakah*.

Iv - Charging this category *Zakah* is consistent with the general principles of justice at large and its application to *Zakah* in specific (9: pp. 487-520).

<u>H) Business fixed assets</u> :

The controversy about business fixed assets is rather contemporary. It seems

[15] The *zakatability* of increment in the number of livestock is obvious. However, increase in value is also *zakatable* because increase in value comes from one of two sources: increase in market value and since *Zakah* is taken in kind, this increase is *zakatable* and increase in quality of livestock and since in *Zakah*, we are required to take average animals (e.g., not the thin nor the fat) and the average reflects the change in quality, weight, etc.

[16] Income from financial assets come in discussions of contemporary *Fuqaha* such as Abu Zahrah and Qaradawi (9: pp. 521-533).

[17] See Qaradawi (9): chapters 8, 9 and 10.

that those who believe in their *zakatability* founded their view on the fact that these assets are a source of income like trade inventory. They argue that a fixed asset may be exempted only if it is devoted for personal use but it must be subject to *Zakah* when it is made a source of income because they are wealth and owned by the rich and rich people should not stay out of the reach of Zakah. (9: pp 467-470).

On the other hand, opponents of *zakatability* of fixed assets argue that they are not intended for sale and are similar to the small tools of labor workers such as harbors, carpenters and blacksmiths (9: pp. 459-460).

<u>New forms of wealth and income</u> :

The tremendous change in the modes of production, which took place in the last two centuries, created new forms of wealth and changed the scope of many of old forms. Except for the simple loan and cash, all known forms of financial and monetary assets are new. Industrial, commercial, agricultural and service holdings are now normal practice after they were exceptions in the past.

Additionally, high skills and technological knowledge embodied in human labor resulted in very high levels of labor compensation incomparable during in the old ages. These skills and know how are themselves an outcome of long and very costly process of education and training.

Moreover, the rate of transformability of one asset into another has increased very much by means of organized modern markets and improved methods of communications. All this created a new structure and distribution of wealth and income in the society which calls for the reconsideration of the old pattern of *zakatability* in order to make it suit this new structure of wealth and income.

Contemporary views of *Shari'ah* scholars can be summarized in the following:

i- The majority of contemporary scholars hold to the traditional opinion and disregard the structural changes in wealth and income. Consequently, they exempt labor compensation and business fixed assets form *Zakah*. This is evident in the *Fatwa* given by the OIC *Fiqh* Academy in its second annual session, held in Jeddah, Nov. 1985, regarding *Zakah* on buildings equipment and machinery. Scholars who subscribe to this opinion add that if the return on those assets is kept in cash form for a full year it becomes *zakatable* like any other cash holdings.

ii- Some scholars believe that only the return of exploited fixed assets is *zakatable* at the rate of 2.5%. This *Zakah* on income is due upon its receipt (9: p. 474), and

iii- Abu Zahrah, Khallaf, Hasan and later Qaradawi suggest that the return on fixed assets (income) should be *zakatable* at 5% on gross or 10% on net (9 : pp. 476-482).

iv- Al Qaradawi adds labor compensations to the *zakatable* items (9: pp. 505-512).

The first opinion does not take the principle of justice in *zakatability* into consideration. It virtually keeps the majority of the rich in any contemporary Muslim society out of the reach of *Zakah* while charging the poor agricultural population at a rate of 5% or 10% with a *zakatability* criteria that does not even exempt a minimum provision of grain alone to the average peasant family in any contemporary Muslim country.[18]



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653 [18] kilos of grain, are not even sufficient for bread alone for a family of 6-7 persons as it is the case of the average size of rural households in most Muslim countries.

Evidence in some Muslim countries which implement *Zakah* by state laws supports this conclusion where industrialists, real estate owners, merchants, top salaried persons and highly paid professionals are virtually aloof to the obligatory *Zakah*, while the proceeds of *Zakah* is collected from the middle class holders of saving accounts at banks and other depositories and from peasants and farmers.

On the other hand, the second and third views lack consistency that requires treating equally those who are equal in wealth and/or income.

These views also suffer from another shortcoming in their rationale. The differential treatment they suggest for the different kinds of business assets (fixed and mobile) is not founded on solid grounds since circulating and fixed assets contribute on the same footing to the production process, as each of them is indispensable for achieving the objective of any investment.

Additionally, while it is true that a production process converts raw materials (mobile) into final goods and services, it is equally true that it gradually converts fixed assets into the final products since productive capacity of these assets declines as a result of their use. Therefore, the assumption that fixed assets are not intended for sale is incorrect and should not, therefore, be subject to *Zakah*.

Moreover, because the intention of businesses is to make profit an investor is only interested in the final product and net gain one can make regardless of whether more (or less) fixed (or circulating) assets is used. Profit-making is the motive behind holding *zakatable* trade inventory. In contemporary context, the same profit-making motive requires holding fixed assets because the nature of the process is now different than it used to be at the time of middle-ages traders. Why then exempting contemporary investors? Aren't they similar to earlier profit makers through trade?

Add to it that the ratio of fixed to mobile capital in any industry is a matter of technological and economic choice, not a matter of richness or poverty of owners.

Hence, what rationale can be fetched to claim that Islam intends to favor intensive fixed assets processes of production by exempting them of Zakah in comparison with intensive circulating assets or intensive labor processes?![19]

Additionally, it is known that the ratio of fixed to total assets one holds usually increases with the increase in the size of one's holdings, i. e., the initial items of holdings are usually movable and the non-movable items come later on as the size of wealth increases. It does not seem rational that Islam meant to favor larger holdings in comparison with smaller ones!

Furthermore, opinions (ii) and (iii) hold that fixed assets should be *Zakah* free if they are kept idle or did not produce return. This seems in contradiction with the unanimous position that cash money is *zakatable* even when it is kept idle or did not produce return, and that trade inventory is also *zakatable* if it is kept idle,[20] results in a zero net return or even makes a loss at the end of the *Zakah* year as long as the principal remains *Nisab* or above.

Besides, these two views are not consistent with the generally accepted view that *Zakah* discourages and penalizes idle holdings as there is little difference between an idle cash and an idle fixed asset from an economic point of view, and whatever difference which may exist, is irrelevant to *zakatability*.

As far as the impracticability of these two opinions is concerned, it arises from the lack of any rationale for the distribution of the return between fixed and circulating

[19] One may argue that exemption of business fixed assets encourages investment which results in growth and employment. But the same applies to investment in mobile assets. Moreover, this argument should favor more levy on capital intensive processes than labor intensive processes which is not the case in *Fiqh*.

[20] Malik exempts of *Zakah* the merchant who holds inventory idle for years. Obviously, such a merchant is presumably economically stronger than those who cannot hold their inventory for long periods, otherwise he/she would feel dire pressure to sell.

assets. In other words, there is no way to measure separately the respective contribution of movable and fixed assets to the net profit of a project. Every method that could be suggested can always be accused of being arbitrary.

On the other hand, the difficulty feared by Qaradawi (9: pp. 473-474) with regards to indivisibility of fixed asset, which makes payment of *Zakah* out of fixed assets difficult, does not really exists in today's world, especially if one accepts the proposal of Tag el-Din (12), that *Zakah* may be collected and distributed in terms of equity certificates.

<u>The condition of growth</u>:

The conditions of growth is repeatedly used in the *Fiqh* literature to justify certain exemption from *Zakah* especially with regards to fixed assets, debts and inventory held by merchants for several years (9: pp. 143-144). Therefore, it seems that a re-examination of the condition of growth with respect to *zakatability* is inevitable before suggesting any conclusions.

This condition means that any *zakatable* item must be, actually or potentially, growing and an item that is not growing, actually or potentially, is not *zakatable* (9: pp. 139-140).

The meaning of this condition seems to have passed through certain evolution because it is said to have been derived from the sayings which exempt from *Zakah* items designated for personal use (usually called items of *Quniah* which literally means acquisition) while subjecting to *Zakah* items which grow such as camels, stock in trade, gold and silver (9: P.141). Then from concept of *Quniah*, a condition of growth was derived. But a re-examination of the texts upon which the condition of growth is based may suggest giving this condition a different meaning.

Firstly, the exemption of items devoted for personal use is not the same as the exclusion of business fixed assets known in today's world since the latter is devoted to make profit, i.e., they are, in this sense, growing.

Secondly, the intention to sell that is mentioned in one saying of the Prophet (pbuh) with regard to trade merchandise,[21] is not more than an intention to make profit from business and should not, therefore, be restricted to literal sale especially that some items, e.g., livestock, are *zakatable* even if they are held for *Quinah* not for sale.

Consequently, the use of the term *Quniah*, which is coined by the *Fuqaha',* as it did not appear in the sayings of the Prophet (pbuh), was responsible for extending the concept of acquisition from personal items to business assets. The question addressed to the *Fuqaha* becomes: is this extrapolation of *Quinah* from personal items to business fixed assets consistent with the texts and with the concept of justice?

Besides, since there is sufficient evidence that *Zakah* does not tax trivial things in contrast to big or substantial items, (cheap and expensive jewelry is an example) the primitive hand tools of laborers (such as scissors of barbers and hammers of carpenters) in ancient times Madinah are justifiably exempted on the ground of being trivial and invaluable. However, these tools must not be equated with modern machinery and plants since machinery and plants are major items of wealth which exceed any minimum exempt stipulated in the Prophet's sayings,[22] and they are part of a totally different economic system of mass and indirect production and of concentration of wealth and power, while hand tools fall within the *Nisab* under all circumstances of the economy of Madinah at the time of the Prophet (pbuh).

On the other hand, the concept of growth is not exclusive, i.e., it does not

[21] The text of the saying is: "From Samurah bin Jundub, he said: The Messenger of God (pbuh) used to order us to give the *Sadaqah* (*Zakah*) of what we prepare for sale" reported by Abu Dawud (9: p. 317).

[22] For instance, the Prophet determined the *Nisab* of silver in his agreed upon saying reported by Muslim and Ahmad from Jabir and by Ahmad and al Bukhari from Abu Sa'id (there is no *Sadaqah* (*Zakah*) on what is less than 5 'uqiyyah (=200 *Dirham*) and there are known sayings with regard to other items.

exclude all non growing assets from being *zakatable*, since there are many *zakatable* items that do not grow by their nature nor according to their *Fiqhi* definition. Jewelry, for example, does not grow by nature although it is considered *zakatable* according to majority of scholars, especially, if it makes a substantial item of wealth. Debts on others do not grow by nature nor by *Shari'ah*, yet they are *zakatable* according to majority of scholars. Cash money, including gold and silver, does not grow by *Shari'ah* because interest is prohibited; yet it is also *zakatable*.[23]

Additionally, the condition of growth is not inclusive either, i.e., does not cover all growing assets, since many of those who believe in it exempt from *Zakah* growing items such as trees, fodder livestock, privately owned water springs, and domestic animals other than those mentioned in the sayings.

Furthermore, the *Fuqaha*'s introduction of the idea of potential growth seems to be arbitrary and added only to avoid embarrassing criticisms when the condition of growth is applied to cash money (including gold and silver), debts, etc. According to the prohibition of *Riba*, money, gold, silver and debts do not grow. The fact that if gold and silver are exchanged for business assets, these new assets can grow does not give a potentiality of growth to gold or silver. This is simply because they may equally be exchanged for consumption goods or spent on services, i.e., they have equal potentiality of being consumed. Moreover, if we follow the line of thinking of potential growth, we must admit that in the ultimate analysis, every thing has a potentiality of growth including items of personal use and all other items whose *zakatability* is debated in the *Fiqh* literature (such as grained saved by farmers for next year use in seeding or consumption).

Besides, growth is arbitrarily applied to agricultural products since they are not really growing, actually nor potentially, as they, themselves, are the result of a growth process. Add to this the fact that the claim that *Zakah* is levied on the land but taken



[23] See Abu Saud (2), p.p. 37, and 69-70.

from its product is itself disputable and seems not well founded as it is based on assuming that crops are the increase of the land whereas they are the increase of the seeds (for instance, in case of a land extorted from its owner by coercion and in case of invalid *Muzara'ah*, crop belongs to the owner of seeds not of land). Moreover, such a claim is founded on a thin air, not on any supportive evidence from the texts of *Qur'an* and *Sunnah*.

Add to this that if growth, whether actual or potential, is a condition its absence must be a reason for a waver. Yet it is known that *zakatable* items remain so even if losses are actually incurred. The similarity with potential hardship in traveling, that is presented by some *Fuqaha'* in this regard, (9: p.140), is not necessarily true. In the case of material losses, there are always means of verification of measurable loss whereas in the case of hardship in travel there are no such means but only personal judgment and feelings.

Lastly, there are several texts in the *Qur'an* and the *Sunnah* which indicate richness, or having *Amwal*, as a reason (*'Illah*) for *zakatability*, and a shift in the *'Illah* from wealth to growth lacks sufficient rationalization and textual support.

Consistency of Nisab and deductible expenses :

As for the issues of *Nisab* and deductible expenses, there seems to be some inconsistency and sometimes ambiguity in the contemporary *Fiqhi* views.

For instance, with regards to *Nisab,* while we have seen earlier in this paper that Dahlawi (4) interprets the *Nisab* as a clear reference to the cost of living, one finds no repercussions of this interpretation in the studies about *Nisab* of new forms of wealth. Relative prices of gold, silver and all other commodities have experienced lots of change since the time of the Prophet (pbuh). Additionally, the value of 200 *Dirham* of silver is no more the same as that of 20 *Dinar* of gold, 40 sheep, 5 camels, or 653 kilograms of grain.

Moreover, the pattern of consumption has gone through substantial changes. For instance, in the cost of living, some items, such as housing assume nowadays higher priority and take bigger portion of family income than they used to do in the past. Also drastic changes took place regarding the size of family that is sustained by one income earner. Moreover, relative prices of agricultural products declined in relation to industrial products and to services all over the world.

All these changes must have an impact on the *Nisab* in order to preserve the virtues of *Zakah* and achieve its objectives. It must be emphasized, however, that the sacred nature of *Zakah* requires that it should always be based on the texts of the two sources of *Shari'ah*, *Qur'an* and *Sunnah*. Even a slightest violation of these two sources should not be tolerated. Consequently, *Nisab* on items mentioned by the Prophet (pbuh) should be taken as they are without any change.[24]

But is it not also essential that in deriving new rulings for new situations, one should make use of all the texts together and understand their totality and spirit? In other words, instead of suggesting sometimes the value of 200 *Dirham* of silver, and the value of 20 *Dinar* of gold some other times, is it not required that we must derive a formula of *Nisab* from all the different *Nisabs* that are mentioned in the sayings, on the basis of their relative prices and relative weight in the cost of living at the time of the Prophet, in order to apply such a formula only to new items of wealth including fiat money? While keeping the individual *Nisabs* of items mentioned by the Prophet (pbuh) sanctioned as they are.

Deductibles are also vague in the contemporary writings of *Fuqaha*' For example, Qaradawi (9: pp. 151-155) states that one of the conditions of *zakatability* is that an item must be in excess of the needs of the owner. He applies this principle to

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[24] Here is another point where I do not support the proposition of Abu Saud(2) that even these *Nisab* should be reconsidered on the basis that sayings which pronounced them are only temporal instructions from the head of State not part of revealed religion (Abu Saud(2), pp. 22, 81 and other pages).

salaries (9: p. 517), but he was not so clear in the case of peasants since he only mentioned loans borrowed for family expenses as deductible from the output without making any mention of the expenses (if they are not borrowed) needed by the peasant family which lives on its farming output for the whole year.

In other words, according to Qaradwi, exempted expenses allowances are not the same in the cases of salaried and peasantry *Zakah* payers. This leaves authorities in a difficult situation. Consequently, the administration of *Zakah* in Pakistan, for example, opted for an administrative solution by suggesting a de facto deductible limit for peasants when it announced that the *'Ushr* is collectable by the authorities only from farmers who cultivate more than certain acreage of land which is sufficient for minimum living and is determined by the government each year on the basis of output expectation. This means that payment of *'Ushr* is left voluntary for peasants who cultivate less than the determined size of lands, knowing that they usually do not pay it and that their output would barely be sufficient for the minimum cost of the living of their families.



Opinions of Muslim economists:

Two views are usually known among Muslim economists about the extent of the coverage of *Zakah*. The first is that *Zakah* should be applied as it is suggested in traditional *Fiqhi* position with minimum contemporary rethinking and any injustice that may arise can always be corrected by additional taxes. The second is that, as a sacred pillar of Islam and its economic system, *Zakah* cannot be conceived of as an unjust and inconsistent institution especially that its *Qur'anic* verses and main sayings emphasize its coverage of the *Amwal* and the rich persons.

Conclusions of section III:

The preliminary conclusions about the satisfaction of the principle of justice with regard to the *zakatability* of items of wealth and income can be summarized in the following points:

I - As a religious levy on wealth and income, *Zakah* does not have to be restricted to the forms of wealth and income which existed at the time of the Prophet (pbuh), and its coverage does not have to be limited by concepts affected by temporal modes of production of the past. Therefore, *Fuqaha'* are called upon to reconsider their contemporary views on new forms of wealth and income.

Ii - With the substantial decline of the share of agriculture in national economies, *Zakah* on industry, business, and services should be given sufficient attention and more research in order to determine the extent of the *zakatability* of assets invested in these sectors where the huge wealth exists.

Iii - The condition of growth in *zakatable* items may need certain reconsideration especially in the area of distinction between items of *Quniah* for personal use and business fixed assets that are designated for profit making.

Iv - Fresh *Fiqhi* thinking is needed in the area of criteria of *zakatability* of new items of wealth and income, i.e. whether *Nisab* of these items should be determined in a way which maintains consistency with that of items mentioned in the Prophet's sayings. Furthermore, *Nisab* of new items (including fiat money whether it is based on gold or silver reserves or not) may be determined on the basis of a comprehensive understanding of the *Nisabs* that are mentioned in the sayings.

V - Rates of *Zakah* on new items of wealth and income should also be consistent with the prescribed rates taking into consideration the factor of wealth transformability and the multi-dimensional nature of contemporary economic activity.

Vi - Exemptions from *Zakah* whenever they are suggested for wealth and income must also be in harmony with those applied to old activities in a way that does not create unjustified discrimination among *zakatable* persons.

## SECTION IV
## THE SPEED OF ACHIEVING TARGETED SOCIO-ECONOMIC JUSTICE

As a direct transfer of income and wealth from the rich to the poor, *Zakah* must presumably be efficient and reasonably quick in eliminating poverty from Muslim societies. Otherwise, if it takes a very long period to bring justice, it should not occupy such a central and pivotal place in the Islamic economic system.

Al Tahir (13) made a simple comparative static simulation of the effect of *Zakah* on this gap in ten year period and concluded that, under his assumptions, the income gap between the rich and the poor (average income of the rich/average income of the poor) is reduced from 9 to 1 to 6.15 to 1.

Zarqa (15: p. 23) ascertains that *Zakah* doubles the income of the poorest 10% of the society every year since most of it is taken from the rich and given to the poor.

Kahf (5: p. 148) also argues that since *Zakah* covers both income and wealth and its spending is not limited to providing subsistence living for the poor but it rather aims at the poor's enrichment, it influences the distribution of wealth in the long run let alone the short run redistribution of income.

The above expectations are based on estimating the *Zakah* proceeds at around 2.5% to 3.5% of national income per year in any Muslim society. However, this estimation may turn out to be far from reality because of theoretical and practical reasons. But before discussing these reasons, it should be pointed out that *Zakah* is not the only mechanism of transfer of payments in a Muslim society. Besides *Zakah*, there are *Sadaqat al Fitr*, obligatory enlarged family mutual support, *kaffarat* which are recompenses of mistakes in certain worships, etc. All these mechanisms imply transfer of income to the poor in a systematic manner.

**<u>Potential proceeds of Zakah</u>:**

According to the traditional *Fiqhi* position, the potential proceeds of *Zakah* will be a lot less than most Muslim economists may think. In an other study, Kahf (6) made an estimation of *Zakah* proceeds in eight Muslim countries. It was found that if *Zakah* is imposed in accordance with the traditional *Fiqhi* view, i. e., on livestock, agriculture, mining, stock in trade and monetary holdings, its proceeds would run between 0.9% and 2% of gross domestic product except in Sudan where it is estimated at 4.3% of GDP.[25] (See $Z_1$ of table I). The variation is a result of several factors the most important among them are the following:

i) Errors in estimation, lack of data relevant to *Zakah* estimation and statistical mistakes and variations,

ii) The size of the public sector in the economy because of it is considered exempt,

iii) The share of agriculture in the national economy because other sectors are almost exempt unless for holdings of cash and stock in trade,

iv) The degree of the miniaturization of the economy, and

v) The size of farms, since the smaller the average farm the lower the proceeds of *Zakah* because more people will be below *Nisab*.

Consequently, under normal conditions, the traditional view of *Fuqaha'* does not yield more than say 1 to 2 % of GDP. In most Muslim countries poverty is wide spread, i. e., it covers a large percentage of population and usually acute, i. e., there are many who are entrenched deeply in poverty. Therefore, even if all the estimated *Zakah* is given to the poor, it will not be sufficient to provide them with minimum biological sustenance let alone enrichment of the poor which is always talked about by *Fuqaha*.

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[25] It should be noted that In Sudan, the huge amount of livestock is responsible for raising the share of *Zakah* in GDP to 4.3%, if *Zakah* on livestock is excluded , the percentage of *Zakah* to GDP in Sudan goes down to 0.95%. In this case, the estimated Proceeds of *Zakah*, according to the traditional opinion, do not exceed 2% in any of the eight Muslim countries.

Moreover, if we look at the sectoral distribution of the estimated *Zakah* according to the traditional view (table II), we find that, in many of these Muslim countries most of the estimated *Zakah* comes from monetary holdings and stock in trade where the actual collection of *Zakah* is costly and difficult to manage.

*Zakah* on monetary holdings constitutes a big portion of the estimation (16% to 71% in six of the eight countries covered in the study). Practically, this sort of *Zakah* is difficult to collect in an obligatory manner by the state because its assessment and collection are intricate and administratively very expensive.[26]

As for the *Zakah* on stock in trade, it is estimated to make 3% to 17% in six of the eight Muslim Countries for whom *Zakah* is estimated and here also the administrative burden implied in the assessment and collection is huge and very costly. In an attempt to avoid such managerial and financial burden, the Pakistani Ordinance of *Zakah* left it to individuals to pay this form of *Zakah* in their own ways.[27]

But if we go beyond the traditional *Fiqhi* position, the percentage of estimated *Zakah* proceeds to GDP increases. Two other estimations are made, one on the basis of Qaradawi's opinion where the levy covers salaries at a rate of 2.5% and net returns of fixed assets at a rate of 10%; and the other on a similar basis to that of Qaradawi except that *Zakah* is calculated on fixed assets and their net return together at a rate of 2.5%.

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[26] It should be noted, however, that Pakistan made a great success in implementing *Zakah* on saving accounts (usually considered part of an expanded concept of the quantity of money in the hands of the public which is called M2 and not part of monetary assets per se) by means of forcing banks to assess and collect *Zakah* at source. But while this may be done for demand deposits at banks which is part of money holdings of the public, it cannot be done for cash in their hands the other component of money holdings.

[27] However, the experience of Saudi Arabia in this regard is worth noticing. Since most stock in trade is imported in this country, the *Zakah* authorities make assessment of stock in trade and other components of circulating capital of individual payers on the basis of their imports about which accurate information is obtained from custom department.

According to Qaradawi's view, estimated *Zakah* is between 1.7% and 6.3% in the eight Muslim countries ($Z_2$ in table I), and according to the third view it is between 2.0% and 7.5% ($Z_3$ in table I). Surprisingly, the estimates of *Zakah* according to Qaradawi's view are more than those according to the third view in three countries. If the extreme values are excluded we find that $Z_2$ and $Z_3$ are between 3.1% and 4.9% in six and five countries respectively.

However, the findings of these two estimates can only be taken in general terms because of the many limiting assumptions involved. But in spite of these limitations, they remain useful and indicative as they point out that the estimated proceeds of *Zakah* are considerably higher if any of these two opinions is adopted than if we adopt the traditional *Fiqhi* view. This obviously allows faster achievement of the objective of wealth and income redistribution.

The sectoral distribution of estimated proceeds according to these two views is also more balanced in a sense that *Zakah* is levied where richness lies than according to traditional view, (see tables IIa, IIb and IIc). In all the countries of the study, the share of estimated *Zakah* ($Z_2$ and $Z_3$) from each sector to total estimation is close to the share of the GDP produced in the sector to total GDP. This means that *Zakah* does not tax agriculture more than other sectors as it is the case if the traditional view is applied.

<u>Choice of Role of state with regard to Zakah</u>:

From an executive point of view, there are several considerations that may limit the degree of state involvement in the collection and distribution of *Zakah*. It seems that, for good reasons, the Third Successor of the Prophet (pbuh) left *Zakah* on business, gold and silver to individual payers to distribute at their own discretion to deserving relatives and neighbors.

Additionally there are certain considerations of management cost, letting certain margin for casual deserving causes, economic incentives, choice of degree of government interference in the private affairs of individuals, availability of other resources for supporting the poor, local, political, social and religious considerations, etc., which affect the selection of *zakatable* items that the state desires to cover by obligatory collection.

Moreover, there are several other objectives and areas the government may like to consider with regard to the extent of its role in *Zakah* collection and distribution, especially that *Zakah* may affect the rate of growth, and stability in the economy, methods of its collection and distribution may be used as policy tools to enhance development and other objectives of the economic policy, etc.

Consequently, if a country chooses smaller obligatory collection coverage, a smaller amount of proceeds reaches its treasury. This may impose further limitation on the speed of poverty eradication by means of state collected *Zakah*. For instance, Pakistan was able to actually collect in 1983/84 one sixth of the estimated *Zakah* according to the traditional view or one sixteenth according to the third view.

<u>Conclusions of section IV</u>:

Finally, the conclusions of this section can be formulated on the basis of the previous discussion and in the light of well known prevalence of the incidence of poverty in most Muslim countries. These are the following:

I - *Zakah* effect on eradication of poverty in the Muslim countries is higher if the new forms of wealth and new sources of income, especially in the sectors of industry, commerce, finance and services, are considered *zakatable*, i.e., if sizable proceeds can be collected and distributed.

II - In order to speed up the process of elimination of poverty, state is called upon to take measures to ensure that a wider coverage of *Zakah* with a larger stream of proceeds reach its Zakah fund and be distributed mainly to the poor and needy.

This may be supported by innovative forms of distribution with emphasis on permanent rehabilitation of the poor and on providing permanent sources of income.

**TABLE - I**

Percentage of estimated Zakah proceeds to GDP
in selected Muslim Countries.

| | $Z_1$ | $Z_2$ | $Z_3$ | |
|---|---|---|---|---|
| Egypt | 2.0 | 3.9 | 4.9 | |
| Indonesia | | 1.0 | 1.7 | 2.0 |
| Pakistan | | 1.6 | 3.5 | 4.4 |
| Qatar | | 0.9 | 3.7 | 3.2 |
| Saudi Arabia | | 1.2 | 3.7 | 3.4 |
| Sudan | | 4.3 | 6.6 | 6.2 |
| Syria | | 1.5 | 3.1 | 3.1 |
| Turkey | | 1.9 | 4.9 | 7.5 |

$Z_1$ : According to the traditional *Fiqhi* position.

$Z_2$ : According to Qaradawi views.

$Z_3$ : According to modified version of Qaradawi's. In this version, *Zakah* on fixed assets is calculated at 2.5% of their stock and yield together.

Source: "Zakah Potential in a few Muslim Countries", unpublished study in IRTI 1987, by Monzer Kahf.

**TABLE - IIa.**

Sectoral distribution of estimated Zakah proceeds ($Z_1$) in eight Muslim Countries

| | Agriculture | Other sectors' stock in trade | Monetary holdings | Total |
|---|---|---|---|---|
| Egypt | 19 | 11 | 70 | 100 |
| Indonesia | 3 | 50 | 47 | 100 |
| Pakistan | 24 | 17 | 59 | 100 |
| Qatar | 1 | 6 | 93 | 100 |
| Saudi Arabia | 4 | 25 | 71 | 100 |
| Sudan | 86* | 3 | 11 | 100 |
| Syria | 67 | 7 | 26 | 100 |
| Turkey | 60 | 6 | 34 | 100 |

Source: "Zakah Potential in a few Muslim Countries", unpublished study in IRTI 1987, by Monzer Kahf.

* of which livestock makes 78.

**TABLE - IIb.**

Sectoral distribution of estimated Zakah proceeds ($Z_2$) in eight Muslim Countries

| | Agriculture | Other | Money | Total sectors |
|---|---|---|---|---|
| Egypt | 15 | 49 | 36 | 100 |
| Indonesia | 3 | 69 | 28 | 100 |
| Pakistan | 16 | 57 | 27 | 100 |
| Qatar | 1 | 76 | 23 | 100 |
| Saudi Arabia | 2 | 75 | 23 | 100 |
| Sudan | 59 | 44 | 7 | 100 |
| Syria | 36 | 51 | 13 | 100 |
| Turkey | 25 | 62 | 13 | 100 |

Source: "Zakah Potential in a few Muslim Countries", unpublished study in IRTI 1987, by Monzer Kahf.

**TABLE - IIc.**

Sectoral distribution of estimated Zakah proceeds
($Z_3$) in eight Muslim Countries

| | Agriculture | Other | Money | Total sectors |
|---|---|---|---|---|
| Egypt | 14 | 57 | 29 | 100 |
| Indonesia | 3 | 75 | 22 | 100 |
| Pakistan | 19 | 59 | 22 | 100 |
| Qatar | 2 | 72 | 26 | 100 |
| Saudi Arabia | 3 | 72 | 25 | 100 |
| Sudan | 60 | 33 | 7 | 100 |
| Syria | 37 | 50 | 13 | 100 |
| Turkey | 17 | 74 | 9 | 100 |

Source: "Zakah Potential in a few Muslim Countries", unpublished study in IRTI 1987, by Monzer Kahf.

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