



ISLAMIC DEVELOPMENT BANK
ISLAMIC RESEARCH AND TRAINING INSTITUTE

A SURVEY OF
THE INSTITUTION OF ZAKAH :
ISSUES, THEORIES AND ADMINISTRATION

Discussion Paper

ISLAMIC RESEARCH AND TRAINING INSTITUTE

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The Islamic Research and Training Institute was established by the Board of Executive Directors of the Islamic Development Bank (IDB) in 1401H (1981). The Executive Directors thus implemented Resolution No. BG/14-99 which the Board of Governors of IDB adopted at its Third Annual Meeting held on 10 Rabi Thani 1399H (14 March 1979). The Institute became operational in 1403H (1983).

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**ISLAMIC DEVELOPMENT BANK
ISLAMIC RESEARCH AND TRAINING INSTITUTE**

**A SURVEY OF
THE INSTITUTION OF ZAKAH:
ISSUES, THEORIES AND ADMINISTRATION**

Abu Al-Hasan Sadeq

*Discussion Paper
No. 11*

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ISLAMIC RESEARCH AND TRAINING INSTITUTE

King Fahd National Library Cataloging-in-Publication Data

A SURVEY OF THE INSTITUTION OF ZAKAH:
ISSUES, THEORIES AND ADMINISTRATION

Sadeq , Abu Al-Hasan
Jeddah

72 P, 17 x 24 cm- (Discussion Paper No.11)

ISBN: 9960-32-120-7

1- Zakat 2- Islamic economy I- Title
252.4 dc 544822

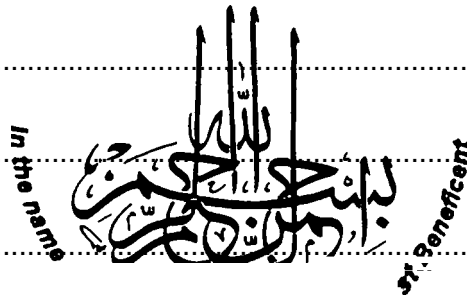
Legal Deposit No. 5448/22
ISBN: 9960-32-120-7

The views expressed in this book are not necessarily those of the Islamic Research and Training Institute or of the Islamic Development Bank.

References and citations are allowed but must be properly acknowledged.

First Edition 1415H (1994)
Second Edition 1422H (2002)

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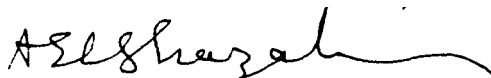
FOREWORD

The Islamic Research and Training Institute (IRTI) was established by the Islamic Development Bank (IDB) in 1410H (1981). It became operational in 1403H (1982/83). The primary objective of the Institute is to carry out research in the area of Islamic economics, banking and finance, to develop the capabilities of professional personnel in Islamic economics to meet the needs of research and *Shari'ah* observing agencies; to train personnel engaged in development activities in the Bank's member countries; and to develop databases in fields related to its activities to help foster the development of the IDB member countries.

Since, its establishment IRTI has undertaken research on both theoretical and applied aspects of Islamic economics in order to understand and clarify key areas of the Islamic economic behavior and Islamic economics system and application. The objective of these studies is to aid the process of economic development in Muslim countries and communities within the framework of the Islamic *Shari'ah* on the one hand, and economic cooperation among the member countries on the other.

The present study focuses on the theoretical and administrative aspects of the Institution of *Zakah*. As a survey, it covers the relationships between *Zakah* and savings, investment, income distribution, social security, economic development, and other economic concepts and variables. It also examines the major *fiqh* issues of *Zakah* from the perspective of its collection and disbursement. The administrative issues related to contemporary implementation of *Zakah* are reviewed in the third section of the Survey paper.

It is hoped that this study will contribute to the literature on *Zakah* and will assist researchers and students of the subject in providing useful material and findings.



Prof. Dr. Abdel Hamid El-Ghazali
Director, IRTI

PREFACE

Zakah is one of the five pillars of Islam, having important socio-economic implications, which has to be administered by the state. The Islamic resurgence in the present world has led to its institutionalized administration in some of the Muslim countries which has, however, raised some issues to be addressed. Muslim scholars have also started studying the institution in terms of its economic dimensions, *Fiqhi* issues and problems related to its administration in the contemporary environment. Seminars, conferences and workshops are being organized to deliberate on these matters.

It is a welcome initiative by the IRTI to survey the available literature on *Zakah*. Being approached by IRTI, the survey has been done as proposed. The main purpose of this work was to survey contemporary literature in terms of the issues, resolved or unresolved, theoretical or practical, in the institution of *Zakah*, rather than describing different models of *Zakah* administration as applied in different countries. Although the survey could not be made all inclusive due to resource constraint, it is comprehensive enough to cover discussion on all the major economic, *Fiqhi* and practical issues related to the administration of *Zakah* in the contemporary phenomenon. Besides, the author was advised to provide a survey of literature, rather than a critical analysis of the surveyed materials. All these have bearing on the nature of the survey as it stands in the present shape.

I would like to thank IRTI, its Director, and specially Dr. M. Fahim Khan, Head of the Research Division of IRTI, for giving me the opportunity to participate in the activity of the IRTI in the form of this survey. I am also grateful to the referee(s) for useful comments.

I thank Allah SWT for helping me complete the work and ask for His forgiveness for any shortcomings.

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INTRODUCTION

Zakah is an important institution in the socio-economic framework of Islam. Its importance is revealed in its being one of the five pillars on which the Islamic code of life is founded, and in the fact that the injunction of Salah is frequently followed by that of Zakah in the Qur'an. Zakah has not been made obligatory for this *Ummah* alone, it was ordained during previous prophets as well.' This is an institution which was effectively introduced during the golden era of Islamic history.

One may however ask why is this institution so important? In addition to its being an act of *Ibadah*, does it have any socio-economic implications? Now that the circumstances changed, including the forms of wealth and their relative importance and prices, will the institution of Zakah, as it is, be able to produce the expected and desired outcomes? If any changes are called for, what kinds of changes are necessary, and are such changes permissible? After centuries of discontinuity in the application of this institution, is its administration feasible in the modern context? What kinds of problems the Zakah administration may encounter in the present conditions?

There is a need to address these questions and issues. It is encouraging to note that a number of Muslim economists and scholars have been addressing these issues in the contemporary context. In addition, some Muslim countries have introduced the institution of Zakah at the state level. Some authors have also deliberated on these experiences and problems. It will be useful to survey works in this area to further develop the institution in the light of the changed economic phenomenon and for its introduction in the Muslim countries.

Our objective here is to do this. In particular, it is intended to survey literature on Zakah, classified under different issues and questions? The survey begins with a brief section on Zakah as *Ibadah*, its meaning and philosophy. The major issues are, however, economic dimensions of Zakah, Fiqhi issues on Zakah, and Zakah administration.

ZAKAH AS IBADAH : ITS MEANING AND PHILOSOPHY

Zakah is an obligatory *Ibadah* and a *Rukn* (pillar) of Islam ordained in the Qur'an along with prayer.³ This was an obligatory *Ibadah* during all other prophets in the past, which signifies its importance as an *Ibadah* and also for its role in the socio-economic life of Muslims (Maududi 1988, pp.303-313).

The Arabic word "Zakah" means "purity" and "cleanliness", since giving away a part of one's wealth to the poor purifies his wealth as well as his heart. According to Maududi, a person's wealth is impure, if he does not pay the right of Allah's servants from the wealth bestowed by Him. Also his heart is impure, since he does not like to appreciate Allah's generosity to him in the form of giving him more than his needs. Very little goodness can be expected of such people. The institution of Zakah purifies one's heart from the love of material wealth and prepares it to make sacrifices for the cause of Allah (Shad 1986, p.13).

Another literal meaning of Zakah is growth. This growth has two dimensions (Zaman 1980, p.103; Shad 1986, p.48). First, spiritual development by pleasing Allah. Second, Zakah redistributes income, leading to "an urge for greater enjoyment and in turn to greater production". Accumulation and hoarding affects production and, on the other hand, distribution and circulation stimulates production and growth (Zaman 1980, p.103).

In *Shari'ah* terminology Zakah is the part of wealth which the rich, possessing the *Nisab*, has been ordained to spend for the deserving recipients at prescribed rates as per rules laid down in the Islamic sources.

In the Islamic code of life, absolute ownership of everything belongs to Allah who has created everything, including wealth in its different forms that are possessed by people. Therefore, Allah has the right to guide and control their economic activities including acquisition and spending of wealth and, accordingly, the requirement of spending a part of the wealth in His way (Sadeq 1980, p.48).

Zakah is not only an *Ibadah*, its role is significant in the development of a healthy and peaceful social environment, which is full of mutual cooperation and sympathy.¹ According to Maududi, man is inherently selfish in nature, who wants to confine all the goodness to him alone and thus lacks a sense of sharing with others. If all activities, including economic ones, are guided by such a philosophy of self interest, it will lead to

undesirable consequences in the society. Such a selfish behavior in the economic front will lead to concentration of wealth, leading to poverty and eventual social unrest, social and economic crimes, and so on. On the contrary, if man helps each other, the entire society will be better off which

will benefit all, including the wealthy people who help others. The institution

of Zakah creates the spirit of sharing and helping others, as against the inherent selfish behavior, and thus creates a healthy and congenial social environment.

ECONOMIC DIMENSIONS OF ZAKAH

The institution of Zakah has implications for micro and macro-economic variables. In the former Zakah is said to result in favorable effects on saving and investment behaviors of individuals without affecting work efforts. Favorable macro-economic effects are expected to cover several dimensions including allocative efficiency, economic growth, distribution of income and wealth, poverty eradication, social security and stabilization.

Zakah and Savings

What will be the effect of Zakah on the volume of national savings? According to some, Zakah will increase national savings, while some others find the effect inconclusive. To Chowdhury (2), the institution of Zakah is expected to increase savings (1983, pp.5-7). Zakah irrevocably takes away a part of precautionary savings. If income is expected to fall short of subsistence, the people will tend to save more as a precautionary measure. Likewise, the higher the uncertainty about the expected rate of return on investment, the higher will be favorable effect of Zakah on ex-ante savings. On this score, saving is positively related to uncertainty in the expected rates' of return on investment. Chowdhury (2) has not however discussed whether an Islamic economy is characterized by uncertainty to have more savings, and whether this is good for the economy.

According to Metwally, the effects of Zakah on national savings will depend on the nature of consumption function that the society follows in its consumption behavior (Metwally 1986, pp.45-46). If it corresponds to the absolute income hypothesis the savings effects of Zakah is likely to be negative. This is because Zakah redistributes resources from the rich to the poor and, according to the absolute income hypothesis, the average propensity to consume of the low-income group is relatively higher than that of the high-income group.

If the consumption behavior follows the relative income hypothesis, Zakah is likely to increase national savings. This is because Zakah will reduce the income of the rich so that the pressure on families just below to "keep up with the Joneses" will be reduced accordingly. This will reduce some of the society's emulative spending with a positive effect on savings.

On the other hand, if the permanent income hypothesis is relevant the savings effect will be neutral. For *Zakah* is a permanent device so that

the nature of gaining or losing income through the institution of Zakah will be permanent in nature. Therefore, the ratio of permanent consumption to permanent income will be the same and hence Zakah will not change the level of savings. A similar conclusion is true for the life-cycle hypothesis of consumption behavior. Thus, according to Metwally, the savings effect of Zakah is inconclusive when the issue is considered in terms of traditional theories of consumption behavior for an Islamic society.

To the present author, Islam provides clear normative values of consumption without denying the role of income and related variables. Thus the consumption behavior of an Islamic society may well be different from the ones reflected in different conventional consumption functions-7 As a consequence, the savings behavior may be different from the ones expected from traditional consumption hypothesis. If this is true, the above analysis of Mentally becomes less relevant for an Islamic society.

Zakah and Investment

Does Zakah have any bearing on investment? Some authors see positive effects on Zakah on the incentive to invest rather than keeping the investable resources idle and unused.

Zakah imposes a penalty on the idle resources since the idle resources will be eaten up by Zakah in due course. This is because the owner of the wealth will have to pay Zakah every year which will reduce the size of the wealth year after year, and eventually it will vanish if it does not grow. This is an incentive to invest.⁰

Zakah also discourages use of savings for non-income producing assets like jewellery, real estate, and loans by imposing a carrying cost (Mentally 1986, pp.46-47). According to Mentally, an additional motivating factor for investment is that the invested amount is Zakah and only the return from investment is variables. This will encourage the rich to invest their resources since they will be exempted from Zakah for the entire amount of investment." In his analysis, investment will continue to take place as long as the investor's expected net loss does not exceed 2.5 per cent, which is the Zakah rate on idle funds (1986, pp. 48-49). As a result, investment will be greater in an Islamic economy.

Mentally has suggested how a firm will reach equilibrium level of capital stock when Zakah is incorporated (1986, pp. 49-52). This is given by the equality between the value of marginal product of capital and the unit price of capital times its depreciation minus Zakah rate on idle funds.

Zakah and Income Distribution

The institution of Zakah redistributes resources from the better-off people of the society to the worse-off ones.¹² In principle, there are two channels of distribution of income and wealth: (1) the functional distribution of income which refers to the distribution of the produced goods and services among the factors of production, and (2) distribution of wealth through transfer payments (Sadly 1990, pp.38, 60-61). If the Islamic mechanism of functional distribution of income through a just factor pricing is implemented, the distribution of income is not expected to be highly uneven. This distributive device is reinforced by the institution of Zakah which is an effective method of obligatory transfer payments.

The distributive effect of Zakah is not expected to be insignificant (Awad 1989, p.80). Award's estimate for Sudan shows that about 3 to 4 per cent of GNP will be collected as Zakah revenue. This implies that a third of GNP will be redistributed from the rich to the poor in a decade (Award 1989, p.80). To Award, this is a significant redistributive effect of Zakah. Kahn's estimates show, however, that the proceeds of Zakah will not exceed 1 to 2 per cent of GNP, if it is collected by following the existing *Fiche* rules because of the changed circumstances (Kahn 1989, pp.16-i 7). A similar result was found in Salami's study of the Sudan and Saudi Arabia (Salami 1990, pp. 6,10). According to Kahn, such Zakah revenues will not be enough to produce the kind of redistributive effect which Zakah is supposed to bring about at a desired speed. Therefore, he suggests a fresh reconsideration of the existing *Fiche* rules in order to guarantee that Zakah produces its redistributive and other objectives at an optimum speed.⁽¹³⁾

Zakah and Poverty Eradication

The institution of Zakah helps eradicate poverty which leads to untold sufferings resulting in begging which is condemned in Islam⁽¹⁴⁾. According to Nodal, poverty is one of the worst problems in a society. Poverty leads to crimes; most of the crimes are committed due to poverty. It also leads to hatred between the rich and the poor. The poor people, living beside the rich, feel deprived which naturally create hatred between them, leading to social unrest, disputes and even wars. To Nodal, the way out is the institution of Zakah. It will take care of poverty⁽¹⁵⁾ At the same time, it will create the sense of love, friendship and co-operation between the rich and the poor.

Extreme income inequality would not exist in a properly functioning

Islamic economy, since a variety of distributional channels tend to lead the Muslims towards a central average of living standard⁽¹⁶⁾. As a result, the problem of poverty is not expected to be a severe one in a true Islamic society. If there is any, the institution of Zakah and other channels of transfer payments are supposed to balance it out.

There is a consensus of Islamic scholars that the higher priority in Zakah disbursement is for the eradication of poverty (El-Din 1986, p.3). However, juristic opinions differ as to the maximum amount to be paid to a single eligible person. At the one end, the *Hannah* school sets a limit of 200 dioramas while, at the other end, the Chaff's school argues for a life support provision by giving capital goods to eligible persons (El-Din 1986, pp.3-4). The *Maliki* school allows giving a year's provision. Based on this, Yusuf al-Qardawi supports Shafi'e opinion for the able and qualified eligible persons and the Maliki view in case of unable persons like the children, disabled and old persons (El-Din 1986, p.4).

El-Din does not support the policy of paying Zakah in the form of capital goods. This is because of two reasons. First, the phenomenon of rising inflation and increasing uncertainty makes it difficult to obtain a safe and stable income on the life span from capital investment. This may be viable only in small activities like tailoring and farming, and in a stable economic condition. Second, the Zakah eligible able-bodied persons are normally full-time employees, who cannot get benefit from the transfer of capital goods due to both time constraint and the nature of job contracts. Therefore, El-Din does not find convincing merits in al-Qardawi's suggestions.

Instead, El-Din suggests an equity transfer alternative, that is, to pay Zakah in equity shares (1986,p.6-7). To him, this has several merits. First, the Zakah receivers will be able to achieve benefits of large activities, since business through mergers is the characteristics of the growing economies. Second, having an equity share will give the poor employee a sense of ownership which is conducive for boosting productive morale of the employees. Third, price of equity shares are quite stable. Therefore, El-Din recommends payment of a part of Zakah in shares by choosing an optimum combination of producer goods (in shares) and consumer goods in order to be able to make it also a fiscal tool."

According to Awan, if the institution of Zakah is properly implemented, it will be able to break the vicious circle of poverty, since its introduction with the abolition of interest will encourage the rich to invest their wealth, which will increase employment and output with a multiplier effect (Awan,

p.203). It should be noted here, however, that all the desired effects can be obtained only when the entire Islamic system is introduced (Awan, p.201).

Zakah and Social Security System

Islam provides a social security system based on the institution of Zakah ⁽¹⁸⁾. According to Afzal, the first source of security in the Islamic approach is Allah Himself, followed by individual responsibility to make provisions for the future, instead of spending everything presently, and the third is the mutual responsibility to look after each other in time of need in the framework of an extended family. Finally, the state is responsible to support the members of the society from the Zakah proceeds when they cannot take care of themselves (Afzal 1980, p.175).

To Afzal, the Zakah system of social security differs from the western one in that Zakah system is neither a compulsory contributory savings plan for future benefits, nor a welfare program like the western system. Therefore, the coverage of Zakah system is narrower. In a socialist system, the history of social security is a history of class struggle, bitterness and conflict, and in the capitalist system it is a top-gap arrangement or patchwork (Zaman 1980, p.105). In the Islamic system Zakah is a duty of some and the right of others, which involves legislation only for implementation. It creates a sense of brotherhood, mutual economic commitment and social harmony (Maududi 1988, pp.306-313).

The Zakah-based social security system does not imply "letting the common people lead a life of dependence", but it is a compulsory social security system to be enforced by the state for the upliftment of the disadvantaged people of the society so that they will not need such help eventually ⁽¹⁹⁾. The period of Omar bin Abdul Whiz is a practical example of it when nobody was available to receive Zakah.

Hasan has suggested two kinds of social security for an Islamic economy (1984, pp.43-47). First, Social Security for *Ghair Nisabi* (SSGN) population, whose wealth is below *Nisab*. Second, Social Security for the *Nisabi* (SSN) population. The SSGN is financed by Zakah revenues and the beneficiaries are those whose income is below *Nisab*. The contingencies for which protection may be provided from the SSGN include sickness, unemployment, born invalidity, childbirth, old age, orphanhood, widowhood, and health services. No contribution from the beneficiaries is involved in the SSGN. On the other hand, the SSN is meant for those whose possessions exceed *Nisab*. This will help provide social security to the

Nisabi people. *The contribution should be determined in such a way that the SSN does not run into deficit. Any unpredicted deficit should be guaranteed by the government.*

The proposed SSN of Hasan is similar to the ones that exist in some of the western countries in different forms. The introduction of such a system depends on the willingness of the people concerned and/or the government. The SSGN is, however, built into the Islamic economic system, which provides a compulsory social security to the disadvantaged population through the institution of Zakah.

Zakah and Allocative Efficiency

Zakah is expected to contribute appreciably to allocative efficiency-20. According to Chowdhury (1), efficiency of resource allocation is associated with each mode of income distribution and hence there is an efficient allocation corresponding to *each initial distribution of income* ⁽²¹⁾. To him, resource allocation in the presence of Zakah is "more efficient and more equitable than other alternatives" ⁽²²⁾. This is because the degree of x-efficiency in an Islamic social system is high due to its strong "motivational and non-market efficiency factor". For Zakah is treated as an important religious obligation which is also an instrument of income distribution. While tax in traditional economics tends to reduce x-efficiency by reducing work efforts, Zakah adds to it by religious incentive to pay Zakah which produces other motivational effects including higher participation rate of labor force ⁽²³⁾, and higher investment by subjecting the idle resources to Zakah with a resulting higher employment and output through a multiplier effect (20).

According to Mannan, Zakah influences the composition of goods and services produced in the country (1989, p.31). This is because it increases consumption of necessities by its recipients, implying a higher demand for necessities. As a result, the production of necessities will increase. This will produce a favorable allocative effect in the economy.

El-Din *has used the allocative function of Zakah in a particular meaning*. According to him, Zakah re-allocates resources from the rich to the poor as an effective means to fight poverty (El-Din 1986, pp.1-3). The condition of *Tamlik* helps achieve inter-group allocation through a target group approach of *Zakah disbursement* ⁽²⁵⁾ (El-Din 1986, pp.9-17).

Zakah and Economic Growth

Some writers argue that Zakah will contribute to economic growth. (26)

According to Awan, Zakah leads to a healthy circulation of wealth and thus ensures continuous growth and prosperity of an Islamic economy (1980,p.197). He also emphasizes that the institution of Zakah can produce optimum welfare results, provided other supporting Islamic institutions are also operating and the government is well-equipped with Islamic standard of efficiency. However, if the economy is not free from non- Islamic features, for example, the existence of riba-based finance, the effectiveness will be little. Awan argues with statistical evidence of a few countries that the policy options suggested by conventional growth models are inadequate as well as destabilizing and counterproductive. The Islamic system can provide a good alternative if implemented with totality and efficiency.

As mentioned earlier, Zakah is expected to increase investment by penalizing the behavior of keeping the resources idle (Chapra; Awan 1980, p.203; Sadeq 1990, p.20). This will obviously have a positive growth effect. This linkage has explicitly been provided by Awad (Awad 1989, pp.81-82). According to him, Zakah encourages investment by penalizing hoarding which contributes to economic growth.

According to Mannan, Zakah redistributes wealth into consumption leading to higher aggregate demand. It also penalizes hoarding and "provides a powerful stimulus" for investing idle resources which gets momentum because of allowing profits from "sleeping partnership" in the economic activity. The production possibility curve of the country is expected to shift upwards because of these dynamic forces of integration of production and consumption effects "by creating new employment, feedback and self generating successive momentum through inter-sectoral allocation and reallocation of resources" (Mannan 1989, p.31). Zakah also reallocates investible resources from the luxury goods to basic needs industries by "stimulating production of consumption goods and services of the poor" (Mannan 1989, p.31).

Awad refers to a situation where the rich do not invest their wealth all over the year, and also evade the Zakah by investing it just before the completion of the year (1989, p.81). The growth effect, according to him, is good even in the above case. This is because, once the resources are invested, employment and output increase, and also the return from investment will ultimately be zakatable. Thus, this evasion will not also be free from growth effect.

Such position of Awad will, however, be valid if it is not evaded by- neither non- payment nor non-investment. Such evasion seems however to prevail in the Muslim countries, because Zakah management and en-

forcement lack efficiency where it exists at the state level, and it does not exist at all in most of the Muslim countries, not to speak of Islamic communities in Muslim minority countries. The implication is not that Zakah does not contribute to growth, but rather that it should be implemented and enforced without allowing evasion, which will contribute to growth, directly and/or indirectly.

Zakah redistributes wealth into consumption since it redistributes wealth from the rich who save more to those who consume more. It also puts a premium on saving at the expense of consumption at margin, since Zakah is imposed on the unspent wealth. All these will lead to a high aggregate demand (Chowdhury (2)1983, pp.5-7; Sadeq 1990, p.91). Since this demand is expected to be reflected in the basic needs industries, which use labor more intensively, the employment effect will be favorable. In addition, Zakah will increase the standard of living of the poor which will improve their health and skill and this will increase the productivity of the work force (Sadeq 1990, p.91). This will contribute to economic growth.

While Zakah is expected to increase consumption of its receivers, it is expected to increase savings of Zakah payers. According to Chowdhury (2), Zakah is likely to stimulate ex-ante savings of the Zakah payers and capital formation. This is because Zakah irrevocably takes away a part of net worth and hence the Zakah payers may save more as a precaution against the possibility of current income falling short of subsistence. Likewise, any uncertainty about rate of return on investment is also likely to have a positive effect on ex-ante saving.

An increase in consumption of Zakah receivers does not imply higher consumption from given income but rather higher consumption from higher redistributed income and, therefore, it may not necessarily lead to net negative savings of the group. But ex-ante savings of the Zakah payers may increase, due to the reasons mentioned earlier, which may lead to capital formation, higher employment and output, and finally to economic growth.

Zakah, Fiscal Policy and Stabilization

Apparently Zakah seems to be inflationary in nature since it reinjects hoarding into circular flow by redistributing wealth from high savers (the rich) to the high consumers (the poor). To some, on the contrary, Zakah is expected to play a stabilizing role in an economy. According to Awad, Zakah works as an automatic stabilizer. During boom, people hoard less so that the size of Zakah revenue will be less (Awad 1989, p. 82). On the

other hand, the need for Zakah disbursement will also be less, since employment increases during boom periods so that a fall in Zakah revenue will be matched by a fall in demand for charity. As a result, a smaller amount of Zakah will be disbursed during boom and thus it acts as an automatic anti- inflationary device.

In recession, on the contrary, hoarding increases due to a fall in investment which increases Zakah revenues. The need for Zakah revenue does also increase, because employment falls during recession. Thus a higher distribution of Zakah revenue to the poor will automatically produce an expansionary effect during downswings.

This opinion of Awad does not seem to be based on sound reasoning; This is because his theorization is based on the amount of Zakah on the hoarded funds alone. As is well-known, Zakah is also compulsory on other items such as the items of trade and trade inventory which do not necessarily decline during boom. Thus, the automatic stabilizing role of Zakah based on the cyclical difference in hoarding is expected to be marginal, if any.

A question arises whether the institution of Zakah can be used as a tool of deliberate stabilization policy. According to El-Din, collection and disbursement of Zakah *have been* determined by *the Shari'ah and hence*, it is "impermissible to freely manipulate a lagged interval between them as a fiscal policy tool"⁽²⁷⁾. He has argued by *making reference to the Shari'ah* sources that Zakah proceeds should be exhaustively disbursed among the eight heads. If there is any surplus it may be distributed across political boundaries. *This minimizes stabilization role of Zakah* ⁽²⁸⁾.

He, however, views that Zakah may be paid in kind in the form of consumer and producer goods, and the ratio of consumer/producer goods may be used as a fiscal tool (El-Din 1986, pp. 32-37). A reduction in this ratio during expansionary period would produce dual effects. Firstly, a fall in consumer goods will reduce accelerator effect, and a rise in producer goods will enable capital stock to be adjusted to its desired level as more Zakah money will be used in purchasing equities.

On the other hand, an increase in the ratio of the consumer/producer goods during contractionary period will produce favorable expansionary effects, since higher consumption oriented disbursement of Zakah will help recovery to take place. This ratio may be used as a fiscal tool even if Zakah is not disbursed in kind, but rather in the form of "tokens". In this case the token will have to be specified as "consumer goods token" and "producer goods token" based on the desired ratio between consumer

and producer goods, so that Zakah payees cannot change the ratio. Thus, according to El-Din, Zakah cannot be used as a fiscal tool by manipulating its disbursement time; it can however be a fiscal tool by changing the nature of its expenditure on consumer and producer goods.

To the present author, although Zakah may be used as a tool of counter - cyclical fiscal policy, its role may be limited (Sadeq 1990, pp. 88-89). The use of a fiscal tool may involve its variation and manipulation to suit the dictates of the fiscal policy, which is not possible in this case once the coverage, *Nisab* and rates of Zakah are determined by *Sunnah* and *Ijtihad*. Manipulation of disbursement time may defeat the very purpose of Zakah because, for example, its postponement during inflation may severely affect the poor, since they are the ones hard hit during inflation. On the other hand, payment of Zakah in kind during recession may produce little additional expansionary effect, since the marginal propensity to consume of the poor is already high who will spend even if it is paid in cash.

Zakah, Work Efforts and Employment

Will the institution of Zakah produce any adverse effect on work efforts, as evidenced in the western welfare programs? According to Shehatah, Zakah will not affect work efforts (1989, p 60). This is because, according to him, when Zakah is given to able-bodied persons, it may be given to only those who make all efforts to earn their living but fail in the process, despite all endeavors.

This suggestion of Shehatah is useful, but it raises some other issues for Zakah disbursement which may some times be difficult to address. First, the persons involved in Zakah disbursement will have to see whether unemployed able-bodied people have already made effective attempts to get jobs. Second, in case of those who are employed but cannot earn enough, whether they have tried their best to earn enough, and so on.

Wahid applied the neo-classical theory of labor supply in a micro context and concluded that Zakah would increase individual supply of labor if income effect of Zakah is greater than the substitution effect (Wahid, 1985, pp. 6-7). He, however, does not discuss the expected size of these effects in an Islamic economy ⁽²⁹⁾.

The foregoing discussion refers to the supply side effect of Zakah on work efforts. The question remains, what is expected to be its demand side effect? According to Awan, the demand for labor will be not affected due to Zakah. This is because the amount of labor and capital inputs have been given due consideration in fixing the Zakah rates and, therefore, the

incentive for employing labor and capital is not affected (Awan 1980, p. 199). For example, Zakah on irrigated produce is lower than that on non-irrigated produce.

Tax with Zakah

There is a number of questions to address on this subject. How different is Zakah from taxes? Is it permissible to impose taxes over and above Zakah? If yes, could the administration of Zakah and taxes be combined? A number of authors address these questions.

Although both Zakah and tax involve imposition of levies, there is a gulf of difference between the two (30). Some of the differences are as follows. Zakah is a religious duty, while tax is a civil duty, such that refusal of Zakah makes a person *Kafir* (non-believer), which is not the case in taxes. Zakah is imposed on Muslims only and its sources and beneficiaries are also fixed, which are not true in taxes. Zakah can be collected only by the Muslim government, while tax can be collected by any government.

Salama has argued for additional taxes over Zakah for meeting the government expenses beyond the beneficiaries of Zakah, including expenditure on physical infrastructure and other services (1982, pp. 346-348). In the early Islamic states, the revenue from the sources specified in the Qur'an - Zakah, *Khumus*, *Fai*, *Jizyah* were enough, and hence there was no need for extra tax, except for tax imposed by 'Omar on foreign traders (Awad 1989, p. 83). Now the Muslim countries, a good number of which are poor, will have to provide many welfare services, incur development expenditure and bear the cost of administration and defence. Hence, there is a need for restructuring the tax system in order to increase revenues. Awad finds support for the imposition of supplementary taxes in 'Omar who levied taxes on foreign traders in retaliation of their taxes on Muslim traders.

Therefore, Awad suggests a restructuring of tax structure wherein Zakah will be central and primary, supplemented by other taxes (Awad 1989, p. 87). His model of Zakah-based tax structure has two components, traditional taxes and supplementary taxes (Awad 1989, p. 87). The former consists of *Zakah*, *Khumus*, *Fai*, *Jizya*, *Kharaj*, *Ushr*, *Jihad* and *Muasa* (welfare), while the latter consists of direct taxes (on hoarding etc.) and indirect taxes (on luxuries and harmful items) ³ In this tax structure the following should be excluded: (i) taxes that duplicate Zakah, (ii) taxes that conflict with the objectives of Zakah (e. g. taxes on the poor), and (iii) taxes to finance services that the public prefer to see financed by other means.

Iqbal maintains, on the other hand, that Zakah should not be mixed with the general tax structure, but rather should be separated (1989, pp. 97-100). In early history of Islam, taxes were minimal, and hence it was not separate, while the functions of the state were limited to defense, propagation of Islam and some welfare services. Now that the importance of taxes has increased, the tax structure would be kept separate from Zakah, since "The nature of sources of collection and items of Zakah are specific and are in the nature of welfare, distinct from taxes of a general nature" (Iqbal 1989, pp. 97-98).

According to Kahf, additional taxes may be imposed as a last resort only "under certain circumstances and conditions" (1983, pp. 147-151). These include the needs for it and the exhaustion of alternative means. The needs that justify taxes over Zakah include a country's internal and external defense, state expenses, relief from natural calamities, and for providing a socially determined standard of living to the people and development of productive capacity of the society if not provided by the private sector. The alternative means that should be explored first include *Kharaj*, *Jizya*, public enterprises, fees, voluntary contributions and public debt.

Awad is not in favor of levying taxes for financing of economic development (1989, p. 85). Instead, such projects may be financed by public borrowing, equity participation of the people, charging the beneficiaries, philanthropic or profit-seeking institutions or by taxing the beneficiaries. Tax may be used as only the last resort for financing development projects unless the *Ummah* has strong preference for it.

These are the major economic implications of Zakah which have been addressed in the literature under survey. As discussed and analyzed by different authors, Zakah is expected to produce favorable effects on savings, investment, poverty eradication, equity in the distribution of income, social welfare, allocative efficiency and, thus, on economic growth and development. It is also expected to help in stabilization policy.

Some authors are, however, skeptic about the favorable effects of Zakah if it is introduced partially (Ba-Yunus 1980, pp. 180-181). If the government is not an Islamic one, but rather an exploitative one, the people will not have trust in the government and, hence, there will be little enthusiasm to pay Zakah to the government channel, leading to Zakah evasion. In this condition, Zakah proceeds will not be enough to reduce poverty of the poor countries. The implication of this position is not to abandon the institution of Zakah, but rather to Islamize the whole socio-economic system.

On the other hand, Raquibuzzaman has emphasized the need for changing the status quo of ownership that exists in most of the Muslim countries in order for Zakah to be able to produce the desired effects (1980, pp. 209-223). According to him, existing distortions in the ownership pattern of land and other resources should be taken care of before Zakah can play its role. In this context, he studied the cases of Bangladesh and Saudi Arabia and stressed the need for redistribution of resources in these countries. According to him, the redistribution will increase national income, government revenues (both Zakah and other taxes) and improve the conditions of the people.

A number of other authors have emphasized the need for reviewing *the Fiqhi' issues concerning coverage, Nisab and rates of Zakah in order to achieve the desired results from the institution of Zakah* (32). According to Kahf, if the coverage of Zakah is not changed, it will not be able to produce the desired results at a reasonable speed, since some major items of wealth will escape Zakah, for the forms and relative weight of items have been changed over time. To Raquibuzzaman, Zakah at a very small *rate of 2.5% is not enough to produce the desired effects* (33).

FIQHI ISSUES ON ZAKAH

A number of contemporary Islamic scholars has emphasized the need for a fresh consideration of some *Fiqhi* issues pertaining to the institution of Zakah in order to take care of the changed circumstances in the contemporary world. There has been centuries of discontinuity in Zakah administration at the state level which resulted in lack of continuity in research and *Ijtihad* to address the newly emerging issues on Zakah. Now the things have changed quite a lot.

The methods of production, the forms of income and wealth and their relative importance have been changing over time which raise the issue of Zakah coverage. If new items are to be made Zakatable, a corollary issue arises concerning the Zakah rates of new items. The changes in relative prices of commodities, in general, and in those of the items used as bases for *Nisab* in the prophetic traditions, in particular, lead to changes in the relative weights of traditionally known *Nisabs*. As a result, the traditional structure of *Nisab* does not any more refer to any uniform value or cost of living. The money value of a silver-based *Nisab* is thus way below that of a gold-based *Nisab*. Besides, there are issues on the conditionalities of growth and the completion of one year for the obligation of Zakah, and also on the reinterpretations of Zakah beneficiaries which, in turn, calls for review of the condition of *Tamlik*.

Therefore, some scholars argue for a fresh reconsideration of relevant *Fiqhi* matters on Zakah.. For example, Monzer Kahf raised the issue more than a decade ago, which has been re-emphasized in a recent paper in a systematic and forceful manner (Kahf 1980, 1989). According to him, the conditions of justice, consistency and the realization of the objectives of Zakah would require a fresh reconsideration of such issues as the coverage, *Nisab* and the rates of Zakah and also the conditions of growth and *Tamlik* for the obligation of Zakah. Some others who have emphasized the need for reconsideration of *Fiqhi* issues on Zakah include Afzal (1980), Abu Saud (1988), Al-Kaff (1987), Mannan (1989) and Raquibuzzaman (1980). On the other hand, some others are against changing all or some matters that have been determined by early jurists as they exist in the books of *Fiqh*. They include Osmani (1983), El-Din (1986), Awad (1980) and Maududi (1988).

Ijtihad on Zakah

A reconsideration of *Fiqhi* issues will involve *Ijtihad* which raises a question as to its permissibility in the case of Zakah. Opinions differ in this matter. Siddiqi studied the historical development of Zakah laws during the periods of the Prophet (pbuh), his companions and their successors, and concluded that the detailed law of Zakah was evolved on the basis of *Ijtihad*. He therefore maintains that the contemporary issues should be resolved by *Ijtihad*. In addition, all those scholars who argue for a fresh reconsideration of Zakah, as will be seen below, do obviously believe in the permissibility of and hence the need for *Ijtihad*, since such a reconsideration will essentially involve *Ijtihad*.

According to Shaik, the principle of Zakah is fixed, and not its details (Shaik 1980, p. 20). To him, the objective of Zakah is to remove poverty from the society. If this cannot be done by assessing Zakah on conventional basis, there is no barrier to changing the rates and forms of Zakah by applying the method of *Ijtihad*.

Kahf argues in a systematic way that Islam stands for justice, consistency and rationality, which necessitate application of *Ijtihad* to review the *Fiqhi* issues like the coverage and *Nisab* of Zakah on new items of wealth and income (1989, pp. 1-22). However, since there are correct sayings regarding some details of coverage and *Nisab*, those sayings should be applied as they are but any analogy should be made on the basis of the totality of these sayings which provide the spirit of *Shari'ah*, and not on one or two sayings alone (Kahf, 1989, p. 14).

To Abu Saud, the details of Zakah come from Hadiths which "should be taken as indicative and not as comprehensive, conclusive and restrictive" (1988, p. 3), and therefore *Ijtihad* is needed to "classify all sorts of economic activities and the sources of income therefrom", "intellectually determine the *Nisab*", "equality evaluate the amount of Zakat on every category of income and withheld wealth", and "realistically decide upon the avenues of spending the collected Zakat" (1988, p. 21). This reflects that Abu Saud is proposing reconsideration of almost all the *Fiqhi* issues on Zakah, meaning that these are not fixed as per the earlier juristic verdicts.

The "*Majlis Tahqiq Masail Hadirah*"⁽³⁴⁾ of Pakistan does not see any provision for *Ijtihad* in those matters of Zakah which have been clearly dealt with in the Qur'an and the *Sunnah* (Osmani³⁵ 1983, pp. 3-30), which is in fact the opinion of many Muslim scholars including Kahf (Kahf 1989). This is because, according to *Ahl Sunnah wa al-Jama'ah*, *Ijtihad* on any

problem or a part thereof is allowed only when the Hukm (ruling) is not clearly stated in the Qur'an and the *Sunnah*.

However, the *Majlis* seems, like many others, to support *Ijtihad* in those matters where clear *Shari'ah* rulings are not available. For example, as will be seen later, the *Majlis* argues for collecting Zakah from bank accounts which does not exist in the classical *Fiqh* literature.

Coverage of Zakah

There are different views concerning the question of changing the coverage of Zakah. In one view, the coverage of Zakah should be reconsidered since the forms of wealth and their relative importance have changed over time. Otherwise, it will lack consistency, since less important items are considered Zakatable, while the more valuable and more important items are excluded. It will also fall short of justice, since the institution of Zakah will not be able to reach many rich people including major wealthy industrialists, real estate owners, highly salaried persons, and so on, while relatively poor people in agriculture will be liable to pay Zakah⁽³⁶⁾. Furthermore, Zakah based on existing coverage will not be enough to satisfy the need of the time (Kahf 1989, pp. 16-17; Afzal 1980, p. 176). Some finds evidence of changing both coverage and rates of Zakah in the past (Afzal 1980, p. 176).³⁷

According to Kahf, Zakah aims at enriching the poor, and not only to provide subsistence living to them. Kahf's estimates show that, if Zakah is collected by following the traditional *Fiqhi* views, its proceeds will not be more than 1 % to 2% of GDP which is not enough to provide subsistence living to the poor, not to speak of enriching them. This implies that *Fiqhi* views on the coverage of Zakah should be reviewed in order to have a reasonable speed in achieving socio-economic justice by reducing gap between the rich and the poor (Kahf 1989, p. 16).

Kahf argues that consistency requires imposition of Zakah on fixed assets, for example. This is because both of "circulating assets" and "fixed assets" contribute to production process and hence, to be consistent, both should be Zakatable (Kahf 1989, p. 11). According to Kahf, it is not right to say that fixed assets are Zakatable only if these produce any *return*⁽³⁸⁾. The latter opinion is *inconsistent because idle cash is considered Zakatable even if it does not produce any return, but fixed assets are exempted for not earning return*. This will imply favoring large holdings and penalizing small ones, since the use of fixed assets varies directly with firm size. This lacks Islamic rationality.

To Al-Kaff, fixed assets of a business are Zakatable at the rate of 2.5%, since they grow with time; and also their original value is protected through the mechanism of depreciation reserves (1987, pp. 9-14, 42-45). According to some other scholars, only the return on fixed assets are Zakatable, rather than the fixed assets themselves. They, however, differ in the suggested Zakah rates on the yields of fixed assets (Kahf 1989, p. 10). Some scholars say that the Zakah rate on the yields of the fixed assets is 2.5%, while some others say it is 5% on the gross yield or 10% on the net. The latter group of scholars include Abu Zahrah, Khallaf, Hassan and Al-Qardawi (Kahf 1989, p. 10). Some scholars say that the Zakah rate on the yields of the fixed assets is 2.5%, while some others say it is 5% on the gross yield or 10% on the net. The latter group of scholars include Abu Zahrah, Khallaf, Hassan and Al-Qardawi (Kahf 1989, p. 10).

To Abu Saud, "Zakah should be imposed on all economic wealth and not only on what was mentioned in the various Hadiths" (1988, p. 4). This is because it will be unfair to subject the poor, for example, a shepherd of sheep, to Zakah while rich merchants and traders are exempted (p. 113). According to him, Abu Bakr's letter to Anas bin Malik, which is used to perceive some details of Zakah, is really a decree made by the Head of the state which can be changed by other Heads (p. 3).(39)

The problem of collecting Zakah from banks and other financial institutions raises a question whether these sources belong to *Amwal Zahirah* or *Amwal Batinah*. According to Maududi and the *Majlis Tahqiq Masail Hadirah*. These belong to *Amwal Zahirah*, and the government should collect Zakah from these sources⁽⁴⁰⁾. In fact, Zakah used to be collected during the Prophet (pbuh), and the first two caliphs irrespective of whether the wealth belonged to *Amwal Zahirah* or *Batinah*. Later, Osman, the third caliph, made a difference between the two, limiting Zakah collection to *Amwal Zahirah* only (Osman(1981, p. 7). Therefore, the Islamic government may choose to collect Zakah from either *Amwal Zahirah* or both types of wealth. In the Sudanese case, however, bank deposits including the fixed, short term and saving deposits are considered as *Amwal Batinah* and hence are excluded from the official Zakah administration (Abdullah 1990, p. 8).

On the question of Zakatability of salaries, several scholars strongly argue to impose Zakah on salaries on the ground of justice and consistency (Kahf 1989, p. 10). On the other hand, some authors, for example, Shaik, although a supporter of *Ijtihad*. exclude salaries from Zakah (1980, p. 68)⁽⁴²⁾. A number of *'Ulama* and scholars continue to hold the traditional view to include only those items in Zakah which were mentioned by the Prophet

(pbuh), disregarding changes in the forms of wealth and in their relative importance in contemporary economic phenomenon.

This has been reflected in the *Fatwa* of the OIC *Fiqh* Academy taken in its session held in Jeddah in November 1985. The *Fatwa* excludes building, equipments and machineries, which are fixed assets, from Zakah (Kahf 1989, p. 10). Following a similar view, fixed assets like buildings, machines, and equipments are excluded from Zakah in Saudi Arabia (*Wazarah al-Maliyah wa al-Iqtisad al-Watani*, pp. 58, 92). This is because such assets are not the items of trade, but rather these are items to be used in trade and industry. These have the analogy of the items of personal use, and there is no Zakah on them. According to Maududi, the goods in inventory and cash money is Zakatable, not the fixed assets (1988, p. 339).

According to Awad, the sources and rates of Zakah are fixed which cannot be changed (Awad 1989, p. 80) ⁽⁴³⁾. To him, Zakah revenues will not be insignificant and hence no need to change the rates and coverage to raise Zakah revenues. In case Zakah is not enough to meet all the needs of the poor, it should be supplemented by other dues. According to him, imposition of such additional dues for meeting the needs of the poor is not only permissible, but rather it is an imperative. That is, there is no need for changing the coverage and rates of Zakah to raise sufficient revenues in order to upgrade the conditions of the poor.

Nisab and Rates of Zakah

A number of scholars have stressed the need for reconsidering the *Nisab* and the rates of Zakah, while some others argue against it. Kahf finds inconsistency and some times ambiguity in the Zakah *Nisab* on new items which are derived by Fuqaha and in such deductible expenses (1989, pp. 13-15). The relative prices of the items of Zakah have been changing over time, for example, the values of the *Nisab* amounts of gold and silver are quite different in the contemporary world and hence the existing *Nisabs* of different new items do not correspond to cost of living ⁽⁴⁴⁾. while the relative importance of items in the basket of basic needs have also changed significantly.

Under these changed circumstances, Kahf has suggested to consider derivation of a formula of *Nisab* on new items which are derived by *Fuqaha*, keeping in view the "*Nisabs*" of items in the Prophetic traditions, their relative prices and weight in the cost of living at that time and applying this formula to determine the *Nisab* of new items in the contemporary world. In particular, the *Nisab* of Zakatable new items will have to be

determined consistently. This is important in order to preserve the virtues of Zakah and to achieve its objectives.

A related issue is the limit of deductible expenses. According to the contemporary *Fiqhi* opinion, a condition of Zakatability is that the income and wealth should be over and above the needs of the owner ⁽⁴⁵⁾. This has not, however, been taken care of consistently across the sources of income. While the needed expenses from salaries have been exempted, the same is not done in case of farmers. In the latter case, only the loans taken for family expenses have been exempted, and not the entire needed expenses of farmers who depend on farm produce. This lacks consistency. Therefore, the exemptions should be reviewed and, in particular, exemptions in new Zakatable items should be determined consistently.

Kahf emphasizes the need for determining Zakah rates for newly Zakatable items. He does not, however, suggest definite rates for new items. According to him, the fixation of rates should be consistent with the prescribed rates keeping in view the matters of wealth transformability and the multidimensional nature of dynamic activities in the contemporary world.

In order to be able to redistribute a sizeable amount of wealth from the rich to the poor, and in view of the fact that the rich tends to indulge in "conspicuous consumption" beyond social limits of consumable durables, Mannan proposes to consider the possibility of making the household consumer durables subjected to Zakah by redefining the exemption limits and the *Nisab* (Mannan 1989, pp. 32-36). This is to be arrived at by defining the standard of living of an average family in the given socio-economic context by following a national guideline, and considering what is needed to maintain the relevant standard of living as exempted from Zakah. Any-thing beyond this is subjected to Zakah.

He also proposes to consider vertical assessment of *Nisab*, that is, to lump together all Zakatable assets of a person whenever it is permissible by *Shari'ah* to do so, evaluate them jointly in terms of the existing prices, and impose Zakah if the combined value exceeds *Nisab* of gold or silver (Mannan 1989, pp. 34-35, 44). This will involve allowing Zakah rates to differ, except for the rates of gold and silver, from the ones determined on the basis of prophetic traditions, since the rates of different items are different.

According to Raquibuzzaman, there is a need for a whole new set of *Nisabs* or exemption limits for each country, as situations vary from country to country (1980, p. 78). To him, the *Nisab* of Zakah was fixed by the

prophet to suit the conditions of the Arab society in the seventh century. He did not find any evidence in the prophetic tradition prohibiting change in the *Nisab* or the rates of Zakah.

According to him, the *Nisab* of Zakah should be equivalent to the amount which is adequate to maintain a reasonable standard of living, and this should be changed from time to time to reflect the changes in the cost of living (Raquibuzzaman, p. 78). Shaik argues for changing the *Nisab* and rates of Zakah if Zakah revenues based on conventional rates and *Nisab* are not sufficient to remove mass poverty (1980, pp. 18- 28)⁽⁴⁶⁾. He provides a historical evidence of changing Zakah rates on horse⁽⁴⁷⁾ as a support for his position.

Abu Saud uses both reasoning and prophetic evidence in support of the need for reviewing *Nisabs*. In reasoning, he argues that the relative values of commodities have changed and hence *Nisabs* should be changed accordingly (Abu Saud 1988, pp. 72-77). In evidence, *Hadiths* concerning *Nisab* of dates commended the exemption of one-fourth or one-third of the crop which gave the ruler flexibility in fixing this allowance and "Hence it is not an absolute limit, but a limit that should differ according to the circumstances prevailing the various communities" (Abu Saud 1988, p. 4).

To Abu Saud, the *Nisab* is that which is enough for sustenance of an average family for a year, which may differ from country to country (p. 76). He argues that the *Nisab* was indeed based on the cost of living during the time of Prophet (pbuh). In his support, he reports the Prophet's response to a particular complaint against the Zakah collector, Abu Hathamah, whereby the Prophet (pbuh) approved collection of Zakah from whatever was beyond cost of living (pp. 74-75).

There are, however, some others who argue against changing the *Nisab* and the rates of Zakah. For example, according to Ahmad, the *Fiqhi* principle "no *Ijtihad* is permissible in matters on which clear directives are found in the Holy Qur'an and *Hadith*" is a "very sound principle" (1989, pp. 51-56).⁴⁸ Therefore, "since both the rates of Zakah and the *Nisab* of Zakah for each type of wealth have been prescribed by the Holy Prophet (pbuh), they are immutable."

Any deviation from this principle can lead to unfortunate results. If changes in the Zakah rates are allowed, this could lead to frequent changes in the Zakah rates depending on the expediency of the ruling authorities, and it may become an election issue in countries having multi-party systems and this will destroy the sanctity of Zakah which is a form of *Ibadah*. Salama holds a very strong view about the issue, ". . . no authority on

earth has any right to alter the Zakah rates" (Salama 1982, p. 342).

A similar view is maintained by the *Majlis Tahqiq Masail Hadirah* of Pakistan (Osmani 1983, pp. 8-21). In response to a question of the Zakah Management Authority of Pakistan as to the permissibility of reconsidering Zakah *Nisab* to follow the *Nisab* of gold and silver, or to choose any other formula to increase the *Nisab* since a silver based *Nisab* implies obligation of Zakah on even a low-income person, the *Majlis* replied in the negative.

In this respect, the above *Majlis* considered three probable cases for redefining *Nisab*. First, an increase in the *Nisab* of gold and silver, which according to the *Majlis*, is not allowed since these *Nisabs* were determined by *Sunnah* (Hadith) and *Ijma*, and not by *Ijtihad*. *Ijtihad* is possible only if the solution is not available in the Qur'an, *Sunnah* or *ijma*. Second, keeping the *Nisab* of gold as it is and following the value of this *Nisab* for which, according to the *Majlis*, is not also allowed. since the *Hadith* proves the *Nisab* of silver to be dominant because of its wide use during the time of the Prophet (pbuh) ⁽⁴⁹⁾. Third, taking the *Nisabs* of gold and silver as they are, and following the value of gold *Nisab* for cash. According to the *Majlis*, this would be allowed if cash is backed by or related to gold in the country. However, if some silver is also owned with cash, then one should follow the *Nisab* of silver. In case. cash is related neither to gold nor to silver, but rather to something else, then the case may be considered properly when relevant information is available.

As to the changes in the relative prices of *Nisab* items, for example, prices of silver and gold, the *Majlis* points out that it is not a new phenomenon, but the great *Fuqaha* in the past did not change the *Nisab* to adjust for changes in prices. It indicates that these should be kept as they are, since the *Nisabs* have been determined by the Prophet (pbuh) and there is *//ma* on the issue.

The Saudi Zakah administration recognizes the fact that the relative prices of the two items of Zakah, namely, gold and silver have changed, and hence there is a need to do something about it. Accordingly, it follows the value of gold (i.e., 85 grams of gold), ignoring the value of silver to determine the *Nisab*(*Wazarah al-Maliyah wa Iqtisad al-Watani*, pp.16-18).

According to the *Majlis*, an increase in *Nisab* will lead to a fall in the number of Zakah payers and an increase in that of Zakah receivers. It will result in two problems. First, demand for Zakah will be more than supply. Second, it will appear that Zakah encourages living on others, which is not really encouraged in Islam.

Some others who are in favor of retaining the existing *Nisab* and rates of Zakah include Awad (Awad, pp 79-81), El-Din (El-Din 1986, Introduction).

Condition of Growth

In the conventional *Fiqhi* literature, Zakah is levied only on the items which satisfy the condition of growth, real or potential. Some scholars argue that this conditionality should be reviewed, while some others are in favor of retaining it.

In this context, Kahf has re-examined the condition of "growth" or "potential growth" for Zakatability (1989, pp. 12-13). According to him, this conditionality is arbitrary since everything has growth potential in the final analysis including the items of personal use which are Zakah free. Besides, on the one hand, the items which are observed to grow, like trees and fodder livestock, are Zakah free. On the other hand, the items which are not growing, for example, debts in good standing, are Zakatable (Kahf, 1989, p. 13). Thus, the condition of growth is neither all-inclusive (*Jami*) nor all exclusive (*Mani*).

According to Kahf, the conditionality of growth is said to have been derived from the prophetic decree that exempts items of personal use, usually referred to as the items of *Quniah* which literally means acquisition, from Zakah, and includes in Zakah the items that are meant for growth like the items of trade. The *Fuqaha*'s use of the term *Quniah* has erroneously led them to extend the concept of acquisition from personal items to business assets.

To Kahf, the basic Islamic sources seem to consider richness as the "*Illah*" (reason) for Zakah, and not the growth, and hence a shift from richness to growth as the "*Illah*" of Zakah is not based on sound rationalization. Therefore, the condition of growth needs reconsideration. Thus, the coverage of Zakah should include fixed assets of industry, business and services.

A similar view is maintained by Abu Saud (1988, pp. 66-72). According to him, the condition of growth is misfounded, which is full of anomalies and arbitrary interpretations of traditions. To him, "Suffice it to state that Zakat is due on economic goods once they exceed *Nisab*", without reference to the condition of growth, except for the goods of personal use and consumption (pp. 71-72).

On the other hand, some authors are against such a view. For example, Shaik maintains that those assets are Zakatable which are productive at

present like commercial goods, agricultural land and animals that are capable of assisting in production, and gold and silver. On the other hand, those articles which are not productive in the above sense are not Zakatable. He excludes fixed assets which are used for further production like tools and machinery as long as these are not intended for trade.

The *Majlis Tahqiq Masail Hadirah* also holds the view that the condition of growth is necessary for the obligation of Zakah (Osmani 1983, p. 16). Therefore, all kinds of wealth that do not satisfy the condition of growth are exempted from Zakah which include immovable properties and all household items without reference to their values. Awan also subscribes to this view (1990, p. 199).

This view has been applied in Saudi case, where Zakah is obligatory only if the condition of growth, whether real or potential, is satisfied (*Wazarah al-Maliyah wa al- Iqtisad al-Watani*, p. 6). Accordingly, there is no Zakah on machines and tools, because these items do not grow (p. 6).

Condition of *Tamlík*

Views also differ on the condition of *Tamlík*. In one view this condition is not necessary for Zakah payment. According to Muhammad Abdul Wahhab Khallaf, "It is not appropriate to assume that the Zakah is not considered legitimate and lawful unless it is given by the Zakah donor to certain person or persons as private possession" (Shehatah 1989, p. 65). This view implies that the condition of *Tamlík* is not necessary. To Masud, the condition of *Tamlík* is not well-founded (1984, pp. 3-9).

In addition, those who find it permissible to pay Zakah to institutions and to spend for social welfare and development projects do not obviously consider the condition of *Tamlík* to be necessary for the payment of Zakah ⁽⁵¹⁾. This is because no individual or person is made owner of the Zakah amount when it is paid to institutions or spent in welfare projects.

El-Din argues against waiving the *Tamlík* condition in Zakah disbursement. His argument is based on economic, rather than juristic, reasoning (1986, pp. 9-17). The waiver of *Tamlík* condition facilitates widening of the areas of Zakah disbursement, for example, in the infrastructural development or broad-based development programs. According to El-din, "target group" or "basic need" approach of poverty eradication is in line with the Islamic spirit of Zakah and, therefore, poverty and need oriented heads of expenditure should be given higher priority than other non-poverty claims of Zakah. The *Tamlík* condition is favorable for target group oriented poverty eradication and hence it should not be waived ⁽⁵²⁾.

A similar view is held by the *Majlis Tahqiq Masail Hadirah*. According to the *Majlis* (Osmani 1983, p. 7-8) the basic objective of Zakah is to help the poor and needy, and it should be paid in such a way which increases their ownership. The use of Zakah revenues for other welfare and social institutions will defeat the objective of Zakah, since it will not increase the ownership of the beneficiaries; rather a major share may be spent in administration and physical facilities of the institutions. More importantly, the condition of "*Tamlík*" is necessary which cannot be fulfilled if it is spent for institutions.

Although "*Tamlík*" is a necessary condition to Shaik, it carries a particular meaning in his analysis. According to him, ownership may be transferred to the beneficiary (the poor), the collector or the institution responsible for its distribution (Shaik 1980, pp. 16-17). There cannot be any direct or indirect benefit from Zakah to the Zakah payer.

Issues on Zakah Disbursement

A number of writers discuss the beneficiaries of Zakah, based on the Qur'anic verse 60 of Surah 9. The interpretation of a few beneficiaries and, in particular, the interpretation of "*Fi Sabilillah*", vary among Islamic scholars which lead to difference of opinion in terms of the coverage of beneficiaries. Most of the early jurists confine the interpretation of "*Fi Sabilillah*" to *Jihad* and *Jihad* related preparations (Shaik 1980, pp. 13-14). The *Majlis Tahqiq Masail Hadirah* holds a similar view but adds to it spending for the poor Hajis (Osmani 1983, pp. 6-8).

Some later Islamic scholars include in it propagation of Islam, Islamic education, activities to establish Islamic way of life by replacing anti-Islamic or secular systems, or any other struggle in righteous cause (for example, Maududi 1988, p. 324). Other scholars who subscribe to this view include Syed Qutb, Abul Kalam Azad and Shibli Nomani (Shaik 1980, pp. 13-14).

Opinions vary as to the permissibility of using Zakah revenue for social welfare projects. According to Raquibuzzaman, Zakah proceeds may be spent for social welfare programs and economic development projects, manpower training or education in various scientific and technical fields on the ground that such programs will help the poor who directly participate in them and also the others (1981, pp. 78- 79). Similarly, expenditure on defense is clearly permissible since an attack on Muslim country is synonymous to an attack on Islam. To Raquibuzzaman, Islam is a dynamic and universal way of life to suit the need of all ages and hence flexibility should be allowed to suit the need of the time.

On the issue of paying Zakah to institutions meant for Zakah eligible persons, Abu Zahra views that if Zakah is not collected by the state, it may be paid to those institutions which engage themselves in the provision of education to the poor and destitutes only (Shehatah 1989, p. 65). It is not allowed to pay Zakah to institutions if it is not spent exclusively for the poor. Mohammad Qutub finds it permissible to use Zakah for the provision of social services including hospitals and schools, and also for factories which create employment opportunities for the people (Qutub 1979, p. 7).

According to Shehatah, Zakah does not belong to general public revenue in the state budget. Therefore, it cannot be used for the provision of general socio-economic infrastructure, and public goods and services meant for all Muslims (Shehatah 1989, p. 59). He has, however, put forward a framework for the use of Zakah in financing what he called "Islamic socioeconomic infrastructure" (Shehatah 1989, pp. 69-73). This includes provision for the poor and Zakah recipients of the following: (1) Islamic education (2) vocational training and the necessary tools, (3) agriculture and cottage industries, (4) simple fixed assets for small utility and trade projects, (5) working capital to craftsmen, (6) low-cost-housing, and (7) medical facilities, free of charge or at a nominal fee. According to Shehatah, Islamic moral values and brotherhood requires provision of these goods and services in an Islamic society.

Shehatah has also proposed use of Zakah revenues in lawful *Mudarabah* projects, with the Zakah authority acting as the owner of the capital, and the Zakah beneficiaries acting as partners by contributing their work (1989, p. 73). The profits will be distributed between them on the basis of a pre-decided ratio. Shehatah has not, however, provided any *Shari'ah* support for the above suggestions to use Zakah in what he called the Islamic socioeconomic infrastructure, *Mudarabah* projects or *Qard Hasanah*.

According to Qureshi, Zakah and tax revenues should not be mixed together which implies that public goods should not be provided from Zakah revenues, since market mechanism cannot be used to exclude people from their consumption (1989, pp. 74-75). Therefore, Zakah revenues have to be distributed across *Shari'ah* approved heads to acquire private goods, and not the public goods. To Qureshi, socioeconomic infrastructure may qualify for Zakah only if it enhances the rights and entitlement of the poor and needy over the private goods (1989, pp. 74-75). The *Majlis Tahqiq Masail Hadirah* does not also allow use of Zakah revenue for institu-

tions and welfare projects because of the problem of *Tamlík* (Osmani 1983, pp. 7-8).

According to Shaik, Zakah revenue may be spent to end political oppression of the Muslims. For example, he viewed that Zakah proceeds could be used to free the Muslims from political suppression like the people of South Africa (Shaik 1980, p. 66).

In the question of providing *Qard Hasanah* from the Zakah revenues, Shehatah subscribes to Abu Zahrah's view that loans may be granted to Zakah beneficiaries from the Zakah fund (Shehatah 1989, p. 65). Shehatah argues, if loan is provided to able-bodied beneficiaries who pay the money back, it may generate a new source of finance for the beneficiaries.

As for investment from Zakah revenues, Qureshi considers it proper to leave it to the poor and needy to choose between consumption and investment, since their consumption needs may be pressing which may be compensated only by very high profits (1989, p. 75). They also may be risk averse. Thus, the optimal choice for the poor and needy may be to avoid any investment from Zakah funds.

Is it permissible to pay Zakah to non-Muslims? Shaik responds in the affirmative and states that Zakah money may be paid to non-Muslims after meeting the needs of the Muslims. He finds no indication in the Qur'an or Sunnah that Zakah is to be used for Muslims only (Shaik 1980, p. 66). A similar view is maintained by Abu Saud. According to him, Zakah may be paid to non-Muslims, he be a Jew, or Christian or an apostate, as long as he does not fight against Islam and Muslims (p. 176).⁵³

According to Maududi, non-Muslims are not eligible for receiving Zakah (1988, p. 325). The basis of his view is the *Hadith* "To be taken from your rich people and to be distributed to your poor people." Here "you" refers to "Muslims". The non-Muslims should be helped from general welfare funds (Maududi 1988, pp. 325-326).

There is again some controversies about the limit to pay Zakah to one beneficiary (Shehatah 1989, pp. 63-64). According to Abu Ubaid, there is no limit of paying Zakah to a single recipient. It is allowed to pay a beneficiary so much that he can buy a house, if he does not have one. To al-Nawawi, a recipient of Zakah should be given enough money to make him self-sufficient. In *Maliki* and *Hanbali* Schools, self-sufficiency should be assured for a full-year⁽⁵⁴⁾.

Fiqhi opinion differs about distribution of Zakah to all eight beneficiaries and about its proportion (Shehatah 1989, pp. 62-63). According

to Abu Ubaid, all eight beneficiaries should get Zakah, but this has to be decided by the ruler, giving more weight to those who are in more need. To Abu Yusuf, The Imam is at liberty to give the Zakah to anyone of the eight categories. He may spend only on one category if it deems most appropriate. According to Al-Mawardi, Zakah should be divided into eight shares among the eight categories, if each category is available. No category should be encroached upon.

As to the location of Zakah distribution, Shehatah agrees with Abu Ubaid's view that Zakah revenue should be distributed in the locality in which it is collected as long as there are those who are in need of it (Shehatah 1989, p. 61). In Abu Yusuf's view, Zakah should be disbursed in the locality, not to the inhabitants of any other town (Shehatah 1989, p. 62). Al-Qardawi justifies this by saying that the territoriality of Zakah has been devised to combat and defeat poverty, to train each province to become self-sufficient and to enable it to solve its domestic problem. The Imam (political authority) may decide otherwise when the locality does not need Zakah money.

Abu Saud holds a different view. According to him, "it is not a mandatory rule prescribed by the Qur'an and Sunnah" to distribute Zakah in the locality it is collected from (Abu Saud 1988, p. 179). The concept of location has lost its past importance, since the kinfolds of a single family may be spread over several continents. Abu Saud leaves it to Zakah payers *or the collecting institutions to decide the location of Zakah allocation* ⁽⁵⁵⁾.

These are the major issues in the agenda for reconsideration of *Fiqhi* matters of Zakah, namely, the coverage, rates and *Nisab* of Zakah; the conditions of growth and *Tamlík*; and the issues of Zakah disbursement. As is evident from above, the Islamic scholars are divided as to the need and permissibility of *Ijtihad* on these matters. A good number of Islamic scholars argue for their review on the ground of justice, consistency, and the materialization of the objective of Zakah at a reasonable speed, while some other scholars stick to the *Ahkam* (rulings) of the early Fiqh literature.

ZAKAH ADMINISTRATION

Zakah is not a voluntary institution, but rather it is to be operationalized by the state. It used to be done at the state level during the prophet (pbuh) until the downfall of the Islamic rule. There has been discontinuity in this matter for centuries. Lately some of the Muslim countries are beginning to institutionalize the administration of Zakah ⁽⁵⁶⁾ while most of the Muslim countries are yet to come forward to do so. In the former case, Zakah administration varies from compulsory to voluntary, -and the latter is purely voluntary at the individual level.

Contemporary Zakah Administration

The contemporary Zakah administration may be divided into two kinds ⁽⁵⁷⁾. First, compulsory collection of Zakah by the state. Countries having compulsory Zakah administration include Pakistan, the Sudan, Saudi Arabia, Yemen and Malaysia. Second, voluntary Zakah administration by the state, for example, Zakah administration in Kuwait, Bangladesh, and that in the pre-1983 Sudan.

In the voluntary Zakah administration, the state creates a Zakah fund where the people may make their Zakah payments. Zakah payment to this fund is not compulsory, but rather it is voluntary. Voluntary Zakah collection started in Kuwait at the private level by mosque-based committees. Encouraged by its success, a semi- government institution "Kuwait Zakah House" (KZH) was later established by the Government "for voluntary and non-compulsory collection of Zakah" (Ajil 1990, pp. 2- 4).

As Zakah administration in Kuwait is voluntary, the KZH does not make assessment of Zakah to be paid by the people. It, however, distributes booklets to help Zakah payers in their own assessment (Ajil 1990, pp. 5-6), tries to create public awareness through the publication of books, pamphlets, exhibitions, and also through the mass media (Ajil 1990, pp. 46-48).⁵⁸ It also has extensive network to facilitate Zakah accounts at the KZH offices and banks, Zakah House Mobile Units, Zakah boxes placed in the cooperatives and supermarkets, service boxes similar to auto- cash service in banks and a Hot line for Zakah collection (Ajil 1990, p. 5).

The revenue of KZH is not confined to Zakah proceeds alone. It also includes grants and contributions made by public institutions, authorities,

societies, companies and individuals, and also annual subsidies by the state. In addition, it has also established a "continued Alms and Wills Fund" which "manages the funds of wills and one-thirds" (Ajil 1990, pp. 4, 9).

The KZH distributes the collected funds to the deserving recipients both at home and abroad. At home, the proceeds are disbursed in lump sum aid, monthly assistance and interest-free loans. It is also spent in such local projects as breaking of fasts, sacrificial meat, orphan's uniform, pilgrims scheme for the poor and so on (Ajil 1990, pp. 20-29).

In the external distribution, the KZH has several kinds of disbursement programs which include orphans sponsor scheme (to find out sponsors for their education), sacrificial meat project, scheme to support Islamic societies and agencies in their charitable activities, the Qur'an propagation project, charitable schemes to support mosques, health centers, orphanages, schools etc. (Ajil 1990, pp. 22-30). Such external distribution of Zakah funds is an excellent program which should draw attention of other well-off Muslim countries to reduce the sufferings of a good number of people in the Islamic *Ummah*.

The main problem facing the KZH is that a sizeable amount of potential Zakah revenue remains outside its control, since Zakah administration is voluntary in Kuwait (Ajil 1990, p. 49).

Voluntary Zakah administration has been introduced in Bangladesh since 1982, following its demand from the people⁽⁵⁹⁾. However, neither the people are obliged to pay to this fund, nor detail rules have been provided concerning the coverage, *Nissan*, rates and disbursement of Zakah (Islam 1982, pp. 30-32). The success of the Zakah administration in Bangladesh seems to be very limited.

Although the income level of the country is not high, Zakah revenues raised by an efficient management are expected to make a sizable contribution to poverty eradication in Bangladesh. An estimate shows that about Tk.2500 million (US\$ 71 million) can be collected from Zakah in agriculture only (Hannan 1988, p. 36).

Zakah administration in the Sudan was voluntary in nature during the period 1400 - 1404 A.H., which became compulsory in 1405 A.H. Although the government of the Sudan encouraged people to pay Zakah to the voluntary fund by extending tax exemptions for official Zakah payment, its effectiveness was limited (Salama 1990, pp. 1-2). This is evident from the fact that Zakah revenue was only 35 million in 1405 A.H. before implementation of compulsory Zakah administration, which increased to 504

million in 1410 A.H. when the Zakah administration became compulsory, an increase of about 1500% (Salama 1990, p. 6).

Factors limiting effectiveness of voluntary Zakah administration in the Sudanese experience, which may be true in other cases also, are as follows (Salama 1990, p.2). First, the Zakah payment to the fund was voluntary which allows its payment to the non-official channels and even Zakah evasion. Second, the number of officers working with the voluntary Zakah fund was limited. Third, the regional offices did not exist to collect Zakah from different regions.

Although such voluntary Zakah administration is less effective, it produces at least some good results. Something is better than nothing. The voluntary Zakah administration of the Sudan helped in the relief of 7000 families during the drought and famine years (Salama 1990, p.1).

In the compulsory Zakah system, the people are legally obliged to pay Zakah to the government. Needless to mention, the Islamic economic system provides for the compulsory Zakah administration which is necessary for effective application of the institution. The Sudanese experience proves that Zakah administration has become more effective through its expanded network in terms of assessment, collection and disbursement of Zakah when it became compulsory. As mentioned earlier, Zakah revenues increased by 1500% because of the advantages of compulsory Zakah administration.

Compulsory Zakah administration exists in Saudi Arabia, Pakistan, Malaysia, the Sudan, Yemen Arab Republic and Libya, although legal obligation to pay Zakah in these countries varies from each other in terms of coverage, disbursement, methods of collection and so on. A brief account of this for some of the countries is given below.

In coverage, Zakah administration in Saudi Arabia, Pakistan, Libya and the Sudan covers only Zakah al-Mal, while that in Yemen covers both of Zakah al-Mal and Zakah *al-Fitr* (Kahf 1990, p. 18). Again, the practice varies as to the types of "Zakah al-mal" to be covered by Zakah.. For example, in the Sudan and Yemen, all kinds of Zakatable wealth are included, as listed in the books of *Fiqh*; Saudi Arabia covers agricultural produce, livestock and tradeable items; and Pakistan specifies some kinds of financial and monetary assets plus agricultural produce (Kahf 1990, p. 19).

In disbursement, the countries again vary in their models. Pakistan limits Zakah disbursement to one or two categories, the poor (*Fuqara*) and the destitute (*Masakin*) mentioned in the Qur'an; Saudi Arabia also dis-

burses mainly to the poor and the needy; while Zakah may be disbursed to any of the eight categories in the Sudan and Malaysia (Kahf 1990, pp. 31-34).

In the method of Zakah collection, Saudi Arabia and the Sudan base on Zakah declaration made by Zakah payers in the items of trade, which is, however, verified by the Zakah administration. If the declaration seems to be unacceptable, then the Zakah officers may make arbitrary assessment. Thereafter Zakah is paid to Zakah cashier. In Pakistan, on the other hand, Zakah from financial assets is deducted at source by institutions dealing with the assets (Kahf 1990; pp. 23-24).

In agriculture and livestock, Zakah is assessed in Saudi Arabia by mobile Zakah employees, and paid directly to the beneficiaries of the Zakah, except for wheat which is collected at the marketing stage (Kahf 1990, p. 22). In Pakistan, on the other hand, Zakah on agricultural crop is collected through local Zakah committees which assess and collect Zakah in cash; while in Sudan Zakah on agriculture is collected by tax organs in kind or cash at the marketing stage (Kahf 1990, pp. 20-22).

With this, we now move on to some issues, problems and difficulties facing compulsory Zakah administration in different Muslim countries.

Problems and Difficulties Facing Zakah Administration

Centuries of discontinuity in the compulsory Zakah administration has resulted in a vacuum in the management of Zakah at the state level. The working of economies has become quite complicated in the contemporary world which requires serious research, both theoretical and applied, and operational experience to develop methods of efficient Zakah assessment of different forms of wealth and assets, their collection and distribution. Some work in this area has been started only after introducing the compulsory Zakah system in some Muslim countries. Therefore, the Zakah administration is naturally facing some problems in terms of assessment, coverage, collection and so on.

***Fiqh* Related Problems**

The unresolved *Fiqh* issues are a source of problem in the administration of Zakah. For example, Zakah is not imposed on the financial assets in the Sudan because of *Fiqh* related problems ⁽⁶⁰⁾. The Zakah administration of different countries tend to follow the rules set by the traditional *Fiqh* literature. For example, in Saudi Arabia fixed business assets are excluded from Zakah (*Wazarah al-Maliyah wa al-Iqtisad al-Watani*, pp. 58, 92), and

Zakah is obligatory only if the condition of growth, whether real or potential, is satisfied (*Wazarah al-Maliyah wa al-Iqtisad al-Watani*, p.6).

These countries are not, however, totally oblivious of the need for *Ijtihad* on Zakah matters. They are making efforts to resolve some of the *Fiqhi* issues by resorting to *Ijtihad*. For example, *Nisab* of assets has been redefined in Saudi Arabia in term of gold (value of 85 grams of gold), ignoring the *Nisab* of silver, for the relative prices of the two metals changed significantly over time (*Wazarah al-Maliyah wa al-Iqtisad al-Watani*, pp. 16-18). In addition, Zakah on professional income has been imposed in Saudi Arabia which includes professions of doctors, engineers, lawyers, accountants, consultants and establishments of art and entertainment (Kahf 1990, p. 26). Besides, the arbitrary assessment of Zakah on tradeable goods and professional income, as will be seen later, is an extension of the provision of arbitrary assessment which exists in the *Sunnah* for agricultural produce only (Kahf 1990, p. 27).

Efforts to solve *Fiqhi* problems are also evident from Zakah management of Pakistan (Hasanuzzaman 1979, pp. 71-75). In Pakistan, bank deposits are treated as *Amwal Zahirah*, which do not exist in *Fiqh* literature. In view of the changes in the relative prices of the bases of *Nisab*, the *Nisab* has been redefined to follow a uniform standard, "*Nisab* means assets equal in value to 87.48 grams of fine gold" (Hasanuzzaman 1979, pp. 73).

In addition, Zakah administration in Pakistan determines every year a minimum area of land whose owners are to pay Zakah on agriculture (*Ushr*) in order "to avoid the dilemma posed by difference of *Fiqh* views on the requirement to first meet the basic needs of growers" (Kahf 1990, p. 21).

In Zakah disbursement, the "Zakah and (*Ushr*) Order 1979" of Pakistan provides for utilizing Zakah fund on loan basis in establishing "hospitals for the benefit of the poor", and also educational, industrial and vocational institutions to impart skills to the needy for the purpose of gainful employment". (Hasanuzzaman, 1979, p. 74). The loan will be paid by fees charged from the non-eligible persons receiving these facilities.' Mayer's study also shows that Pakistan's Zakah law has departed from classical *Fiqhi* laws at a number of places (1987, pp. 59-68).⁶²

These are random examples of *Ijtihad* carried out and implemented by Zakah management of some countries. There remain many other unresolved issues as discussed in the previous section, which affect introduction of the institution of Zakah. The *Fiqhi* issues should systematically be

resolved by the '*Ulama* and the scholars of the *Ummah* for efficient and effective Zakah administration.

Coverage of Zakah

The Zakah administration could not yet cover all the Zakatable resources for Zakah collection. This is because of either *Fiqhi* restrictions or non-comprehensiveness of local laws concerning the coverage of Zakah. In Saudi Arabia, compulsory Zakah administration covers only "Zakah al-Mal" ⁽⁶³⁾ which are "agriculture produce, animals and tradeable items (including cash assets of companies, corporations and such establishments). Thus, bank accounts and cash assets are not covered if owned by other than such establishments" (Kahf 1990, p.19). Fixed business assets are also excluded from Zakah (*Wazarah al-Maliyah wa al-Iqtisad al Watani* pp. 58, 92). However, Zakah is imposed on the income of professionals such as doctors, lawyers, engineers, accountants, consultants and establishment of art and entertainment. Interesting enough, Zakah is imposed only on the self-employed individuals in these professions, such that the salaried professionals, even if they earn more than the self-employed ones, are exempted from compulsory Zakah (Kahf 1990, pp. 26-27). This might keep a reasonable Zakah base outside Zakah collection. This is also the case in trade, whereby the individuals and enterprises having no tradeable goods are exempt from Zakah on their savings and current accounts (Kahf 1990, p.24). This is because the Saudi banks are neither required by law to reveal their deposits nor to deduct Zakah at source. It is obvious from this that the coverage of income and wealth by compulsory Zakah administration in Saudi Arabia is limited which might have reduced Zakah base quite a bit.

In Malaysia, every state has a different law for the administration of Zakah, since the religious affairs are under the state religious departments. Some of these laws cover more items of Zakah and some less, for example, in the state of Kedah Zakah is collected only from paddy, and not from any other agriculture crop, not to speak of other items of Zakah (Othman et al 1990, p. 20).

In the Sudan, the modern sources of income could not be covered effectively by Zakah, since Zakatable income is assessed on the basis of returns filled up by Zakah payers, although under oath (Salama 1990, pp. 3-5). The financial assets including the bank deposits are not levied at source because of the difficulty in determining the "*Nisab*" and "*Hawl*". Thus a significant amount of the financial wealth escapes Zakah. The animal wealth, which accounted for more than 22% of the GDP of the

Sudan in 1987, did not contribute to Zakah revenue due to difficulties in assessment, collection in kind, and the associated problems of taking care of animals before disposing them off. Similarly rainfed non-marketed crops cannot be effectively covered by Zakah administration.

Zakah Assessment

Effective method of Zakah assessment is yet to be developed, which causes leakage and Zakah evasion. In case of the Sudan, as indicated earlier, Zakah assessment of all modern sources of income depends on the declaration of the Zakah payers in their Zakah returns. Presumptive assessment is used in case of rainfed crops which are not marketed.

Assessment of Zakah on commercial assets is difficult because of the lack of experience of non-conspicuous assets, non-availability of proper accounting by the Zakah payers and so on (Salama 1990, pp. 3-5). Even those who are willing to pay Zakah without evasion hesitate to declare all their assets due to the fear of tax department. These factors make Zakah assessment fall short of what is due, which affects the size of Zakah revenue.

In Saudi Arabia, Zakah assessment on items of trade is based on the declaration of the Zakah payers whose accuracy is checked by the Zakah administration which may ask for a revised declaration (Kahf 1990, p. 23). The Zakah administration may also make an arbitrary assessment, if the Zakah payers' declaration deems unacceptable or if it does not keep systematic and acceptable accounting system. In doing such arbitrary assessment, several factors are considered which include imports in the financial year concerned, contracts with the other party, estimated rates of profits, etc. (Kahf 1990, p. 23). Such arbitrary Zakah assessment has its advantages as well as disadvantages. According to Kahf, its advantages include the following : "It makes the duty of the individual towards the state clearer, it reduces administrative costs of assessment and collection and it makes for predictability of receipts" (1990, p. 27). Its main disadvantage is that it may be unjust to the Zakah payer or beneficiary, since the assessment is not based on the real Zakah base, but rather is arbitrary. Kahf proposed to give a chance to Zakah payers to make an appeal and also to have periodical review of the criteria of arbitrary assessment to reduce the chance of injustice to either party (1990, p. 27).

In case of professionals in Saudi Arabia, direct assessment and collection are practiced by Zakah administration officers. The professionals are also required to make Zakah declarations. Arbitrary assessments are

done by such officers when the declarations are considered inadequate or if systematic book-keeping is absent (Kahf 1990, pp. 26-27).

The assessment of agriculture and livestock in Saudi Arabia is done by mobile *Awamil* (Zakah employees) who assess Zakah on crops, except for wheat, at the rate of 10% or 5% depending on the kind of irrigation, rain or otherwise. The Zakah is not, however, collected by the mobile *Awamil*, but rather "the poor are referred to the growers to receive Zakah directly from them" (Kahf 1990, p. 22).

Salleh and Ngah raised the issue of Zakah assessment in Malaysian agriculture (1980, pp. 81-153). Their study of four states in Malaysia shows that the burden of Zakah on paddy is more equitable when assessed on the basis of net income, and is inequitable if assessment is based on gross output ⁽⁶⁴⁾. They have, therefore, suggested that the net income should be used as a basis for assessment of Zakah on paddy so that the burden of Zakah falls on those who can afford to pay it.

Zakah Payment Through Non-Official Channels

Zakah payment to non-official channels causes a major leakage in the Zakah administration. In Malaysia, Zakah coverage in different states are different so that the Zakah payers are to pay Zakah of the non-covered items to non-official channels. In some of the states, only a part of the items covered by Zakah administration is supposed to pay to the government. For example, in Kelantan state, only two-thirds of total Zakah are to be paid to the official channel and the rest to the non-official channels (Othman 1990, pp. 17-18).

In Malaysia, the reasons for payment of Zakah through non-official channels include: (1) inconvenience of going to the council's office which collects Zakah, (2) inefficiency of the council's collection efforts, (3) lack of confidence in the council's distribution of Zakah, (4) satisfaction received by giving Zakah to known people, and also (5) political factors (Ghazali 1988, p. 17). Sometimes, the Zakah payers believe that it is more religious to pay Zakah by themselves rather than giving it to the state (Salama 1990, p. 4).

In Malaysia, the estimated Zakah collection was M\$365.45 million in 1988, whereas the actual collection was only M\$30.23 million (Othman et al 1990, p. 95). That is, only about 8% of total potential Zakah was collected.

In brief, compulsory Zakah administration provides for non-official payment of Zakah, since all Zakatable items are not covered by statutory obligation, except for the Sudan and Yemen. However, the Sudan and

Yemen are yet to cover all newly emerged items by compulsory Zakah. Thus, a great deal of potential Zakah revenue remains outside the Zakah administration where it is compulsory, not to speak of voluntary Zakah administration.

Information Gap

Lack of knowledge and information about the laws and *Shari'ah* provision about Zakah matters also affect Zakah administration. In Malaysia, a factor which affects Zakah collection is the lack of publicity and information on the types and kinds of Zakah that should be paid (Othman et al 1990, p. 20). In Kuwait, people have been observed to pay Zakah in a strange manner due to ignorance about *Shari'ah* laws concerning Zakah. "One Muslim asks his relatives to change cars with new ones every *year...*" from his Zakah money (Sumait 1990, p. 1). Sumait has, therefore, emphasized the need to inform the people about Zakah matters by all possible means including press, radio, television, booklets and postering. According to Sumait, the effect of such information is expected to be tremendous. As an example, postering campaign in 1984 about famine in Africa could raise more than six million US dollars in Zakah (Sumait 1990, p. 4).

Storage and Transportation

Lack of adequate storage and transportation facilities may affect collection of Zakah in kind from agricultural sector. Agricultural crops are perishable, and livestock need food, shelter and other kinds of care. The Zakah collectors may not find ready outlet for sale of these items. This involves the problem of storage and transportation. This affects Zakah collection in kind by the local councils in the Sudan (Salama 1990, p. 5). This is expected to be true elsewhere as well.

Administration Cost

One of the beneficiary of Zakah is the Zakah administration to the extent of its actual cost including the wages and salaries of the people involved in Zakah activities. It is clear from the very spirit of Zakah that this head of Zakah expenditure is not the end objective of the institution, but rather a means to administer it. Therefore, all efforts should be made to minimize administrative costs without sacrificing administrative efficiency, so that the means does not eat up the end objective.

In case of the Sudan, "... The percentage of administrative cost is high", which was more than 18% of total Zakah disbursed between 1405-

1409 (Salama 1990, pp. 10, 12). This may be compared with the amount of Zakah disbursed to the poor and needy, which was 34% in the same period.

According to Salama, the above administrative cost is lower than that of Kuwait (1990, p. 13). This may be due to the fact that the Sudanese Zakah administration makes use of the existing administrative machineries such as local councils, tax department, the Agricultural Bank and the local committees.

In Pakistan, Zakah is deducted at source in the institutions dealing with financial and monetary assets. There is no cost involved in the levying and collection of Zakah and, as a result, the Zakah council incurs only little administrative costs in the form of follow-up, control and checking. The Zakah council only circulates instructions to the relevant institutions which are required by law to act accordingly (Kahf 1990, p. 24).

The administrative cost of Zakah is higher in Malaysia. The Zakah employees received 34% of the total Zakah disbursement in the state of Perlis in 1985 as compared to 14% for *Fakir/Miskin*. The administrative cost was even higher in the state of Negeri Sembilan during 1978 - 1982, which was 52% of Zakah disbursement (Hassan 1987, p. 72).

There is a need to develop an efficient mechanism of Zakah administration for an effective redistribution of income from the rich to the poor to be able to upgrade economic conditions of the latter.

Disbursement of Zakah

The main objective of the institution of Zakah is to upgrade economic conditions of the disadvantaged population of the society by redistributing income from the rich to the poor. It is important, therefore, to develop a distributive mechanism to reach the poor preferably in descending order of poverty so that the worst sufferers are taken care of first among those who are eligible, although all of them deserve help.

Although the Qur'an mentions eight categories of Zakah recipients,' most of the Zakah administrations in the contemporary world, however, did not consider it necessary to disburse Zakah to all the Qur'anic beneficiaries, with an exception of the Sudan (Kahf 1990, p. 31).

In Saudi Arabia, Zakah is spent mainly on the poor and needy, and nothing on the Zakah employees (*'Amilin*) (Kahf 1990, p. 32). This is done in the form of monthly or lump sum payments to needy individuals and families without informing them of the source of assistance. The disburse-

ment is made by the General Administration of Social Affairs and Labor. In agriculture, however, the Imarah (local government) appoints distribution committees which issue delivery orders asking the Zakah payers to pay the specified amount to individual beneficiaries. The delivery orders are handed over to the recipients to collect the produce from the payers directly (Kahf 1990, pp. 32-33, 37).

The Zakah disbursement in the Sudan involves a three tier system, involving three agencies, namely, Zakah committee, Zakah department and *Ifta* council (Salama 1990, p. 5). The Zakah committee determines those who may be eligible to receive Zakah. The Zakah department then makes assessment of the need by sending social workers. The social workers send the assessment forms to the *Ifta* council which finally determines the Zakah eligible persons and their amounts.

There is a clear disparity between regions of the Sudan in the disbursement of Zakah (Salama 1990, p. 13). The Zakah distribution has been concentrated in some regions. "Almost 100% of Zakah distributed was concentrated in the three regions while the other poor regions got a very insignificant share of Zakah distributed" (Salama 1990, p. 13). In fact, Zakah collection was high in these regions. Probably the "locality of collection" was the main determining factor, rather than "poverty".

Additionally, among the seven beneficiaries who received a share of Zakah, the poor and needy got about 34% of Zakah disbursed (Salama 1990, p. 12). This share could have been larger in view of the fact that a large segment of the population live below poverty line, which is worsened even further by occasional droughts and famines.

In Malaysia, the share of the Fakir and Miskin in the Zakah disbursement varies from state to state. In Federal Territory the Fakir/Miskin got 7% of Zakah disbursed, while the Amilin (Zakah employees) got 40% in 1982 (Hassan 1987, p. 73). The relevant figure for Negeri Sembilan was: Fakir/Miskin 10%, and Amilin 10% of Zakah disbursed during 1978-1982 (Hassan 1987, p. 72).

If the very spirit of Zakah is to upgrade economic conditions of the poor and needy, the Zakah distribution policy should be reviewed so that a higher share of Zakah goes to those who really deserve it.

Zakah Law

There is a wide range of variations in Zakah laws across countries practicing compulsory Zakah administration, and even sometimes across states within a country, which makes Zakah administration difficult. The

law of the land should include all the Zakatable items in the Zakah coverage, present a working manual for assessment, and define the distribution mechanism according to *Shari'ah* priorities. Also the penalties for Zakah evasion and for dishonoring Zakah law concerning its payment should be determined and made known in black and white for an effective Zakah administration. The inadequacy in all these aspects reduces efficiency of Zakah administration.

In case of the Sudan, as indicated earlier, the law provides for Zakah collection by making assessment on the basis of Zakah returns submitted by the payers, without differentiating between *Amwal Zahirah* (visible wealth) and *Amwal Batinah* (non-visible wealth). Although the bank balances are obviously *Amwal Zahirah*, it is not covered by Zakah because of the difficulty in determining the *Nisab* and the condition of the lapse of the year. In Malaysia, only one agricultural item is covered in some areas, whereas more items elsewhere, but rarely all Zakatable items are covered (Othman 1990, p. 20). Again, some states do not require to pay entire Zakah on the specified items to the government, for example, one third of it may be paid through non-official channels in Kelantan state (Othman 1990, p. 88).

Zakah law seems also to be inadequate in dealing with the matters of Zakah evasion and/or Zakah payment through non-official channels. In Malaysia prosecutions and penalties for violations of Zakah laws vary from state to state. For example, the maximum penalty for Zakah law violation is \$M10 in Johor state without imprisonment, while it is M\$500 in Kedah state with 6 months imprisonment (Othman 1990, pp. 88-89). Moreover, some countries do not have penalty for Zakah evasion, and even if such laws exist in some other countries with wide variations, these are not really enforced.

Another legal problem concerns levying Zakah on people following different schools of jurisprudence. This has become an issue in the Zakah management of Pakistan. Siddiqi argues that the exemption of the people subscribing to the *Ja'fari* school (Shi'ites) from Zakah in the Pakistani law is not correct (Siddiqi 1983, pp. 16- 20). The *Majlis Tahqiq Masail Hadirah* has suggested to impose a similar welfare tax, in line of Zakah, on those who do declare themselves to belong to Fiqh Ja'fari which does not require one to pay to the state (Osmani 1983).

As a consequence of such inadequate and ineffective legal support and protection of Zakah administration, and also of the inefficiency of Zakah administration machinery, there have been leakages in the Zakah

collection and hence the potential amount could not be collected and disbursed. For example, only 8% of the estimated amount of Zakah could be collected in Malaysia in 1988 (Othman 1990, p. 95). This proves the need for revising Zakah laws for efficient Zakah management.

The foregoing discussion on Zakah administration shows that it lacks efficiency in terms of assessment, collection, and disbursement. It also lacks in supporting laws concerning Zakah management. As a consequence, Zakah administration has not been effective to its full potential. One must, however, agree that it is being administered after centuries of discontinuity and it is expected to increase efficiency through experience, if the necessary political will is there.

SUMMARY AND CONCLUDING REMARKS

The foregoing survey of the institution of Zakah leads to the following summary and concluding remarks:

1. Zakah is an important institution in the economic system of Islam, which is one of the five pillars on which the Islamic code of life is founded, and it has been ordained and implemented in different degrees through the history of prophethood.
2. Zakah means purity, cleanliness and growth. It purifies one's wealth by paying a portion of it to the poor, and also one's heart by reducing undue love for material things. Zakah contributes to growth both spiritually and materially. This is an *ibadah* which pleases Allah and creates the sense of sympathy, mutual co-operation and social harmony.
3. The institution of Zakah has positive economic implications. In addition to its expected favorable effect on savings, it encourages investment by penalizing hoarding, idle resources and also the use of re-sources in non-productive assets. It increases aggregate demand by transferring resources from those who consume less to those who do it more. All these are expected to contribute to higher employment and output, leading to higher economic growth.
4. The higher demand for basic needs due to Zakah will effect the composition of goods and services produced in the country, leading to allocation of resources towards socially desirable sectors. This adds to allocative efficiency. Its stabilization function is also expected to be favorable.
5. Economic growth adds little to human welfare if it is not distributed equitably among the people. The institution of Zakah reinforces the equity effect of the Islamic mechanism of functional income distribution. Income distribution is not expected to be highly uneven if the Islamic norms of factor pricing is adopted, while Zakah will tend to reduce any remaining inequality in the distribution of income and wealth.
6. Poverty leads to begging which is severely condemned in Islam, and to social and economic crimes which affect humanity in all dimensions

of life. The institution of Zakah is an obligatory poverty eradication program, which provides a compulsory social security system in an Islamic society, without affecting work efforts.

7. There has been centuries of discontinuity in the application of the institution of Zakah resulting in a corresponding discontinuity in research and *Ijtihad* on the newly emerging issues in the complicated economic phenomenon of the contemporary world, when the forms of wealth and their relative weights as well as prices have changed. If this institution is introduced with the juristic laws of the classical *Fiqh* literature, it might lack consistency and justice, and the potential results could not be expected at a reasonable speed. There is however a debate as to the permissibility of *Ijtihad* in those matters on which clear *Ahkam* are available in the Qur'an and *Sunnah*.
8. The *Fiqhi* issues deserving reconsideration include the coverage, rates and *Nisab* of Zakah, conditions of *Tamlík* and growth, and some issues on Zakah disbursement.
9. As to the coverage of Zakah, the relatively low-income people are subject to Zakah, exempting wealth of many rich people including wealthy industrialists, real estate owners and highly salaried persons, if the traditional juristic laws are applied. Therefore, the coverage of Zakah needs a fresh consideration for justice and consistency. The inclusion of new items will involve fixing Zakah rates and hence it is suggested as well. These are not however free from debate.
10. To some, the condition of growth is irrelevant since everything has growth potential; and instead, the "*illah*" (reason) of Zakah is "richness". Some others continue to abide by the *Fiqhi* condition of growth which implies exclusion of some valuable assets and wealth from Zakah.
11. The changes in the relative prices of the bases of Zakah causes a wide difference in its exemption limit. It has been argued by some to relate *Nisab* to the cost of living depending on time and space, while some others stick to the existing *Nisabs*.
12. Another debate relates to the condition of *Tamlík* as to the permissibility of using Zakah revenues for purposes which do not involve transfer of private ownership such as institutions and welfare projects. Some find it permissible, while others find it otherwise. Some others see it to be all right if the institutions and projects are strictly meant for the Zakah - eligible persons, although it does not involve *Tamlík*.

13. Similarly, opinions differ as to the interpretations of the beneficiaries. For example, some confine the term "*Fi Sabilillah*" to *Jihad* and *Jihad* related activities, while some others include in it all efforts towards the establishment of Islam.
14. Contemporary Zakah administration is of two kinds, voluntary and compulsory. While the former is ineffective, the latter faces several problems due to *Fiqhi* problems, inadequacy of local Zakah laws and also inefficiency of administrative machinery.
15. All Zakatable items are not usually covered by Zakah, and the covered items are not properly assessed and collected. In some occasions, people prefer to pay Zakah through non-official channels due to the lack of confidence on the Zakah administration, and also in the inaccessibility and inefficiency of Zakah collectors. The people are also not well-informed about Zakah regulations.
16. The administrative cost of Zakah seems to be quite high in some countries as compared to disbursement to the poor and needy, who are the main target groups of Zakah.
17. The Zakah collections in the contemporary experience have been way below potential. This finding perhaps substantiates the view to reconsider the *Fiqhi* issues such as inclusions of the new forms of wealth into Zakah, reviewing their *Nisabs*, rates and so on. This also calls for increasing the efficiency of Zakah administration with necessary legal and political support.
18. The institution of Zakah will be able to produce all the expected socio-economic effects in an ideal Islamic society. It will be unfair to the institution to assign all these functions to it in a society where all distortions prevail. A human body cannot be made healthy by curing only an organ while the entire body is full of diseases. It may give some relief only.
19. The essential complementary factors for the institution of Zakah to be able to produce the expected and desirable effects are as follows. First, the Islamic economic norms should be implemented including the elimination of *riba* and the implementation of the Islamic values of factor pricing. Second, any distortions in the existing ownership pattern should be removed. Third, the institution of Zakah will have to be introduced efficiently and effectively with a right kind of political will, and by resolving all the *Fiqhi* issues for justice, consistency and for materializing the objectives of Zakah at a reasonable speed.

20. Nobody should, however, wait for the total transformation of the economy before introduction of the institution of Zakah. Something is always better than nothing. Everybody should join the queue, even if it is late, and make efforts to move as fast as possible.

A Proposal

In order to resolve the *Fiqhi* issues on Zakah, a committee may be formed consisting of the top *Shari'ah* experts of the *Ummah* and the Muslim economists, preferably those working in this area. Economic implications of each issue should be adequately analyzed and presented to the above committee in the language and style that is understandable to the *Shari'ah* experts. This committee may meet as and when needed.

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NOTES

1. Al-Qur'an 21:73.
2. The scope of the survey is however limited, since it is based on the literature accessible to the present author, given time and resource constraints.
3. See Maududi 1988, p.301; Islam 1982, p.30; Jalibi, n.d., p.1.
4. See Maududi 1988, pp.301-316; Zaman 1980, p.103; Shad 1986, p.13.
5. See Maududi 1988, pp.306-313; Haque 1984, p.26.
6. He, however, makes a passing remark on the normative aspect of consumption behavior in an Islamic society. Islam discourages extravagant consumption which will reduce average propensity to consume leading to higher national savings. In this context, however, he did not relate Zakah to savings.
7. See, for example, M. Fahim Khan, "Macro Consumption Function in an Islamic Framework", Journal of Research in Islamic Economics, vol. 1, No. 2, pp.1-24.
8. See, for example, Monzer Kahf (1982).
9. See Kahf; Awan 1980, p.203; Sadeq 1990, p.20.
10. There is as well a monetary incentive to invest, since the Islamic system provides for earning income through investment even without personally getting involved in the affairs of the economic activity except for providing financial capital. (Sadeq 1990, pp.20-21). For example, in the *Mudarabah* arrangement of business, a party provides only financial capital, without personally involving himself in the business, but still earns a share of the profits.
11. The prohibition of many types of speculation and the corresponding non-existence of speculative demand for money is also expected to contribute to higher investment in an Islamic economy (Metwally 1986, pp.47-48). The prohibition of interest and its replacement by the profit-and-loss-sharing (PLS) system will facilitate higher investment as compared to the interest based system, since interest limits investment, while the PLS system does not (Kahf 1978 and Sadeq 1990).

12. See Mannan 1983; Snad 1986, pp.46-47; Rahman 1980, pp.94-99; Sadeq 1989, pp.33-37.
13. This is elaborated later.
14. Haque 1984, p.27; Nofal 1984, pp. 25-26; Shad 1986, pp.27-33.
15. According to Nofal, the Zakah system provides the "true socialism" and "co-operative socialism" (1984, p.26). To us, the Islamic economic system is an independent and complete system and hence no need to associate it with socialism or capitalism. Besides, the entire Islamic system will have to be introduced in order to efficiently solve all the economic problems including poverty. To assign the whole responsibility to Zakah is an over- emphasis.
16. See El-Din 1986, p.3; Sadeq 1990, pp.38-59, also 1989, p.33.
17. This is elaborated below under the title "Zakah, fiscal policy and stabilization".
18. See Qutub 1979, pp.5-11; Afzal 1980, p.175; Hasan 1984, pp.36-37; Haque 1984, pp.26-28.
19. See Qutub 1979, pp 5-7; Haque 1984, pp. 26-28.
20. See Chowdhury (1) 1980, pp.159-69; Mannan 1989, p. 31; El-Din 1986, pp.1-19.
21. Chowdhury (1), p.162.
22. Ibid, p.163.
23. Ibid, p.166.
24. Ibid, p.163.
25. More on the condition of *Tamluk* later.
26. See Awan 1980, pp.185-187, 197; Awad 1989, pp.81-82; Mannan 1989, pp.31-32; Sadeq 1990, pp.90-92; Chowdhury (2)1983, pp.3-7.
27. El-Din (1986), see Introduction.
28. El-Din maintains, "It appears in the light of Shari'ah that collected Zakah proceeds of a given period are to be exhaustively allocated amongst its documented eight worthy categories as clearly spelled out by the Holy Qur'an. Moreover, the motivation for international transfer of Zakah surplus, wherever that occurs at a national level, minimizes the possible role of Zakah reserves for national stabilization objectives." See El-Din (1986, Introduction).

29. Wahid's analysis deserves further logical explanation why the budget line in his diagram should shift the way he suggested and why the indifference curve should move to the left during its shift. (Is leisure an inferior commodity?).
30. See Sabzwari 1979, pp. 50-51; Masud 1984, pp. 3-9; Shad 1986, p. 44.
31. See Awad 1989, p. 87.
32. Kahf 1980, 1989; Afzal 1980, p. 176.
33. More on the coverage rates and other *Fiqhi' issues* of Zakah in the next section.
34. The '*Wallis Tahqiq Masail Hadirah*' is a council of *Ulama* and Muftis in Pakistan which searches for Islamic solutions to and derive Islamic Fatawa (rulings) on the newly emerging problems.
35. The paper was written by Moulana Muhammad Rafi Osmani in response to the inquiry by the Central Zakah Management of Pakistan on some *Fiqhi* matters related to Zakah which was modified and endorsed by the '*Majlis Tahqiq Masail Hadirah*'.
36. See Kahf 1989, pp. 10-11; Raquibuzzaman 1980, p. 77; Abu Saud 1988, p. 113.
37. Afzal finds its support in the work of Shah Waliullah.
38. Kahf argues that it is difficult to separate individual contribution of circulating and fixed assets. Any method of separating such contribution can be accused of being arbitrary.
39. For example, according to Abu Saud, Caliph 'Umar imposed Zakah on horses, while neither the Prophet (pbuh) nor Abu Bakr did the same (p. 3).
40. Maududi 1988, p. 341; Osmani 1981, pp. 8-9.
41. In the Sudanese experience Zakah is levied on salaries and collected at source (Abdullah 1990, p1. 12).
42. As a response to Shaik, Fahri Unsal said in the seminar that it did not make any sense when a farmer with a relatively low income had to pay Zakah on his output, but Zakah is not levied on a very high salary income (Shaik, 1980, p. 68). Shaik defended his position by arguing that Zakah on salary might affect the standard of living of the salaried persons and hence it should not be levied. Raquibuzzaman argued against such a position, since the need for improving the

standard of living of a farmer is more pressing. According to him, imposing Zakah on agriculture right after harvest and not levying it on high monthly salary is illogical (Raquibuzzaman 1980, p. 77).

43. El-Din also subscribes to this view. According to him, target groups of Zakah, its collection bases and rates have been determined in the Qur'an and *Sunnah*, leaving little room for human discretion to interfere with the set rules (El-Din 1986, Introduction).
44. Shah Waliullah al-Dehlawi is said to have related the Zakah *Nisab* to the cost of living in his *HHujjatullah al-Balighah*. (Kahf 1989, p. 13).
45. See Yusuf Al-Qardawi, *Fiqh al-Zakah*, Beirut: Muassasat al-Risalah, 2nd ed. 1973, pp. 151- 155, 517; also see Wazarah al-Maliyah wa al-Iqtisad al-Watani (p. 7).
46. In addition, the relative prices of gold and silver have been changed which justifies re- examination of *Nisab*.
47. Shaik reports from '*Hedaya*' that Zakah rate on horse is one dinar or 5% of its price, while according to him, the Zakah rate for animals as laid down by the Prophet (pbuh) was 2.5%.
48. According to Ziauddin Ahmad, Caliph Omar's imposition of Zakah on horses does not justify *Ijtihad* in this matter because Zakah on horses has already been reported from the Prophet.
49. According to the *Majlis*, the silver *Nisab* could be allowed to follow the gold *Nisab* if that was the case during the Prophet (pbuh), but the evidence does not provide any support for it.
50. Similarly, if losses are incurred in trade, the items of trade have really not been growing, but these are still Zakatable (Kahf 1989, p. 13).
51. Some scholars allow use of Zakah revenues for institutions meant for the poor, and also for welfare projects. Interested readers may refer to the "Issues on Zakah Disbursement" below.
52. According to Kahf, the target group approach to Zakah does not require the condition of *Tamlík*, since "The target group concept applies to all its eight categories of recipients regardless of the condition of *Tamlík*" (Kahf 1986, p. 3).
53. He does not find any text in the Qur'an or *Sunnah* prohibiting payment of Zakah to non- Muslims (p. 176).
54. Those who are interested to see their arguments supporting their views may refer to Shehatah 1990, pp. 63-64.

55. This is when central Zakah administration does not exist. The principle of distributing Zakah in its locality "could be applied when there was a central authority in charge of collecting and spending Zakah" (p. 179).
56. For example, the Sudan introduced the compulsory Zakah administration in 1983.
57. Literature on the non-official payment of Zakah is excluded from this survey.
58. Although, according to Sumait, there still exists information gap in Kuwait about *Shari'ah* laws concerning Zakah (1990, p.1). See "Information Gap" below.
59. The Islamic groups in Bangladesh have long been asking for the official Zakah administration. The Islamic Economics Research Bureau Dhaka provided all intellectual support for its implementation. Interested readers may refer to the Bureau's "A Plea for Introduction of Zakah Act", in K.T. Hossain et al (eds.) Thoughts on Islamic Economics, 1980, pp. 113-126.
60. The *Fiqhi* problems are related to the determination of the *Nisab* and *Rawl* (Salama 1990, p. 4).
61. Also in Pakistan the minors and insane are not exempted from Zakah, although these are exempted in the *Hanafi* School which is followed by the people of the land. Similarly, the companies or associations have also been included, which are not treated as such in *Fiqh*.
62. The voluntary administration in Bangladesh also provides for using Zakah money for dispensaries, vocational training institutions and so on (Government of Bangladesh 1985, p. 33).
63. Zakah *al-Fitr* is left to individuals for their voluntary payments to the deserving recipients directly (Kahf 1990, p. 25).
64. Net income from paddy production is defined as gross income from paddy production minus paid-out cost in cash and kind. (Salleh and Ngah 1980, p. 86).
65. See Al-Qur'an 9:61.

ISLAMIC DEVELOPMENT BANK

Establishment

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah in Dhul Q'adah 1393H, corresponding to December 1973. The Inaugural Meeting of the Board of Governors took place in Rajab 1395H, corresponding to July 1975, and the Bank was formally opened on 15 Shawwal 1395H corresponding to 20 October 1975.

Purpose

The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities in non-member countries individually as well as jointly in accordance with the principles of Shari'ah i.e., Islamic Law.

Functions

The functions of the Bank are to participate in equity capital and to grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms for economic and social development. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.

The Bank is authorized to accept deposits and to mobilize financial resources *through Shari'ah* compatible modes. It is also charged with the responsibility of assisting in the promotion of foreign trade, especially in capital goods, among member countries; providing technical assistance to member countries; and extending training facilities for personnel engaged in development activities in member countries to conform to the Shari'ah.

Membership

The present membership of the Bank consists of 53 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference, pay its contribution to the capital of the Bank and be willing to accept such terms and conditions as may be decided upon by the IDB Board of Governors.

Capital

Up to the end of 1412H (June 1992), the authorised capital of the Bank was two billion Islamic Dinars. (The value of the Islamic Dinar, which is the accounting unit in the Bank, is equivalent to one SDR -Special Drawing Right- of the International Monetary Fund). Since Muharram 1413H (July 1992), in accordance with a Resolution of the Board of Governors, it became six billion Islamic Dinars, divided into 600,000 shares having a par value of 10,000 Islamic Dinars each. Its subscribed capital also became four billion Islamic Dinars payable according to specific schedules and in freely convertible currency acceptable to the Bank.

Head Office and Regional Offices

The Bank's principal office is in Jeddah in the Kingdom of Saudi Arabia. Two regional offices were opened in 1994; one in Rabat, Morocco, and the other in Kuala Lumpur, Malaysia. In July 1996, the Board of Executive Directors **also** approved the establishment of a Regional Office at Almaty, Kazakhstan, to serve as a link between IDB member countries and Central Asian Republics. The office became operational in July 1997 and is now a full fledged Regional Office.

Financial Year

The Bank's financial year is the lunar Hijra Year.

Language

The official language of the Bank is Arabic, but English and French are additionally used as working languages.

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Legal Deposit No. 51
ISBN : 9960-32-120--