



**Seminar Proceedings**  
No.23

# **INSTITUTIONAL FRAMEWORK OF ZAKAH: DIMENSIONS AND IMPLICATIONS**

**ISLAMIC DEVELOPMENT BANK  
ISLAMIC RESEARCH AND TRAINING INSTITUTE  
JEDDAH, SAUDI ARABIA**

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- (B) To provide for the training and development of professional personnel in Islamic Economics to meet the needs of research and shari'ah-observing agencies;
- (C) To train personnel engaged in development activities in the Bank's member countries;
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Seminar Proceedings No.23

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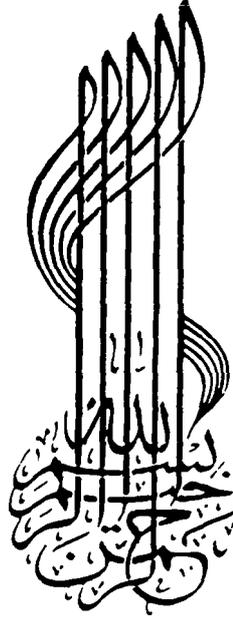
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References and citations are allowed only with proper acknowledgements.

First Edition  
1416H/1995

Published by :

ISLAMIC RESEARCH AND TRAINING INSTITUTE  
ISLAMIC DEVELOPMENT BANK  
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*In the Name of Allah, the Most Merciful, Most Beneficent*

These are proceedings of Third *Zakah* conference held in Malaysia on 19-22 Shawwal, 1410H (14-17 May, 1990) and sponsored by :

1. The Islamic Center of Malaysia.
2. The Zakah and Income Tax Department of the Ministry of Finance and National Economy of Saudi Arabia.
3. The Zakah House of Kuwait.
4. The International Shari'ah Board for Zakah of Kuwait.
5. The Islamic Research and Training Institute of the Islamic Development Bank, Jeddah, Saudi Arabia.

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## FOREWORD

Historically Muslims have demonstrated a considerable individual interest in implementing the obligation of *zakah*, the third pillar of Islam. These first years of the fifteenth century of Hijrah have witnessed a rising awareness and serious interest among the OIC member states in the organization of the *zakah* system at the national level. As a result two international *zakah* conferences were held. The first, initiated by the Kuwait *Zakah* House, was held in Kuwait in 1404H (1984) and the second one, sponsored by the *Zakah* and Income Tax Department of the Ministry of Finance and National Economy of Saudi Arabia, was held in Riyadh in 1406H (1986). As a follow-up action on the recommendation of the second conference a third conference on *zakah* was co-sponsored by (1) the Islamic Centre of Malaysia, (2) the *Zakah* and Income Tax Department of the Ministry of Finance and National Economy of Saudi Arabia, (3) the *Zakah* House of Kuwait, (4) the International *Shari'ah* Board for *Zakah* of Kuwait, and (5) the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank of Jeddah.

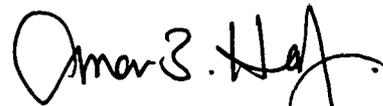
In fact, the third conference was co-sponsored by IRTI within the framework of its objective to undertake research to enable the economic, financial and banking activities in Muslim countries to conform to *Shari'ah* and to extend training facilities to personnel engaged in development activities in the Bank's member countries. The third conference hosted by the Islamic Centre in the Prime Minister's Department of Malaysia was held in Kuala Lumpur, Malaysia, on 19-22 Shawwal, 1410H (14-17 May, 1990). The conference was attended by 21 member countries, the Organization of the Islamic Conference and its Rabat based organ, the Islamic Educational, Scientific and Cultural Organization (ISESCO).

The Conference aimed at studying the institutional aspects of *Zakah* from different perspectives to enhance the participants' understanding of the institutional systems of *Zakah* and their socio-economic and organizational dimensions. It also sought to promote an understanding of the economic significance of various institutional

frameworks, and, further, to discover the effect of mandatory *zakah* payment upon the State. The Conference provided an opportunity to exchange views and experiences among participants. Case studies of *zakah* collection and distribution in some OIC member countries and some Muslim communities, as well, helped the participants of the Conference to have an insight into the application of *zakah*.

While publishing the proceedings of this Conference we would like to register our gratitude to the organizations that co-sponsored the conference in the best possible way. Here especially, the Government of Malaysia is acknowledged with deep gratitude for hosting the conference to the complete satisfaction of all concerned. Further, we would like to register our appreciation to all those who wrote papers, commentators and other participants for their valuable contributions to the conference. We would fail in our duty if we did not express our appreciation to the editors of these proceedings for carrying out this onerous task. Thanks are also due to those in IRTI's Research Division who typed and assembled this book with singular devotion and skill.

This book, we hope, will serve the purpose of general readers as well as government officials concerned with the *Zakah* administration.

  
Dr. Omar Zuhair Hafiz  
Deputy Director, IRTI

## INTRODUCTION

### Why is there a need for yet another book on *Zakah*?

Articles and books on *zakah* are so abundant that one may wonder why there is a need for yet another addition to the existing stock<sup>1</sup>. We feel under obligation, therefore, to explain why it has been decided to add one more item to an ever-expanding literature on the subject.

Our reason is threefold. First, the material in this book was produced for a major international conference on *zakah*. As such, it is a reflection of global Islamic thinking on a subject that is regarded as one of the most important contemporary issues to both the individual Muslim and to the Islamic state.

Second, the book deals with an issue which is problematic to the government wishing to introduce, or reintroduce the *zakah* institution into its financial system: the problem of administration. The following reasons may be said to have contributed to the difficulty surrounding the introduction of *zakah* to the finance of the modern Islamic state:

Firstly, the long-standing absence of *Shari'ah* as applied to national affairs including those of a financial nature was initially caused by the military subjugation of the Muslim world to exogenous forces, mainly from the West.

Secondly, a false belief prevailed among newly independent Muslim States that in order to spur economic development in the developing Muslim world, they would need to jettison their Islamic values in favor of western-style "modernization". Consequently *zakah*, as one of five pillars of Islam and an important instrument of state finance was neglected in favor of a secular fiscal policy. Thirdly, the relative complexity of modern life for both the individual and the state as

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<sup>1</sup>See for example a collection of articles in Monzer Kahf's (ed) two volumes: "*Zakah* Training Package", and "*Economics of Zakah*", both published by the Islamic Research and Training Institute, Islamic Development Bank, 1994.

compared with the past may, arguably, be considered not a less important reason. Another factor may be added to the equation: the deficiency of religious piety. Even during the exalted era characterized by sincere piety in early Islam; no sooner had the Prophet died than the state had to resort to war to confirm its right to *zakah* in what became known as the wars of apostasy led by Abu Bakr, the first Rightly Guided Khalif.

Third, the book provides the reader with a useful means for comparative study. Case studies from several countries on the administration of the institution of *zakah* are provided. This has been accomplished so fluently that the reader may learn from the experience of these countries without leaving his armchair.

### **The Book**

This book is a collection of papers written by eminent scholars and presented to the Third International Conference on *Zakah*, held in Malaysia between 19 and 22 Shawal, 1410H (14 to 17 May, 1990). It is conveniently divided into three parts covering: (a) general characteristics, and legal, administrative and financial control of *zakah* systems in Muslim countries; (b) obligatory and non-obligatory systems; and (c) case studies from seven countries in the Muslim world. They are highlighted below:

### **Part One**

For a system of public finance to be successful certain basic ingredients must be present. Efficiency, fairness, flexibility, certainty and clarity may be mentioned as some of these ingredients. This is equally true with the system of *zakah* but *zakah* has an advantage over secular systems. This advantage is its religious dimension. Muslims are ordained to pay *zakah* similarly as they are ordained to pray, fast and practice *Haj* if they can, as well as, to witness that there is no god but Allah and that the Prophet Muhammad (Pbuh) is His Messenger. This is not to say that the religious factor per se is sufficient to administer *zakah* as a system of public finance. The religious dimension, though necessary

and important, needs support from other dimensions in order to make the institution of *zakah* economically viable.

These supporting factors are the main concerns of the first part of the book. The authors in Part One which includes four articles cover the general characteristics and control systems of *zakah*. They attempt to examine the legislative and administrative side of the *zakah* system in different countries so that weaknesses and strengths may come out. In their explanation, the writers bring to light the distinct features of different *zakah* systems in the Islamic world which serve as a basis for learning and comparison.

The countries under study include Jordan, Iran, Pakistan, Bahrain, Bangladesh, Saudi Arabia, Sudan, Iraq, Kuwait, Libya, Malaysia, Egypt and Yemen. The countries that intend to enact *zakah* laws within their legislation will find this comparative study useful for they may draw upon the experiences of the said countries. This collective experience is rich, and varies in length from Jordan's fifty years, to that of most countries that began to implement *zakah* legislation in the mid and late 1980s.

The control system is naturally a major concern of a *zakah* administration. This has, in consequence, been one of the main concerns of the writers of Part One and throughout the book. The control system focusses on three main types of control: *Shari'ah*, financial and economic. *Shari'ah* control attempts to ensure that *zakah* is collected and paid as ordained in the sacred religion. Financial control aims to see that the process of receiving and paying *zakah* funds is accurate and free from financial irregularities. Economic control concentrates on the effectiveness of the system: whether the system achieves the purposes it stands for and whether it works in the most efficient manner at the minimum possible administrative costs.

The writers on this issue made cross-country examination. In his paper, Fouad Abdullah Al-Omar stresses that: (a) the implementation of *zakah* payment and disbursement still poses a great challenge to *zakah* institutions. He suggests more serious efforts on the part of the institutions to create new channels for *zakah* disbursement so as to

Notably, steps have been taken to provide *zakah* training to *zakah* officers in the Sudan and elsewhere. The Islamic Research and Training Institute of the Islamic Development Bank has embarked on a program of training for *zakah* officials which aims to improve their knowledge and skill. This is done through organizing seminars and supplying officials with appropriate literature on the subject.

## **Part Two**

Part Two focusses upon a comparative study of the obligatory and non-obligatory *zakah* systems. It contains three articles approaching the subject from different, though equally, stimulating perspectives.

The economic effect of obligatory and non-obligatory *zakah* payment occupies the attention of Abdin Ahmad Salama. He looks into the proceeds of *zakah* before and after the change of law in the Sudan and the enforcement of *zakah* on a compulsory basis after 1984. It is worth noting that the proceeds before the compulsory application were very limited compared with those after. In relation to GDP, *zakah* revenue is still low as compared with the potential of *zakah* that could be generated if the base is widened to include, besides agriculture, other sources of wealth and income. Moreover, administrative costs, particularly those related to distribution, seem to be high. The author concludes that more publicity is needed to distinguish *zakah* from taxation and to make the *zakah* institution an independent autonomous entity in order to command the respect of citizens so that they will come to consider the collection of *zakah* as a truly religious activity.

How, and to what extent, does the application of a compulsory *zakah* system affect voluntary payments to charitable organizations and needy individuals in the society? At the outset it is conceivable that there is a negative correlation between the two forms of payment. It could be reasoned that *zakah* payers would not pay twice; once to the government and again to needy individuals. However, this is not necessarily true because of the dual characteristics of *zakah*. On the one hand, *zakah* functions in its ritual aspect as one of five pillars of Islam, stipulated in the Qur'an and *Sunnah*, while, on the other, it functions as a financial

levy imposed on the affluent Muslim. While the ritual aspect informs, and is informed by, the relationship between man and God, the financial aspect falls within the domain of the state and is organized by laws that institute the authority of the state over its subjects. In the compulsory system, the concern of the *zakah* payer is, therefore, twofold: to please God and to obey the law. The behaviour of the *zakah* payer towards these two dimensions of *zakah* can be affected by several factors. Degrees of magnetization in the economy, the number and volume of banking transactions, other taxes, levels of education, degrees of piety (religious commitment) and public awareness are some examples.

In his empirical study Faiz Muhammad looks into the above question with special reference to Pakistan. Faiz arrives at a very important conclusion: after the introduction of compulsory payment "People would continue to pay *zakah* to welfare organizations and individuals in large sums". However, "The crucial assumption here was that compulsory deductions have applied to only a limited number of assets". The share of charitable organization of voluntary payments depends on a number of factors. The most important of these factors are the functions credibility level and location of the organization. Faiz's empirical study reveals several points:

1. Generally, the needy, the poor and voluntary organizations depend more on unofficial *zakah* payments than on official payments from government *zakah* agents. Nevertheless, some organizations in big cities find it difficult to attract large sums of voluntary *zakah* payments.
2. On the whole, the drive for voluntary *zakah* payment has not subsided even after the introduction of the compulsory *zakah* system.
3. Depending upon the size and range of zakatable assets, the amount of *zakah* received by voluntary organizations depends on a number of socio-economic and religious factors prevalent in the society.
4. In the long run, the official *zakah* system is likely to exert stronger negative influence on voluntary payments as the economic structure in the country moves towards more formalized activities.

Faiz's study of Pakistan invites more studies to be undertaken on other Muslim countries.

A final comparison between the two systems, voluntary and compulsory, is provided by Monzer Kahf who observes institutional models to understand how the collection and distribution of *zakah* is achieved under both systems. Kahf observes that in countries which do not apply the obligatory system, *zakah* collection and distribution are entrusted to a single authority or department. The Nasser Social Bank of Egypt is one example. By contrast, the countries that apply the obligatory system have entrusted the functions of *zakah* collection and distribution to multiple institutional forms. Kahf concludes his paper by stating, "There can be significant improvement of the economic and social impact of *zakah* if the collection and distribution models are improved to make for greater efficiency and more intimate linkage with the aims of *zakah* toward purification and growth".

### **Part Three**

Part Three is very practical and valuable, as it examines the experimental practice of several countries in managing *zakah*. The experiences of these countries are very rich and deserve a thorough study. No doubt, the country that wishes to introduce *Zakah* into its financial system will find in these experiments valuable lessons to learn. Part Three covers the experiences of India, Kuwait, Malaysia, Pakistan, Saudi Arabia, the Sudan, and Yemen. Some of these countries apply *zakah* on a voluntary basis while the others favor the establishment of obligatory *zakah*. This difference of approach adds to the usefulness of the studies.

In conclusion, it can be said that the full potential of *zakah* has not yet been realized by Muslim countries. If we truly believe, and we must believe, in *zakah* as a Divine system, we must also believe that it is good and practicable. What remains to be done, then, is to work for it. And this remains to be seen.

**The editors**

**Part One**

**A COMPARATIVE STUDY OF *ZAKAH*  
ADMINISTRATION SYSTEM IN  
MUSLIM COUNTRIES**

# GENERAL, ADMINISTRATIVE AND ORGANIZATIONAL ASPECTS

Dr. FOUAD ABDULLAH AL-OMAR\*

## 1. INTRODUCTION

In the Name of Allah, Most Gracious, Most Merciful.

Current scientific research features primarily a comparative study in social science. Such studies are very significant as they review certain specific applications so as to arrive at a coherent conclusions which could be suitably generalized to cover other applications or improve their performance.

It is the comparative study on the *zakah* systems of Muslim countries which forms the general theme of the Third *Zakah* Conference. The theme is important in that it aims to generate a wide familiarity with the *zakah* laws and systems that already stand applied in Muslim countries. These laws and systems cover the following major elements:

1. General, administrative and organizational aspects.
2. Legal, administrative and financial control.
3. Zakatable assets subject to compulsory payment by law to the *zakah* institution and the method of its collection.
4. Heads of expenditure for *zakah* and the methods of disbursing proceeds.

This research aims to address the first element on general, administrative and organizational aspects of *zakah* application.

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The research first describes *zakah* systems from historical perspective and then compares the laws, legislations, systems, administrative and executive instructions of those Muslim countries which have already enacted laws or regulations for *Zakah*, no matter whether *zakah* is paid by law or left to individuals to pay the government *zakah* institution. I concentrate my deliberations under the following headings:

- A. Main general principles governing *zakah* laws and regulations in legislation.
- B. Main general principles governing laws and regulations to collect *zakah*.
- C. Main general principles that govern *zakah* disbursement.
- D. General institutional and administrative structure of the *zakah* Institution.

The heading (A) covers the general framework of *zakah* law; the way it is enacted; its constitutional authority in imposing *zakah*; laws binding payment of *zakah* to the State; the authority of interpreting *zakah* laws and regulations; protection of *zakah* as enjoyed by the public authority; and collection and disbursement of *zakah* to be carried out by a single organization or separately.

The heading (B) describes the types of zakatable assets; guarantees of *zakah* collection, penalties imposed on non-payers; incentives and tax exemption for paying *zakah* to *zakah* organizations; procedures for assessing *zakah*; necessary declarations; the population range of *zakah* and the ways of dealing with citizens living abroad and with expatriates living in the country as well as with the way to handle religious and sectarian minorities.

The heading (C) discusses heads of *zakah* expenditure and the instruments of local disbursement of *zakah* proceeds and the transfer of these proceeds from one area to another.

Under the heading (D) I have discussed the autonomy of the *zakah* organization; its administrative affiliation and organizational structure; the administrative and geographical centralization and decentralization; the role of popular and voluntary committees; methods of funding administrative expenses; administrative expense budgets; the use of modern technology; *Shari'ah* controls; vertical and horizontal relationship between the *zakah* organization and other governmental bodies and between the *zakah* organization and other non-governmental charitable organizations; by-laws and work procedures of *zakah* organizations; rules to promote awareness of *zakah* among the public; and the principles of *zakah* planning.

The study covered laws, enactments, regulations and administrative and executive directives in relation to *zakah* in the following countries:

1. The Hashemite Kingdom of Jordan
2. The Islamic Republic of Iran
3. The Islamic Republic of Pakistan
4. The State of Bahrain
5. The People's Republic of Bangladesh
6. The Kingdom of Saudi Arabia
7. The Republic of the Sudan
8. The Republic of Iraq
9. The State of Kuwait
10. The Socialist People's Libyan Arab Jamahiriyah
11. The Malaysia
12. The Arab Republic of Egypt
13. The Yemen Arab Republic

The paper is significant in that it constitutes one of the first comparative studies of *zakah* systems, especially in terms of general, administrative and organizational dimensions which heretofore have been short of references and published researches. Our review of some relevant literature shall support this fact.

The research behind this paper is even more significant as many Muslim countries are currently attempting to enact laws implementing the institution of *zakah* on a voluntary basis. A comparative study like this helps legislators work out a legal framework for organizing *zakah* after a review of the experiences in other Muslim countries that better suits the circumstances of their respective countries.

It is needless to mention that such comparative studies play an important role in identifying many juristic, organizational and administrative judgements as an attempt towards finding suitable solutions to the problems of *zakah*, as they facilitate profound reflection, closer examination and scrutiny, comparison and the motivation to resolve contemporary issues.

I must point out that I found it difficult to obtain the necessary references to undertake this study as many *zakah* systems were of recent origin and written references on those established long ago were not available. We will, however, generally review some of the pertinent literature as given below:

1. The Proceedings of the First International *Zakah* Conference held in Sha'baan 1410H (May 1984), published in 1985:

A number of *zakah* systems with a brief discussion of each one are included in the book which covers the *zakah* systems of the Hashemite Kingdom of Jordan, the Republic of the Sudan, the Nasser Social Bank in the Arab Republic of Egypt and the *Bait al Mal* of the Federal State in Malaysia.

2. Dr. Rafiq Al-Misri: *The Book of Zakah: Its Law, Management, Accounting and Audit*, published in 1984:

The book is a translation of *Zakah and Ushr Law of Pakistan*, enacted in 1980. In the introduction, the author compares the *zakah* systems of Saudi Arabia, Libya and Pakistan, covering zakatable assets, the heads of *zakah* expenditure, methods of submitting grievances about

*zakah* assessment, payment of *zakah* in cash or in kind and the penalties imposed on non-payers of *zakah*.

3. Fouad Abdullah Al-Omar: "Towards a Modern Application of the Institution of *Zakah*", published in 1984 in Kuwait:

A chapter of this book analyses the organizations that currently collect *zakah*. They are grouped into four categories:

- A. *Zakah* organizations that collect *zakah* by force of law. Under this category, *zakah* institutions in Saudi Arabia and Libya are analyzed.
- B. *Zakah* organizations that collect *zakah* voluntarily. Under this category, *zakah* institutions in Kuwait, Jordan and Bahrain are analyzed.
- C. *Zakah* funds of Islamic banks.
- D. Local and Popular *zakah* funds.

This chapter is an attempt to analyze institutions that collect *zakah*. However, it is inadequate and the data presented therein are inaccurate. In this paper, however, I have sought to be more accurate, giving the actual facts, and taking the following points into consideration:

1. Country names of two or more words are referred to as one word for brevity. Thus, the Hashemite Kingdom of Jordan is referred to as Jordan and the State of Kuwait as Kuwait.
2. Certain aspects of this research may overlap other aspects of papers to be presented in the Conference in order to ensure the integrity of the general framework of the research and harmony among its constituent parts. However, I have tried to be brief in those aspects of my research that overlap other research papers, avoiding details.
3. Many of the laws quoted may have undergone a partial or complete revision, and some of their provisions may not have been enforced.

I have, however, taken an interest in putting their latest versions in my research. However, due to constraints of time and space, as well 'as to my heavy commitments, I have not been able to personally observe these laws applied in various organizations.

4. In the draft research I took care to mention in each comparison, the number of articles of various laws. However, it was realized that this practice would entail so many footnotes, taking up much space in the research paper. Therefore, I have quoted only those numbers of articles in some of the paragraphs which I have deemed important.

Generally, a research work like this, takes much time and space. It, therefore, requires a wide range of data from various sources. I will not be exaggerating to say that most of such data are not available. Even if available they are not accessible owing to the weaknesses of academic research in our Muslim countries. I wish, I didn't have to express these off-repeated complaints about difficulties encountered in a research project like this. But it is, alas, unescapable. The subject I have chosen is multi-dimensional and events have been changing rapidly. This may have contributed to the unavailability of information or, if available, to the inability of locating it.

Owing to the scarcity of information, I have depended sometimes on one source or on personal evaluation in the light of my own practical experience and field visits, to arrive at a given conclusion, and have not been able to evaluate or ascertain the validity of such conclusions in the current context.

It may be worth mentioning that my views expressed in this research paper are based on my independent judgement, which could be right or wrong. I am in need, therefore, of further advice, guidance and an exchange of ideas and experiences. In this context, I cannot help repeating the pious saying: "If I hit the truth it is by the Grace of Allah; if I am wrong, it is from myself and the devil".

Finally, it is my hope that the horizon of discussion and dialogue will widen, and that the channels of enlightened opinion will open and the

hearts will be directed toward serving Allah, so that the goal becomes clear and goodness prevails.

*"I only desire (your) betterment to the best of my power; And my success (in my task) can only come from Allah. In Him I trust, and unto Him I look". (Hud:88)*

## **2. A HISTORICAL OVERVIEW OF ZAKAH SYSTEMS**

### **2.1 The Administrative Organization of the Zakah Institution in Islam**

The administrative systems of ancient empires, particularly those of the Persian and Roman empires, developed as a result of continuous experiences in the areas of economics, politics and warfare. The outcome of administrative experiences had enabled each empire to organize its affairs in accordance with its economic, political and military conditions, as dictated by the government and military expansions which necessitated the organization of all the regions they controlled.

The initial development of government bureaus in the earlier Islamic administration (known in Arabic as "*diwan*") was noticed during the days of the Prophet (Pbuh) though it was not known by this term. The Prophet of Allah had more than 42 secretaries around him to read and write. The first secretary of the Prophet Muhammad (Pbuh) was Ubayy bin Ka'b<sup>1</sup>. Other secretaries included Uthman bin Affan, Ali bin Abu Talib, Khalid bin Sa'eed, Uban bin Sa'eed and Al'Alaa' bin Al Hadhrimiyy (May Allah be pleased with them). The Messenger of Allah (Pbuh) had sent Mu'az bin Jabal to Yemen with some admonitions recorded in the famous hadith, "You are going to adherents of other revealed religions. Therefore, first call them to worship Allah. Once they come to know Allah, inform them that Allah has imposed *zakah* on them to be taken from their rich and given to their poor. If they obey this, take *zakah* from them and protect their property and guard yourself

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<sup>1</sup>The Civil Government System known as "Al Tarateeb Al Idariyyah", by Abdul Hayy Al Kittani, Dar Al Kitab Al Arabi, Vol. 1, page 396.

against the supplication of the oppressed as there is no barrier to hinder it from reaching Allah".<sup>2</sup>

The nucleus of the *Bait al Mal* (Treasury) came into existence during the days of the Khalif Abu Bakr al Siddiq, when *zakah* funds, booties and other financial resources were plentiful and inventory of revenues and control over expenditures were required. When the Khalif Umar bin al Khattab took over the Khilafah he developed the administrative system and borrowed some administrative practices from the Persians, especially when the financial resources had increased substantially. In 15H the Khalif Umar decreed duties, established bureaus and gave gifts according to the person's seniority in embracing Islam. He was also keen to separate the judiciary from the executive authorities and the collection of *Sadaqat* from both of these two powers. *Sadaqat* collectors were appointed independently of governors and judges in order that they might not be influenced by the governor or prince in their jurisdiction.

In the *Daftar Diwan* (Records Office) names of military personnel and those who deserve gifts were recorded. The first *Diwan* established in Islam was the *Jund* or *Ataa' Diwan*. Its objective was to record excess money received by the *Bait al-Mal* (the Treasury) from levies such as *Zakah*, *Jizyah*, *Ushr*, etc. and to enter the names of soldiers in order for them to be granted gifts therefrom.

From a perusal of history, we can say that most of the Muslim rulers continued to collect and disburse *zakah* with little variation between them, although the level of application was different.<sup>3</sup>

The present diversity of experiences in the collection and disbursement of *zakah* is perhaps born of prolonged efforts of Muslims to implement this great obligatory financial institution.

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<sup>2</sup> Narrated by Al-Bukhari on the authority of Ibn Abbas.

<sup>3</sup> See the paper on the "Historical and Contemporary Applications to organize *Zakah* and the Role of *Zakah* Institutions" by Dr. Mohammed Oqla, in the Proceedings of the First International *Zakah* Conference held in Kuwait, 1985, pages 175-250.

## 2.2 The Internal Organization of the Central *Diwan*

Imam al-Mawardi (May Allah bless his soul) has put the internal organization of the *diwan* in chapter 18 of his work, "Status of the *Diwan* and its Rules". In it he mentions the components of the *Diwan* of Sultanate which comprises four divisions. The first one deals with the list of the army and their gifts. The second deals with works, fees and rights. The third concerns `governors, their appointments and dismissals. The fourth covers the *Bait al-Mal* (Treasury), its revenues and *Kharaj*.

After that, al-Mawardi goes on to elaborate the fourth division, and holds that the property which is due to Muslims at large with no specified owner, is the rightful property of the Treasury. Once such an asset is received it will be added to the property of the Treasury, whether it enters its custody or not. In fact, the Treasury represents an entity and not a place. Each property right which is to be expended for the good of Muslims is really a claim on the Treasury. If it is expended on this head, it will be entered as an expenditure on the debit side of the Treasury, whether it physically leaves its custody or not. This means that the *Bait al-Mal* in Islam is an entity that has the right to receive public money, and whose duty is to satisfy the needs of the public. Al-Mawardi means to confirm that the *Bait al-Mal* is a legal body, saying that the *Bait al-Mal* represents an entity and not a place. The *Bait al-Mal* in Islamic thought is a specific term tantamount to the Public Treasury.

Since the Islamic financial system works on the principle of allocation of public revenues, public funds are classified into several categories, each satisfying a particular public need. The *Bait al-Mal* in its turn is divided into the following four categories according to different kinds of public wealth allocated to different public needs:

1. *Zakah*
2. *Akhmas* (one fifths)
3. *Al-Fay* (War booty gained from unbelievers without fighting)
4. Other resources

Therefore, the *Bait al-Mal* is divided into these sections:

1. *Bait al-Mal* for *al-Zakah*
2. *Bait al-Mal* for *al-Akhmas*
3. *Bait al-Mal* for *al-Fay*
4. *Bait al-Mal* for other resources.

### **3. KEY GENERAL PRINCIPLES GOVERNING CONTEMPORARY ZAKAH LAWS AND SYSTEMS IN LEGISLATIVE FIELDS**

#### **3.1 The General Framework of the Laws**

##### **3.1.1 Organizations that Collect *Zakah* by Force of Law**

The general framework of most of these laws consists of chapters or sections under which specific articles are listed. Laws in Pakistan, Malaysia and the Sudan contain specific definitions of *zakah* rules. The sections of these laws cover:

1. Rules of *zakah*
2. Procedures for *zakah* assessment and collection
3. Establishment of the *zakah* organization, its terms of reference and powers
4. Infringements, penalties and procedures of submitting grievances
5. General provisions

##### **3.1.2 Organizations that Collect *Zakah* Voluntarily**

All the laws of these organizations are not divided into chapters or sections. They are rather in the form of a series of articles varying in number. The Law of the Kuwait *Zakah* House consists of five articles, whereas the Jordanian *Zakah* Law has fourteen articles. Usually the articles contain the name of the *zakah* organization, its terms of reference, aspects of *zakah* disbursement and the formation of the board of directors.

Regarding the Nasser Social Bank in Egypt, it was established by law number 66 for 1971. One of the bank's objectives is to collect and disburse *zakah* through the social solidarity scheme.

### **3.2 Method of Law Enactment and its Constitutional Power**

Most of the laws that organize *zakah* were promulgated with different names. In some countries like Malaysia, the *zakah* law was promulgated in the form of a Federal Act; in Saudi Arabia it was promulgated by a Royal Decree; in Bahrain it was decreed by a Statute; and in the Sudan by a temporary order to issue a *zakah* law. All these acts are binding and have the force of law. However, the temporary order and the law decreed by a statute are issued when the legislative body is not there. They do not become law unless they are approved by the legislative body when it convenes its first session. They are null and void, without any retrospective effect, if they are not approved by the legislative body in its first session.

### **3.3 Legal Binding to pay *Zakah* to the State and Vice Versa**

Laws concerning *zakah* collection are classified into two: the first makes payment of *zakah* to the State compulsory; whereas the second makes payment voluntary as given below:

#### **3.3.1 Organizations Collecting *Zakah* by Force of Law**

The *zakah* laws of Libya, Saudi Arabia, Pakistan, Malaysia, the Sudan and Yemen Arab Republic have provisions that empower the *zakah* organizations to collect *zakah* on certain zakatable assets.

#### **3.3.2 Organizations collecting *Zakah* voluntarily**

Listed under this category are *Zakah* organizations in Iran, Bangladesh, Kuwait, Bahrain, Egypt and Iraq. All the laws of these organizations provide that payment of *zakah* is voluntary and transfer of

*zakah* proceeds to the State is optional. The *zakah* laws of Jordan<sup>4</sup> and Bahrain, however, provide that *zakah* is paid to the organizations on condition that its proceeds are disbursed to their specific heads of expenditure. In Iran Muslims pay one-fifth of what they get out of *zakah* to the Imam they follow.

### 3.4 The Legislative Development in the Area of *Zakah* Payment

Most of the *zakah* laws are recently established. There has been, therefore, no time for legislative progress except in the Sudan, Jordan, North Yemen, Malaysia, Pakistan and Saudi Arabia. In the Sudan, initially the law of the *Zakah* Fund was enacted on 13 Shawal, 140011 (23 August 1980), establishing the Trustees' Council of the Fund in order to manage, collect and disburse the *zakah* under the auspices of the Supreme Council for *Auqaf* and Religious Affairs. At that time, payment of the *zakah* was voluntary. Then the Temporary Order was issued to enact the *Zakah* and Tax law on 1 Muharram, 140511 (26 September, 1984) consisting of 6 chapters and 46 articles whereby *zakah* will be collected by law in cases of visible and invisible wealth, agriculture, fruits, sheep and minerals. The *Zakah* and Taxes Bureau was brought under the authority of the President of the Republic. In 140611 *zakah* was separated from taxes and the *zakah* organization was named "*Zakah* Bureau". This Bureau became attached to the Ministry of Social Care and Planning of *Zakah* and Emigrants Affairs, moving to the Ministry of Guidance and Direction in 1989.

Regarding the *Zakah* Law in Jordan, *Zakah* Law No.35 was issued first in 1944. The law provides that the *zakah* will be collected by law, in cash, on livestock, lands, commodities and imported assets. It also provides for the establishment of a Board of Directors for the Fund and for other details of disbursing *zakah* proceeds. This law had been in

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<sup>4</sup> Amended *Zakah* Fund Law, No.2 for 1982, the Hashemite Kingdom of Jordan, Article 2.

<sup>5</sup> Law decreed by Statute No.8, for 1979, establishing the *Zakah* Fund, Bahrain, Article 5.

effect for 9 years, when it was annulled by Law No.89 of 1953, called the **Tax Law of Social Services**. Its articles provide that the value of the amount collected in kind on livestock, goods and imported assets should be reduced. The law also provides for a 10 percent deduction from the income tax. This law was annulled by the Temporary Law No.3 of 1978 which rendered the payment of *zakah* an optional matter. A Board of Directors, was established for the Fund. It agreed to reducing income tax equivalent to, the amount paid as *zakah*, provided such an amount does not exceed, 25 percent of the *zakah* amount paid to the Fund. The Temporary Law No.2 of 1982 was enacted, providing for rebate of the full amount paid as *zakah* from the amount of income tax due.

Regarding the *Zakah* Law of North Yemen, the Command Council issued its decision No.33 of 1975, establishing the Department of Duties and specifying its terms of reference. The Department is responsible for assessing, collecting and disbursing the duties imposed by *Shari'ah*. The Presidential Decision No.56 of 1980 provided for re-organizing the Department of Duties. The Decision laid down details of the terms of reference and organizational structure of the Department.

In Malaysia, the *zakah* used to be collected from farmers at the State levels. The *zakah* was collected on one crop only, i.e., rice, although the weight of the *nisab* varied substantially, from one state to another.<sup>6</sup> The *Zakah* and Finance House was established in 1980. It was made under the authority of local governments for 14 Malaysian states. Then the Federal Law of 1986 was issued, providing for the implementation of the *zakah* in all the states,

In Pakistan, Article 31 of the Constitution of the country provides that the Pakistani Government seeks, to organize, in a better way, the obligatory *zakah*. On 24 June, 1979 a partial *Zakah* Law was issued. Then on 20, June, 1984 the *Zakah* and *Ushr* Law was issued with effect

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<sup>6</sup> Some aspects, of the Economics of *Zakah* p.81

from the date of issue except for the provisions pertinent to *Ushr*, which were made effective on 15 March 1983.<sup>7</sup>

In Saudi Arabia a Royal Decree, No.17/2/28/8634 dated 7 April, 1951, was issued, providing for the collection of all *zakah* from individuals and companies. Then the ministerial decision No.393 dated 6 Sha'baan 1370H was issued for the *Zakah* Executive Regulation. Another ministerial decision No.394 dated 7 Ramadan 1370H was issued, calling for the establishment of a special government agency that would assess and collect Income Tax and *Zakah*. This agency was called *Zakah* and Income Tax Department and it was made part of the Ministry of Finance and National Economy. After that a number of Royal Decrees and Ministerial Decisions and Administrative Circulars were issued. These dealt with the ways of implementing the Royal Decree calling for the collection of *zakah*, particularly with the aspects related to its assessment, disbursement and the penalties resulting from refusal to pay *zakah*.

### **3.5 Authority for Interpreting the Text of Laws and Regulations**

#### **3.5.1 Organizations engaged in *Zakah* collection by the Force of Law**

The Libyan Law provides that the authority of interpreting provisions of the law will be according to the decisions of the Council of Ministers, to be made on the basis of the presentation made by the Minister of Justice and prepared by a committee established by him to consist of *Shari'ah* Ulama and Legal Counsellors. Executive Regulations for implementing the law were issued by a decision of the Council of Ministers, dated 30 Dhul Hijjah 1391H corresponding to 15 February 1973.<sup>8</sup>

The Sudanese Law provides that the Ifta Council will assume the responsibility of delivering a *Shari'ah* opinion (*Fatwa*) in every matter

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<sup>7</sup> A Report on the System of *Zakah* and *Ushr* in Pakistan, Government of Pakistan, Ministry of Finance, 1988, p.2.

<sup>8</sup> The *Zakah* Law in Libya, 1971, Article 24.

related to implementing the law, in accordance with *Shari'ah*. The *Fatwa* will be binding on the Bureau of *Zakah* and Taxes.<sup>9</sup>

The Pakistani Law did not clearly specify a competent authority empowered to interpret provisions of the *Zakah* Law. However, the Law indicated that the Federal Government might, by consulting with the Islamic Ideology Council, exempt certain individuals from the compulsory payment of *zakah*.<sup>10</sup> The Law also gives an individual the right of objecting to the application of *zakah* if such application conflicts with such individual's *Madhab*. This is done by filing a case in accordance with specific regulations. As to the power of establishing rules and procedures for applying the Law, it is the mandatory power of the Central Council that lays down these rules and procedures.

However, authorized by the Central Council, the Provincial Council may formulate rules and procedures related to the administrative aspects of organizing *zakah*.<sup>11</sup>

By tracing the ministerial decisions concerning *zakah*, it is clear that the Saudi *Zakah* Law empowers the Minister of Finance to interpret provisions of the Law after consulting with the *Shari'ah* competent authority, (i.e. the Supreme Council of Judiciary) when necessary.

The Malaysian Law does not specify clearly the authority empowered to interpret the provisions of the Law, although it gives the *Zakah* Council the right to formulate general policies and control mechanisms of their execution.

### 3.5.2 Organizations Based on the Voluntary Collection of *Zakah*

There is no specific reference, in the rules and regulations governing the work of these organizations, to any authority that will have

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<sup>9</sup>The *Zakah* and Taxes Law in Sudan, 1984, Article 11.

<sup>10</sup>Pakistani *Zakah* and *Ushr* Law, 1980. Article 24.

<sup>11</sup> *Ibid.*, Article 26.

the right of interpreting the provisions of these rules and regulations. However, they all provide that the Council of Administration or its President, or both, have the right to issue directives and decisions to implement the provisions of the rules or regulations, including the assessment and criteria for the disbursement of *zakah*.

### **3.6 *Zakah* enjoys the same protection accorded to Public Funds**

The laws of Bahrain and Jordan provide for exempting all transactions and litigations in connection with *zakah* and the funds of *zakah* organizations from government and municipal taxes and fees, as well as from duty stamps of all sorts.

The Libyan, Malaysian and Sudanese laws provide that *zakah* dues will be collected by force, from those who refuse to pay them by means of administrative confiscation of their properties. They further provide for treating *zakah* dues as preferred debts, the settlement of which should be made next to the settlement of legal fees. The Malaysian ' law ranks *zakah* dues at the same level as government's accounts payable. The Malaysian Law also exempts all correspondence relating to *zakah*, whether of the *zakah* organization or *zakah* payees, from postal stamps .<sup>12</sup>

In general, *zakah* amount must enjoy the same protection accorded to public funds to facilitate their collection when many claims are there on the payee's assets.

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<sup>12</sup> The Federal *Zakah* Law of Malaysia, Article 7,4/j17,4.,

### **3.7 Combining *Zakah* collection and disbursement under one organization and vice versa**

#### **3.7.1 Organizations Collecting *Zakah* by Force of Law**

*Zakah* organizations in the Sudan, Pakistan, Yemen and Malaysia unify the collection and disbursement under the same organization, although they differ as to their methods.

In Saudi Arabia, all *zakah* receipts are forwarded to the Saudi Monetary Agency and credited to the account of the Social Insurance Department, except the receipts from the *zakah* of crops and fruits. These are disbursed through local committees to the deserving beneficiaries.

In Libya the *Zakah* Organization disburses *zakah* proceeds to the officials of the *zakah* management only. The rest of the *zakah* receipts are disbursed by the General Organization for Social Insurance and the Islamic *Da'wa* Society, in accordance with *zakah nisabs*.

#### **3.7.2 Organizations Collecting *Zakah* Voluntarily**

In all these organizations, collection and disbursement of *zakah* are undertaken by the same organization. The unification or non-unification of collection and disbursement of the *zakah* under the same organization is subject to the conditions of a Muslim country and to local considerations, as well. The efficiency of collection and disbursement is still the basic factor to determine the organizational form.

## **4. GENERAL KEY PRINCIPLES GOVERNING LAWS AND REGULATIONS OF ZAKAH COLLECTION**

### **4.1 Zakatable Assets**

The laws in Libya, the Sudan, Pakistan, Malaysia, Yemen and Saudi Arabia are all in collecting the *zakah* on crops and fruit. That *zakah* on these items may be paid in kind or cash. However, in Saudi

Arabia the *zakah* on wheat is paid in cash, by withholding it and separating it on the spot, in front of every farmer, through the General Department for Grain Silos and Flour Mills which buy wheat from farmers at a high price to encourage its cultivation. The law in Pakistan provides for cash collection of *zakah* on these items. However, the *zakah* amount may be paid in kind in the form of wheat or rice to the Provincial Council only. In Libya, the executive regulations of the *Zakah* Law provide that if the *zakah* on these two items is paid in kind and circumstances necessitate the immediate sale of the *zakah* receipts because of difficulties in storing them at a reasonable cost, the same is done by Committees established for this purpose in the presence of two reliable witnesses<sup>13</sup>.

Laws in Saudi Arabia, Pakistan and Malaysia and the Yemeni regulations all provide to collect *zakah* on invisible wealth, but differ in assessing these assets. In Pakistan, assets of invisible wealth subject to *zakah* at source are bank accounts and financial papers with the exception of accounts in foreign currencies. The number of these categories is eleven\*. One of them (savings accounts) is comprised of 65 percent of *zakah* receipt during the past five years.<sup>14</sup> *Zakah* in Pakistan is limited to what has been mentioned. *Zakah* on crops is called there *Ushr* (one-tenth).

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<sup>13</sup>The Executive Regulations of the Libyan *Zakah* Law, 1971, Article 13.

\*These items comprise the following:

1. Bank savings accounts.
2. Notice deposits accounts.
3. Fixed deposit accounts the profits of which are paid regularly.
4. Savings certificates.
5. National Investment Trust Units.
6. Certificates of the Investment Corporation of Pakistan.
7. Government securities.
8. Shares of companies and corporations.
9. Annuities.
10. Life insurance policies.
11. Provident funds.

<sup>14</sup>Report on the *Zakah* and *Ushr* System in Pakistan - Ministry of Finance, 1988, Annex B.

The Malaysian, Libyan and Sudanese laws and the Yemeni and Saudi regulations all provide to collect *zakah* on livestock, whether grazing or stall-fed. However, the Libyan Law alone extends this *zakah* to include camels and cows used in ploughing or irrigating crops.<sup>15</sup> All the said laws and regulations permit *zakah* organizations to receive voluntary alms and the *zakah al fitr*. *Shari'ah* courts of law or the accompanying judges - according to the Saudi regulations - are responsible for estimating the prices of cattle according to time, place, barrenness and fertility. We must mention that collection of *zakah* on livestock in the Sudan has not yet been implemented due to decertification and drought circumstances there, which have threatened the life of livestock.<sup>16</sup>

The *Zakah* Law in the Sudan alone imposes *zakah* on wealth that yields income, such as rented property, factories, farms, etc.<sup>17</sup> Both the Sudanese law and the Saudi regulations provide for the collection of *zakah* in respect of factories, hotels, art producing companies, taxi owners and offices of real estate agents. They also, together with the Libyan law, provide for collecting *zakah* in respect of buried treasures of the earth.

The Saudi and Malaysian regulations are also the same as to the imposition of the *zakah* in respect of free vocational jobs and employees' salaries. Saudi *Zakah* regulations vacillate between collecting *zakah* dues in full or in part and collecting only half of such dues, leaving the other half to be privately disbursed by the *zakah-payer* in accordance with the principle of *Shari'ah*. This applies to individuals only. Joint stock and other companies have to pay all their *zakah* dues to the Department of *Zakah* and Income Tax.

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<sup>15</sup>The Libyan *Zakah* Law, 1971, Article 10. This is the view of Imam Malik; May Allah bless his soul.

<sup>16</sup>An interview with the Secretary General of the *Zakah* Bureau in the Sudan, Ash-Sharq Al-Awsat Newspaper, Issue No.4049, dated 29 December, 1989.

<sup>17</sup>The *Zakah* and Taxes Law of the Sudan, 1984, Article 58.

It has been noticed that the Malaysian and the Pakistani laws do not specify the nature of wealth in the body of their laws itself. Such wealth has been put in a table as an annex to the law. This measure was adopted to provide a flexibility for the future. The table of the Pakistani system specifies the nature of zakatable items of wealth, the rate of deduction, the basis of *zakah* assessment, the date of *zakah* deduction and the entity responsible for deducting the *zakah* dues.

In Iran one-fifth of what a Muslim receives is paid to the Imam he follows. This includes precious metals and pearl; one-fifth of the land bought from a non-Muslim and one-fifth of any wealth for a part of which one fifth was paid, while for the other part was not paid.

The Sudanese law puts the following financial resources under the disposal of the Bureau of *Zakah and Taxes* of the Sudan: (a) *zakah* dues received in accordance with the provisions of the *zakah* law; (b) *zakah* dues received from *zakah* houses and individuals in the Islamic world; (c) *sadaqah* paid voluntarily to seek Allah's pleasure; (d) the yield accruing from investing *zakah* proceeds collected in accordance with the provisions of this law.<sup>18</sup>

It is worth mentioning that the Sudanese, Libyan and Malaysian laws agree on 85 g. as the *nisab* of pure gold and 595 g. as the *nisab* of pure silver. But the Pakistani law estimates the *nisab* of these two items . at 87.48 g. for gold and 612.32 g. for silver.<sup>19</sup>

The Sudanese and Libyan laws estimate the *nisab* of crops and fruit at five *awsuq* (equivalent to about 653 kg.), whereas the Pakistani law estimates their *nisab* at 948 kg.<sup>20</sup> and the Malaysian Law at 1,317 kg.<sup>21</sup>

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<sup>18</sup>The Sudanese *Zakah* Law, 1989, Article 40.

<sup>19</sup>The *Zakah and Ushr* Law of Pakistan, 1980, Article 2, Section 16.

<sup>20</sup>The *Zakah and Ushr* Law of Pakistan, 1980, Article 5, Section 2.

<sup>21</sup>The Federal *Zakah* Law of Malaysia, 1986, Table No.2.

## 4.2 Guarantees of *Zakah* Collection and Penalties Imposed on its Non-Payers

Whereas the regulations of *zakah* organizations that collect the *zakah* voluntarily do not provide for penalizing those who do not pay, laws of organizations collecting *zakah* under law are all in agreement to the imposition of penalties on those who do not pay the *zakah*, although they have differed on the nature of the acts that deserve to be penalized, methods of applying the penalty, and the extent of the penalty.

The Libyan Law penalizes the person refusing to pay the *zakah* with a fine not exceeding double the amount of the *zakah* due. The Sudanese law penalizes a person with a minimum fine equivalent to double the amount of the *zakah* due. The Malaysian law also penalizes any person who misleads the *Zakah* Organization to accept false statements from *zakah*-payers. It also fines any person preventing a *zakah* official from discharging his assigned duties 1000 ringgits or a six-month prison sentence, or both penalties.

The Libyan Law penalizes a person refusing to submit, or delaying the submission of his *zakah* statements on the prescribed time with a minimum fine of 5 dinars and a maximum of 100 dinars. The Sudanese law punishes such a person with a maximum one-year imprisonment. The Malaysian law fines such a person 500 ringgits or imprisons him for 3 months, or both. The Saudi regulations provide for the rejection of tenders submitted by Saudi contractors as a penalty for withholding their final payments due on completion of works/services rendered, unless they are certified by the *Zakah* and Income Tax Department confirming their payment of *zakah* dues in the previous financial year. The Department is also entitled to arrest any defaulter and to confiscate his imports until he pays his dues. Primary contractors are instructed to withhold *zakah* dues from sub-contractors, and to deliver

them to the Department. In the Sudan, real-estate ownership of houses cannot be legally transferred unless *zakah* dues are paid.<sup>22</sup>

The Libyan, Sudanese and Malaysian laws provide for the enforced collection of the *zakah* amount from those who refuse to pay it, by confiscating their property. Officials of the *zakah* organization have the status of control men of the judiciary in proving the violation of the of *zakah* law provisions. The Malaysian Law and Saudi Regulations delegate to the *zakah* authorities in each country the right of preventing non-payers of *zakah* from travelling abroad.

Among the *zakah* laws of Muslim countries, the Malaysian Law is considered more elaborate as to the details of penalties for non-payers of *zakah*. It describes at length penalties for those who do not pay their *zakah*, those who understate the value of zakatable wealth and those who help a person or a group of persons evade payment of *zakah* with or without remuneration. It also penalizes those who leave the country without paying their *zakah*, hinder *zakah*-collectors from discharging their duties or collect *zakah* without permission.

### **4.3 Incentives for the Payment of *Zakah* to the *Zakah* Institution and Tax Exemptions**

#### **4.3.1 Organizations Collecting *Zakah* by Force of Law**

The Pakistani Law permits the reduction of a person's taxable income by the amount paid to the *zakah* fund, as it permits deduction of the *zakah* amount paid at source from the person's taxable income<sup>23</sup> The Pakistani law also prohibits collecting any land tax or any development tax in respect of arable land, subject to the payment of *ushr*.<sup>24</sup>

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<sup>22</sup>An interview with the Secretary-General of the *Zakah* Bureau in the Sudan, Ash Sharq Al Awsat, Issue No.4049, dated 29 December, 1989.

<sup>23</sup>*Zakah* and *Ushr* law of Pakistan 1980, Article 25 Clause 'A'.

<sup>24</sup> Ibid, Article 25, Clause 'B'.

#### 4.3.2 Organizations Collecting the *Zakah* Voluntarily

The Jordanian, Bangladeshi and Egyptian laws<sup>25</sup> permit reducing the taxable income of a person by the amount paid to the *zakah* fund.

#### 4.4 . *Zakah* Assessment Procedures and Necessary Declarations

All the laws of organizations collecting *zakah* by force of law provide for *zakah* assessment procedures and explain the declarations required for the payment of the *zakah*.

A *zakah-payer*, according to the Sudanese, Libyan, Malaysian and Saudi *Zakah* Laws, submits a declaration of his zakatable wealth. The declaration is approved by the management of the *Zakah* Organization if there is no strong doubt as to the accuracy of the data. Once suspicions arise about the declaration, the management of the *Zakah* Organization has the right of requesting the *zakah-payer* to submit all the necessary supporting documents. It also has the right of access to his premises, etc. and of inspecting data and documents and of taking any other methods that may help it assess the *zakah* amount to be paid.

Concerning an objection to the decision of the *zakah* organization, the *zakah* laws of Libya, Saudi Arabia, the Sudan and Pakistan provide for two grievance committees - initial and appellate<sup>26</sup>, although they vary in specifying the period during which a grievance is accepted. Grievance committees examine and decide on complaints against the imposition or assessment of *zakah*, or orders of property confiscation. The Malaysian law provides for many grievance committees with similar functions. According to the Malaysian and Saudi regulations, an objection or appeal does not relieve the liable person from paying the assessed amount of the *zakah*. Also, the composition of grievance

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<sup>25</sup> Proceedings of the First *Zakah* Conference, Kuwait, 1985, p. 408.

<sup>26</sup>The initial application, according to Pakistan Law, is submitted to the office that determined the amount of *Zakah* to be paid. If the *Zakah-payer* finds the decision unfair, he submits it to the *Zakah* Deduction Review Committee.

committees varies from one country to another. Usually the chairman of the committee, or one of its members, is from the judiciary council.

It is worth mentioning that now-a-days in Saudi Arabia it has been a practice to close the door of objection to zakah-payers. Therefore, the initial and appellate committees are not given any prerogatives to review any objections in connection with the *zakah*. At present the Minister of Finance reviews grievances submitted to him in consultation with the Tax and Customs Appellate Committee.<sup>27</sup>

According to the Libyan and Sudanese laws, if there is a disagreement between the *zakah-payer* and the organization with respect to the assessment, the former will not pay the excess amount until the excess is finally decided on (or, according to the Sudanese law, 75% of the assessed *zakah* amount, which ever is more). According to the Pakistani law, grievances in respect of assessing the *Ushr* are submitted to the Committee which assesses the *Ushr*, after 50% of the *Ushr* amount is paid.<sup>28</sup> The Malaysian Law is considered one of the best in terms of details and clarity as to the procedures and different methods of filing grievances.

## **5. MAIN GENERAL PRINCIPLES ON WHICH ZAKAH DISBURSEMENT SYSTEMS ARE BASED**

### **5.1 Beneficiaries of Zakah and Instruments of Disbursement**

All the organizations voluntarily collect the *zakah* and disburse *zakah* receipts to the eight heads of *zakah* expenditure. Most of the *zakah* proceeds are disbursed directly and the remaining portion is disbursed in co-operation with charitable and social institutions in and outside the country.

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<sup>27</sup> The *Zakah* obligation and its Practical Applications in the Kingdom of Saudi Arabia, Abdulaziz Jamjotun, p.86.

<sup>28</sup> Zakah and *Ushr* Law of Pakistan, 1980, Article 6, sub-paragraph 6.

The Sudanese Law has excluded the "freeing of slaves" from the heads of *zakah* expenditure.<sup>29</sup> The *zakah* is disbursed through popular committees to the poor and the needy. Religious and social institutions are directly supported by the *Zakah* Bureau. *Zakah* proceeds from abroad are disbursed as per instructions of the President of the Republic, taking into consideration the needs of the country and public welfare.<sup>30</sup>

The Pakistani Law provides for disbursement of *zakah* receipts to "the poor, the needy and those who are appointed to collect it". Other recipients of the *zakah* are summed up as "and to the other heads of *zakah* expenditures permitted by *Shari'ah*".<sup>31</sup> Disbursement is made directly or indirectly through schools, educational, vocational and health institutions.

The Libyan Law provides for the disbursement of the *zakah* to the eight categories. But the executive regulations of the law do not prescribe how to expend the share of "freeing of slaves". The General Department of *zakah* disburses *zakah* receipts according to the following percentages:

- |   |  |
|---|--|
| 1. The poor and the needy   | 50% sent to the General Board for Social Insurance     |
| 2. Those appointed to collect it  | 10% retained by the General Department of <i>Zakah</i> |
| 3. The indebted   | 10% sent to the General Board for Social Insurance     |
| 4. Those whose hearts are to be reconciled, Islamic propagation Islamic Da'wah Society and the Wayfarer | 10% each, disbursed by the                             |

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<sup>29</sup>Although the Secretary-General of the *Zakah* Bureau in the Sudan mentioned this head of expenditure as one of the heads disbursed centrally. See the interview with the Secretary-General, Ash Sharq Al Awsat, Issue No. 4049 dated 29 December, 1989.

<sup>30</sup>The *Zakah* and Tax Law of the Sudan, 1984, Article 54, (B).

<sup>31</sup>The *Zakah* and *Ushr* Law of Pakistan, 1980, Article 8.

According to the Saudi Regulations, *zakah* receipts are spent only on the poor and the needy. The entire *zakah* proceeds are transferred to the Social Insurance Organization.<sup>32</sup> According to these regulations, the *zakah* on crops and fruits are distributed among the deserving poor through local governorates and the Organization charged with enjoining good in each area.

According to the Yemeni *Zakah* Law, the proceeds of the *Wajibat* (Obligations) Authority used to be transferred to Cooperation Councils (which are popular local councils raised for rural development of the local communities), but the proceeds are now entirely transferred to the Government's budget.<sup>33</sup>

In Iran, part of the one-fifth, the *zakah* and *sadaqat* are disbursed through the Organization of the Oppressed<sup>34</sup> and the Extension Committee.<sup>35</sup>

## 5.2 The Local disbursement of *Zakah* and its Transfer

The Sudanese Law provides that the *zakah* proceeds of each province should be disbursed within the same province, unless it is required to transfer them elsewhere. *Zakah* proceeds cannot be transferred from one province to another unless it is decided by the President of the Republic.<sup>36</sup> *Zakah* on crops and fruits are locally disbursed in Saudi Arabia. The Pakistani Law does not permit the transfer of the *zakah* proceeds unless it is necessary. In addition, the nature of the Pakistani Law requires the flow of *zakah* from the Central Fund to the Funds of the provinces, then to the local funds, because most of

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<sup>32</sup>Royal Decree No.32 dated 20 Shawwal, 1385H.

<sup>33</sup>Al Noor Magazine, Issue No.68, page 26.

<sup>34</sup>This organization is responsible for the management of the huge wealth left by the Family of the former Shah of Iran. The proceeds are distributed to the poor by building living quarters for them and training them in different skills.

<sup>35</sup>The Supply Committee is a local committee that provides direct assistance to the poor and helps those who want to marry and extends many other social services.

<sup>36</sup>The *Zakah* and Taxes Law of the Sudan, 1984, Article 54, Sub-paragraph A.

*zakah* dues are deducted from the source. Thus, transferring *zakah* from one province to another is seldom needed. The Sudanese Law and Saudi regulations permit the *zakah*-payer to disburse part of his *zakah* dues to deserving relatives on the maternal side, provided that it does not exceed half, according to the Saudi Regulations, and 20% in the Sudan.<sup>37</sup>

The Nasser Social Bank holds that if the *zakah* proceeds are locally disbursed they should go to the Shari'ah-specified heads of *zakah* expenditure to help transform the unemployed able-bodied workers into a productive work force. In Bangladesh, the *Zakah* Organization disburses 50% of the *zakah* proceeds through the local *zakah* committees, while the remaining amount is disbursed through the Central Council.

## **6. THE GENERAL, INSTITUTIONAL & ADMINISTRATIVE STRUCTURE OF THE ZAKAH MACHINERY**

### **6.1 Autonomy of the *Zakah* Institution and its Administrative Affiliation**

The *zakah* institution in Libya, Saudi Arabia and Pakistan is linked with the Ministry of Finance and the Treasury and operates as one of its departments. We must mention here that there is a Central *Zakah* Council in Pakistan, headed by a Supreme Court Judge. It is intended to formulate necessary policies and supervise and control all matters related to the *zakah*.

In the Sudan, the *zakah* institution was under the Supreme Islamic Council. Later, it became a legal entity called the *Zakah* and Taxes Bureau, accountable to the President of the Republic. After that, it was made subservient to the Ministry of Migrants' Affairs when it was named the *Zakah* Bureau. Finally, it became a part of the Ministry of Guidance and Direction.

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<sup>37</sup>An interview with the Secretary-General of the *Zakah* Bureau in the Sudan, Ash Sharq Al Awsat Newspaper, Issue No.4040 dated 29 December, 1989.

*Zakah* institutions in Jordan, Bahrain and Iraq are legal entities that enjoy financial and administrative autonomy, as well as the right to contract and own property. However, these institutions are supervised by the Ministry of *Awqaf* and Islamic Affairs. The *zakah* institution in Kuwait differs from these in that it enjoys full autonomy and is not affiliated with the Ministry of *Awqaf* and Islamic Affairs. However, the Minister of *Awqaf* and Islamic Affairs is the Chairman of its Board of Directors.

In Bangladesh, the *zakah* institution consists of the Central Council, comprising thirteen members, and the Councils of the Districts, each having seven members appointed by the government.

The Nasser Social Bank is a fully autonomous institution by virtue of its being a public organization. It was first affiliated with the Ministry of Treasury, then with the Ministry of Social Insurance and currently has been under the control of the Central Bank of Egypt.<sup>38</sup>

## 6.2 The Organizational Structures

The organizational structure of *zakah* institutions in the Sudan and Pakistan are similar in having central, provincial and local management, although the relationship between these management division is different. The Pakistani structure gives more flexibility and autonomy to the provincial and local councils in decision-making. The Sudanese structure is based on the principle of centralized management in respect of certain activities (auditing and inspection, disbursement of some heads of expenditure and collection) although some of them are carried out at the provincial levels. The Sudanese structure follows the matrix system; whereas the Pakistani structure is in line with the bureaucratic system.

The organizational structure of the *zakah* institutions in Saudi Arabia is divided into two sections: *Zakah* and income tax. *Zakah* is handled by various departments and each is responsible for a certain kind

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38 Papers and proceedings of the First *Zakah* Conference, Kuwait, 1985, p. 403.

of *zakah*. There are also many branches of the Department of *Zakah* and Income Tax in major cities.

In Yemen, the *zakah* institution known as *Maslahat Al Wajibaat* has two main departments: the General Department for Assessing Obligations and the General Department for Inspection. There is also a General Department for Financial and Administrative Affairs. Attached to the Office of the President Are the Department of Statistics, Planning and Follow-up, the *Zakah* Educational Institute and the Department of Legal Affairs and Complaints. The organizational structure for most of *zakah* institutions consists of two major divisions: one to undertake collection and the other to carry out disbursement.

The *zakah* institution in Jordan has departments for social studies, *zakah* collection and charitable institutions. Generally, the organizational structure of *zakah* institutions making voluntary collection of the *zakah* is simple. They do not have so many departments. The Kuwait *Zakah* House, however, is composed of eight different departments and offices. Departments of the House fall into three main sectors: the Resources Development Sector, the Distribution Sector and the Administrative, Technological and Financial Services Sector. Attached to the General Manager's Office are the *Shari'ah* Office, Planning and Development' Office and the Office of Legal Affairs.

Generally, the organizational structures of institutions collecting the *zakah* by force of law are complex and have many departments. All these aim to implement the two functions of *zakah* collection and distribution, with the help of service departments such as finance and administration affairs. Some of these institutions have established some offices and departments to raise awareness of the public about *zakah*, for systematic planning and other important activities.

### **6.3 Administrative and Geographic Centralization and Decentralization**

The Pakistani and Sudanese laws are similar with respect to the centralization of some activities such as inspection and auditing, and the

decentralization of certain others at provincial levels such as *zakah* collection and disbursement to Shari'ah-specified groups. It is observed that in the Sudan, the *zakah* is disbursed centrally through the General Bureau, among the three heads of expenditure, namely; those whose hearts need to be reconciled, those on the way of Allah and the freeing of slaves.<sup>39</sup>

The Libyan Law provides for decentralized collection and centralized distribution of the *zakah*. The Iraqi Law permits the *Zakah* Fund to open its branch offices in governorates. In Bangladesh, the *Zakah* Law has established a central committee. There are also committees in the districts that carry out collection and distribution of the *zakah*. In Kuwait, Iraq, Jordan and Bahrain, all operations of the *zakah* institution are central both administratively and geographically.

Generally, the most cost-effective way of applying *zakah* is to decentralize its distribution through local committees, ensuring that *zakah* proceeds reach those who are actually entitled to receive them, and to make people participate in the operations to win their confidence in the *zakah* institutions of those countries. Perhaps it is better to collect visible wealth (cash money, deposits, stocks, etc.) centrally to ensure its collection and to reduce administrative costs through deduction of *zakah* at source. As to the *zakah* on crops, fruit and livestock, it may be better to collect it through local committees in order to enhance the volume of proceeds and reduce the cost of collection, storage, transport and distribution.

#### **6.4 The role of popular and voluntary committees**

The Pakistani Law depends on voluntary local committees at the bottom of the organizational structure of the *zakah* institution. These committees collect the *Ushr* (one-tenth) and disburse *zakah* proceeds channeled into the Provincial *Zakah* Fund to deserving beneficiaries.

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<sup>39</sup> An interview with the Secretary-General of the *Zakah* Bureau of the Sudan, Ash Sharq Al Awsat newspaper, Issue No.4049 dated 29 December, 1989.

There are 78 provincial *zakah* committees. The number of committees receiving and collecting *zakah* is 297 and that of various local *zakah* committees is 36,626.<sup>40</sup> The *Zakah* Bureau in the Sudan, disburses the *zakah* to the deserving beneficiaries in collaboration with many popular mosque committees. The number of these committees exceeded 932 in 1988.<sup>41</sup>

The *Zakah* Fund in Jordan cooperates with as many as 53 affiliated popular committees. The same applies to the *Zakah* House of Kuwait, with the difference that here the committees are affiliated with other charitable organizations.

The Saudi *Zakah* and Income Tax Department cooperates with local committees (in cooperation with the Emirs of villages and small towns) in various provinces of the Kingdom. The Nasser Social Bank depends primarily on popular *zakah* committees to disburse *Zakah* proceeds. As a result of local disbursement *zakah* proceeds easily reach its *Shari* 'ah-specified groups.<sup>42</sup> The number of popular committees affiliated with the Nasser Social Bank was more than 3,000 in 1985.<sup>43</sup> To sum up, the *zakah* institutions that make it a policy to cooperate with popular committees and provide them their special role in *zakah* collection and disbursement, have continued to succeed, to win public confidence and to increase their financial resources. Therefore, *zakah* institutions should show greater interest in popular committees and encourage voluntary work in *zakah* collection to achieve the following objectives:

1. To raise the level of *zakah* proceeds, where seeking the help of volunteers familiar with the conditions of their community facilitates more accurate assessment of *zakah* dues.

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<sup>40</sup>A Report on *Zakah* and *Ushr* in Pakistan - Government of Pakistan, Ministry of Finance, 1988, p. 1.

<sup>41</sup>Annual Report on the *Zakah* Bureau in the Sudan, 1409H (1988), p.311.

<sup>42</sup>Papers and Proceedings of the First *Zakah* Conference, p.406.

<sup>43</sup>Financial Resources of the State in Modern Society from an Islamic Perspective, 1988-1989, p.311.

2. To identify those legally entitled to receive the *zakah* and to improve ways of extending assistance to them.
3. To promote confidence in the *zakah* institution.
4. To raise public awareness of the *zakah* institution.

### **6.5 *Zakah* Population Scope and methods of dealing with citizens living abroad, expatriates living in the country and with religious and sectarian minorities**

The Sudanese Law makes the *zakah* binding on every Sudanese Muslim living in the country or abroad, as well as on every non-Sudanese Muslim living in the Sudan. The law also levies a social solidarity tax on every non-Muslim Sudanese as well as on every non-Sudanese working or residing in the Sudan and possesses the *zakah nisab*, but not to exceed the amount of the *zakah*, unless such person is bound by his own country's law to pay *zakah* and has in fact paid it.<sup>44</sup> The *Zakah* Bureau will establish a special department for the *zakah* of expatriates. The Department will determine methods of *zakah* collection from expatriates and ways of *zakah* disbursement according to the expatriates' designated home countries.<sup>45</sup>

The Pakistani *Zakah* Law imposes the *zakah* on Pakistani Muslim citizens and not on non-Pakistanis or non-Muslims.<sup>46</sup> The law also recognizes the creed and *Fiqhi* schools of Pakistani Muslims, allowing every assessee the right to object to any procedure which is not in keeping with his belief and school of thought.<sup>47</sup>

The Saudi Regulations impose the *zakah* on Saudis, Bahrainis, Kuwaitis and Qataris while others are subject to income tax. The

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<sup>44</sup> The *Zakah* Law, 1989, Article 4.

<sup>45</sup> An interview with the Secretary General of the *Zakah* Bureau of the Sudan, Ash Sharq Al-Awsat newspaper, Issue No. 4049, dated 29 December, 1989.

<sup>46</sup> The *Zakah* and *Ushr* Law of Pakistan, 1980, Article 3, Sub-paragraph 3.

<sup>47</sup> Ibid, Article 1, Sub-paragraph 3.

Malaysian Law imposes the *zakah* on every Muslim generating income from an asset in Malaysia or derived therefrom.<sup>48</sup>

## **6.6 Funding of Administrative Expenses and their Budget**

The administrative expenses of the *zakah* institutions in Jordan, Pakistan and Libya are financed from *zakah* proceeds to an amount not exceeding 10% of the proceeds. In Iraq this percentage is reduced to 3%. The Pakistani Government provides financial assistance to curtail administrative expenses. The Federal Government bears the expenses of the Central Council and Central Administration of the *zakah*. Administrative expenses of the *zakah* institution in Bahrain, Kuwait and Saudi Arabia<sup>49</sup> are financed from the state budget.

## **6.7 The Use of Modern Technology**

Personal computers are used in the *zakah* institutions of the Sudan, Kuwait and Jordan. A mainframe computer is used by the Kuwait *Zakah* House for financial accounts, social studies, the Orphan's Sponsor Scheme and for the establishment of projects.

Generally, *zakah* institutions in Muslim countries have not come to terms with the modem computer technology. Even the *zakah* institutions that use computers in their operations, limit their use to the functions of *zakah* distribution and making inventory of the deserving *zakah* beneficiaries.

## **6.8 Shari'ah Control**

*Zakah* institutions in Iraq, Jordan, Bahrain and Malaysia have *Shari'ah* control by appointing *Fuqaha* on their Boards of Directors. In

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<sup>48</sup>Malaysian Federal Law of *Zakah*, 1986, Article 45/3.

<sup>49</sup>In Saudi Arabia, except in the Eastern Region, Asir and Jizan, costs of *Zakah* assessment and distribution of its proceeds are paid out from *Zakah* proceeds, to the extent of 20%. The remaining costs are defrayed by the Ministry of Finance.

Kuwait, a *Shari'ah* control board oversees the operations of the Kuwait *Zakah* House.<sup>50</sup> In Pakistan, questions that require a legal opinion are submitted to the Islamic Ideology Board. In the Sudan, the *Shari'ah Ifta* Council is responsible to issue *fatwas* regarding the implementation of the *zakah* law there. Its *fatwas* are binding on the Bureau of *Zakah* and Taxes. In the Kingdom of Saudi Arabia, legal questions are submitted to the Supreme Judiciary Council for an opinion.

Generally, most of the *zakah* institutions in Muslim countries are very keen on the adherence to *Shari'ah* rules. But they lack an organizational unit charged with *Shari'ah* control to ensure the proper implementation of *fatwas*.

### **6.9 Vertical and Horizontal Relation of the *Zakah* Institution with Other Governmental Bodies and Non-governmental Charitable Organizations**

Although most of *zakah* institutions have many government officials working as members in their management, they are not related to government bodies either vertically or horizontally. The Deputy Minister for *Awqaf* and Islamic Affairs and a senior official of the Ministry of Social Affairs, the Boards of Directors of *zakah* institutions in Iraq, Jordan, Kuwait and Bahrain work as members. The Board of Directors of *zakah* institutions in Jordan and Bahrain have, in addition, a representative from the Ministry of Finance. The Board of Directors of the Kuwait *Zakah* House consists of the Director-General of the General Organization for Social Insurance and the Director General of the General Board for Palace Affairs, in addition to what has been mentioned.

Most *zakah* institutions cooperate with non-government charitable organizations with complementary aims. They act as committees, implementing certain *zakah* procedures for the central *zakah* institution.

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<sup>50</sup>The Board was established by the ministerial decision number 7, 1983. It consists of 5-6 fuqaha who are assisted by a permanent legal office.

The Libyan and Saudi laws provide (although in different ways) the management of the *zakah* institution with the freedom of establishing contacts with many entities to obtain the data necessary to assess the *zakah* of those on whom the *zakah* is due. The laws of these two countries do not permit any government or public entity to abstain from furnishing the officials of *zakah* institutions with the information necessary for the discharge of their duties.<sup>51</sup> The Malaysian Law permits the *zakah* institution to stop a person through police and immigration authorities from leaving the country for non-payment of the *zakah*<sup>52</sup>, as well as to try them in the Malaysian courts. *Zakah* dues, according to the laws, are accorded the status of debts owed to the Federal government.

### **6.10 By-law and Work Procedures**

Most *zakah* institutions have issued by-laws to organize their work. These institutions have issued by-laws to form *Zakah* committees and establish the procedures of their functions in Jordan, Pakistan, Kuwait and the Sudan. Pakistan has also issued comprehensive by-laws to organize works related to *zakah* deduction, transfer and disbursement.<sup>53</sup> By-laws are also issued in Kuwait, Iraq and the Sudan, specifying different administrative criteria. Executive regulations for *zakah* laws and regulations were issued by the Libyan and Saudi governments respectively.

Generally, any executive regulations for the implementation of the *zakah* are required to include the details not provided for in the law, such as:

1. Form and details of the declaration and the date of its submission.

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<sup>51</sup>Articles 39, 40 and 41 of the Libyan *Zakah* Law.

<sup>52</sup>Article 65/104 of the Malaysian Federal Law of *Zakah*.

<sup>53</sup>See the Book of *Zakah* (Its Law, Management, Accounting and Audit), translated by Rafiq Al-Misri.

2. The entity responsible for receiving, examining and auditing of the declaration.
3. Ways of submitting grievances regarding decisions of the committee or board, methods of settling such grievances, and the formation of the body responsible for reviewing grievances.
4. Assessment of the *zakah* on various zakatable assets, and methods of such assessments (whether official accounts or random assessment).
5. Channelling of *zakah* receipts, determining priorities of disbursement, and the entities responsible for such disbursement.
6. Rules of *zakah* payment in installments, and its advanced or deferred payment.
7. The principles governing acceptance of *zakah* payment in kind; deciding on whether such payment in kind is in keeping with the beneficiaries' needs, ways of safekeeping, storage and distribution of such payment in kind; necessary book-keeping and methods of liquidating payments in kind into cash.

### **6.11 Public Awareness of *Zakah* and its Various Rules**

Most *zakah* institutions have shown interest in raising the public awareness about the *zakah* and its various rules through information booklets and brochures. The Kuwait *Zakah* House has a special department for this purpose. It undertakes many media campaign, including advertisements on national television broadcasts.<sup>54</sup> The *Zakah* Bureau in the Sudan<sup>55</sup>, the Nasser Social Bank in Egypt and the Department of *Wajibaat*<sup>56</sup> in Yemen conduct many interviews, press conferences, advertising campaigns and radio and television seminars.

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<sup>54</sup>Annual Reports of the Kuwait *Zakah* House for the Years 1987, 1988.

<sup>55</sup>Annual Report of the *Zakah* Bureau of the Sudan, 1409H (1988).

<sup>56</sup>An-Noor Magazine, Issue No.68, p.28.

Generally, most *zakah* institutions concentrate on raising the public awareness about *zakah* and its *Shari'ah* principles, as this constitutes an effective means for confirming the application of the *zakah* and contributing to the development of the institution's resources.

The Kuwait *Zakah* House and the *Zakah* . Bureau of the Sudan organize seminars and training courses for their staff to promote their understanding of *zakah* rules and their application. The *Zakah* Bureau in the Sudan held many training courses in collaboration with the Islamic Development Bank to train its senior officials and facilitate the efficient discharge of their duties.

The Department of *Wajibaat* in Yemen has established the *Zakah* Cultural Institute in 1985. Its aims are to train young staff of the *zakah* institution there in the methods of discharging the organization's responsibilities. It organized several training courses on various aspects of *zakah* and its *Shari'ah* rules.<sup>57</sup>

## **6.12 Principles for the . Planning of the *Zakah***

*Zakah* institutions in Yemen, the Sudan and Kuwait have departments or officers for planning and follow-up. They concentrate on formulating medium and long-term plans.

## **7. SUMMARY**

The experience of *zakah* institutions in the field of *zakah* application is diversified. In the long run, this will enrich the practical application of *zakah* in many ways. There is no doubt that the diversity of experience will provide a number of countries with greater flexibility, wider scope and a variety of applications that could be emulated, developed and modified to suit local *zakah* institutions in both voluntary or mandatory applications of the *zakah*. Apart from these, I. would like to. add the following:

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<sup>57</sup>An-Noor Magazine,, Issue No.68,, p.28.

1. It is necessary that *zakah* institutions review their administrative and organizational systems to attain flexibility and efficiency in *zakah* collection and disbursement. These institutions are also required to apply the principle of strategic and comprehensive planning in order to have a direct impact on the long-term realization of its socio-economic objectives.
2. It is clear that *zakah* institutions are insufficiently staffed. Those working in *zakah* institutions lack awareness about other *zakah* institutions. Perhaps, the individual training efforts of some *zakah* institutions and bilateral cooperation with other training institutions can provide a partial solutions to these staff problems. In spite of this, the need for qualified staff will grow faster than the efforts made to train such staff. *Zakah* institutions are all urged to devote their efforts to increased training of their workforce in all the various aspects of the *zakah*.
3. The effective payment of the *zakah* and its disbursement to beneficiaries still poses a great challenge to *zakah* institutions. Seeking the assistance of popular committees and facilitating the discharge of their duties might be one of the basic ways which the *zakah* institutions can develop for the disbursement of the *zakah*. These institutions are also invited to develop other means for *zakah* disbursement to help effectively root out the causes of poverty and beggary. The effort of some *zakah* institutions in helping dependent families to be self-sustaining through vocational training, facilitating the purchase of basic materials and marketing their products, is perhaps one of the most promising activities that deserves encouragement.
4. *Zakah* institutions must explore the methods of *zakah* collection and disbursement that reduce administrative costs to a minimum. Cost of *zakah* collection could be reduced by deducting *zakah* dues at source or through authorization of certain groups to make *zakah* deduction and transfer them to *zakah* accounts. Disbursement costs could also be reduced with the help of public and charitable groups and by decentralization of disbursement operations. The use of modern

technology, such as computers and communication systems, would certainly curtail the costs of collection, disbursement and management. *Zakah* institutions must concentrate themselves with the introduction and application of these methods and systems.

5. Emphasis on raising the public awareness about *zakah* and its rules, and the effective use of the media to urge Muslims to pay *zakah*, are very crucial to the continued success of the *zakah* institutions in terms of *zakah* collection, whether voluntary or by force of law. Reminding Muslims of their religious financial obligation is one of the most important ways to help raise *zakah* revenues, to extend its impact on society and to execute its application properly. We must note that the diversity of modern economic transactions make it necessary for *zakah* institutions to address a number of issues as to how to align *zakah* with modern financial transactions.

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# LEGAL, ADMINISTRATIVE AND FINANCIAL CONTROL

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## 1. INTRODUCTION

The main objective of this paper is to discuss and evaluate the *Shari'ah*, administrative and financial controls of *zakah* systems in Pakistan and Kuwait. The reason for selecting these two countries for the present study is that I could not obtain information on the *zakah* systems in vogue in some other countries like the Sudan, Saudi Arabia, Malaysia, etc. As the paper will discuss, *zakah* systems in both countries share a number of similarities, although there are quite a few lessons which they can learn from each other. This study will also be of some use in making comparisons for students of *zakah* systems in other countries.

Pakistan implemented its *zakah* laws in June, 1980 while Kuwait promulgated its basic law in January 1982 but implemented it from January, 1983. Both countries have evolved comprehensive organizational hierarchies to implement the law but because of their different sizes and socio-political situations, there are vast differences in their organizational structures. For example, in Pakistan the *zakah* administration has been set up at five levels: central, provincial, district, tahsil and local. The *zakah* administration is by and large, centralized at the Kuwait *Zakah* House although it coordinates with local *zakah* and charity communities.

Another major difference in the two countries is that in Pakistan the *zakah* has been enforced as a compulsory levy on *ashab al-nisab* but in Kuwait it is a voluntary contribution. *Zakah* organizations also accept donations, grants and charity but keep separate accounts for each

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category. The governments in both countries provide an annual allocation to meet the administrative expenses of *zakah* organizations. Since Pakistan is an agricultural country, she has elaborate arrangements (both legal and administrative) for collection and distribution of *ushr*.

Some important differences are apparent in the distribution policies of the two countries because of different socio-economic backgrounds. For example, poverty is more wide-spread in Pakistan than in Kuwait. Therefore, no *zakah* is allocated for education abroad, treatment abroad, disaster-relief in other countries. By contrast, the Kuwait *Zakah* House has a regular programme for granting assistance to deserving people of other countries.

I shall draw more parallels between the two countries later. The scheme of the rest of the paper is as follows. *Shari'ah* controls, administrative control and financial control form three main parts of the paper respectively. Each part consists of three sections: the first section discusses the situation in Pakistan, the second section covers Kuwait and the third section evaluates the controls used in the two countries. The evaluation of controls mainly concentrates on the soundness and adequacy of these controls in achieving the control objectives. In the process, I shall also indicate areas where even the control objectives can be modified for greater economy, efficiency and effectiveness. The evaluation criteria for the control are based on the agreed interpretation of the *Shari'ah* and universally accepted management practices. It is important to note that the present evaluation does not profess to cover the actual existence of these controls in practice. The controls are excellent on paper but not practically applied. For an evaluation which highlights deviations from the controls, a comprehensive audit exercise is essential. Therefore, my conclusions about the soundness of controls are based on the assumption that the controls are applied.

## 2. SHARI'AH CONTROL

### 2.1 Shari'ah Control in the Zakah Law of Pakistan

Pakistan enforced *Zakah* and *Ushr* Ordinance (xviii of 1980) on June 1980. As a result of this law, a Central *Zakah* Council (CZC) and a Central *Zakah* Administration (CZA) were set up. The CZC is the highest policy-making body and CZA is the chief implementing agency. The CZA has the authority to issue detailed regulations regarding assessment, collection, accounting, auditing, distribution and other operations of *zakah* systems. The following discussion is based on various regulations issued by the government and the CZA.

#### 2.1.1 Control Objectives

The legal documents in Pakistan do not specify any control objectives. The following control objectives are based on my own understanding of the law:

- A. The *zakah* shall be collected only from *ashab al-nisab*.
- B. The rates of *zakah* shall be based on the injunctions of the Prophet (Pbuh) and *fiqh al-Hanafī*. In a situation not covered by these sources, *ijtihad* of the jurists shall be the guide.
- C. As far as possible, there will be no injustice in the collection of *zakah*.
- D. Individual privacy shall be respected while assessing the *zakah*.
- E. Nobody shall be made to pay the *zakah* more than once for the same wealth in a year.
- F. Nobody shall be made to pay *ushr* more than once on one crop.
- G. The *zakah* funds shall be spent only on the beneficiaries recognized by the *Shari'ah*.

H. *Ushr* collected from an area shall be distributed in that area.

### 2.1.2 Control on the Imposition of *Zakah* and *Ushr*

A. *Zakah* shall be deducted compulsorily from the wealth of the Pakistani Muslim *ashab al-nisab* (persons, association, companies, etc.) on the first of Ramadan al-Mubarak. The forms of wealth subject to the *zakah* are bank saving accounts, notice deposit receipts, fixed deposit receipts, saving certificates of all types, investment units, mutual funds, government securities, shares, debentures, annuities, life insurance policies and provident funds.

The following types of wealth are subject to voluntary payment of *zakah*: gold, silver, cash, prize bonds, current accounts, foreign currency accounts, loans receivable, stock in-trade of commercial and industrial undertakings, precious metals and stones, fish and other sea-harvests, tenants' shares in the crop, animals fed free in pasture, and any other financial asset not mentioned in the first list.

- B. The rates of *zakah* are 2½ per cent on financial assets and 5 per cent on agricultural produce. A further 4 rebate .of the *ushr* shall be given to the crops grown on lands irrigated by canals while this rebate shall be 1/3 for lands irrigated by tube-wells.
- C. There shall be no *ushr* on a piece of land measuring 1/4 acre or less.
- D. The *ushr* shall be assessed on the basis of the lower average yield of an area multiplied by the lower farm gate price of the crop.
- E. The *zakah* and *ushr* shall not be collected if the wealth is below the *nisab*. The *nisab* for financial assets is equal to the current price of 52 tolas of silver (about 495 grams @ Rs.5 = Rs.2475 on 10 March 1990) and for *ushr* 948 KG of wheat or its equivalent for other crops.

### 2.1.3 Control on Distribution

- A. *Zakah* funds shall be given directly to the personal custody of the beneficiary.
- B. *Zakah* funds shall not be spent on the buildings, roads and other infrastructure as this will violate the rule of *tamlík*.
- C. *Zakah* shall not be distributed among (i) *ashab al-nisab*, their ancestors, descendants or dependents; (ii) Bani Hashims; and (iii) non-Muslims. The LZCs are responsible to oversee compliance with this control.
- D. For rehabilitation schemes, grants shall be given from *zakah* funds only if the beneficiaries meet the eligibility requirements of *Shari'ah*.

### 2.1.4 Over-all *Shari'ah* Control

- A. The *zakah* law provides over-all *Shari'ah* control by involving *Shari'ah* scholars and *imams* in *zakah* operations. For example, the CZC must have at least three *ulama*. Similarly, the Provincial *Zakah* Councils (PZCs) each must have at least one religious leader. The election of Local *Zakah* Committees (LZCs) is conducted by a Committee of three persons, one of whom must be an *imam* of the local mosque.
- B. Besides, the CZC is supposed to seek guidance on *Shari'ah*-related issues from the Council of Islamic Ideology (CII) which is a supreme body on religious matters in the country. There are numerous instances when the CZS adopted a certain policy on the advice of the C11. The C11 had a considerable influence in the formulation of the *zakah* law. It ensured that most of the basic ingredients of the *zakah* as set down in the primary religious sources were incorporated into the law, although it did not succeed in all its endeavors.
- C. The detailed instructions from CZS provide that the lower committees must ensure that only Muslims are elected to these committees.

Similarly, any person who has been exempted from the payment of *zakah* cannot become a member of any of these committees.

It is pertinent to add that there does not exist any mechanism to oversee compliance with the *Shari'ah*.

## **2.2 *Shari'ah* Control in the *Zakah* Law of Kuwait**

On 16 January 1982 the Amir of Kuwait promulgated the *zakah* law establishing Kuwait *Zakah* House (KZH) under the chairmanship of the Minister of *Awqaf* and Islamic Affairs. The law makes the *zakah* on the wealth of Kuwaiti citizens a voluntary contribution by wealthy people of Kuwait. The KZH also accepts donations, contributions and charity from the people.

### **2.2.1 *Shari'ah* Control Objectives**

- A. The *zakah* funds shall be spent according to the injunctions of the *Shari'ah*.
- B. The KZH will observe *Shari'ah* rules in its everyday operations.

### **2.2.2 *Shari'ah* Control on Distribution**

- A. The *zakah* shall be spent only on Muslims except for the *mu'allafatul qulub* and *zakah* collectors, who could be non-Muslims.
- B. The *zakah* funds shall be spent only on the eight categories specified in the Quran.

The KZH has made detailed regulations which define eligibility for the *zakah* funds within the overall *Shari'ah* framework.

### **2.2.3 Overall *Shari'ah* Control**

The law provides for the constitution of a *Shari'ah* Commission consisting of *Shari'ah* scholars. The *Shari'ah* Commission has the power

to review operational plans of the KZH and to point out any deviations from the *Shari'ah*. It is also responsible to give authoritative opinion on matters relating to *zakah* law.

## 2.3 Evaluation of *Shari'ah*

### 2.3.1 *Shari'ah* Control in Pakistan

- A. The *Shari'ah* control objectives provide that *zakah* shall be collected compulsorily only from *ashab al-nisab*. The objective in itself is narrow as it does not say that *zakah* shall be collected compulsorily from all *ashab al-nisab*. As a result it exempts from compulsory payment a number of categories of persons who should pay the *zakah*. For example, stock-in-trade of business and industrial undertakings, current bank accounts and foreign currency accounts are exempt. The law does not even require these categories to file a self-assessment return. Exemption of current account balances has provided a temptation for transferring bank savings account balances to current accounts just before the *zakah* deduction date. This is not a speculation. A report has revealed that about 9.86% of the saving bank balances were transferred to current accounts within two weeks before the first of Ramadan in 1982-83. (Proceedings of CZC, Vol.IV, p.82).
- B. The *zakah* law in Pakistan has exempted all those persons from compulsory *zakah* levy who give an affidavit that they are followers of a school of *fiqh* which does not permit payment of *zakah* to the state. This exemption has provided a lacuna in the law providing an opportunity for persons to pretend to adhere to one of these schools of *fiqh* in order to legally evade the *zakah*.
- C. The law provides that if a person claims that he or she was not *sahib al-nisab* on the valuation date, the LZC, after due inquiry shall issue a certificate on form LZ-51 to this effect. The control is inadequate to the extent that it does not prescribe any procedure of inquiry for the LZC nor does it require the LZC to gather and preserve backlog of evidence. As a result, this control is likely to be manipulated.

D. The over-all *Shari'ah* control governs the central and provincial levels. It does not extend down to local levels. For example, the law does not say that LZCs, TZC, or DZCs will have religious scholars or leaders as members. Their membership at all levels would have provided greater credibility to the *zakah* systems. However, the role of the C11 is quite positive. It has intervened frequently to keep the CZC in line with the *Shari'ah*. For example, the CZC refused to exempt the non-commercial fodder crop from *ushr* on the recommendations of the C11.

### **2.3.2 *Shari'ah* Control in Kuwait**

Since the law in Kuwait does not provide for the compulsory levy of *zakah*, there are no *Shari'ah* controls on assessment, imposition, rates and collection of *zakah*. The only area for *Shari'ah* control is *zakah* distribution. The law provides quite detailed guidelines on *zakah* distribution and if practiced would be in accordance with the *Shari'ah*.

## **3. ADMINISTRATIVE CONTROL 3.1**

### **Administrative Control in Pakistan**

#### **3.1.1 Administrative Control Objectives**

The administrative procedures do not lay down control objectives explicitly. I have inferred these objectives from various rules and procedures

- A. The *zakah* administration shall remain aloof from politics. It shall concentrate on its welfare operations and resist all political pressures.
- B. The organizational set-up shall provide for a well-defined hierarchy to control activities of lower tiers.
- C. The *zakah* functionaries shall be accountable for *zakah* operations.
- D. The cost of *zakah* administration shall be kept to a minimum.

- E. The *zakah* will reach beneficiaries without delay.
- F. Functionaries in the *zakah* administration will be provided suitable incentives for hard work.

### 3.1.2 Organizational Set-up

The *zakah* administration in Pakistan has been organized at five levels - central, provincial, district, *tahsil* and local. At the central and provincial levels there are the Central *Zakah* Council (CZC) and four Provincial *Zakah* Councils (PZCs). These councils are assisted by administrative offices, respectively known as the Central *Zakah* Administration (CZA) and the Provincial *Zakah* Administration (PZA). At the lower levels, the *zakah* committees are operating organizations. They do not have separate offices. Their chairmen are responsible for maintaining various records and submitting various reports. At the DZC and TZC levels, the functionaries of the civil administration act as part time members or chairmen. Some of the members are elected from the people. At the local level all members including the chairman are elected by the people. No official from the government acts on these committees. All members of the Councils and Committees work on a voluntary basis. The officials of the CZA and PZAs are government servants who receive salaries from the general exchequer. Thus the system provides for a large number of voluntary organizations. They are at present more than 34,000 local *zakah* committees, each having seven members, all operating on a voluntary basis.

The PZCs have the authority to suspend or dismiss a DZC, TZC or LZC if, after an inquiry it is established that its members are responsible for misconduct, fraud, misuse of funds etc.

### 3.1.3 Collection Mechanism

*Zakah* is collected through a large number of agencies declared as *Zakah* Collection Organizations (ZCOs). They deduct the *zakah* from the wealth of the *ashab al-nisab* from their dividend, profit or interest income. This is deduction at source. The ZCOs consist of all bank

branches, saving centers, insurance companies, investment trusts, joint stock companies, the Accountant General's Offices and any other institutions which hold financial assets of the people. These agencies remit the *zakah* amounts collected through their controlling agencies termed as *Zakah* Collection Controlling Agencies (ZCCAs). The ZCCAs transfer the funds to the account of CZC in the State Bank of Pakistan. It is worth noting that the CZC does not have any administrative control over these bodies.

The *ushr is* collected by the LZCs. The LZCs prepare an estimate of low average yield and low average farm gate price and get its approval from the PZCs through the DZCs. Then *ushr is* assessed for each individual and collected by the LZCS either directly or through the revenue department staff. There are detailed procedures in either case.

The LZCs report their collections to the PZCs through appropriate channels. The PZCs send this information in turn to the CZC.

### 3.1.4 Distribution Mechanism

A. The CZC transfers the *zakah* proceeds to PZCs, on the basis of population. The proportion is as below:

Punjab	59 %
Sind	20 %
NWFP	14 %
Baluchistan	6 %
Islamabad Capital Territory (ICT)	1 %
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	100 %

B. The PZCs distribute the *zakah* thus received in the following manner:

<u>Province</u>	<u>through institutions</u>	<u>through LZCs</u>
Punjab	50%	50%
Sind, Baluchistan, ICT**	40%	60%
NWFP	30%	70%

C. The distribution through institutions is channeled to the following four categories in the proportion considered suitable by the PZC/DZC/TZC or LZC, in whose jurisdiction the institution falls:

- i. Students of religious schools (deeni madaris)
- ii. Students of schools, colleges and universities
- iii. Social Welfare Centers
- iv. Hospitals and dispensaries.

D. At the LZC level, the *zakah* received from PZCs and the local collection of *ushr* makes up the pool of available funds. The rules provide the following proportions for distribution:

Administrative expenses	=.	10%
Rehabilitation of individuals	=	45%
Monthly cash grants	=	45%

E. The Government has also set up a National *Zakah* Foundation (NZF) for the rehabilitation of deserving people. The NZF provides support through welfare institutions. It finances such projects which provide regular income to the deserving people. To achieve this purpose the government provides funds for building infrastructure. The CZC provides funds which are to be directly spent on needy persons. The NZF has detailed procedures for scrutiny, approval, inspection and monitoring of projects. The CZC transfers funds to the NZF on definite proposals and on the assurance that the principle of *tamlík*

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\*\*Islamabad Capital Territory

shall not be violated. Generally, the NZF supports those projects which can be run by the beneficiary organization on its own after two years. It keeps on following up the projects during and after implementation. The NZF has its branch offices in all the provinces where welfare institutions can contact it for assistance.

### **3.1.5 Inspection**

- A. The CZC has installed a system of inspection through five central teams and 18 provincial teams. Besides, it has laid down a schedule for administrative inspections by the members of the PZC, DZC and CZC. In all, over a year about 650 LZCs, 84 CZCs, and 36 DZCs will be inspected by these people. Similarly, about 200 institutions handling *zakah* funds will be inspected.

### **3.1.6 Computerization**

The CZC has computerized its accounts. The computer bureau at PZC levels receive reports from lower levels on the *zakah* operations which are fed into the computer to produce various reports on collections, refunds, distribution to individuals, distribution through institutions, rehabilitation schemes etc. The CZC has prescribed a bi-annual review of all beneficiary lists by the LZCs so that computer master files are updated.

## **3.2 Administrative Control in Kuwait**

### **3.2.1 Administrative Control Objectives**

- A. The . KZH will keep operative procedures simple for operational efficiency.
- B. It will use modern systems and technical equipment, such as computers,-for higher efficiency.
- C. It will institute a system of studying the planning and follow-up of all activities.

- D. It will install a system of internal review.
- E. It will undertake training and development of its manpower on a continuous basis.

### **3.2.2 Organizational Set-up**

The KZH is headed by a Board of Directors to be chaired by the Minister for *Awqaf* and Islamic Affairs. The day to day operations are run by a General Manager who is assisted by the following committees:

- A. External Distribution Committee
- B. Local Distribution Committee
- C. Resources Development Committee
- D. Organization Committee
- E. Budget Committee
- F. Personnel Committee

These Committees are supported by the following office departments:

- A. Local Distribution Department
- B. External Distribution Department
- C. Social Services Department
- D. Resource Department
- E. Public Relations Department
- F. Charity Services Department
- G. Financial Affairs Department
- H. Administration and Services Affairs Department
- I. Computer Bureau
- J. Legal Bureau
- K. Planning and Follow-up Bureau

These departments constitute the Secretariat of the KZH.

### 3.2.3 Collection Mechanism

*Zakah* in Kuwait is a voluntary donation. However, KZH has a close liaison with the local *zakah committees* through a Resources Development Committee at the headquarters. In 1984-85, there were 25 such committees. These committees persuade individuals and firms to pay their *zakah* through the KZH. All the *zakah* collections are kept in a bank savings account. The KZH also accepts grants in kind such as sugar, dates etc.

### 3.2.4 Distribution Mechanism

The *zakah law* provides for the distribution of *zakah* to the eight categories specified in the *Quran*. The KZH has following programmes to distribute the *zakah*:

- A. Social Aid through monthly cash grants, lump-sum aid to restrained families and interest-free loans to students.
- B. *Zakah al-fitr* by issue of coupons valid for the purchase of necessities at specified stores.
- C. Breakfast during Ramadan.
- D. Uniforms for orphans.
- E. Assistance to individuals on the recommendation of cooperative societies.
- F. External distribution (outside Kuwait) through Islamic Institutions. In 1984, KZH provided assistance to 295 such institutions in 18 countries to the amount of KD 371,400. This was 35% of its total budget.
- G. Disaster relief in other Islamic countries for the promotion brotherly relationships.

- H. Provision of funds for employment-generating projects to improve conditions for Muslims.
- I. Winter relief schemes to provide blankets and clothing in Afghanistan and other Muslim countries.

### 3.2.5 Inspection

The KZH reviews the collection and distribution operations at different levels. The general manager of the KZH, receives reports from the heads of departments. He forwards a quarterly report to the Board of Directors on the work done, as well as an annual report which evaluates the extent to which the target has been achieved.

### 3.2.6 Computerization

The KZH has computerized its accounts and other records. The Computer Bureau receives data from different departments and produces a variety of reports on collection, distribution and rehabilitation works.

## 3.3 Evaluation of Administrative Control

### 3.3.1 Administrative Control in Pakistan

Pakistan has a large zakah organization which makes it much more difficult to control and run it efficiently. Although the CZA has issued detailed procedures on almost all operations there are still areas which need improvement because of weak administrative controls.

- A. There are five levels of hierarchy while actual operations are only on the level of LZCs. The DZCs and TZCs perform post office functions and are sources of delay and inefficiency. Devolution of greater responsibility on the LZCs with better controls at the local level by the local population would improve matters. It is very difficult for the CZC or PZCs to control the LZCs which are located four or five levels down the hierarchy.

- B. The administrative set-up provides secretarial support to the CZC and PZCs but not to DZCs, TZCs or LZCs. These latter organizations are supposed to handle the office work themselves on a voluntary basis. For more effective accountability these committees should be manned by elected non-officials and supported by officials who maintain the complete record. At present, a large number of voluntary functionaries do not keep records properly. Moreover, there is no immediate check on the office work being done by a voluntary functionary. An elected committee will provide the accountability umbrella over officials. The present system ends itself to a weak administrative control.
- C. At DZC and TZC levels, officials of the revenue department have dual responsibility for their own routine work as well as for *zakah* operations. Naturally, they tend to treat *zakah* as a distraction and do not pay proper attention to it. As a result, they do not send the required reports punctually or regularly.
- D. There is a lot of paper work involved at the local level, where the Chairman is often semi-literate, if not' completely illiterate. For example, he must keep at least 3 registers, fill in 6 types of forms and send annual reports to the TZCs. Besides, he must issue exemption certificates to those who so apply, deal with refund applications, and applications of the beneficiaries. These people are often very busy in their day-to-day work and tend to neglect the paper work demanded of *zakah* operations.
- E. The *zakah* operations are bureaucratic and retrogressive. The *Zakah* functionaries are not called on to reach out to the potential beneficiaries. Instead, the beneficiaries must apply for assistance which is processed through a system of red-tape which creates delays. The *zakah* functionaries should be productive and take the initiative to help the people. The administrative set-up does not cater to this Islamic approach.
- F. The *zakah* distributed through institutions escapes the close scrutiny of any *zakah* organization. Once it is passed on to the institution, it

is difficult to ensure that it has been correctly distributed. The institutions are bound to send information to PZC/CZC on prescribed forms. But, firstly, they do not do so punctually. Secondly, it is not possible at the CZC/PZC level to verify these statements.

- G. The administrative set-up does not provide for annual or strategic plans for the collection and distribution of the *zakah*. As a result, the *zakah* operations are at the mercy of historical forces. A more appropriate method will be that annual plans are formulated at each level. They should be monitored and reviewed periodically so that corrective action can be taken.

### **3.3.2 Administrative Control in Kuwait**

- A. Smaller size has bestowed a number of advantages to the KZH in terms of economy and efficiency. The KZH has kept the dual system of committees and secretarial support so that all officials are accountable to some committees. Such a system tends to produce greater efficiency.
- B. The KZH accepts donations in kind. It also distributes the *zakah* in kind in the form of food, clothing and equipment. Generally, these operations cause a greater control hazard than cash-only operations. They expose the *zakah* functionaries to purchasing and contracting which are inherently risky operations from the control point of view.
- C. The KZH operations outside Kuwait make it difficult for the House to keep a close eye on the actual use of funds. Such a situation is inherently riskier.

## **4. FINANCIAL CONTROL**

### **4.1 Financial Control in Pakistan**

#### **4.1.1 Financial Control Objectives**

The departmental rules and regulations do not specify financial control objectives. I have tried to infer the following objectives from various departmental documents :

- A. All *zakah* dues shall be collected expeditiously.
- B. There shall be no waste, embezzlements or frauds in the collection and distribution of *zakah* funds.
- C. The *zakah* funds shall be spent only for legitimate and specified purposes.
- D. The *zakah* funds shall be managed with due regard for economy.
- E. The *zakah* assets shall be safeguarded.
- F. All financial and operational events shall be recorded accurately and promptly.
- G. The financial rules and policies shall be complied with.

#### **4.1.2 Control on Collection**

- A. All ZCOs shall assess the *zakah* from the wealth of Pakistani Muslim *ashab al-nisab* on the first day of Ramadan at the prescribed rates.
- B. All ZCOs shall deduct the assessed *zakah* from the earnings of the assets and if there is a shortfall in the earnings, the assessed *zakah* shall be carried forward for deduction from future incomes.
- C. The *zakah* and *ushr* shall be deducted only in cash and not in kind.

- D. All the *zakah* sums assessed must be deducted at source and all *ushr* must be paid by the assessee immediately on harvesting the crop. Any arrears of *zakah* or *ushr* shall be treated by the Collector of Land Revenues as if they are arrears of land revenue.
- E. The *ushr* shall be assessed on the gross value of the crop. No expenses shall be deducted.
- F. The ZCO shall issue, on the request of the assessee, a machine numbered receipt of the *zakah* amount deducted at source. The *ushr* collecting agency shall also issue a receipt of *ushr* collection. No duplicate receipts shall be issued in any case.
- G. Self-assessment of *ushr* shall be reconciled by the LZC with the figures of the yield independently provided by the revenue staff.
- H. A loan taken for the purchase of an asset shall be deducted from the value of the asset for assessing *zakah* only if the same asset was purchased with the loan by the same person and the loan was taken from the same ZCO.
- I. All ZCOs shall transfer the *zakah* deducted at source to ZCCAs, who will immediately deposit the sums in the Central *zakah* Fund (CZF) with the State Bank of Pakistan.
- J. All ZCOs will send a quarterly report to the ZCCAs on the amount of the *zakah* collected, refunded and transferred to the ZCCAs.
- K. All ZCCAs will send a quarterly report to the CZA on the amount of *zakah* collected, refunded and deposited with the State Bank of Pakistan.
- L. The State Bank of Pakistan shall send weekly, monthly and annual reports on the funds received to the CZA.

- M. The Stock Exchanges at Karachi and Lahore shall submit to the CZA monthly reports on the dividends declared by the listed companies during the preceding month.
- N. The Register of Joint Stock Companies shall submit, every month, to the CZA information on the dividend declared by unlisted public limited companies.
- O. All cheques received on account of voluntary *zakah* and donations shall be immediately crossed and deposited in the State Bank of Pakistan.
- P. The *ushr* assessment and collection shall follow the following procedure :
- i. Revenue officials (*patwaris*) shall prepare a statement of *ushr* assessed on form A.
  - ii. On form B, they shall convert the form A statement according to *lumbardar-wise*.
  - iii. Form B shall be passed on to respective *lumbardars* who will collect *ushr* and issue a receipt on Form C.
  - iv. The *lumbardars* will deposit the *ushr* collected with the LZC on Form D, indicating any arrears.
  - v. An assessee shall be able to assess and deposit his *ushr* directly with the LZC as well. The LZC shall issue a receipt on Form F.
  - vi. The revenue officials (*patwaris*) in certain cases shall also collect the *ushr* and deposit it with the LZCs.
  - vii. A LZC can carry out assessment of *ushr* directly or can have it done by some other agency, if so desired.

#### **4.1.3 Control on Refunds**

- A. No refund of *zakah* or *ushr* shall be made until the claim is accompanied by:
  - i. documentary evidence in support of the refund
  - ii. a *zakah* deduction certificate
- B. There shall be no refund for the *ushr* until it is claimed on the basis of arithmetical error.
- C. A revised *zakah*-deduction certificate shall be issued in case of partial refund.

#### **4.1.4 Control on Withdrawals from *Zakah* Funds**

- A. Withdrawal of money from any *zakah* fund shall be made only on the written authority of the person authorized specifically for the purpose.
- B. There shall never be an over-draft on any *zakah* fund.
- C. All cheques issued shall be crossed.
- D. One cheque shall be issued for one head of account.
- E. All cheques issued shall be entered in a register.
- F. All cheques issued but not presented within three months shall be reported every month on a list.
- G. All canceled cheques shall be retained and entered in a register.
- H. All cheques shall be signed by at least two persons.
- I. The blank cheque books shall be safeguarded by authorized persons.

J. The *zakah* funds shall be handled at central, provincial and local levels only. There shall be no *zakah* fund bank accounts at district and *tahsil* levels.

#### 4.1.5 Control on Local *Zakah* Funds

- A. Every LZC shall open a bank account in its area in the name of at least two persons.
- B. There shall be only one bank account for each LZC and no change is allowed in it except with prior permission from the PZA.
- C. All *ushr* or donations received shall be deposited immediately in the bank.
- D. There shall be only four main heads of account for receipts.
- E. The Chairman shall keep counterfoils of deposits and cheques issued in safe custody for audit.
- F. All cheques issued shall show the head of account to be debited.
- G. As far as possible, all disbursements shall be made by cheques.
- H. All claims when paid shall be defaced.
- I. The acknowledgement of payments shall be supported by payees' signatures or thumb impressions.
- J. All payees' receipts shall be verified by the LZC Chairman and another LZC member.

#### 4.1.6 Control on Distribution

- A. Monthly Cash assistance shall not be less than Rs 150 or more than Rs. 250 for each individual plus Rs 30 for each dependant.

- B. Maximum assistance for rehabilitation shall be Rs. 4000 and shall preferably be given in kind rather than cash. In case of cash, it shall be given in instalments after monitoring the progress of the recipient's efforts toward rehabilitation.
- C. All institutions, responsible for distributing the *zakah* shall observe the following procedure:
- i. They shall follow the prescribed conditions for determining eligibility for *zakah*.
  - ii. They shall submit an annual report in prescribed forms to PZAs on the *zakah* fund distributed along with summary particulars of the beneficiaries.
  - iii. They shall be responsible for the safe-custody of *zakah* funds.
  - iv. They shall avoid any waste in the distribution of *zakah* funds.
- D. The National *Zakah* Foundation (NZF) shall adopt the following procedures for assisting social welfare institutions in the rehabilitation schemes:
- i. The NZF shall provide assistance only if the beneficiary institution is willing to contribute 50% of the capital cost and all operational costs after the project is implemented.
  - ii. The NZF shall provide assistance in installments after satisfying itself as to the progress of the actual work.
- E. All sums transferred to PZCs and LZCs shall be immediately distributed.
- F. The PZCs and NFZ shall not receive the next instalment of *zakah* funds from the CZC if they have not been able to spend the previous instalment or if they fail to render an account of the previous instalment.

G. The NZF has an imprest of Rs 5.00 million which it can recoup by rendering accounts.

#### **4.1.7 Accounting Control**

- A. The CZA has issued detailed heads of accounts for all types of receipts and payments. All ZCO heads are required to render accounts of transactions promptly.
- B. The CZA prepares a monthly account of receipts and payments on the basis of information received from the State Bank of Pakistan. Similar monthly accounts are also prepared at the PZA level.
- C. The CZA reconciles its accounts with the State Bank every month and with ZCCAs every quarter.
- D. *Zakah* committees at every level submit information about their operations on prescribed forms to the next higher level where it is consolidated and transmitted to the CZA.
- E. Each LZC shall keep its account in the following registers:

LZ-11 Personal Register for disbursing *zakah*, giving the particulars of each beneficiary

LZ-12 Subsidiary cash book

LZ-13 Main Book

#### **4.1.8 Audit**

- A. The law provides that all *zakah* funds shall be audited by Chartered Accountants and the Auditor-General of Pakistan. Up to 1988-89, Chartered Accountants firms carried out audits of *zakah* funds at all levels. But from July 1989 the CZA has instituted its own internal audit department which will gradually take over the audits by C.A.

firms. The external audit is carried out by the Auditor-General of Pakistan.

- B. The internal audit department shall follow The audit programme proformas previously prepared for the Chartered Accountants firms. These proformas contain questions pertaining to accounting as well as to operations of the *zakah* committees. Therefore, the scope of the audit is both financial and managerial, although it cannot be termed as a comprehensive audit.
- C. The law provides that the audit report shall be submitted to the legislature but in practice this has never been done.
- D. The *zakah* committees at all levels are required to furnish point-by-point replies to audit remarks.
- E. The CZC approves the time table for audits at all levels. 4.2

## **Financial Control in Kuwait**

### **4.2.1 Financial Control Objectives**

- A. The KZH shall institute such systems and procedures which :
  - i. help the KZH safeguard its resources
  - ii. lead to the accurate record of its transactions
  - iii. promote its long-term growth
  - iv. ensure compliance with its policies and programmes
- B. The internal controls shall prescribe independent checking of the work of one employee by another.
- C. There shall be separation of duties for sanction, implementation, payment and accounting.
- D. The KZH shall issue clear guidelines for each job.

- E. Employees shall be periodically rotated to different jobs.

#### **4.2.2 Financial Plan**

- A. The KZH prepares its annual budget showing estimated income and expenditure for the coming financial year as well as actual figures for the current financial year. The general manager of the KZH has issued general guidelines for the preparation of the budget.
- B. Income from *zakah* and *sadaqah is* kept separate from state allocations.
- C. The general manager can reappropriate from one sub-head to the other sub-head of account within the same major head of account.
- D. If there is no provision in the budget under a particular head of account, expenditure is not allowed under this head.
- E. No contract shall be made against future budgets except for employment, rent, security, or income and expenditure of a capital nature, and these only up to a period of three years, beyond which it would require approval of the Board of Directors.

#### **4.2.3 Control on Expenditure**

- A. The bank account shall be operated by the manager or his nominees.
- B. Expenditure shall be made on the prior approval of the manager and within the budget.
- C. All expenses must be supported by evidence. In case original evidence is lost, a duplicate shall be accepted after verification, assurance of prior non-payment and after receipt of a written undertaking from the payee for refund of any over-payment.
- D. All unclaimed cash shall be deposited back into the bank if the claimant does not come to receive it within 10 days.

- E. All deductions from payments like income tax, etc. must be deposited with concerned agencies within 10 days.
- F. The cashier shall take all precautions to safeguard the cash.
- G. The cashier shall make payments only to the correct persons.
- H. All corrections on vouchers shall be verified before acceptance.
- I. Cash set aside for a specific purpose shall not be used for any other purpose, even temporarily.
- J. The general manager can make physical verification of cash at his discretion.
- K. The general manager shall allow a revolving imprest for day-to-day operations.
- L. The general manager can allow up to 500 dinars as a temporary advance for approved expenses.
- M. All cash surplus to the needs of the KZH must be deposited into the bank.
- N. The finance manager shall review all receipt books and pay-in slips of the bank to ensure that all receipts have been deposited into the bank.
- O. All cheques received must be deposited into the bank by next morning.

#### **4.2.4 Accounting Control**

- A. The KZH shall follow general accounting principles followed by the government of Kuwait.
- B. The accounts will cover all transactions.

- C. All documents shall be retained for internal review and external audit.
- D. The KZH will carry out reconciliation with the bank within 15 days from the receipt of statements from the bank.
- E. All records shall be organized according to date and retained for 5 years.
- F. Income and expenditure of each year shall be registered for the same year.
- G. Annual accounts shall show details according to heads of budgeted and actual receipts and payments.
- H. The annual accounts shall be authenticated by the Board of Directors before they are transmitted to the Ministry of Finance.

#### **4.2.5 Safeguard of Assets**

- A. As far as possible, the KZH shall not acquire assets surplus to its needs and which are likely to stagnate due to non-use.
- B. The KZH shall safeguard all *zakah* received in kind.
- C. The store keeper shall keep a detailed account of all receipts and issues.
- D. All shortages, thefts and wastes shall be reported to the general manager immediately.
- E. All surplus stores shall be disposed of by open auction.

#### **4.2.6 Award of Contracts**

- A. The KZH shall try to obtain the best prices for various contracts.
- B. A committee shall negotiate the prices and other terms if:

- i. the specifications cannot be precisely defined;
  - ii. a product or service is needed urgently; and
  - iii. the value is so small as not to justify holding an open bidding.
- C. The KZH can purchase goods or services directly if:
- i. it is a propriety item;
  - ii. it is an off-repeated purchase;
  - iii. it is justified by other reason.

However, direct purchases shall follow the usual purchase regulations.

#### **4.2.7 Internal Review**

- A. The KZH shall organize its internal review for:
- i. detection of error or frauds;
  - ii. ensuring compliance with its policies throughout the year.
- B. The persons carrying out internal reviews shall be independent of the persons responsible for operations, payments and accounting.
- C. Internal review reports shall be submitted to the manager.
- D. All payments shall be checked by internal review before payment.

#### **4.2.8 External Audit**

- A. The external auditors shall be appointed by the Board of Directors and shall report to the Board.
- B. The law has specified the language of the audit certificate given by the auditors.

## 4.3 Evaluation of Financial Control

### 4.3.1 Financial Control in Pakistan

- A. The financial controls in Pakistan are fairly elaborate. They are designed for the economical collection of *zakah* and *ushr*, the safeguard of *zakah* funds and the detection of errors, omissions and frauds. In general they follow the accounting controls practiced by other sectors of the government.
- B. The *zakah* is collected by thousands of ZCOs and transmitted to the State Bank of Pakistan through a few hundred ZCCAs. There is an elaborate reporting system which ensures that all *zakah* deducted has been deposited into the CZF. But the reporting system is defective on at least two counts:
- i. It does not provide any verification that all the *zakah* dues were deducted.
  - ii. It does not ensure that all deductions have been deposited promptly into the CZF.

As a result there could be a wide margin of leakage through either negligence or design by ZCOs. Similarly the ZCOs and ZCCAs can use the *zakah* funds for considerable periods of time without the CZA even knowing about it.

- C. The rules prescribe that a LZC shall be dismissed or its members removed from the committee if it is found guilty of any misuse or misappropriation of funds. The rule by itself does not prescribe any other punishment for such person, which in any case, should be exemplary.
- D. The rules lay down elaborate procedures for refund of *zakah* wrongly deducted but they are silent about action to be taken against such functionaries who have done so deliberately or through negligence.

- E. The *zakah* collection and distribution system is not as efficient as one would like it to be. The estimated cost of distributing Rs. 1000 was Rs 43.70 in 1986 but did not include the cost of a large number of voluntary functionaries at all levels.

Similarly, the system has been sluggish in reporting *zakah* deducted and *ushr* collected. It was similarly slow in transmitting the *zakah* collected back to the local level. The process visualizes the centralization of all receipts in the first step through ZCOs and ZCCAs. In the second step it returns the money to needy persons through five levels. Inefficiencies and inertia ensue at all stages in the process. The result is that the funds do not reach the target population promptly.

Because of inefficiency, the *zakah* system has not contributed much to alleviate poverty of the masses. There are no studies available on the subject but everyday observation does not support any cause for optimism.

- F. There are no controls against leaving funds idle. As a result, the CZC has been accumulating idle balances. Similarly PZAs and LZCs have not been distributing all the funds among the potential beneficiaries. It was estimated in 1985-86 that up to 63% of the funds (at all levels added up) were lying idle. Figures for 1988-89 depict a still more grim picture. Out of receipts of Rs 2.195 billion, only Rs 1.215 billion (55%) was disbursed, which raised the level of idle funds to Rs 3.172 billions. These funds were lying in current account with the State Bank of Pakistan without earning anything. The reasons for keeping these funds idle are :
- i. lack of initiative and sheer lethargy;
  - ii. absence of sound proposals for rehabilitation work;
  - iii. the CZC's apprehension that these funds may be misappropriated at local level, since the state of control is not quite satisfactory.

- G. The CZA does not prepare its financial plans in the form of a budget, nor does it lay down its operational targets. As a result it is not able to achieve economy, efficiency and effectiveness in its operations.
- H. For rehabilitation assistance, the rules provide that the beneficiary be helped in kind rather than cash. This makes the operation inherently risky since it is difficult to ensure that there has been no misappropriation or wastage in the procurement of goods.
- I. The system visualizes active support from a large number of voluntary organizations and individuals who are also expected to do a lot of paper work. There is hardly any control over these organizations and individuals if they do not cooperate, fail to provide the information, or do not observe the prescribed time-table. As a result there have been reports of non-production of record for audit, non-submission of reports and delay in responding to instructions from higher echelons.

#### **4.3.2 Financial Control in Kuwait**

- A. The objectives and general principles of financial control followed by the KZH are in accordance with universally accepted principles of internal control. If practiced, they are likely to lead to efficient and economical operations.
- B. The KZH also accepts *zakah* in kind. Similarly, it distributes *zakah* in kind. The *zakah* operations in kind are inherently risky and prone to misuse, if a very close watch is not kept on them.

### **5. CONCLUSIONS 5.1**

#### ***Shari'ah* Control**

- A. The paper has discussed *Shari'ah*, administrative and financial control of the *zakah* systems in Pakistan and Kuwait. In Pakistan, *zakah* is a compulsory levy on the wealth of certain categories of *ashab al-nisab*. But in Kuwait, the *zakah* is a voluntary contribution by the wealthy

citizen. Because of this essential difference, *Shari'ah* control on collection is irrelevant for Kuwait while they are crucial in the case of Pakistan. The *Shari'ah* levies *zakah* on all *ashab al-nisab* and the state is supposed to collect and distribute it. In Pakistan, the *zakah* law has given exemption from compulsory payment of *zakah* to certain categories of *ashab al-nisab*. These categories include all business firms, industrial units, foreign currency bank accounts, tenants of leasehold land and followers of *fiqh jaafariya* (*shia* sect). As a result, a large amount of potential *zakah* escapes the *Shari'ah* controls. The law has also given allowance on *ushr* to the extent of one-third on tubewell irrigated land and one-fourth on other lands, which is also not covered by the *Shari'ah*. To the extent of these instances, the *Shari'ah* controls on collection of *zakah* in Pakistan are weak.

- B. So far as distribution of *zakah* is concerned, both countries have taken care to implement *Shari'ah* control in letter and, spirit. The laws in both countries specify unambiguously that the *zakah* funds shall be spent only on the eight categories mentioned in the *Quran*. Because of a very high incidence of poverty in Pakistan, though, the law has restricted the distribution to the poor, the needy and the grief-stricken. The expenditure on other categories such as *fi sabil Allah*, *ibn alsabil*, *amilin*, *fi al-riqab* have not yet been implemented, although the law provides for it. Both countries have incorporated the spirit of the *Shari'ah* in the distribution of *zakah*, since both of them provide for the permanent rehabilitation of the poor and the needy. In terms of distribution, I feel both the countries have adopted the *Shari'ah* controls in letter and spirit.

## 5.2 Administrative Control

Geographical size and the relative scale of *zakah* operations in the two countries have influenced their respective administrative structures. Kuwait is a smaller country (Area 17818 Sq.K.M., Pop: 2.2 million) in terms of population and land area as compared to Pakistan (Area: 887750 Sq. K.M., Pop: 103 million). Kuwait has adopted a centralized administrative structure with fewer people to operate it. As a result, the

top management of the Kuwait *Zakah* House is able to administer *zakah* operations economically and efficiently.

Pakistan has organized its *zakah* operations with an administrative hierarchy composed of five tiers. The bottom tier consists of over 34,000 local *zakah* committees. Besides the number of committees, the geographical expanse and the length of communication channels make the system inherently lethargic and inefficient. For example, it takes two months to determine and communicate the *ushr* rates to each LZC. It takes over six weeks to transmit funds from the CZC to a LZC. (It used to be 3 months). It takes usually a period of 3 months before an application for *zakah* assistance is considered.

The *zakah* system first channels all funds to the CZC and then returns them to the local *zakah* committees. This mechanism has two inherent difficulties. Firstly, it takes the initiative away from the local *zakah* committees and leaves them to the mercy of decision-makers at the top. They do not feel involved nor do they think that they are responsible to alleviate poverty in their areas. Instead they remain on the fringe of the system, acting only when they receive an instalment from above. Secondly, the decision-makers at the top remain isolated from the target population. There are four tiers in-between. They have to rely on reports received from the lower tiers. They have little or no first-hand knowledge of the situation on the ground.

The administrative structure in Pakistan has been conceived to rely on voluntary help from the people and from *zakah* collecting organizations. While this has reduced the direct cost of *zakah* operations significantly, it has left the *zakah* administration without effective control over its operations. The *zakah* committees at local, *tahsil* and district levels do not have any secretarial support accountable to the *zakah* administration. As a result, the documentation and paper-work on which the efficiency and control of the system hinges, lags behind schedules and established quality standards. The CZA has little control over these volunteers and other sister organizations if they choose not to cooperate.

The CZA has instituted a system of inspections for which 23 teams have been organized. Given the size of the total operations, these teams seem to be inadequate to the task. Each team would require to cover about 1500 LZC every year which is beyond their capacities. The other mechanism of inspection is the administrative inspection by various revenue and civil officials. Since these people are already over-burdened with their routine duties and since *zakah* is taken as an "additional burden", these inspections may be easily side-tracked and ignored by these people. We feel that the present mechanism of inspection is inadequate for an effective management of *zakah* operations in Pakistan.

### **5.3 Financial Control**

The regulations regarding the safeguard of money, custody of valuables, accounting, auditing and precautions against errors, omissions, frauds and misappropriation are fairly similar and satisfactory in the two countries. However, the following points deserve attention:

- A. In Pakistan, there is no control over leaving funds idle. The CZC is not bound by any control to distribute the *zakah* funds among the target population. As a result there was an idle bank balance of Rs 4.387 billion on 30 June 1989. This has been a severe constraint on the effectiveness of *zakah* operations.
- B. The regulations in Pakistan provide that audit reports shall be presented to the legislature. But in practice not a single audit report has been placed before the House up till now. Consequently, the process of accountability is very weak.
- C. The CZA in Pakistan does not prepare any financial and operational budget which could be used to measure its efficiency and effectiveness.
- D. There is no cost accounting system in place in the *zakah* administration in Pakistan. The CZA does not have means to cut down the cost of its operations, a large part of which is hidden because of voluntary support.

- E. The rehabilitation programme provides for provision of goods and implements rather than cash transfers. Such an arrangement is inherently risky and open to misuse.
- F. As compared to Pakistan, the position of financial controls in Kuwait is fairly encouraging. It has established universally accepted principles of internal control. But the KZH also handles *zakah* in kind besides cash. Again, I would say that this is a control hazard and has a greater likelihood of misuse. Subject to this observation, the financial control in Kuwait seems to be satisfactory.

## ABBREVIATIONS

### **Pakistan**

C Z A	Central <i>Zakah</i> Administration
C Z C	Central <i>Zakah</i> Council
C Z F	Central <i>Zakah</i> Fund
D Z C	District <i>Zakah</i> Committee
L Z C	Local <i>Zakah</i> Committee
N Z F	National <i>Zakah</i> Foundation
P Z A	Provincial <i>Zakah</i> Administration
P Z C	Provincial <i>Zakah</i> Committee
T Z C	<i>Tahsil</i> <i>Zakah</i> Committee
Z C O	<i>Zakah</i> Collection Organization
Z C C A	<i>Zakah</i> Collection Controlling Agency

### **Kuwait**

K Z H	Kuwait <i>Zakah</i> House
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# LEGAL, ADMINISTRATIVE AND FINANCIAL CONTROL

AHMAD ALI MUHAMMAD AL-SAWORY\*

## 1. INTRODUCTION

Allah says:

"Of their goods take alms so thou mightest purify and sanctify them; and pray for them. Verily prayers are a source of security for them. And God is One who heareth and knoweth". (Tauba, 103).

This research paper concerns the *Shari'ah*, Financial and Administrative controls used by the *zakah* institution of the Sudan, the *Zakah* Chamber. First, I would like to point out that the *Zakah* Chamber was established in the Sudan late in the year 1405H (1988) to collect the *zakah* under a legal authority if it is not paid voluntarily by those liable to pay it. No authority had taken the responsibility for collecting *zakah* under legal arrangements since the time of the Mehdi government in 1885 (13th Century H).

In 1980 the *Zakah* Fund was established by a presidential decree which provided for the voluntary collection of *zakah*. Perhaps the short experience in the field of *zakah* collection and disbursement in the Sudan has given this research its theoretical and legal focus. For many reasons, which can hardly be mentioned in this research paper, the executive regulations governing activities of the *Zakah* Chamber are still under preparation. Furthermore, the *Zakah* Chamber was given its status as a legal entity only three months ago (January 1990), when its organizational and functional structures were approved.

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I, therefore, submit my apology in advance for this, praying to Allah that my contribution will pave the way for further research activities that would deal in a more comprehensive manner with the applied side of this subject.

## **2. PRINCIPLES OF CONTROL**

In view of the importance of these principles on which various types of control are based and which are addressed in other research works we would like to touch on them very briefly. These principles are also detailed in the *zakah* law of the Sudan.

### **2.1 The State Authority to Collect *Zakah***

This authority has been mentioned in Article 29, paragraph C. It provides that the government authority will collect, manage and disburse *zakah* and *sadaqat* (alms) revenues to those who deserve them.

### **2.2 The Obligatory Nature of *Zakah***

This means the forcible collection of *zakah* if the person liable to pay it does not pay voluntarily according to the provisions of Article 4 g and Article 30 of the Law. This law provides for "confiscation of all sorts of assets to the extent it will ensure payment of the *zakah* amount, not paid in time without an acceptable excuse, and the sale of such assets by auction in accordance with the regulations". Articles 44 and 45 of the Law also impose penalties on those who refuse to pay *zakah* dues or evade them.

Article 5 of the Law provides completion of one year. As per law the *zakah* rates are 2 1/2%, 5% or 20%. Subject to the fulfillment of conditions it is perpetually obligatory and shall never lapse. In conformity with the principles of *Shari'ah* and with the provision of the law, *zakah* is disbursed only to the eight categories that are specified in the Qur'an. When the *zakah* is due it is required to be paid immediately and no instalment in payment is allowed. Article 43 of the Law provides that *zakah* proceeds from a certain area should be spent in that area and

should not be transferred for disbursement to another area unless the Council so approves.

### **3. SHARI'AH CONTROL**

#### **3.1 Objectives of *Shari'ah* Control**

To ensure that the provisions of the Law, legislations, directives and regulations are in full agreement with the principles of *Shari'ah*.

To ensure that *zakah* is applied in conformity with the provisions of *Shari'ah* and the Law.

#### **3.2 Forms of *Shari'ah* control**

*Shari'ah* control includes:

1. Preceding *Shari'ah* control and
2. Subsequent *Shari'ah* control

##### **3.2.1 Preceding *Shari'ah* control**

###### **3.2.1.1 OBJECTIVES OF THE CONTROL**

This control is preventive in nature, and aims at restricting violations of *Shari'ah* principles. They fall into two types:

First: Control over provisions of the Law before it is issued. The control is embodied in the following procedures:

- A. Submission of the provisions of the law to a *Shari'ah* board consisting of *Shari'ah* experts for review and comments before they are issued.
- B. Submission of the provisions of the Law to the legislative body of the government which should, in turn, submit them to an affiliated specialized control board to ensure that such provisions are in agreement with the principles of *Shari'ah*.

- C. Bringing of the provisions of the Law to the attention of the mass media in order for specialists in *Shari'ah* and other interested parties to express their opinions.
- D. Submission of the provisions of the Law before a broad based conference of Ulama to comment on them, and to communicate their views to the legislative body.

Second: Control over the provisions of the regulations and other publications pertinent to the application of Law provisions. This control is manifested in the following procedures and phases:

A review phase by the *Ifta* Committee which is responsible for reviewing draft regulations and publications to ensure that:

- a. they are in agreement with *Shari'ah* and the principles mentioned in the law;
- b. they are in agreement with the details provided for in the Law.

This *Ifta* Committee of the *Zakah* Chamber is one of the effective *Shari'ah* control instruments. Article 36 of the Law has provided for the establishment of this Committee. It reads "An *Ifta* committee shall be established within the Chamber by a decision of the Minister, upon the recommendation of members of the Council who are knowledgeable about *Shari'ah* and well-known in their interest in the problems facing Islam and Muslims. The regulations shall define the terms of reference for the Committee".

### **3.2.2 Subsequent *Shari'ah* Control**

These controls are remedial in nature and meant to stop violations and mistakes in application, correct such violations and mistakes, and prevent their occurrence in the future. These controls are embodied in the following machineries:

**A. THE CHAMBER'S *IFTA* COMMITTEE**

This Committee is responsible for receiving the complaints, **grievances and** comments of **individuals**, the **public** or staff of the Chamber in respect of infringements that are deemed to violate the principles of *Shari'ah* or provisions of the Law, and to study such infringements and make appropriate decisions thereon that will be binding on all parties, including the Chamber, in accordance with Article 36 of the Law.

**B. THE STATE'S *IFTA* COUNCIL**

Its functions are similar to those of the *Ifta* Committee mentioned above, but are wider in scope as it deals with all *Shari'ah* issues, whether related to *zakah* or not. According to the provisions of Article 52 of the Law, its legal opinions are binding on all parties.

**C. THE SUPREME GRIEVANCES COMMITTEE**

Individuals, especially those having grievances against collecting departments, have the right to resort to this Committee to review any issues these individuals deem to be in conflict with the provisions of *Shari'ah* or the Law, in accordance with Article 37 of the Law. This Committee is chaired by a Supreme Court Judge specializing in *Shari'ah*. Decisions of this Committee are final. This Committee undoubtedly constitutes an effective *Shari'ah* control.

**D. THE SUPREME COUNCIL OF *ZAKAH* TRUSTEES**

Finally, according to Article 31 of the Law, this Council is the highest administrative authority in the Chamber. Among its duties is the approval of the Chamber's policies, as well as its general and executive plans. Thus, by virtue of its status, the Council can correct any mistakes deemed to be in conflict with the provisions of *Shari'ah* and Law.

## 4. ADMINISTRATIVE CONTROL 4.1

### Forms of Administrative Control

Preceding Administrative Control and Subsequent Administrative Control are two forms of Administrative Control.

#### 4.1.1 Preceding Administrative Control

##### 4.1.1.1 OBJECTIVES AND INSTRUMENTS OF THIS CONTROL

This control aims to ensure:

- A. that the organizational structure of the *Zakah* Chamber is designed in a way that is compatible with the status of *zakah* in *Shari'ah* and society. Therefore, the Law is intent on providing for the establishment of an organizational structure which is approved by the highest executive authority in the country, the Council of Ministers (Article 30 of the Law). Thus the Council of Ministers functions as an effective preceding administrative control.
- B. that staff of the Chamber are highly competent and well-qualified

As laid down in the *Quran* "*The best person you could ever hire is the strong and the honest* (Qur'an 28:26).

Therefore, there should exist staff control and criteria for appointment of staff that would be compatible with the status of *zakah* as the third pillar of Islam. A staff member should, for instance, be a Muslim, adult and knowledgeable about *zakah* rules. Also there should be conditions for service that would guarantee the employee the necessary means of living. Article 30 of the Law provides that the Council of Ministers shall be in charge of approving staff service conditions. Again, the Council of Ministers constitutes an effective preceding administrative control in this respect.

- C. that an organizational structure is designed for popular committees that complements that of the Chamber and facilitates complete coordination between these committees and the Chamber. This must be reflected in regulations that will spell out authorities and responsibilities. Articles 35 and 54 provide that the Minister, with the approval of the *Zakah* Supreme Council, shall be responsible for the issue of regulations necessary for this. Thus the *Zakah* Supreme Council functions as an effective preceding administrative control.
- D. that the Committees' Guide specifies, very clearly, the terms of reference and responsibilities of the *zakah* popular committees. This guide is issued by the Secretary General of the *Zakah* Chamber.
- E. that there are regulations and publications that determine work relations between the Chamber and other cooperating government organs. The nature of work to be assigned to such organs will be determined on the basis of those relations. This work forms that the Chamber could not perform or that could be performed by other organs at a negligible cost. Such relations should also define the tasks of other entities, their compensation and transportation to be provided to them.
- F. That there exist sound criteria and controls on which the following functions could be based:

- i. Activity of the *Zakah* Collection Administration

The duties of the Collection Department should be determined in a publication that would define the entities responsible for inventory, assessment and collection e.g. what entities shall be responsible for collecting the *zakah* of livestock and what is the relationship between such entity and the Chamber.

To ensure that there exists an administrative structure explaining the administrative stages involved in the various phases of *zakah* assessment, appeal and grievance submission, as provided for by Article 36 of the Law.

ii. Activity of the *Zakah* Disbursement Administration

This is to ensure that there are proper principles and regulations for the disbursing department by establishing a clear administrative structure that defines various stages leading ultimately to the disbursement of *zakah* receipts to those who are entitled to receive them: the phase of submitting an application recommended by the local *Zakah* Committee; the phase of examining the application and verifying its accuracy; the phase of making a decision about entitlement; and, finally, the phase of disbursement.

**4.1.1.2 PRECEDING CONTROL INSTRUMENTS**

**For what has been mentioned in 3, 4, 5 and 6, the following will serve as control instruments:**

- Department of inspection and auditing, according to the organizational structure of the *Zakah* Chamber.
- The Secretary General, according to Article 34.
- The Supreme Council of *Zakah* Trustees, according to Article 32 of the Law.

**4.1.2 Subsequent Administrative Control**

**4.1.2.1 NATURE AND OBJECTIVES OF THIS CONTROL**

- i. To ensure that the organizational structure of the Chamber was worked out in accordance with its planned objectives and that this structure was in harmony with reality and to propose its review.
- ii. To review staff appointments ensuring that they were made in accordance with the applicable controls, criteria and regulations, and that the staff members selected had adequate knowledge of *Shari 'ah* rules and *Fiqh*.

- iii. To ensure that *zakah* popular committees have submitted, in accordance with the principles laid down for the organizational structure, special comments for correcting the organizational structure of the popular committees in the light of actual practice.
- iv. To ensure that the regulations, principles and controls determining the relationship between the Bureau and other entities have been laid down, and to submit comments and suggestions to correct these regulations and controls in the light of actual practice.
- v. To ensure that other departments of the Chamber are playing their expected roles in enhancing established controls and criteria by presenting comments and suggestions for improvements of and remedies for any shortcomings in the light of actual practice, in order for structures, principles and controls to match the expected role of the Chamber.

#### **4.1.2.3 INSTRUMENTS OF SUBSEQUENT ADMINISTRATIVE CONTROL**

- i. Inspection and Internal Review Department

This department is responsible for reviewing works performed to eradicate errors to correct any mistakes discovered, to stop them and prevent their future occurrence. The Department also reviews administrative performance to ensure its compliance with the provisions of applicable laws and regulations. The Department has been provided for in the organizational structure of the Chamber and is directly attached to the Secretary General.

- ii. The Supreme Council of *Zakah* Trustees

According to the provisions of Article 32 of the Law, the Council plays the role of an administrative control.

### iii. *Ifta* Committee

According to Article 36 of the Law, the Committee reviews the violations channelled through Grievances Committees. *Ifta* Committees constitute an effective control instrument. They are established by direct Ministerial appointment of those well-known for their interest in the *Fiqh* of *Zakah*, in particular, and in the problems facing Islam and Muslims, in general.

#### 4.1.2.4 PRINCIPAL APPLICATION OF CONTROL IN THE CHAMBER

The Chamber was established from scratch almost two years ago. It was faced with the following difficulties:

- A. Non-availability of well-trained staff in the Chamber, a problem that compelled it to seek the assistance from the cadres of other entities.
- B. For the past two years the Chamber has been performing its duties without an organizational structure. This structure has been still under preparation leading to approval.
- C. As a newly established organization, the Chamber had no regulations, criteria or controls which will help in discharging its assigned duties.

These problems have been solved with approval of the Chamber's *Zakah* Law and organizational structure. We are waiting to see the results of its application.

## 5. FINANCIAL CONTROL

### 5.1 Advantages of Financial Control

- i.. It facilitates ensuring that the *zakah* collected has been properly received and that it has been received by the Chamber through official channels.

- ii. It ensures that *zakah* receipts have been disbursed to those entitled to receive them, in accordance with *Shari'ah* principles and provisions of the Law, regulations and directives.
- iii. It ensures non-occurrence of violations and help prevent their recurrence, if found.

## **5.2 Forms of Financial Control**

They assume two forms:

Preceding Financial Control and Subsequent Financial Control.

### **5.2.1 Preceding Financial Control**

This is preventive in nature as it aims to prevent the occurrence of violation to the applicable laws, regulations and directives by ensuring that financial transactions are effected in accordance with plans, criteria and control approved by an entity authorized to issue orders and directives in respect of financial transactions related to the following functions:

#### ***A. Zakah Assessment and Collection***

- To ensure that the principles and control used in *zakah* assessment and calculation are based on the principles of *Shari'ah* and the provisions of *zakah* laws, and that the entity issuing such principles and control is authorized to issue them, such as the General Department for Collection Planning which establishes such principles and exercises controls through the Secretary General.
- To ensure that such principles and control are submitted for review to competent authorities and other control entitles such as the Secretary General or the *Ifra* Committee.

## B. Control on *Zakah* Collection

- To ensure the completing of the voucher and accounting procedures and the existence of an appropriate system for the safekeeping of documents. Also to ensure the existence of a reliable system that, in turn, ensures follow-up on *zakah* collection from eligible payers and the absence of delays in payment of *zakah*.

## C. Control on *Zakah* Disbursement

- To ensure the existence of principles and controls for disbursement of *zakah* receipts such as directives defining *zakah* heads of expenditure: the *faqeer* (the poor), the *gharem* (the indebted) and *ibn al-sabeel* (the wayfarer), etc.
- To ensure the presence of an appropriate plan that enables the Bureau to reach those who deserve *zakah* receipts, from the phase of submitting an application by the *zakah*-deserving person to the recommendation of the field social researcher (or that of the Local *Zakah* Committee), to the submission of the application to sorting and entitlement committees, and to the last phase of *zakah* disbursement by the cashier.

## D. Control on Administrative Expenditures

- To ensure that administrative expenses are incurred according to regulations approved by a computer technical committee. These regulations should comprise principles and controls that guide responsible employees in the disbursement process, to ensure that the amounts are validly expanded to cover official business of the Chamber.

### 5.2.1.1 INSTRUMENTS OF PRECEDING CONTROL

Existence of financial regulations approved by the competent authority within the framework of Article 43 of the Law and comprising all the required criteria and controls as follows:

#### A. Control Instruments for *Zakah* Collection

- Control in this area defines the method of determining zakatable assets and the amount of *zakah* to be charged on cash assets in a clear and decisive way that prevents future disputes.

#### B. Control Instrument for *Zakah* Disbursement

- The regulations identify the persons entitled to receive *zakah* and define each category of these persons. They also define the principles to be followed in making a roster of these persons, and to resolve any possible disputes.
- A department should be responsible for preparing estimated budgets to be used as a yardstick to measure actual performance. There is no doubt that the existence of such a department constitutes an effective financial control instrument. Article 41 of the *Zakah* Law of the Sudan provides:

"The Chamber shall have an independent budget that will be determined in accordance with sound accounting principles".

"The Chamber prepares the annual budgetary estimates of revenues and expenditures a month before the commencement of each fiscal year, in accordance with applicable regulations".

"The Minister submits the annual budget of the Chamber, together with a report thereon, to the Council of Ministers for approval".

#### 5.2.2 Subsequent Financial Control

This control is remedial in nature and aims to stop the violation of financial rules and regulations during application and to remedy such violations if discovered and to prevent their future occurrence.

### **5.2.2.1 OBJECTIVES OF THIS CONTROL**

To ensure that financial transactions were effected in accordance with the applicable rules and regulations and as per estimated budget.

### **5.2.2.2 TYPES OF SUBSEQUENT FINANCIAL CONTROL**

#### **A. Internal Financial Control**

This control aims at self-correction of an administrative unit's errors. All organizational units should practice self-correction of errors. There is also a department especially devoted to internal control, according to the organizational structure of the Chamber. This department is attached directly to the Secretary General. Thus it is his eye that observes actual performance to see whether or not activities are carried out in accordance with prescribed rules and regulations. Therefore, the department constitutes an effective instrument for financial control. To achieve their objectives, the preceding control instruments mentioned earlier should be functioning to ensure the laying down of regulations, criteria, controls and budgets. Preceding control instruments constitute the foundation on which subsequent control instruments are based.

#### **B. External Financial Control**

This means the review, for control purposes, of the Chamber's work by external entities. The functions of this control are the same as those of the internal control, mentioned above. This external control is realized as follows:

- Audit by the Bureau of the Controller General

This Bureau is an independent government organization that is attached directly to the President. Article 42 of the Law provides that the Controller General audits the accounts of the *Zakah* Chamber and submits its audit report to the Council within six months from the end

of the fiscal year, in order for the Council to submit it, in turn, to the Minister who submits it to the Prime Minister.

- Review by the *Ifta* Committee

This Committee has been mentioned earlier. It is considered a control instrument as its function is to ensure that operations of the *Zakah* Chamber are carried out in accordance with Shari'ah and provisions of the Law. It carries out its function whenever a person seeks a legal opinion (*fatwa*) from it concerning various aspects of the Chamber's operations. Its legal opinion is binding. It is also the competent authority to which regulations and financial circulars are submitted for review before they are issued.

- The Supreme Grievances Committee

This Committee is an external control instrument responsible for studying the complaints and grievances submitted by individuals dealing with the *Zakah* Chamber, and thus corrects any mistakes with respect to application. It has the right to review such application and to decide whether it is in compliance with the *Shari 'ah* and provisions of the Law. It is further empowered to review the principles and controls and to pass its judgement thereon regarding their compliance with *Shari'ah* and provisions of the Law. Its decisions are binding . and could be used to revise and circulate these principles and controls.

## 6. CONCLUSION

*Zakah* is one of the pillars of Islam and the cornerstone of the Islamic economic system. Despite this, its application has been absent from the Islamic world for a long time. It has become one of the rites practiced on an individual basis, apart from some exceptional cases in the history of the Islamic *Ummah*, such as during the Mehdi State established by Imam Mohammad Ahmad Al-Mehdi in the Sudan at the end of the thirteenth hijra century, where *zakah* was collected by the State.

# ZAKATABLE FUNDS OF THE STATE AND MODES OF THEIR COLLECTION

AHMAD ALI ABDULLAH\*

## 1. INTRODUCTION

The paper focusses on zakatable funds and various methods adopted to collect *zakah*. Based on a brief field work the paper aims to compare zakatable funds and methods of *zakah* collection that are practiced in the Republic of the Sudan and the Kingdom of Saudi Arabia. For the purpose relevant laws, regulations, rules and some available studies of the two countries have been consulted. On account of various limitations it was not possible to widen the scope of this paper beyond the said two countries:

### 1.1 The Sudan

#### 1.1.1 *Zakah* Laws

Official application of the institution of *zakah* in the Sudan may be traced back to the year 1400H (1980). The following paragraphs attempt to enlighten on *zakah* laws of the country:

With the promulgation of the *Zakah* Act 3.1 on the 6th of Jumad Thani, 1400H (21 April, 1980) the first official law was passed to govern collection and distribution of the *zakah* in the Sudan. The following are some articles of this Act:

Article 3.1: A *zakah* fund shall be established with a legal status and consecutive character and a general seal.

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Article 4: The Fund shall invite Muslims to pay *zakah* and *sadaqah*, issue legal opinions and guidelines, and organize campaigns for the collection of *zakah* and *sadaqah*.

Article 5:1: The Fund shall have the terms of reference required for the implementation of its objectives.

Article 5.2: Without prejudice to general text in item (1) the Fund shall collect *zakah* paid voluntarily by Muslims and distribute it among the deserving people in accordance with the provisions of Article (II) of the Law.

Following the enactment of this Law, the *Zakah* Fund was established. The Fund's successful experiment in application of the *zakah* institution played a pioneering role in encouraging the next step forward. In the year 1403H (1983) the Islamic Thought and Culture Group organized its second conference on the Sudan's economy focussing on the role of the *zakah* in that economy. The conference recommended the state to make the *zakah* compulsory so that it can play a major role in developing the Sudanese economy. Accordingly, the *Zakah* and Taxation Act was passed in 1404H (1984) making the *zakah* compulsory under the state sponsorship. Subsequently two other acts were passed in 1406H (1986) and in 1410H (1990) respectively. The Act of 1406H separates the *zakah* from the tax while the Law of 1410H provides the *Zakah* Chamber with a larger role and both central and regional control over *zakah*.

#### **1.1.2 Zakatable Items Extended**

The *zakah* legislation in the Sudan broadens the base of zakatable items by broadening the definition of money (*mal*). Thus the preamble of the *Zakah* Bill of 1990 states "The *zakah* is compulsory on everything that is called money (*mal*) and reaches *nisab*. The Committee which promoted the *zakah* bill had very intense deliberations about the broadening of the *zakah* base. The Committee was divided into two groups. One that favours the broadening of the *zakah* base on the plea that there is a need to go according to the principles of *Shari'ah* in the

application of the *zakah* and to lessen the tax burden of the state. The other group advocates for collecting *zakah* only from the sources on which the Islamic jurists have a consensus. Ultimately the first opinion in favour of the extension of the *zakah* base prevailed. Based on this opinion, the successive legislations in the Sudan, made the *zakah* compulsory on the following bases:

1. Minerals of all kinds<sup>1</sup>, 2) tradable items and funds - (all funds liable to trade or barter or used for this purpose<sup>2</sup>, 3) gold and silver<sup>3</sup>, 4) money and what is used as money such as banknotes of monetary value, shares, stocks and deposits<sup>4</sup>, 5) debts and usurped money<sup>5</sup>, 6) precious minerals<sup>6</sup>, 7) agricultural produce, crops and that the land produces', 8) cattle<sup>8</sup>, 9) salaries and income of professionals and businessmen<sup>9</sup>, 10) income generating items which do not come under tradable goods, agricultural produce and cattle, such as rent of real estate, revenue of transportation and farms production<sup>10</sup>

### 1.1.3 Voluntary and compulsory payment of *Zakah*

In fact the *Zakah* Act of 1980 making the payment of *zakah* voluntary aimed to prepare the people for the performance of this noble duty which the state had ignored ever since the Sudan came under the imperialist rule. With this experiment about the *zakah* the Sudan has come to establish compulsory *zakah* from 1404H (1984). The introduction of the Bill of 1990 states :

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<sup>1</sup> Article 15-18 of 1404H Laws and Articles 13-1/2 of 1406H Law, and 6-1/2 /1990.

<sup>2</sup> Articles 19-21/1404H, 14/11-3/1406H, 7/1/4/1990.

<sup>3</sup> 23 abc/1404H, 15A/1406H, 8/1-3/1990.

<sup>4</sup> 24-27/1404H, 16/1-3/1406H, 10/1990.

<sup>5</sup> 28 abc/1404H, 16/1-3/1406H, 9/1-2/1990. <sup>6</sup> 29-30/1404H, 18/1406H, 11/1990..

<sup>7</sup> 31-37/1404H, 20-22/1406H, 12-15/1990.

<sup>8</sup> 38-43/1404H, 23-27/1406H, 16-19/1990.

<sup>9</sup> 58/1404H, 29/1406H, 21/1-2/1990.

<sup>10</sup> 30/1-2/1404H, 22/1990.

In view of the importance of *zakah*, the gravity of its function and its effect upon society, Islam has made the State responsible for this duty. Allah Almighty addressed the Prophet (Pbuh) and through him the leaders of the *Ummah*: "Take alms of their wealth, wherewith you may purify them and may make them grow, and pray for them, Lo! your prayer is a means for their tranquility".

The Prophet (Pbuh) told Mo'az when he sent him as governor to Yemen: "You should inform them that Allah has imposed on them *sadaqah* (alms) to be taken from the rich and given to the poor. If they obey you in this regard, do not touch their personal wealth. Guard yourself against the oppressed, because there is no barrier between his prayer and Allah". (*Hadith*)

The Prophet (Pbuh) stressed that the *zakah* was compulsory and that the state was responsible for collecting it, saying: "Any one who pays it, seeking His reward, will be rewarded. The one who neglects it, I will take it from him. Giving away a portion of one's wealth is one of Allah's strict orders".

Successive acts established machinery of state to take up *zakah* administration. Article 29 of the Law of 1990 provides that the Chamber shall operate to achieve the following objectives:

- A. The application of the institution of *zakah* and the collection and distribution of *sadaqah* that purifies wealth and souls.
- B. Enlightening the people as to the importance of *zakah* and *sadaqah*, calling them to its practice and disseminating information regarding the rules of *zakah*, among
- C. Emphasizing the power of the Muslim State over the collection and administration of the *zakah* which ensures social solidarity brotherly love.

The *Zakah* Chamber has the following terms of reference as per various articles of laws:

- A. To collect, manage, invest and distribute *zakah*.
- B. To collect and distribute the *zakah* among beneficiaries who are eligible according to *Shari 'ah*.
- C. To receive statements from those who are clearly specified as legally required to pay *zakah*.
- D. To examine these statements and calculate the amount of *zakah* to be paid accordingly.
- E. To secure an amount of money that ensures payment of *zakah* dues. The

laws also provide that

- Every Sudanese Muslim inside or outside the Sudan who has *nisab* is bound to pay *zakah*.
- Every non-Sudanese Muslim with *nisab* who works or lives in the Sudan is also bound to pay *zakah*.

The laws further lay down that any one who refuses to pay or delays payment of *zakah* shall be fined and that the *zakah* shall be taken from him by force. The law has set up a high committee to consider complaints in order to establish justice and remove any injustice that may occur as a result of administrative procedures<sup>11</sup>. It is clear, then, that the State is responsible for the implementation of *zakah*, collecting it according to terms and conditions, and distributing it among various eligible recipients.

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<sup>11</sup>See Article 37/1-2 of the *Zakah* Act of 1990.

#### 1.1.3.1 SOME FUNDS NOT SUBJECT TO COMPULSORY OFFICIAL COLLECTION

Although the State has been charged with compulsory collection of *zakah*, the various legislations have left part of the *zakah* to be spent by the payers themselves according to their discretion and religious conscience. This may be seen in a review of the texts of the Sudanese Law as follows:

Article 57a of the Act of 1404H provides: "The *zakah* on invisible funds is to be paid by their possessors themselves or through the *Zakah* and Taxation Chamber. The regulations specify the types of such invisible funds and the modes of collecting *zakah* or tax thereon including bank deposits, accounts, commercial papers and stocks inside and outside the Sudan".

The executive regulations for *zakah* and taxes in Article 18 of 1405H under the title: "Zakatable taxes on invisible funds, provides for the following:

18 (A) In order to implement article 57/1 of the Act the invisible funds include:

1. Gold and silver to be used as ornaments.
2. Hoarded funds which are not used in trade.
3. Savings deposits, term deposits and investment deposits, demand deposits, bonds, shares, securities, national currency, foreign exchange and other notes used as money.

18 (B) *Zakah* or tax on the above mentioned funds shall be paid to the Chamber unless the payers present evidence that they have paid *zakah* according to *Shari'ah*.

18 (C) The principal of interest bearing stocks as well as deposits with interest are zakatable as money.

Article 31/1 of the Act of 1406H provides that owners of invisible funds may pay *zakah* personally or through the Chamber. The regulations specify ways of collecting *zakah* on such funds, including deposits at banks, accounts, stocks and shares inside and outside the Sudan.

This article does not differ greatly from the preceding one. Both stipulate that the *zakah* on invisible funds be paid by the *zakah* payers themselves as indicated in the regulation on *Shari'ah* defined heads or be paid to the Chamber. If he chooses the first option he has to prove to the Chamber that he has paid *zakah* according to *Shari'ah*. Otherwise, he must pay it to the Chamber.

The Law of 1990 does not address the question of invisible funds. It deals with the subject in Article 30/c within the terms of reference and powers of the Diwan. It reads as follows:

"The terms of reference and power of the Diwan shall be as follows: collection of 80% of *zakah* due through the ways and means set by regulations and the remaining 20% shall be left to the payer to be given by him to eligible recipients".

This article was not included in the Act of 1988, but the Ministry of Social Care, to which the Diwan belongs, had organized a comprehensive conference on *zakah* at which a *zakah* bill was presented for thorough study. The Conference recommended that a portion of *zakah* should be left to payers to be spent by them, as they are in touch with many deserving people. The comprehensive economic conference on economic held in 1989 recommended that part of *zakah* should be left to payers to be distributed to known beneficiaries. This led to the insertion of the article in the Law of 1990. This has not, however, changed anything regarding invisible funds. Although this matter was not addressed tackled in the Law of 1990, yet payers have been authorized to pay *zakah* on such funds in accordance with the preceding two acts.

#### 1.1.4 Zakah Exemptions

Article 12/c of the Act of 1406H dealing with the general conditions for the payment of *zakah*, describes types of wealth not for personal use of *saheb-e-nisab*<sup>12</sup>. Article 7/a/2 of the executive regulations provides that *zakah* shall not apply to items for personal use like furniture, household utensils, clothes, dwellings, family cars etc.

Article 19 of the same regulations stipulates that fixed assets of banks and companies shall be excluded from zakatable funds. Article 34 of the Act of 1406H reads :

1. Public funds, units and shares owned by the State in any company, corporation, firm, bank, trade or investment activity are not zakatable.
2. Alms are not subject to *zakah*.
3. *Awqaf* property for continuous charitable acts is not zakatable provided that the secretary of the Chamber should be informed of the nature of the *waqf*, its kind, the benefactor and the beneficiary. If the secretary is not satisfied with the justification for non-payment of *zakah*, he may order it to be paid. A payer may complain in accordance with the provisions of this law<sup>13</sup>

In view of the above, the following items are not zakatable:

1. Items for ownership including
  - a. Personal articles of the payer and his dependents.
  - b. Essential tools of work, commercial, industrial, agricultural, professional and technical.

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<sup>12</sup>The same as Article (5-c) of the Law of 1990.

<sup>13</sup>The same as article 24-abc of the Law of 1990.

2. All types of public wealth
3. All types of *sadaqah*.
4. An original *waqf* made to a public charitable organization or donated to such an entity, because a private *waqf* is not exempted from *Zakah*.

#### 1.1.5 *Zakah* Collection Methods

##### A. Deduction of *Zakah* at Source

*i. Zakah is* deducted at source in the Sudan whenever possible in respect of any of zakatable funds as provided under the following executive regulations:

**Article 15/a** of the executive regulation stipulates:

- a. For the purpose of implementing Article 47/a of the Act, this article covers *zakah* on salaries, wages, pensions and rewards and other benefits in kind or cash including allowances and increments which personnel get in the public and private sectors or in the mixed sector.
- b. For the purpose of implementing Article 47/b and assessing the net income of employees, the value of basic necessities is deducted.
- c. *Zakah* on salaries is not subject to the elapse of one full year. But all payments of income received during the year. shall be calculated and if *nisab is* reached they become zakatable.
- d. *Zakah* on salaries may be paid through monthly installments and deducted at source by the employer.
- e. The employer shall transfer *zakah* he deducts from his employees to the Diwan on or before the fifteenth day of the next month. He

is required to attach statements indicating the salary and deducted amounts.

- f. Any employer who fails to collect the *zakah* from his employee is liable to a fine totalling three times the *zakah* due on the employee over and above the amount of *zakah* due on the latter. This is to be paid immediately in the same way when *zakah* is due on him.
- ii. Article 16 of the regulations provides for *zakah* on the incomes of businessmen and professionals: 16/f: The Chamber may deduct *zakah* due on professionals at source, requiring any one who pays professional commissions or fees to any payers of *zakah*, in return for work or services, to deduct therefrom a percentage to be determined by the Chamber from time to time for the payment of *zakah*.
- iii. Article 13 deals with *zakah* collection on agricultural crops. Paragraph (G) of the article provides if there are certain organs charged with the marketing of crops on behalf of *zakah* payer and that the value of the crop is delivered in cash, these organs should inform the Chamber of the crops received from the payer. In this case, the Chamber shall (a) determine *nisab* in cash, (b) estimate *zakah* in cash, and (c) collect *zakah* at source from these organs. These powers are exercised on agricultural projects, especially joint ventures of the farmers and the State, represented by their corporations, such as, in Jazirah and Rand. *Zakah* is collected on crops, such as cotton, wheat and beans.
- iv. For some crops in the Sudan there are organized markets -like the Qadaref Crops Market and, to a certain extent, the crops markets of Abayed in Kordofan - where crops are exchanged. In these cases *zakah* is withheld at source upon the sale of such crops. In fact, the largest *zakah* revenue comes from Qadaref market in the eastern region of the Sudan.

## B. System of *Zakah* Assessment

The Sudanese Law does not clearly provide a system for assessing *zakah*. Researchers who have addressed this subject indicate that this system has been adapted from articles of the Sudanese law of 1404H.

Mohammed Sharif Fadhl in a study on the *zakah*, both from a theoretical (*fiqht*) and practical perspective, states "The texts of the Law [the Law of 1404H] implies that assessment is permissible." Article 21 determines the timing of *zakah* on crops as when crops are ripe or dry and does not link it with the actual harvest. *Zakah* on ripe or dry crops can only be determined by assessment. This is emphasized by the contents of Articles 26/a and /b providing that:

*Zakah* should be collected from any one who sells or donates his produce or leaves it because of death after it has become consumable.

- b. *Zakah* should be paid by the buyer, the donee or heir if the selling, donation or death occurs before the produce becomes fruitful, just as if he is the planter.

The article has made the *zakah* a liability for the original payer in the first case, because the transfer of ownership to the second party occurs after the crops have become consumable and ripe. *Zakah* has become the responsibility of the successor in the second paragraph because ownership has been transferred to him before the crop was ripe. To differentiate between the two assumptions on the basis of whether the crops are usable or not, is only accomplished through assessment.

Muhammad Bashir Abdul Qadir, an employee of the *Zakah* Chamber, in his M.A. thesis titled "The duty of *zakah*: An Analytical Study on the Implementation of *Zakah* in the Sudan", mentions that the law does not explicitly provide for assessment. But it may be understood from the definition of *zakah* given in the law that as "the *zakah* is the amount levied according to *shari'ah* on assessment of a Muslim's wealth". Although the definition is general it indicates that it may be

possible to resort to assessment in determining the *zakah* due. Article 8/b stipulates that the Chamber is entitled to whatever access is necessary to check and examine the relevant documents for determining the correct amount of *zakah*<sup>14</sup>

### C. Statements of *Zakah*

The successive laws of the Sudan stipulate that the Chamber has the authority to demand of payers statements and to accept the same for the purpose of collecting *zakah* according to regulations<sup>15</sup>

Article 2/c of the Act of 1406H stipulates that the statements should be presented within two lunar months after the first of Muharram each year. Statements concerning *zakah* on crops, fruits, minerals, precious underground resources, are to be submitted upon harvesting or extraction or taking possession of such articles. A statement refers to anyone written, with or without an oath.

### D. Committees for Different Agri-crops:

In the initial stage of the *zakah* implementation, the Chamber set up committees at regional levels to assess *zakah* on crops. We shall confine our discussion to the experiment in the central region where the governor issued decrees on 22 Muharram, 1405H (17 October, 1984) for the formation of committees to assess *zakah* on agricultural produce as follows:

The Committee for Irrigated Farming in Jazirah and Rahad consists of:

1. The Senior Inspector
2. Representatives of the Production Council

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<sup>14</sup> The duty of *Zakah*: Analytical Study on implementation in the Sudan from 87 to 90 - to-be published.

<sup>15</sup> See Article 30 of the Law of 1990.

3. Irrigation Inspectors
4. The Executive Officer of the Local Council
5. The *Zakah* Divan Representative
6. A Farmers' Union Representative

The other Committee consists of:

1. A Local Executive Officer
2. A Local Agricultural Inspector
3. A Local Council Representative
4. A Farmers' Union Representative
5. The *Zakah* Divan Representative
6. A Agricultural Bank Representative
7. An expert to be nominated by the Governor

The Committee for Coastal plantations consists of:

1. A Local Agricultural Inspector or his representative
2. A Representative of vegetables and fruit farmers in the Area
3. Representatives of the local council concerned
4. Representatives of the *Zakah* Divan

The Committee for Traditional Farming at the village level consists of:

1. The *Sheikh* (head) of the village
2. The *Imam* of the mosque
3. A Representative from the basic unit of the political system
4. A Representative of organizations in the village.

In addition to the collection of *zakah* on crops at regional level by deducting it at source whenever possible, the Chamber utilizes another way of overseeing the activities of these committees and to collect *zakah* by monitoring the movement of these crops at various points of exit and entry, namely, at weighing stations. Every crop that passes through these weighing stations without a *zakah* payment certificate is subject to *zakah*.

### Mode of *Zakah* Collection on Tradable Goods:

These items refer to all wealth intended for trade regardless of different modern designations used in trade, industry, agriculture and services. The *zakah* collection method differs according to the activity, system and the information available, as follows:

If institutions present audited accounts, the Chamber will assess *zakah* according to these accounts after assuring itself of the authenticity of information. In case such audited accounts are not presented by these institutions, the Chamber will use *zakah* statement forms printed for this purpose. There are also two ways to assess the *zakah* base, whether the payer presents audited accounts or presents information through the *zakah* form. These are as follows:

First: ascertaining the working capital through current assets which include (a) goods in stock, (b) raw materials, (c) indebtedness and bank balances, (d) cash in safes or safe deposits and (e) goods in transit. Current liabilities shall be deducted from current assets, because they are the institution's obligations to others which include (a) creditors, (b) short-term loans, (c) banks credits, (d) profits and (e) expenses due.

Second: examining capital and profits carried over from past years and reserves and provisions, less net fixed assets after depreciation. The *zakah* base would be the same in both cases assuming that the information presented was accurate.

In fact, audited accounts and *zakah* forms and statements enable the Chamber to make reasonable assessments. It is very difficult, however, to access the activities of a large number of merchants and businessmen because of the small scale, wide dispersion and even concealment of their enterprises. The Chamber, therefore, has issued guidelines to enable officers to arrive at a reasonable assessment of the *zakah*. *One* example is cited here. A draper's purchases in a year amount to Sudanese Pound 600,000. His *zakah* base is determined as follows:

Purchases	=	Sudanese Pound 600,000	
Assuming a cycling rate (3) a year his capital would be	=	$600,000 / 3$	= 200,000
<i>Zakah</i>	=	$200,000 \times 2.5\%$	= 5.000 <sup>16</sup>

## 1.2 Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia was the first Muslim country in the world today that instituted and implemented the *Shari'ah*, in general and the *zakah*, in particular. Abdulaziz Jamjoom says "Ever since 1320H the Glorious Qur'an and *Sunnah* have become the constitution for government in the country. Rules of Islamic *Shari'ah* were put into force and any one who transgresses the limits set by Allah was punished. It was decided that the state should collect *zakah* on agricultural produce and livestock in pursuance of the third pillar of Islam".<sup>17</sup>

The above statement shows that-the Kingdom began by imposing the *zakah* on visible items of wealth. During this period invisible wealth was not subject to the *zakah*. Article 5 of the executive regulation of the *zakah* system issued in 1370H stipulates that *zakah* shall continue to be assessed on livestock and agricultural produce according to orders and guidelines concerning modes of assessment and collection of the *zakah*. This means that collection of *zakah* on livestock and produce was organized by the Royal decree No. 17/2/28/8634 dated 29 Jumad Thani, 1370H.

The historical development of the *zakah* legislation in the Kingdom shows that there are two separate authorities in charge of *zakah*:

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<sup>16</sup>The Duty of *Zakah* from 141 to 179.

<sup>17</sup>*Zakah* and its practical applications in the Kingdom of Saudi Arabia 1410H (1989), p.39.

1. Various governorates which had, from the beginning been collecting, distributing and managing *zakah* on crops, fruit and livestock.
2. The *Zakah* and Income Tax Department at the Ministry of Finance and National Economy established by the Ministerial Decree No. 394 dated 7 Sha'baan, 1370H. This department collects *zakah* on tradeable goods and transfers it to the Social Security Department under the Ministry of Labor and Social Welfare to spend it among the categories eligible according to the Qur'an.

#### **1.2.1 Compulsory Payment of *Zakah***

*Zakah* is compulsorily levied on (a) Livestock, (b) Crops and fruits and (c) Merchandise, which includes all wealth intended for investment, whether in trade, industry or services. All other types of wealth than those mentioned above are considered invisible and, hence, not subject to compulsory *zakah*. *Zakah* on this invisible wealth such as bank accounts, deposits or any other properties, will be left to the discretion of its owner, either to be paid to the *Zakah* Chamber or to be disbursed by himself.

#### **1.2.2 Wealth Exempted from *Zakah***

The following items of wealth are non-Zakatable:

- A. The funds of the State and its Institutions and organs. This principle, according to a letter by the Minister of Finance in 1403H, does not apply to the Saudi government's share in the capital of public institutions, authorities, companies and banks because they are independent entities involved in trade. As such, they are not considered public wealth which is not zakatable.
- B. *Waqf* for a public body. If the *Waqf* is meant for a specific person such as son or wife then it becomes zakatable.
- C. *Semi-waqf* funds such as charities intended to be spent in philanthropic deeds and Islamic da'wa or given to the poor and

mosques. A *fatwa* (legal opinion) to this effect was published under No. 4460 dated 16 Rabi' Awwal, 1402H by the Standing Committee for Research and *Ifta*.

D. Saudi and Gulf Nationals who own establishments or companies without Saudi Commercial Registration. This means that Saudi nationality in real or metaphorical sense is a condition for *zakah* payment.

**E. Illegal wealth.**

**F. Personal effects.**

### 1.2.3 *Zakah* Collection Methodology

#### A. COLLECTION OF ZAKAH ON LIVESTOCK

We have mentioned the governorates that have long since been in charge of *zakah* collection. *Zakah* officials work both in summer and winter. The group that collects *zakah* is called a unit of collectors. Each unit that undertakes the collection of *zakah* on livestock consists of a chief, his deputy, companions, guide and campaign people. They are nominated by the Ministry of Interior from those who are experienced in *zakah* collection, who can read and write, who are trustworthy and well-behaved. Moreover, they must know the resources, conditions and circumstances of the desert whether or not they are civil servants. The unit also includes other staff such as clerks and assessors nominated by the Ministry of Finance from those who combine the qualities of honesty, experience and familiarity with *zakah* provisions. Most of these units start their work during the summer, while a few of them work in the winter in the Asir, Morrah, Manasir and Showan areas.

The unit makes a field visit to the livestock at the grazing area. It may seek the help of a local to determine the *nisab* and the amount of *zakah* due in each case. It also collects *zakah* in cash or kind as dictated by the situation. Initially the units accepted verbal statements made by *zakah* payers, provided they were certified by their tribal chief. Over the

years collection methods have developed and general rules have been established for collectors, as follows:

- i. The Ministry of Interior shall determine the localities which units may pass through on a map to be given to each unit with a copy for regional governors.
- ii. A unit must calculate untraced livestock and should not ask owners of livestock, sheikhs or deputies to do the job on their behalf.
- iii. After assessment the units should register livestock owned by every individual on printed lists prepared for this purpose, indicating types and number of livestock. A copy of the approved lists shall be submitted to the Ministry of Finance.
- iv. *Shari'ah* courts and *Qadis* shall assess the value of livestock according to place, time, fertility and infertility. These prices and values shall be provided to the units so that they may act accordingly.
- v. *Zakah* shall be collected in kind, but it may be in cash if any one chooses to pay at set prices.<sup>18</sup>

A tripartite committee comprising the Ministries of Finance, Interior and the General Control Department, follow up the activities of these units to make sure that they perform their duties according to rules and provisions and are able to overcome difficulties facing them. The committee submits a detailed report on its activities.<sup>19</sup>

#### **B. COLLECTION OF ZAKAH ON AGRICULTURAL PRODUCE AND FRUITS**

The Kingdom has long since been following the estimation system in assessing *zakah* on agricultural produce. Committees are set up for this purpose comprising government officials and other experienced

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<sup>18</sup> *Zakah and practical applications* pp.40-43.

<sup>19</sup> *Ibid.* p. 43.

persons. The size of a unit varies according to the volume of work and area, but at minimum it consists of a chief, a member, a clerk and a companion (guide). Najd, for example, has sixteen such units working in the area. They make three trips a year to estimate dates, wheat and maize, according to the degree of usefulness of such crops as determined by the Ministry of Agriculture and Water. These units used to be formed and despatched by the Royal Cabinet. Twenty-five years ago this authority was assigned to the Ministry of Finance. The Ministry set up a special department called the Department for *Zakah* on Agricultural Produce, Fruit and Livestock.

These units make field visits to farms and gardens to check products and fruits and assess production. After assessment they forward the figures to the General Revenue Department which, in turn, examines such information and refers it to governorates which distribute the *zakah* to the needy people through a committee comprising the emirate, the court and the Department for Encouraging the Virtue and Preventing Vice.<sup>20</sup>

With developments in planting and manufacturing, certain crops in the Kingdom, such as wheat, are delivered to the general authority bound for silos and flour mills. The units have been relieved of assessing the *zakah* on this produce. The general Revenue Department assesses the *zakah* on every farmer, according to the quantity he delivers to it, deducting *zakah* at source and transferring it to the Ministry of Finance. This arrangement has been in practice since an agreement was concluded between the representatives of the Ministries of Finance, Interior, Agriculture and the said authority in 1403H.<sup>21</sup>

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<sup>20</sup> Ibid., pp. 45-48.

<sup>21</sup> See the minutes of the meeting resulted in this agreement on 4 Rabi Thani, 1403H.

### C. COLLECTION OF ZAKAH ON MERCHANDISE

The State undertook to collect *Zakah* on tradable goods at a relatively later time.<sup>22</sup> The Royal Decree No. 17/2/28/8634 dated 29.6.1370H made the State in charge of collecting the *zakah* on merchandise according to *Shari'ah*. Consequently, the Minister of Finance and National Economy issued the *zakah* executive regulation on 6.8.1370H. The following day he signed a ministerial decree empowering the *Zakah* and Income Tax Department at the Ministry of Finance to collect the *zakah* and income tax.

The previous royal decree was abolished by decree No. 17/2/28/577 dated 14 March, 1976 emphasizing the State's responsibility for *zakah* collection on merchandise. The following categories are subject to this form of *zakah*:

- i. Saudis - male and female, mature and minor, adult and under-age.
- ii. Saudi partners in (a) Saudi joint-venture companies and (b) Saudi limited partnerships or companies limited by shares.
- iii. Saudi associations of capital in which Saudis own all shares.
- iv. The Saudi government's share subscribed by general establishments and authorities and banks.<sup>23</sup>
- v. Those who are treated as Saudis, namely, nationals of the Arab Gulf Cooperation Council who practice business in the Kingdom.
- vi. Owners of hotels (1) and cooperative societies.<sup>24</sup>

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<sup>22</sup>This was in 1370H, no other Islamic State has done this before.

<sup>23</sup>Legal opinion (*Fatwa*) by the Presidency of Scientific Research; Ifta, Da'wa and Guidance Departments No.1373 dated 22/3/1394H.

<sup>24</sup>The Council of Ministers decision No. 13511 dated 12 Jumad Awwal, 1394H.

Legislations and research works on this subject indicate that merchandise is all wealth invested in trade, industry and services. *Zakah* payers in this sector are of two major categories:

First: those establishments which keep and present appropriate accounts, close their accounts at the end of every fiscal year and present a balance sheet and profit-and-loss statement with a detailed report by a chartered auditor, including a certificate testifying that the financial position of this establishment is sound. If a member of this category submits its balance sheet on time, the Department will examine it and assess *zakah* accordingly. The members of this category may apply before the expiration date to extend the time limit for submitting the balance sheet. In most cases an extension not exceeding six months<sup>25</sup> is allowed. Upon submission, the Department examines the balance sheet to assess the *zakah*. It may require additional data and documents which enable it to make a decision.

Second: those who are subject to *zakah* through random assessment. Article 7 of the executive regulation (1370H) stipulates that, persons who do not keep reliable and organized accounts, *zakah* shall be assessed through determining the value of goods, equipment, machinery, possessions and properties subject to *zakah* on the basis of assets available at the end of the year and through estimation for those who do not have visible assets. Therefore, any one who does not keep accounts at all or whose accounts are not in order and are unacceptable to the Department, random estimation is the only way to determine the *zakah* base and assess the *zakah* accordingly. In spite of the difficulties facing the Department to gain access to the activities and income of the *zakah* payers in this category, the State has facilitated matters by making it mandatory on Ministries, general authorities, establishments and organizations to provide the *Zakah* and Income Tax Department with the official copy of contracts with contractors, suppliers and importers. These documents become one of the most important means for making random estimation

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<sup>25</sup>Ministerial decision No. 17/2064 dated 19 Ramadan, 1406H.

of the *zakah*. Beyond this, there are other ways and means which help in such estimation. They include the following:

- i. Random net profit ratio to sales or revenue. This will be resorted to if a *zakah* accountant traces the actual income of the *zakah* payer on the basis of his imports, contracts concluded or sales. The net profit percentage per annum shall be applied as per rates reached on the basis of orderly accounts.
- ii. Capacity and productivity of his labor force and machinery. This may be judged by realizing the limit of productivity of these factors and calculating income that can be generated therefrom.
- iii. Cycles of Invested Capital: Invested capital can be taken as basis for estimation. In this case the annual capital cycle for a certain activity must be known.
- iv. Rates of random net profit set according to regulations.

The Department uses the Finance Minister's letter No. 21921/4 dated 20 Rabi' Tahni 1394H as a reference to determine net profit of importers subject to estimation according to the following percentages:

- A. 5% random net profit for importers of fruit, vegetables and livestock
- B. 10% random net profit for importers of foodstuffs
- C. 15% for others

Thirty percent shall be deducted from the above profits against expenditures according to the Minister's decision No. 27/2622 dated 11 Jumad Awwal, 1395 .<sup>26</sup>

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<sup>26</sup> Ministerial Circular 6006/4/1 dated 28 Rabi' Awwal, 13901i and decision 378 dated 14 Rabi' Thani, 1391H.

### 1.3 Comparison

A comparison between the Sudan and Saudi Arabia indicates that:

- i. Saudi Arabia started to implement the *zakah* under the control of the State in 1330H on agricultural produce, fruit and livestock. It added merchandise in 1370H. It has not only superseded the Sudan which started to make the *zakah* compulsory in 1404H, but also is distinguished as the first Muslim state to attend to the duty of *zakah*. Despite the vast time difference between the Sudan and Saudi Arabia, the former has unified the administrative body of *zakah* and placed it in charge of *zakah* collection, distribution and investment while the *zakah* in Saudi Arabia is characterized as follows:

It is decentralized on agricultural produce, fruit and cattle as it is subordinated to the governorates which are fully in charge of collection and distribution.

It is centralized on merchandise which comes under the authority of the *Zakah* and Income Tax Department of the Ministry of Finance and National Economy, although the Department of *Zakah* is in charge of *zakah* collection.

The Social Security Organization under the Ministry of Labor and Social Welfare is in charge of disbursement.

In the Sudan, although the Chamber is established as an independent body and continues to be in full control of *zakah* until now, the question of its subordination has not been decided yet. It began as a department responsible to the Head of State. Later it came to be under the Ministry of Finance and Economic Planning, and then under the Ministry of Social Welfare. Finally, it has come under the Ministry of Guidance and Religious Affairs.

- ii. Differences continued between scholars who limit the *zakah* base and those who extend it. Implementation in the Kingdom followed the former opinion when it made *zakah* compulsory on (a) agricultural produce and fruit, (b) livestock and (c) merchandise.

In the Sudan, however, legislation and implementation has followed the opinion of those who opted for extending the *zakah-base*, and made the *zakah* compulsory on all merchandise if it reaches *nisab*, and even imposed *zakah* on salaries, wages and allowances, after exempting basic needs.

Although the course adopted in the implementation of *zakah* is true and conforms to the objectives and functions of the *zakah*, it should be paid in any case by those who are rich and given it to the needy and for public utilities. It is meaningless to differentiate between various types of wealth. In spite of this, imposing *zakah* on salaries has met with reasonable objections on the basis of *Fiqh* and for practical reasons. But there is no denying that there are convincing arguments to be made for its imposition, although arguments against the imposition of *zakah* on salaries, are perceived as stronger by those against it.

In my view, Saudi Arabia is in a better position than the Sudan to have adopted the extension of the *zakah-base*, because taxes in the Kingdom are nominal, whereas the numerous and rising taxes in the Sudan have provoked some scholars to advocate that the *zakah* base be narrowed. If the option of extension prevails, it is hoped that the State will put an end to excessive taxation. It seems that the state has moved towards this end.

- iii. It is acknowledged that the State should be responsible for the collection and distribution of *zakah*. Some rulers and scholars envisaged, later on, that it would be in the general interest if the ruler authorized those liable to *zakah* to privately spend a portion of their *zakah*, especially that which is not easy for the ruler to assess. In addressing the *zakah* on gold, silver and merchandise, Al Kassani said: "The Prophet (Pbuh) used to levy it and Abu Bakr, Omar (may Allah be pleased with them) continued to follow suit. But, when under Othman (may Allah be pleased with him) wealth became abundant, he found it appropriate to ask *zakah* payers to perform that duty themselves with the consensus of the Prophet's companions. As such, owners of wealth became agents of the ruler in this regard.

This is an authorization to the rich people to disburse *zakah*. But this does not abolish the ruler's right. If the Imam knows of a town's residents who stop paying *zakah*, he will demand that they pay it.<sup>27</sup>

It is most likely that visible funds cover agricultural produce, fruits and livestock and that money and merchandise are invisible. Based on this division and understanding, implementation of *zakah* in the Kingdom continued until 1370H and *zakah* was levied on agricultural produce, fruit and livestock as they were considered visible wealth. The State authorized the rich to pay *zakah* on their invisible wealth, including merchandise, until 1370H when it forced them to pay *zakah* on merchandise to the State. Money, including current accounts, investment deposits, stocks, gold, silver and other possessions have remained as invisible wealth which is not zakatable unless included as *zakah* on agricultural produce, fruit, livestock or merchandise.

In the Sudan, Articles 57/a of the Act of 1404H and 31/a of the Act of 1406H, provide that owners of invisible wealth may pay *zakah* on such items by themselves. The regulations specify invisible wealth as follows:

1. Gold and silver
2. Cash in safe or safe deposits for trade
3. Fixed and time deposits, investment and short notice deposits, securities, shares, certificates, national bank notes, foreign currency and all notes that may be used in lieu of currency.

The Sudanese law-makers indicate that owners of such wealth should pay *zakah* on them and submit evidence to the Chamber to this effect, otherwise, they would be asked to pay it to the Chamber.

In addition, the Act of 1990 has in Article 30/c further provided that a payer is allowed 20% of *zakah* due to be disbursed by himself.

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<sup>27</sup> AI-Badaye 2/7.

There is not much difference between invisible wealth in the Kingdom and the Sudan except this new addition to the Act of 1990.

iv. Implementation of the *zakah* in Saudi Arabia and the Sudan agrees that the following items are not zakatable:

A. Items for ownership include:

- personal articles belonging to the payer and his dependents
- articles necessary for business, commercial, industrial and professional activities either because of personal need for them or because they are the main or supplementary means -for producing income which creates *zakah-base*.

B. Public wealth. This is because it is originally directed to serve the interests of people. As such it performs the function of *zakah*. Saudi legislation has differentiated between public wealth and public wealth shares subscribed by general institutions and organizations in commercial enterprises. I was unable to understand the difference between the placement of public sector assets in favor of citizens, or the investment of these assets in any sector, because in the end it will serve the general good. These assets should not have been exempted.

C. Alms and *Waqf* to a public charitable organization, because resources are utilized to a certain extent in the same functions as those of *zakah*. But if *Waqf* is for private or specified entity it becomes zakatable in both countries.

D. The legislative difference between the two countries lies in the fact that Saudi nationality in a real or defacto sense is a condition for *zakah* payment by individuals and legal entities. Therefore, Saudi and Gulf States' nationals who practice business in the name of establishments or companies without Saudi commercial registration are exempted from *zakah*. Whereas in the Sudan every Sudanese and every Muslim who lives or practices business within the country must

pay the *zakah* unless he proves that he has already paid *zakah* at his home country.

E. *Zakah* Collection Method

i. *Zakah* on Livestock

We have mentioned how the collection of *zakah* on cattle has been and practiced in Saudi Arabia over a long period. In the Sudan, although the country has large and diversified animal resources, the collection of *zakah* in this area has been negligible for various reasons:

- The State has only recently been charged with *zakah* collection.
- *Zakah* staff who were tax officials lack experience. They have started to collect *zakah* only from sources they know of. There is lack of adequate planning for the collection of *zakah* on livestock and capabilities required for this purpose are lacking.
- The termination of the authority of private management which was well *aware* of the movement of cattle from one place to another seeking grass and water has contributed to inefficiency.<sup>28</sup>

Efforts are underway in the Chamber to overcome all obstacles in the way of collecting *zakah* on livestock. Endeavours are also in progress to reinstate private management. This will enable payers in this important sector to perform this duty. The distribution of this wealth will greatly help the poor and the needy.

ii. *Zakah* on Agricultural Produce

Sudanese and Saudi lawmakers introduced *zakah* on agricultural produce at source. In this regard, the Sudan has been helped by:

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<sup>28</sup>The duty of *Zakah* by Mohamed Al-Bashir Abdul Qadir, 223.

- a. The existence of joint ventures of the State and farmers
- b. The existence of big markets for crops. As a result, *zakah* at source has been collected on a number of crops. In Saudi Arabia *zakah* is levied only on wheat.

Both countries have used the estimation method in assessing the *zakah-base* and collect on that basis. The *Zakah* Chamber in the Sudan has benefitted from taxation points at weighing stations where security and tax men and *zakah* officers are stationed to ensure that *zakah* has been paid on the transported crop. If not, payment is then demanded.

iii. *Zakah* on Merchandise

In practice there is no difference in the method of collecting *zakah* on merchandise in either country because both:

- rely on orderly and authenticated accounts, and
- accept *zakah* statements in the absence of such accounts, which include elements that help to determine the *zakah-base* for *zakah* collection.

The following are the stages the process passes through from the beginning:

- A. Counting the number of payers. For this purpose the administrative organs make efforts to:
  - follow-up new names on the commercial registration and licenses issued by the Ministry of Trade, Industry and . public works. Ministers, organizations and authorities are directed to provide these organs with copies of contracts concluded with contractors and suppliers, and licenses given by municipalities and governorates.

- open offices and undertake field visits to work sites.

B. Submission of Statements Procedures

Regulations set time limits and deadlines for the presentation of these statements along with all information that can be used to determine everything related to the activities of an individual such as assets, capital, sales, services etc. According to such information the *zakah*-base is determined and *zakah* calculation is made. If such a method fails, the *zakah* may be determined through inquiry and random estimation.

C. Examination and Assessment

The *Zakah* Department shall examine information to ensure that it is correct and accurate by questioning the payers as to the contents of their statements by reviewing their documents, if necessary. They must employ all their technical, professional and accounting experience to the task. After this they can make an assessment of *zakah* that must be paid.

D. Objection and Complaint

If a *zakah* payer is not satisfied with the *zakah* imposed on him, he may complain to the *Zakah* Department with justification and reasons in support of his complaint. The Department makes its decision in the matter, and this is final in Saudi Arabia. In the Sudan there is a Supreme Committee for complaints headed by a Supreme Court Judge, to which a payer may appeal even against the decisions of the *Zakah* Chamber and its decision is final.

On completion of assessment and payment of *zakah* the Department may, on its own, or at the request of payers, issue a certificate indicating that *zakah* has been paid for the year in question.

In conclusion, I would like to say that despite extensive and commendable efforts to reach payers and to collect *zakah*, the

departments lack one important element, namely, the religious spirit of *da'wah* among *zakah* officials which comes out of an awareness of *zakah fiqh*. *Zakah* is clearly related to money, which is a temptation. We must prepare *zakah* collectors to act as preachers, reminding payers of their duties and explaining the provisions of *zakah* in a simple manner to enable them to pay willingly. They should also encourage by example through behaviour, honesty and understanding before threatening to use force. This is a necessary, albeit secondary function of the job.

The *zakah* departments should disburse *zakah* in accordance with *Shari'ah* openly so that it is known. This will reassure payers that their *zakah* is being distributed according to *Shari'ah*. Unless the *Zakah* Department makes such an effort a wide gap will remain between the assessment of *zakah* on available wealth in the Islamic countries and what is actually collected by these bodies.

**Part Two**

**OBLIGATORY VS NON-OBLIGATORY**

***ZAKAH* COLLECTION SYSTEMS**

# EMPIRICAL ECONOMIC EFFECTS OF OBLIGATORY AND NON-OBLIGATORY PAYMENT OF *ZAKAH* TO THE STATE

ABDIN AHMAD SALAMA\*

This paper analyses the voluntary and compulsory application of *zakah* in the Sudan during the period 1400H to 1410H. The paper investigates how *zakah* is applied on different *zakah* bases as specified by the *Zakah* Act. It highlights the difficulties in implementing *zakah* in the Sudan and briefly describes the experience of *zakah* in different regions of the Sudan.

The first part explains the voluntary application of *zakah* which produced a sluggish growth in *zakah* proceeds as compared with the dramatic growth of *zakah* proceeds during the period 1405H to 1410H when *zakah* law was enforced. Statistical findings in the last part demonstrate the temporal growth of *zakah* proceeds. The contribution of each region to *zakah* proceeds is clear and the findings reflect the disparities in wealth between different regions of the Sudan. Statistical findings also highlight the distribution of *zakah* among different heads of *zakah* expenditure as well as the share of each region.

The collection of *zakah* as related to GDP is also highlighted. However, a vigorous statistical analysis was not possible because of the limited time span of compulsory application which did not allow for the application of retroactive procedures used for the analysis of the impact conventional taxes.

## 1. INTRODUCTION

Voluntary application of *zakah* is defined here that the state establishes an official institution to which Muslims may pay *zakah* on a

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voluntary basis. Compulsory application of *zakah* has a major advantage in that there will be an increased governmental role in imposing, collecting and disbursing *zakah*. As far as the *zakah* imposition is concerned, the government will make greater efforts in identifying different *zakah* bases so that different methods of *zakah* assessment could be looked out. To collect *zakah*, establishment of a full-fledged separate administrative system is expensive. Making use of an administrative machinery already established at the local level may prove to be more economical. Compulsory application has led to a dramatic growth of *zakah* revenue in the Sudan, while it has remained low as a share of GDP in almost all countries where *zakah* has been imposed. As for the *zakah* disbursement, compulsory application will generate more interest in defining who is poor and needy as well as other heads of *zakah* expenditure and will prompt greater efforts to reach these people.

In the Sudan, where the voluntary application of *zakah* remained in force for the period 1400H to 1404H and compulsory application has been in effect since 1405H, the comparative effects of transition from voluntary to compulsory application provide a good case for an investigation of the effects of this transition on the three issues mentioned above.

The establishment of the *Zakah* Fund in the Sudan was the first official effort to collect *zakah* in the country since the Mahdi era. The Fund helped in the relief of about 7000 families during the draught and famine years. The government encouraged people to pay *zakah* to the Fund by extending tax concessions against amounts of *zakah* paid to the Fund. The administrative machinery of the Fund was small and run by a committee including major *zakah* payers to make *zakah* enforcement easier .

The *Zakah* Fund was instrumental in the application of *zakah*. It was the only official step in the application of *zakah* since the Mahdi era. It paved the way for its compulsory application. As an independent institution it was free from government intervention. The voluntary nature of paying *zakah* to the Fund, its limited officials, absence of

regional offices handicapped the Fund in performing a major role in the imposition, collection and disbursement of *zakah*.

The compulsory application of *zakah* was established in 1983. The *Zakah* and Taxation Act of 1983 defined a broad *zakah* base which contains eight types of asset: minerals; commercial assets; gold and silver; *rikaz* or underground wealth other than minerals; agricultural products; animal wealth; salaries, wages and incomes of self-employed and professions; *al mustaglat* (i.e. assets that earn income such as trucks, buses, rental houses etc.). In practice, however, this broad base was restricted to only a few types, namely, agricultural and commercial assets that earn income. Other types of *zakah*, especially on animal wealth, were not easy to reach.

One of the major advantages of the compulsory application of *zakah* is that it has developed an administrative system which makes use of the developed tax administration in the Sudan, local government experience in the collection of *ushr* and land tax, and the popular participation. Initially *zakah* was collected by the existing apparatus of the direct taxes administration. Later, the *zakah* department was made independent as part of the Ministry of Social Affairs. It has now developed a network of central and regional offices which undertakes assessment, collection and disbursement of *zakah*. A high trustee council of *zakah* with supervisory powers has been formed. The new *Zakah* Act of 1989 constituted a board of trustees in each region with supervisory powers over the regional offices. The Director of *Zakah* Administration is the chief executive. There is an "ifta" committee, to which issues of jurisprudence are referred. Another major advantage of the transition from voluntary to compulsory application is that *zakah* bases were clearly defined and the *zakah* was applied to some major sources of national production.

Most of the *zakah* revenue collected in the Sudan is generated from agriculture. Agriculture contributed about 72.5% of the total *zakah* while other bases contributed about 27.5% during the period 1405H to 1407H. The share of agriculture in *zakah* revenue may be reduced to

about 62% of the total *zakah* revenue estimated. This may result from the anticipated increase in the share of *zakah* on commercial assets from 4.6% during the period 1405H to 1407H to about 24% in the year 1410H.

The compulsory application of *zakah* also generated new methods for assessment and collection of *zakah* in the, agricultural sector. As for the big projects with permanent irrigation, such as in *Jazirah*, *Menagel* and *Rahad*, *zakah* will be deducted at source at the rate of 5% . Regarding crops left to the tenant to live on, such as *dura* and *peanuts*, the *zakah* is assessed on the basis of returns he fills in, estimating these products.

With respect to agricultural projects in rainfed areas with crop markets, the *zakah* is deducted @ 10% from crops going to these markets and @ 5% from the crops coming from irrigated schemes. Where no crop markets exist, such as in *AlKhan* presumptive assessment is used. In this case production is estimated without proper weighing. Application of *zakah* to modern sources of income has yet to be effective and the *zakatable* income is assessed on the basis of returns filled in under oath by the *zakah-payer*. The *zakah* on salaries and wages and capital gains is deducted at source after deducting basic needs.

Lack of a developed *zakah* administration has limited the application of *zakah* to easy sources. Animal wealth (55.9 million) which contributed about 22.2% of the GDP in 1987, did not contribute to the *zakah* revenue. The application of *zakah* on animal resources is fraught with difficulties: assessing the number of animal holdings in possession of *zakah-payers*, the collection of *zakah* in kind, and the expenses of maintaining these animals collected as *zakah*. Equally, assessment of *zakah* on commercial assets remains difficult. The *zakah* department faces a number of problems which could be summarized as follows:

- i. Lack of experience in the assessment of non-conspicuous assets. In many cases the *zakah* payer may not declare all his assets in the *zakah* return in fear of the Tax Department, because for some time

the *zakah* and state taxes were assessed and collected by the same department.

- ii. Lack of proper accounts. *Zakah* payers are not accustomed to keeping such accounts.
- iii. The difficulty of preparing audited accounts outside Khartoum.
- iv. Some *zakah* payers are convinced that it is more religious to pay *zakah* by themselves rather than giving it to the state.

Another factor that handicapped mobilization of the *zakah* revenue is that monetary holdings have not been subject to *zakah*. This was in line with the opinion of a committee formed for this purpose. The committee holds that deduction of *zakah* from the source will not be justifiable as "*Nisab*" and "*Hawl*" or the year of assessment can be easily determined. Perhaps levying *zakah* on the balance of accounts and the monetary value of financial certificates may have rendered this an important source of *zakah*. Whether it will have adverse effects on institutional savings will depend on the rate of return on those instruments. It may, however, discourage people from holding balances in current accounts and may encourage savings in financial and real assets.

The compulsory application of *zakah* has helped to identify problems in the area of *zakah* collection. Some of these problems are peculiar to the Sudan, such as when local councils fail to remit *zakah* collected by them to the *Zakah* Department for liquidity problem. Storage and transportation also create problems when the *zakah* is collected in kind. Moreover, crops are smuggled and it is difficult to convince people that *zakah* and tax are two things different from each other.

In an attempt to ensure the efficacy of collection measures, the new *Zakah* Act of 1989 requires a *zakah* payer to submit a *zakah* clearance certificate to the government with respect to many documents such as licenses and certificates which it issues. Also the new Act

imposes on those who evade or refuse to pay *zakah*, a fine equivalent to the amount of the *zakah* due. Further, the *Zakah* Administration is authorized to block his bank accounts. Those who refrain from presenting *zakah* returns will be subject to a fine of 10% of the *zakah* to be collected.

The compulsory application of *zakah* has generated a literature on the distribution of *zakah*. The *Zakah* Act of 1989 requires that the *Zakah* Department to distribute *zakah* among stipulated beneficiaries according to the principles laid down by the High Trustee Council distribute *zakah*. The *zakah* is distributed through committees. The committees determine those who may be eligible for *zakah*. The *Zakah* Department then assesses the need by sending out social workers. The social workers will send completed forms to the "*Ifta*" Council which finally determines those who are eligible to be paid *zakah* and the amount they should be paid.

The support of the poor and the "*Masakeen*" (*i.e.* the needy) takes place in the form of direct support, of a monthly payment or by enabling such groups to buy an equipment, establish a shop, or by support for the infirm. In some areas the size of the family is taken into consideration.

## **2. THE EFFECTS OF COMPULSORY ZAKAH APPLICATION ON THE PROCEEDS OF ZAKAH DURING THE PERIOD 1405H TO 1410H**

Table (1) shows the growth of *zakah* proceeds during the period 1405H to 1410H. Following the compulsory application of *zakah*, the proceeds increased from about Ls. 35 M. in 1405H to about Ls. 504 M. in 1410H, a 15-fold increase. Comparing the growth of *zakah* in this period with its growth during the *Zakah* Fund era, when collection of *zakah* was on voluntary basis, we see that the growth of *zakah* proceeds during the *Zakah* Fund was sluggish. In the year 1400H the proceeds of the Fund were about Ls. 175,735 compared to Ls. 394,123 in the year 1404H, an increase of only about 2.2 times.

The second effect of the compulsory application of *zakah* is that *zakah* proceeds have proliferated regionally. The National Capital was no longer the only source of *zakah* as it was during the *Zakah* Fund era. The National Capital comes second to the Eastern region which contributed to about 54.6% of the total *zakah* proceeds compared to 29% contributed by the National Capital. The same can be seen in the histogram for *zakah* proceeds of each region during the period 1405H to 1410H. They show that most *zakah* proceeds, about 95%, came from only three regions, East, Capital and Central. These are the regions that are endowed with a lot of natural resources as compared to the other three regions.

When *zakah* proceeds are compared to GDP figures, the percentage of *zakah* collected is insignificant. Also, when the *zakah* proceeds are related to the share of agricultural production from GDP, the percentage is less than 1% during the years 1405H to 1408H, as shown in Table (2).

**Table 1**

**Collection of *Zakah* in the Sudan  
during the period 1405H to 1410H Ls. Million**

The Region	1405H	1406H	1407H	1408H	1409 H	1410H	Total
The National	5,900,000	10,500,000	10,914,809	13,522,149	35,059,092	41,000,000	116,896,050
Capital	304,000	400,000	64,991	-	1,835,000	20,065,000	22,668,991
Kordufan	90,000	500,000	391,158	-	930,934	5,525,000	7,437,092
Darfur	157,000	800,000	894,542	205,923	2,487,000	6,090,000	10,634,465
Northern	23,511,159	30,127,361	36,911,554	30,206,808	65,937,427	67,376,000	254,070,309
Eastern	4,900,000	10,000,000	13,332,547	7,648,160	14,526,694	42,025,000	92,432,401
Middle	34,862,159	52,327,362	62,509,601	51,583,040	120,776,147	182,081,000	504,129,298
Totals							

**Table 2**

**Comparison between Agricultural Share  
in GDP and *Zakah* Collected**

Item	1405H	1406H	1407H	1408H
Agricultural products share in GDP current prices (Ls. million)	4108	5907	7770	12716
Total <i>zakah</i> collected (Ls. million)	35	52	62	51
Percent of 2 to 1	0.85	0.88	0.79	0.40

A similar observation was noticed by Dr. Monzer Kahf while studying the experience of *zakah* in Egypt, Jordan, Kuwait and Pakistan. Similar was also the case with an earlier study by a writer on *zakah* in Saudi Arabia, where the percentage to GDP oscillated between 0.01 to 0.04 during the period of 1388/89 to 1395/96.

**3. ZAKAH COLLECTED IN CASH AND KIND**

Table (3) shows *zakah* collected in cash and kind. Most of the *zakah* revenue collected in the National Capital, Kordofan, (except in year 1406H), Darfur, Northern, and Central (Except in 1405H) regions was in cash. In the Western region for the year 1405H to 1406H, the *zakah* revenue collected in kind was more than that collected in cash and in 1407H *zakah* collection in kind was large.

**4. THE EFFECT OF COMPULSORY APPLICATION ON ZAKAH  
DISTRIBUTION TO DIFFERENT HEADS DURING 1405H TO  
1409H**

Table (4) shows the distribution of *zakah* in stipulated heads of expenditure in different regions of the Sudan.

It also shows that the poor get about 27% of *zakah*. *Zakah* administration i.e. *zakah*- workers get 15% and the national heads for the path of Allah and for freedom of slaves take in total about 19% while other heads for debtors and travellers get about 18%.

**Table 3**

***Zakah* Collected in Cash and Kind in the  
six northern regions during 1405H to 1407H (Ls. millions)**

Hijri Year	1405H		1406H		1407H	
	In Kind	Cash	In Kind	Cash	In Kind	Cash
National Capital	-	5.900	-	10.500	-	10.914
Kordofan	-	0.304	0.900	0.400	-	0.065
Darfur	-	0.090	-	0.500	-	0.391
Northern	-	0.157	-	0.800	-	0.894
Eastern	15.456	8.055	19.256	10.871	17.895	17.016
Central	5.000	4.900	-	10.000	-	13.332
Total	20.456	19.406	20.156	33.071	17.895	42.612

**Table 4**

**Total distribution of *Zakah* on different heads of expenditure  
in different regions (Ls. millions 1405H to 1409H)**

Region	The poor & needy	Employees and those working on <i>Zakah</i>	Ibn El Sabeel	Those & whose hearts are to be attracted to Islam	Debtors	In the path of Allah	To Free slaves	Total
National Capital	4.442	3.140	0.437	.018	0.525	9.063	7.484	25.112
Central	5.876	2.981	-	-	-	0.822	2.872	12.552
Darfur	..	-	-	-	0.005	-	-	0.005
Kordufan	0.013	0.046	0.005	0.008	-	-	-	0.07
Eastern	16.658	8.329	8.329	-	8.329	-	-	41.6
Northern	-	-	-	-	-	-	-	-
Total	26.989	14.496	8.771	0.026	8.859	9.885	10.356	79.339

The poor, as clear from this table, received a substantial share from *zakah* but the percentage of administration is high. Compared with other countries reviewed by Dr. Monzer Kahf, the average amount spent on administrative expenditure over the period 1405 to 1409H is 36.2 per 1000 Sudanese Pounds disbursed. This indicates a lower administrative expenditure than that of Pakistan and much lower than that of Kuwait. This may be attributed to the fact that the *Zakah* Administration in the Sudan uses established administrative apparatus such as local councils, the tax department, the Agricultural Bank and local committees. The disparity between regions in *zakah* distribution is very clear. Most of *zakah* is distributed in the three regions - Eastern, National Capital and Central where *zakah* collection is high. About Ls. 26.8 million out of Ls. 26.99 million spent on the needy and the poor was spent in these three regions. The total *zakah* distributed in these regions reached Ls. 79.39 million. Almost 100% of the *zakah* distributed was concentrated in these three regions while the other poor regions received a negligible share of *zakah* distributed.

## 5. CONCLUSIONS

1. It is clear from this work that during the voluntary application of *zakah* the *zakah* proceeds were very limited as compared to the proceeds following compulsory application.
2. The *zakah* proceeds related to GDP reflects a very small percentage as well as when compared to the agricultural share in GDP. This indicates that the *zakah* effort is still low compared to potential *zakah* that could be generated. It is clear that many difficulties face the *zakah* application on some bases such as animal wealth, monetary holdings and income-earning assets. It is clear from the previous analysis that *zakah* on agriculture is the major source of *zakah* proceeds.
3. The *zakah* distribution reveals a high expenditure on *zakah* administration. This may be due to the difficulties faced by the *Zakah* Administration, which must be streamlined to reduce its costs in order to allow more funds to reach the poor and the needy.

4. *Zakah* collection and distribution reveal the disparity in wealth that exists between the six regions of the Sudan where the *zakah* is applied. In the case of collection it could be argued that more efforts should be exerted to tap more *zakah* proceeds from poor regions. As for the *zakah* distribution there is some justification for measures to be taken to redistribute part of the *zakah* proceeds to the poor regions.
5. More publicity is needed to distinguish *zakah* from taxation and to make the institution of *zakah* an independent autonomous body to gain the respect of the masses as a truly religious undertaking.

# RELATIONSHIP BETWEEN OBLIGATORY OFFICIAL *ZAKAH* COLLECTION AND VOLUNTARY *ZAKAH* COLLECTION BY CHARITABLE ORGANIZATIONS

FAIZ MUHAMMAD\*

## 1. INTRODUCTION

*Zakah* as a system of helping the poor and the needy has been practiced in one form or another in Muslim societies since it was first introduced in the Islamic state of Madina fourteen centuries ago. Its place within the economic systems adopted by Muslim countries from time to time, however, has been undergoing considerable changes. It was perhaps the most important source of funds for the Islamic state to carry out its welfare activities in the early periods. Gradually it was relegated to merely a voluntary act which Muslims used to perform under religious motivation. Only recently a number of Muslim countries have once again brought *zakah* under the purview of their official responsibilities and have made institutional arrangements for its collection and disbursement. Saudi Arabia, Pakistan and Iran are major examples of this transition, of which Saudi Arabia introduced the *zakah* system more than four decades ago.

Before the introduction of official *zakah* collection in the above-stated countries, it was paid by Muslims on voluntary basis to charitable organizations and to poor and needy individuals and in service of various noble causes in their societies.<sup>1</sup> This has still been the practice among the

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<sup>1</sup> Little empirical information is available about the distribution of voluntary *Zakah* by people among different heads in any Muslim country. However, it is widely believed that the poor and the needy have always received the maximum attention whereas the other six categories mentioned in the Qur'an are usually given low priority. For the distribution of voluntary *Zakah* after the introduction of official *Zakah* System in the case of Pakistan, see

Muslims in those countries where government is not involved in the collection or distribution of *zakah*.

After the introduction of an official *zakah* system (enabling the government to deduct *zakah* on certain zakatable assets on compulsory basis) the important question which needs to be answered now is how, and to what extent, government action could affect the payments Made to voluntary organizations and needy individuals in a society. The purpose of our paper is to find answers to this question with special reference to Pakistan's economy. Saudi Arabia and Iran could be equally good case studies but unfortunately, time and financial resources have not permitted us to extend our analysis to those countries.

Section I of the paper develops a theoretical framework within which we can study the relationship between official deductions and voluntary payments in Pakistan. Here our methodology is to establish logical relationship (sometimes using formal tools of analysis) among different behavioral trends involved in the payment and the receipt of *zakah* funds. Section II brings empirical support to some of the hypotheses stated in Section I. Most of the empirical supports are drawn from a recently conducted nation-wide survey in Pakistan concerning various aspects of its *zakah* system. Summary and conclusions of the paper are presented in Section III.

## **2. THEORETICAL FRAMEWORK**

Payment of *zakah* by Muslims is a religious obligation, an act of worship, which they are expected to impart with the belief of purifying their wealth and leading to further growth and prosperity in the society [1, 4]. Accordingly every Muslim who holds a certain amount of wealth (*nisab*) is required to pay 2.5 per cent (or varying rates in the case of farm produce) as *zakah*.<sup>2</sup> The Muslim's belief in the rewards of the

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Section II of this paper.

<sup>2</sup>See Quardhawi [4] for details of issues related to *Zakah*.

Hereafter for spending in the path of Allah makes *zakah* spiritually dominated. Therefore, a pure price-theoretical (neo-classical type) framework is not suitable to evaluate any change in its operation. But, nevertheless, *zakah* involves financial transfers with economic implications for both the payee and payer of funds. Its collection and disbursement at all levels are, therefore, expected to be influenced by economic, political and social forces besides spiritual motivations. The effects of legal *zakah* imposition (official collection) on voluntary payments to individuals or welfare organizations have to be evaluated in this framework.

Here we try to conceptualize the problem from three different angles as they are all expected to influence the *zakah* receipts by voluntary welfare organizations. First: What factors would determine the collection of *zakah* by official agencies. Second : In the presence of an official *zakah* system what would be the nature of voluntary *zakah* payments in the short and long run; Third: How would welfare organizations relate themselves to official and voluntary *zakah* systems.

In our view, a brief description of the three sets of relationships could be as follows:

### **2.1 Official Zakah Collection**

With the exception of the early period in Islamic history, official *zakah* collection has relied more on *Amwal-e-Zahirah* (publicly identifiable assets) than on *Amwal-e-Batinah* (assets hidden from public eye). [4]. The list of *Amwal-e-Zahirah* subjected to *zakah* deduction have been further narrowed down to selected financial assets in countries like Pakistan (See Appendix I). Obviously the greater the size of such assets, the higher the amount of *zakah* collected by the government and vice-versa. Some of the important factors which could influence the size of these assets are :<sup>3</sup>

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<sup>3</sup>A formal description of this relationship is provided in Appendix II.

#### **A. Degree of Monetization of the Economy**

The greater the role of money in the economy (as opposed to barter exchange) the greater the chances that people will invest their wealth in formal portfolios such as bank deposits, shares and investment certificates and vice-versa.

#### **B. GNP Per Capita**

Other things remaining unchanged, increase in GNP per capita would increase the size of publicly known zakatable assets (a positive link of income with wealth is well-established and does not need to be highlighted here).

#### **C. Return on Financial Versus Physical Assets**

Ignoring the risk factor, the rate of return from different portfolios determines whether or not an individual would invest his funds in officially zakatable assets. One of major reasons for fixed bank deposits in Pakistan not growing significantly over time is the payment of low returns on bank deposits as opposed to high rates of return available from investments in real estate, services and foreign trade sectors.

#### **D. Size of Informal Sector <sup>4</sup>**

The Informal sector by its very nature hesitates to deal with official agencies. Wealth in this sector is, therefore, most likely to remain outside the net of the official *zakah* system. Therefore, the larger the size of this sector in the economy the , greater the chances that officially zakatable assets will decrease (in relative terms if not in absolute value).

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<sup>4</sup>The informal sector is usually defined as that part of the economy which operates under traditional technology, with relatively small size of capital, and under traditional labor relations.

## E. Degree of Confidence in Public Sector Institutions

Confidence in public sector institutions is a multi-faceted phenomenon and could be the subject of a separate inquiry in its own right. Suffice is to say here that this, in general, is a strong motivational force for the people to support an official *zakah* system not only for their Amwal-e-Zahirah but also for their Amwal-e-Batinah. Therefore, a *zakah* system run by people of integrity, competence, piety and knowledge would certainly enhance the size of officially zakatable assets. More on this point latter.

The factors stated above are by no means the only determinants of official *zakah* receipts. They are also not independent of one another as can be easily verified. What is, however, important about them is that they are most likely to play a leading role, directly or indirectly, in the growth of *zakah* funds collected by the government.

### 2.2 Voluntary *Zakah* Payments

Voluntary payments of *zakah* by any individual in our view are expected to be influenced by the following factors:

- A. *Zakah* paid to official agencies through compulsory deductions;
- B. The level of religious commitment;
- C. The level of education, in general and that of Islamic knowledge, in particular;
- D. The occupation or nature of business (i.e., whether business is located in informal or formal sector);
- E. The size of individual wealth;
- F. Taxation rules;
- G. The nature of family relations;
- H. Age;
- I. Last but not the least, the level of confidence in voluntary organizations as opposed to official *zakah* apparatus.

A brief discussion of these factors may help in clarifying the nature of their relationship with *zakah* payments.

1. Knowledge of *zakah* obligations helps to enhance religious commitment which is obviously needed to pay *zakah* on voluntary basis.
2. Taxation rules are extremely important for voluntary payment of *zakah*. If *zakah* is made tax-deductible, people will be encouraged to pay *zakah* on their own. In most of the western countries "charity" to recognized welfare organizations up to certain limits is exempted from tax. This has enabled the private welfare organizations and church institutions to undertake their activities without government support. This may be a good example of how businessmen and wealthy people can be induced to enhance their *zakah* payments to voluntary organizations.
3. Extended family system and traditional family bonds usually make people more responsive to the problems of their kith and kin. *zakah* money has long been used to support needy relatives in most Muslim countries due to the bonds of the extended family.
4. Age can bring maturity and prosperity and hence an individual of mature age is more likely to pay *zakah* than in his youth.
5. *Zakah* payments to voluntary organizations in our view significantly depend on the trust inspired by such organizations as compared to official agencies. The low level of confidence in official agencies would turn people to voluntary organizations and to the needy and the poor within one's own surrounding for payment of *zakah*. In fact, people in this situation might try to avoid paying *zakah* even on publicly known zakatable assets.
6. A crucial point to be noted in the preceding discussion is that compulsory deductions could also negatively affect the voluntary payments of *zakah*. Intuitively one would expect voluntary payments to go down after the official *zakah* collection. But viewed in the overall framework stated above, the effect of compulsory deductions on voluntary payments may be negligible. This is because of the following reasons:

- a. In the case of *zakah* to be paid to relatives and traditionally known welfare organizations, payment made on a few financial assets will not be a sufficient excuse to reduce voluntary payments. This may not be true of a person who holds a major proportion of his wealth in officially zakatable assets.
- b. Favorable taxation rules may in fact induce people to pay *zakah* on a voluntary basis in spite of compulsory deductions from their assets.
- c. -In some cases the official *zakah* system could, in fact, induce people to pay *zakah* on a voluntary basis if they were not paying otherwise. They might avoid official deduction of *zakah* to be able to pay the same to those whom they know personally. In this way 'on a priori' grounds, one cannot make the generalization that official *zakah* system would necessarily lead to reduction in voluntary *zakah* payments.

The official *zakah* system might have significant adverse effects on voluntary payments only under the following conditions:

1. If in proportionate terms people hold a greater share of their wealth in the form of publicly known zakatable assets, (See Appendix I);
2. If the official *zakah* system is extended to not only all types of *Amwale-Zahirah* but also to some of the *Amwal-e-Batinah*;
3. If government provides strong incentives on payments of *zakah* to official agencies and discourages payments to voluntary organizations;
4. Last but not least, if people have greater trust in public institutions in comparison to voluntary organizations to the degree that the government is able to collect *zakah* from all the assets under its purview.

In all other circumstances, official *zakah* deduction may remain a relatively unimportant factor in the individual decision to pay *zakah* on a voluntary basis.

### **2.3 Zakah Receipts on Voluntary Organizations**

The crucial question now is how voluntary organizations such as orphanages, religious schools, welfare organizations, etc., would fare in terms of their *zakah* receipts after the introduction of an official compulsory *zakah* system. In our view answer to this question depends on the following factors:

#### **A. The Nature of Voluntary Organizations**

Since people in Muslim countries have traditionally preferred to pay *zakah* to the needy and the poor, particularly widows and orphans, organizations serving the cause of such people are not likely to be affected very much by official deductions; at least in the short run. They will continue to inspire people to philanthropy and receive *zakah* and *sadqah* from their *Amwal-e-Batinah*. On the contrary, for those recipients about which people feel that they are the responsibility of the government, voluntary payments might decrease after the introduction of an official *zakah* system.

#### **B. Level of Confidence Enjoyed by a Welfare Organizations**

As explained earlier, the credibility enjoyed by any organization plays an extremely important role in determining the amounts to be received by it on a voluntary basis. There could hardly be any other substitute for this factor to attract voluntary *zakah*. One can safely assume that even when an official *zakah* system is able to recover full *zakah* dues from the people, they would still be willing to pay their *sadqah* to welfare organizations enjoying a good reputation and providing tangible services to the poor. The case of Edhi Trust in Pakistan, which will be briefly discussed later on, is one of the most pertinent examples of this behavior.

### C. Location of a Welfare Organization

Organizations located in those urban centers where most of the economic activities take place in the formal sector could be adversely affected by an official *zakah* system. This is so because people in such places generally tend to hold greater proportion of their savings in the form of bank deposits or other similar portfolios. In this way they are left with very little base (*Amwal-e-Batinah*) for paying *zakah* on a voluntary basis.

### D. Short-run and Long-run Perspectives

Time is likely to play an important part in dividing the role between public and private institutions with regard to collection and disbursement of *zakah*. In the short run, official *zakah* collection on a few selected assets would hardly make any difference to the overall payments made by people on their own. In fact, after the introduction of an official system, the overall voluntary payments might very well increase as argued above. But this situation could change over time as formal operations displace informal activities. The growing complexity of economic life forces people to invest in publicly known assets. As a result, unless there exists a well-organized campaign to minimize the state's intervention in the *zakah* system, one should expect government collection to increase over time and voluntary payments to decline. However, the net result would depend on the strength of negative and positive forces in actual operation. If in the long run, official *zakah* collections become relatively greater, voluntary welfare organizations would have to look increasingly towards official sources than to voluntary payments from the public.

## 2.4 Official *Zakah* Collection and Voluntary Organizations : A Case Study of Pakistan

In Pakistan, official *zakah* collection started in Ramadan of 1400H (June 1980). *Ushr* was launched in spring 1983. The official *zakah* deduction is made on the first day of Ramadan every year from eleven different financial assets which include selected categories of bank

deposits, securities, insurance policies and provident funds (See Appendix I again). These assets are part of the First Schedule, whereas the Second Schedule includes all other assets subject to voluntary payments of *zakah*.

How this system might have affected the voluntary payments of *zakah* to *mustahiqeen*, in general and to welfare organizations, in particular, can be studied from two sets of data presented below. The first set is drawn from a national survey conducted in October to November 1988 for evaluating the *zakah* system in Pakistan on the basis of a random sample of the general population, official *zakah* committees, *Ulema* and welfare organizations. Since the survey was meant as an overall study of the system (and was not focussed on voluntary organizations alone), little information could be collected which was relevant to the problem at hand. However, to further strengthen our database, we approached selected organizations in Rawalpindi, Islamabad and Karachi and were able to collect information having a direct relevance to the present study. This is the second source of data used in our analysis here.

### **3. EMPIRICAL RESULTS**

Table 1 indicates official *zakah* collection in Pakistan both on account of compulsory deductions and voluntary payments since 1980. It is clear from the table that compulsory deduction increased with the increase in GNP per capita and total bank deposits in Pakistan but not as much as the latter two variables. On the other hand, voluntary payments to the government have been very small; on average comprising even less than 0.5 per cent of compulsory deductions. This indicates that most of the voluntary payments were not made to the government but to private individuals and voluntary organizations.

**Table 1****Compulsory Collection of *Zakah*, GNP per Capita and Fixed Banking Deposits in Pakistan, 1980-81 to 1988-89.<sup>5</sup>**

Year	Total Official <i>zakah</i> Rs. Million	Total Voluntary Receipts by Govt. Rs.million	GNP per Capita	Fixed Deposits with Banks (Rs.billion)	Total Official <i>zakah</i>	GNP per Capita	Fixed Deposits with Banks
1980-81 1400-01 H	852	8	3579	6.8	100	100	100
1981-82 1401-02 H	869	10	4016	74.5	95	112	112
1982-83 1402-03 H	862	7	4525	84.0	101	126	126
1983-84 1403-04 H	1013	2	5016	105.0	119	140	157
1984-85 1404-05 H	1234	3	5494	119.0	145	154	178
1985-86 1405-06 H	1440	2	6025	146.0	169	168	219
1988-89	1950 (P)	-	7355 (P)	179 (P)	229	205	307

This fact is also evident from Tables 2 and 3 which summarize the findings of our national survey for the lowest tier of the official *zakah* system, namely, Local *Zakah* Committees (LZCs). Estimates in these Tables show that only 8 per cent of LZCs received any voluntary payments in 1988. The average amount received from official sources was Rs. 23,300 per year as opposed to only Rs. 4,600 on voluntary accounts.

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<sup>5</sup>P = provisional figures

Source : Ahmad, 1 [1] and Pakistan [3]

**Table 2**

**Percentage of Local *Zakah* Committees Reporting Receipts of Voluntary Payments from the People, Pakistan, 1988.<sup>6</sup>**

**Percentage of Respondents**

	Total (N=271)	Rural Area (N=185)	Urban Areas (N=86)
Received	8	10	5
Not Received	92	90	95

**Table 3**

**Comparison between Official Receipts and Voluntary Payments of *Zakah* to Local *Zakah* Committees in Pakistan in 1988<sup>7</sup>**

**Average (Rupees)**

	Total	Rural (N = 158)	Urban (N = 80)
Amount received from official sources	23300 (N = 238)	21800 (N = 158)	26400 (N = 80)
Amount received from voluntary payments	4600 (N = 21)	2900 (N = 15)	8700 (N = 6)

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<sup>6</sup>Source : Sample Survey, IIIE, 1988 [2]

<sup>7</sup>Source: Ibid

Table 4 shows the amount received by *mustahiqeen* at LZCs level from official and non-official sources. In 1987-88 *mustahiqeen*, on average, received Rs. 402 from official sources as opposed to Rs. 508 from relatives as voluntary payments. In proportionate terms *zakah* received from *mustahiqeen* from different private sources in rural areas was on the average 50% more than the same from official sources. In aggregate terms, the former is about 25% more than the latter. In Table 4 it is also shown that the total amount received by unofficial sources between 1980 and 1988 was about 25% more than the aggregate level and about 80% more than the amount received from official sources in urban areas.

**Table 4**

**Average Amounts of *Zakah* Received by *Mustahiqeen* in Pakistan from Different Sources, 1988<sup>8</sup>**

**Average (Rupees)**

Source	Total (N = 1071)	Rural Areas (N = 786)	Urban Areas (N = 285)
1. In One Year from:			
a. Official sources	402	320	629
b. Relatives	508	459	744
c. Neighbors	515	518	500
2. Between 1980 to 1988 from :			
a. Official	1883	1727	2314
b. Other Sources	2500	1908	4091

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<sup>8</sup>Source: Ibid

**Table 5**

**Average Amount Received by *Mustahiqeen* in the Year Prior to the Introduction of the Official *Zakah* System in Pakistan, 1988<sup>9</sup>**

**Average Amount (Rupees)**

Source	Total (N = 140)	Rural Areas (N = 101)	Urban Areas (N = 39)
Relative	640	455	1293
Neighbors	373	324	446

**3.1 The Effect of the Official Collection System on Voluntary Receipts by *Mustahiqeen*:**

When it is well established that the amounts of voluntary *zakah* received by the poor is much larger than that collected and disbursed by the official *zakah* agencies, there are indications that the average amount received by poor individuals from private sources might have declined after the introduction of the official system. This can be seen by comparing the amounts the *mustahiqeen* used to receive from relatives and neighbors before the official *zakah* system was introduced in 1980, as shown in Table 5, with those received afterwards, presented in Table 4.

On average, the amount received from relatives by *mustahiqeen* after the introduction of the official *zakah* system declined from Rs. 640 to Rs. 508. This is also true for urban areas where the decrease is very sharp, from Rs. 1293 per year to Rs. 744 per year. The case of neighbors in rural areas is somewhat different from others as their

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<sup>9</sup>Source : Ibid

voluntary receipts increased to some extent after the introduction of the official *zakah* system.

Keeping in view the levels of banks transactions in urban and rural areas in Pakistan, it should not be surprising if people in urban areas reduced their voluntary payments to their relatives after the compulsory *zakah* deduction. In urban areas there is a greater use of banks for keeping surplus funds than in rural areas. As a result, the people in urban areas are likely to pay more *zakah* on official accounts than those in rural areas.

### 3.2 Profile of Voluntary Organizations in Pakistan

Before presenting detailed data about some of the selected voluntary organizations it would be useful to look at their profile in Pakistan. This is based on 20 voluntary organizations selected from ten cities in Pakistan.<sup>10</sup> These organizations include *deeni madaris*, medical service institutions, educational institutions and social welfare societies.

Table 6 summarizes some of the main characteristics of these organizations with regard to their receipts and disbursement of *zakah* from official and voluntary sources. The following points are worth noting in these tables:

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<sup>10</sup>The sample break-up for different cities is as follows:

Lahore	4
Gujranwala	1
Gujrat	2
Islamabad (Federal Area)	1
Attok (Punjab)	3
Rawalpindi (Punjab)	2
Abbotabad(NWFP)	1
Charsadah (NWFP)	1
Sawabi(NWFP)	1
Mardan(NWFP)	4
Total	<u>20</u>

Table 6

### Major Characteristics of Voluntary Organizations in Pakistan, 1988<sup>11</sup>

S/N	Characteristics	Total	Deeni Madaris	Educational Institutions	Medical service Organization	Social Welfare Societies
		(1)	(2)	(3)	(4)	(5)
1.	Number	20	5	5	5	5
2.	Those receiving official <i>zakah</i>	12	3	3	2	4
3.	Average amount received from Official sources (Rs. 000)	41.2	21.3	6	75	60
4.	Highest amount received by any organization (Rs.000)	52	30	10	100	75
5.	The number receiving highest amount	7	2	2	1	2
6.	Structure of Average Expenditure per year:					
	(a) Less than Rs.100 thousand	6	1	3	-	2
	(b) Rs.100 to 300 thousand	11	4	2	2	3
	(c) Between Rs.300 thousand to 500 thousand	3	-	-	3	-
7.	The period since the organization was established					
	a) Upto 15 years	2	-	1	-	1
	b) 15-24 years	10	1	4	1	4
	c) 24 years & above	8	4	-	4	-
8.	Number of Beneficiaries					
	a) Fewer than 100'	2	2	-	-	NA
	b) Between 100-250	6	3	-	3	NA
	c) Between 250-500	4	-	2	2	NA
	d) More than 500	3	-	3	-	NA
9.	Professional staff strength					
	a) Less than 5	2	-	-	2	NA
	b) 5-10	7	4	-	3	NA
	c) 10-15	1	1	-	-	NA
	d) 15 - 25	3	-	3	-	
	e) 25+	2	-	2	-	
10.	Non-professional staff member:					
	a) Less than 5					
	b) 5-10	2	NA	NA	-	2
	c) 10-15	3	NA	NA	-	3
	d) 15+	2	NA	NA	2	-
		3	NA	NA	3	-
11.	Sources of Income					
	a) Donations/zakah	9	5	-	1	3
	b) Official grant	5	-	2	1	2
	c) Services Fee	6	-	3	3	-

<sup>11</sup>Source: IIIE [2]

1. Out of 20 organizations included in the previous table, 8 never received any *zakah* from official sources. They were entirely dependent on voluntary help (*zakah* and *sadaqah*). The remaining 12 received *zakah* ranging between Rs. 4,000 to Rs. 100,000 per year. There was only one case (a medical service institution, which received Rs. 100,000, otherwise the majority received between Rs. 10,000 to 50,000 per year).
2. The highest amount of official *zakah* was paid to medical institutions and social welfare societies. *Deeni madaris* and educational institutions received relatively small amounts. The highest amount the two schools received was about Rs. 10,000.
3. Average expenditures of most organizations were more than Rs. 100,000 per year. For medical service organizations expenditures were found to be more than Rs. 300,000 in most cases. Official *zakah* receipts were not even 10 per cent of their total expenditures in some cases (e.g. educational institutions). In other cases, official *zakah* receipts were between 20% to 50% of their total annual expenditures.

The difference between official *zakah* and total expenditures is made up by voluntary *zakah* and *sadaqah* (9 out of 20 organizations used this method). Five out of 20 organizations also indicated the use of the "official grant" (other than *zakah* ) for meeting their expenditures. Six also used service charges/fees for meeting part of their expenses.

5. Most of the organizations (18 out of 200) were established more than 15 years ago, much earlier than the introduction of the official *zakah* system in Pakistan. They have professional staff numbering between 5 to 25 persons (the latter in the case of educational institutions) and non-professional staff numbering fewer than 5 to 15 persons. Most of these organizations serve between 100 to 300 people (students or patients).

### 3.3 Historical Data About Selected Cases

From the above profile it is clear that the majority of voluntary organizations in Pakistan depend on voluntary payments of *zakah* and *sadaqah*. To see how these payments have changed over time, we look at the financial statements of three organizations from Rawalpindi, Islamabad and Karachi.

#### A. Anjuman-e-Faizul Islam, Rawalpindi

This is one of the oldest orphanage schools in Northern Punjab, catering to more than 1,000 orphans at one time. The financial statement of this institution shown in Table 7 indicates that there is no decrease in the amount received by it even after the introduction of the official (compulsory deduction) system in Pakistan. The amount received by this organization has continued to increase since 1970 both in nominal and real terms. In nominal terms, the amount of voluntary *zakah* received in 1977 was Rs. 358,500. This figure increased to Rs. 632,000 in 1980 and 652,000 in 1981. Only between 1982 and 1983 was the increase very small. In 1970 prices show a decline, but after that voluntary *zakah* has continued to increase even when this institution began receiving *zakah* from official sources in 1985.

According to the management of this organization, awareness about *zakah* has increased in the country and more people come to pay them their *zakah* voluntarily after the introduction of the official *zakah* system in Pakistan.

**Table 7**

**Statement Showing Voluntary and Official *Zakah* and Total  
Expenditure of Anjuman-e-Faizul  
Islam (Regd.), Rawalpindi, 1970-1989.  
Figures from Audit Reports**

**( Rupees )**

Year	<i>Zakah</i> paid voluntarily	<i>Sadaqah</i>	Government grants	<i>Zakah</i> from official sources	Total expenditure
1970	1,54,000	41,000	1,00,000	-	9,80,000
1971	1,47,000	44,000	26,000	-	7,30,000
1972	1,66,000	63,000	17,000	-	7,09,000
1973	1,44,000	185,000	30,000	-	10,24,000
1974	Figures	not	available	-	-
1975	Figures	not	available	-	-
1976	2,44,000	135,000	16,500		9,24,300
1977	3,58,500	162,000	41,500	-	16,09,000
1978	NA	305,000	12,500	-	22,39,000
1979	NA	NA	-	-	-
1980	6,32,000	386,000	20,000	-	38,38,000
1981	6,52,000	540,000	22,000	-	55,11,000
1982	7,00,000	678,000	42,000	-	73,49,000
1983	7,02,000	813,000	32,000	-	74,48,000
1984	7,83,000	10,38000	60,000	-	- 98,06,000
1985	7,97,000	14,45000	45,000	3,00,000	75,58,000
1986	9,39,000	16,58000	1,74,000	3,00,000	91,77,000
1987	11,14,000	21,42000	50,000	-	88,66,000
1988	16,65,000	12,68000	60,000	1,50,000	132,05,000
1989	17,30,000	20,23000	50,000	8,00,000	90,88,000

In our view, four factors can explain the steady increase in the voluntary receipts of *zakah* (and also *sadaqah*) by Madrasah Faizul Islam.

- First: Its long and undisputed reputation as a voluntary organization providing tangible services to orphans in this part of the **country**;
- Second: Relatively many people, from those trying to avoid official deduction, turn to this Madrasah to pay their *zakah*. The phenomenon was less significant when there was no compulsory deduction;
- Third: It is an orphan-house. Muslims in general feel more sympathetic towards this category of the needy and the poor;
- Fourth: It has traditionally received contributions from all categories of people, the majority of whom are businessmen, shopkeepers and artisans. Most of these people rarely deal with the formal financial system and thus do not pay *zakah* to official agencies.

#### **B. Al-Khidmat Welfare Society, Karachi**

This is also a well-established welfare organization providing a variety of services to the poor and needy in Karachi. Its accounts since 1981 in Table 8 show the amount of *zakah* and *sadaqah* increasing from Rs. 109,631 to Rs. 813,582 (an increase of about 800%). Unfortunately, no data are available for the period before 1980. When the official *zakah* system was introduced between 1986 and 1987, there was, however, some decrease from Rs. 694,219 to Rs. 608,527. This is attributed to riots and ethnic tension in Karachi which affected the business environment in the city and drove many affluent people out of the city.

**Table 8****Statement of Zakah Receipt of Al-Khidmat Welfare Society, Karachi, 1981-89**

Year	<i>Zakah + Sadaqah</i>	Total Income from all Sources
1981	1,09,631	
1982	3,26,330	21,32,060
1983	4,96,095	25,94,282,
1984	6,78,044	32,72,187
1985	6,94,219	36,36,022
1986	6,08,527	57,68,515
1987	8,13,582	63,24,667

The perception of Al-Khidmat management has been that in the case of Karachi city, voluntary *zakah* payments have been affected more by the Law-and-Order situation than by the government system. There is no significant decrease in the enthusiasm of the wealthy people in the city to pay their voluntary *zakah* even after the compulsory *zakah* deduction was instituted in 1980. The case of Al-Khidmat Society is not similar to that of Anjuman-e-Faizul Islam. In many a way it, situation has also been influenced by its good reputation, old standing as a welfare organization, committed management and supporters whose payment of *zakah* to the official system is a small proportion of their total dues.

**C. Idara-e-*Alia* Tanzeemul Masajid (Rgd. 0 E-7, Islamabad)**

This is a peculiar case where voluntary *zakah* receipts were growing at a steady rate between 1975 and 1979 (Table 9), but in 1980, when official deduction started, they sharply declined from Rs. 38,000 in 1979 to Rs. 22,000. In 1981, the receipts recovered to Rs. 36,000 but were still less than those in 1979. In 1985, once again there was a big decline in its receipts to Rs. 18,000, the lowest the preceding ten years.

In 1989, they gain dropped considerably in comparison to a record collection in 1988.

Conversation with the management reveals that although with increased efforts they have been able to enhance their *zakah* receipts from time to time, the number of people coming to pay their *zakah* voluntarily after 1980 has gradually declined. Similarly, the amounts offered on a voluntary basis have also declined to some extent over this period. Therefore, the management has had to undertake more fund-raising efforts than ever before to meet their annual expenditures.

In our review the most important explanation of this phenomenon is the predominance of salaried class in the city of Islamabad. Salaried people generally keep their funds with banks where they are subjected to compulsory deduction of *zakah*. In this way their capacity to pay *zakah* on their own is considerably reduced.

**Table 9**

**Statement showing details of *Zakah* paid Voluntarily,  
*Zakah* received from Central *Zakah* Administration  
and Total Expenditures since 1975.<sup>12</sup>**

CE/Years	Hijra Years	<i>Zakah/Sadaqah</i> (Rupees)	Official <i>Zakah</i> from Central <i>Zakah</i> Administration (Rupees)	Total Expenditure (Rupees)
1975	1395H	14,602	-	52,000
1976	1396H	25,000	-	65,000
1977	1397H	30,000	-	141,000
1978	1398H	35,000	-	135,000
1979	1399H	38,000	-	186,000
1980	1400H	22,000	-	223,000
1981	1401H	36,000	-	271,000
1982	1402H	39,000	-	31,000
1983	1403H	44,000	-	325,000
1984	1404H	46,000	-	303,000
1985	1405H	18,000	-	566,000
1986	1406H	70,000	196,800	171,000
1987	1407H	95,000	250,200	425,000
1988	1408H	147,000	329,700	664,000
1989	1409H	74,000	190,200	499,000

**D. Edhi Trust, Karachi**

As remarkable a success story as any welfare organization in the recent history of Pakistan is that of Edhi Trust, established about 10 years ago by a religiously motivated businessman named Abdus Sattar Edhi. This Trust gained overnight fame during the civil riots in Karachi in 1984

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<sup>12</sup> Source: Idara-e-Alia Tanzeem-ul-Masajid (Regd.0,E-7), Islamabad, Pakistan.

to 85 when it provided immediate and timely ambulance service to the dead and the injured in Karachi. The personal dedication of its founder to help people in distress and pain has gained him immense respect both at home and abroad.

Edhi Trust, according to Moulana Abdus Sattar, received a lot of publicity in the early eighties, attracting between 30 to 40 million rupees per annum as *zakah* and *sadaqah* paid voluntarily.<sup>13</sup> However, in the last two years the trust experienced a considerable decline in its total receipts of funds. According to Moulana Edhi, this decline has little to do with the compulsory *zakah* deductions. The main reason for the decline, according to him, is the emergence of ethnically-based welfare societies in Karachi over the last four years. Mohajirs, the dominant people in Karachi, have created their own welfare societies to provide various services to their own people. Some of the voluntary *zakah* payments which previously went to institutions like Edhi Trust, now go to newly created organizations. Similar efforts have also been made by other ethnic groups with adverse effects on voluntary contributions of *zakah* and *sadaqah* to Edhi Trust.

#### 4. SUMMARY AND CONCLUSIONS

The purpose of this paper has been to analyze the effect of compulsory (official) deductions of *zakah* on voluntary payments to welfare organizations. Since payments of *zakah* to welfare organizations besides being linked with official deductions, were part of the voluntary payments in general, it was important to explain this three-way inter-relationship within a logical framework. Accordingly, we showed that "official *zakah* collections" were most likely to depend on the degree of monetization of the economy, the level of bank deposits, the level of GNP per capita, the size of the formal (as opposed to the informal)

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<sup>13</sup>No formal accounts are maintained by the Management of the Trust. The figures quoted were disclosed by Moulana Abdus Satter Edhi when we called upon him on May 1, 1990.

sector, taxation rules, the structure of returns from financial portfolios and the degree of confidence in official agencies.

On the other hand, voluntary *zakah* payments in general were likely to be determined by the level of religious commitment among the people, by education in general and religious knowledge in particular, by the size of the informal sector (similar to the case of official *zakah*), by the total size of individual's assets, taxation rules, age and place of residence of an individual, the level of confidence in public versus private institutions, and last but not the least "*zakah* paid by an individual to official agencies".

Seen in this framework, it is obvious that the official *zakah* payment has been but one of the many factors determining the overall size of zakatable assets and the amounts paid from them. Even if this has a negative effect on voluntary payments, the positive effect of other factors could be more than offset this negative. People could still continue to pay *zakah* to welfare organizations and individuals in large sums. However, the crucial assumption here is that compulsory deductions were applied only to a limited number of assets (i.e., the overall size of *Amwal-e-Zahirah* is not larger than *Amwal-e-Batinah*).

As regards the share which voluntary organizations can claim from unofficial *zakah* payments in comparison to that received by individuals, it, once again, depends on a number of factors. The most important among them are :

- A. The nature of the functions of a voluntary organization, whether serving orphans and widows in their subsistence or meant for other general welfare activities;
- B. The credibility level of an organization. This comes from the dedication and integrity of the management and the visible results produced by the organization;

- C. Location. Organizations based in areas where there are more salaried people may face difficulty in attracting funds after the introduction of the compulsory deduction of *zakah*;
- D. Time factor. By increasing the share of formal sector activities, there is likely to be decrease in the overall size of voluntary *zakah* payments over time. In the long run, therefore, voluntary organizations and needy individuals will probably receive proportionately less *zakah* from the general population.

To test some of the above-stated hypotheses, empirical support was drawn from a survey conducted by us in 1988 on the *zakah* system in Pakistan. Also, data on three different voluntary organizations was presented to evaluate their *zakah* receipts before and after the introduction of the official *zakah* system in Pakistan in 1980. The main features of these data were as follows:

1. By and large the individual needy, the poor and voluntary organizations depend more on unofficial *zakah* payments than on the official system. This is so because compulsory deductions of *zakah* in Pakistan are restricted to a limited range of financial assets while most of the assets remain outside the purview of official deductions.
- 2... Voluntary *zakah* paid to individuals show mixed trends. Except in rural areas, which are still not covered effectively by the official *zakah* collection system, *Mustahiqeen* in urban areas, as a whole, did experience a marginal decline in their *zakah* receipts.
3. The case of voluntary organizations is different from that of individuals. They have continued to experience an increase in the total *zakah* paid to them by the people. Except in the case of Islamabad, where voluntary organizations have to rely mainly on salaried people, the enthusiasm and awareness of people for paying *zakah* on their own has not subsided even after the introduction of, the official *zakah* system. Wherever there was some decrease, it occurred because of factors not related to the official *zakah* deductions.

### **The Following Tentative Conclusions Emerge from our Analysis:**

1. The *zakah* received by voluntary organizations depends on a number of socio-economic and religious factors prevalent in the society. Therefore, the introduction of compulsory *zakah* deductions on certain *Amwal-e-Zahirah* does not necessarily lead to a reduction in the voluntary payments made to these bodies. This conclusion, however, crucially depends on the size and range of zakatable assets brought under the purview of official collection. The larger the size of these assets, the greater the chances that voluntary payments to welfare organizations decline.
2. In the case of Pakistan, it might be too early to fully appreciate the effect of the official *zakah* system on voluntary payments. There are, however, some signs that the process has begun whereby voluntary organizations in some cities are finding it difficult to attract large sums of voluntary *zakah* and *sadaqah*. In most cities, however, well-established organizations like Anjuman Faizul Islam and Edhi Trust are not affected by the official system. Their continuous financial strength is largely protected by the undisputed confidence which people have in their ability to deliver tangible services to the Mustahiqeen.
3. In the long run, the official *zakah* system is likely to exert stronger negative influence on voluntary payments as the economic structure in most Muslim countries moves toward increased formal activity. This in turn would result in a proportionate increase in the size of officially zakatable assets.

## **APPENDICES**

### **APPENDIX I**

#### **LIST OF COMPULSORY AND VOLUNTARY ZAKATABLE ASSETS IN PAKISTAN**

##### **A. First Schedule Subject to Compulsory Deductions**

1. Savings Bank Accounts and similar Accounts
2. Notice Deposit Accounts, receipts and similar Accounts and Receipts
3. Fixed Deposit Accounts and Receipts and similar Accounts and Receipts, on which the return is receivable by the holder periodically or is received earlier than maturity or withdrawal
4. Savings/Deposit Certificates/Accounts/Receipts and similar Certificates/Accounts/Receipts on which return is receivable and is received by the holder only on maturity or encashment
5. National Investment Trust Units.
6. Investment Corporation of Pakistan Mutual Funds Certificates
7. Government Securities on which the return is receivable by the holder periodically
8. Securities including Shares and Debentures of Companies and Statutory Corporations on which return is paid
9. Amenities
10. Life Insurance Policies
11. Provident Fund Credit Balances

## **B. Second Schedule Subject to Voluntary Payments**

1. Gold, silver and manufactures thereof
2. Cash
3. Prize Bonds
4. Current Accounts
5. Loans Receivable
6. Securities, including Shares and Debentures to the extent not liable to compulsory levy
7. Stock-in-trade of:
  - i. commercial undertakings
  - ii. industrial undertakings
  - iii. precious metals, stones and manufacturers thereof
  - iv. fish and other catch/produce of the sea
8. Agricultural produce other than that liable to compulsory Ushr levy
9. Animals fed free in pastures (goats/sheep, cows/buffaloes, camels)
10. Any other item not specified but liable to *zakah* under *shari'ah*

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Source: Ahmad

## APPENDIX II

### ZAKAH PAYMENT BEHAVIOR: A FORMAL MODEL

We may express *zakah* payment by people in a formal model as follows:

1. (a) Official *zakah* payments (OZ) = f(M,B,F,Y,X,R,C,T) (1)

(b) Voluntary *zakah* payments (VZ) = g(RC,ED,IK,F,OZ,W,X,A,C). (2)

(c) *Zakah* Received by Voluntary Organizations  
(ZW) = O(NF,CR,L,T) (3)

Where : M	=	the degree of monetization of economy
B	=	banking fixed deposits
F	=	the size of formal sector
Y	=	income per capital
X	=	the taxation structure
R	=	the structure of return on financial assets
C	=	the degree of confidence in public institutions
T	=	the time factor
RC	=	the level of commitment
ED	=	the level of general education
IK	=	the level of Islamic knowledge
W	=	the size of individual wealth
A	=	the individual's age
NF	=	the nature of functions of voluntary organization
CR	=	the credibility level of an organization
L	=	the location of an organization

2. (a) Here the first derivative of OZ with the rest to M,B,F,Y,X (assuming it as a tax incentive on *zakah* payments), R and C is positive. For T it is negative.

- (b) The first derivative for VZ with respect to RC,ED,IK,X,W,A and C is positive. For F and OZ it is negative.
- (c) The first derivative for ZW with respect to NF (assuming it is an action favored by people) and that CR is positive and for L (assuming a movement towards increase in the salaried population in urban areas) and T is negative.

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# **APPLIED INSTITUTIONAL MODELS FOR *ZAKAH* COLLECTION AND DISTRIBUTION IN ISLAMIC COUNTRIES AND COMMUNITIES**

MONZER KAHF\*

## **INTRODUCTION**

In all Islamic Countries which have codified the collection and distribution of *zakah* we note an important institutional phenomenon with regard to the obligation to pay *zakah* to the state which is that those countries which do not adopt the principle of legal obligation have entrusted a single authority or department with the responsibilities of collecting and distributing *zakah*. On the other hand, in those countries which adopt the principle of legal obligation we see multiple institutional forms for the collection and distribution of *zakah*. This latter group of countries may be classified into (a) countries which separate the functions of collection and distribution and (b) countries which combine both functions in a single department. However, in both we see several institutional forms for collection and distribution.

On the other hand, in the countries which have not codified the collection and distribution of *zakah*, voluntary organizations undertake both functions. However, in a number of these countries semi-official organizations exist for the collection and distribution of *zakah*, such as the Nasser Social Bank in Egypt, thus giving the process of collection and distribution an institutional form of a different kind. This form has come about due to considerations of a legal nature in the case of the Nasser Bank, on the one hand, and in relation to the legal and social environment in which the Bank operates, on the other.

From the above it seems appropriate to divide this paper into three parts. Part I deals with the institutional models for the collection and

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distribution of *zakah* in the absence of a legal obligation that allows the state to collect *zakah* and obliges individuals to pay their *zakah* to a specific state organ. Part II is devoted to the institutional models for collecting *zakah* in cases of a legal obligation to pay *zakah* to the state. Part III examines the institutional models for the distribution of *zakah* in the cases reviewed in Part H.

Finally, it should be pointed out that this paper confines itself to the examination of the institutional forms that exist in Pakistan, Saudi Arabia, the Sudan, Malaysia, (North) Yemen, Kuwait and Jordan, citing other countries only in passing.

## **1. INSTITUTIONAL MODELS FOR THE COLLECTION AND DISTRIBUTION OF ZAKAH IN THE ABSENCE OF LEGAL OBLIGATION TO PAY ZAKAH TO THE STATE**

The Islamic society in various countries has worked out different methods for the collection and distribution of *zakah* in cases where the state fails to collect *zakah* dues and to disburse the collected funds among various heads of expenditure defined by *shari'ah*. These methods fall under the following three categories, depending on the kind of the institutions undertaking the collection and disbursement of *zakah*:

First, there are charity associations which are constituted voluntarily by individuals in many Islamic countries and communities. These voluntary groupings are in most cases run by volunteers, and the state may control such associations only in the context of its overall control of non-profit organizations. Normally, the scope of activity of such organizations is confined to a larger or a smaller geographic division depending on how active the leadership is of the given organization. This activity may, sometimes, cover a whole country. Only recently, organizations active beyond national borders have been formed, thus making it imperative on them to widen the base of their resources beyond the country of origin.

Second, there are semi-official organizations, such as public sector economic bodies which direct part of their efforts to the collection of *zakah* and its disbursement among deserving recipients.

Third, in addition to these two kinds of establishments, some Islamic countries set up governmental organs to receive and distribute *zakah*. Such *zakah* bodies are financially independent, constitute legal entities and enjoy a larger or smaller degree of administrative independence.

### **1.1 Collection and Disbursement of *Zakah* by Charitable Organizations**

There are many charitable organizations for the collection and distribution of *zakah* in Islamic countries and communities. Normally, a group of persons, perhaps no more than 10, may form themselves into a board of Management for such organizations, setting as their objective the distribution of assistance, both in cash and kind, to the poor in their area. Other such organizations may specialize in narrower fields of social service, such as treating the problem of beggary and providing care to beggars or sponsoring religious education. To partly finance their operation they receive *zakah* and other donations.

More often, these charitable organizations are characterized by the religious enthusiasm of their members. This enthusiasm, however, does not exclude the possibility of hiring full-time employees in some local societies if their activity expands to a degree that warrants such a step. These employees may be selected from among volunteers in the same organization. Another feature of such societies is their local character as most members and employees are drawn from the district or the locality where the organization operates. In many cases, the managers of these societies may possess a certain level of *Shari'ah* and Social knowledge relevant to *zakah* as local *Shari'ah* scholars may supervise the work directly or through some relation with the decision-makers, which is natural in view of the religious or social character of these societies. Furthermore, these charitable societies are noted for their commitment to their objective rather than their resources in the sense that they are

more concerned with helping the poor than with the fulfillment of the *zakah* obligation. Thus their publications and activities tend to stress the role of social aid and assistance programs in the interest of the needy, with little reference to the need to pay the *zakah* or the uses and disbursement of *zakah* per se.

These features have significant implications for the collection and disbursement of *zakah* that may be summed up as follows:

- A. Voluntary activity is based on the confidence of the donors in the organization. This persuades people to pay their *zakah* to this or that charitable society;
- B. Devotion and motivation are stronger in voluntary organizations than in other institutional establishments.
- C. Administrative cost-effectiveness is particularly high since many man hours of work are given voluntarily, thus reducing direct administrative overheads and raising efficiency.
- D. Their local character enables these organizations to obtain detailed information on the capacities and means of donors as well as the needs of deserving recipients. The personal touch in the transactions between donors and the organization enables the latter to maintain a profound relation with the former and makes it easier for donors to see the results of the work and operations of the organization.
- E. The organization has a better opportunity to gain experience in the religious aspects of the process of collecting and disbursing *zakah* and consequently the form qualified cadres to deal with the payers and the recipients of *zakah* within the limits of *Shari'ah*.
- F. Collection of *zakah* assumes a personal relation between the payer and the organization making the payment of *zakah* more like a personal donation. In many cases, the donor may stipulate that his donation is *zakah*, in which case the organization will exercise more care in its disbursement. Some societies devote a special account to

*zakah* to make sure that these funds are spent more strictly in the areas defined by *Shari'ah* than normal donations.

- G. A charitable society hardly concerns itself with providing information on the importance of paying *zakah* or its calculation, leaving such function to local religious activities in mosques and other forums.
- H. *Zakah* rarely forms the major portion of resources, and donations may far exceed the amount of *zakah* received by these societies. Furthermore, they rarely, collect *zakah* due on crops or livestock since their activities are normally carried out in urban areas.

It should be noted, however, that some charitable organizations begin as small societies that later expand and set up branches throughout the whole country, such as Edhi Trust in Pakistan, whose activity covers all of Pakistan.

On the other hand, *Zakah* Funds have sprung up in Muslim communities to serve the greater community, such as the National *Zakah* Fund of North America. This Fund is different from other funds in that it was expressly set up for purposes of *zakah*. Although the Fund accepts other donations, *zakah* constitutes the main and most important source of its revenues. It also pays special attention to providing information on the importance of *zakah* and the manner of its calculation. The distribution of its resources covers the whole of the United States and Canada. However, this Fund coexists with hundreds of other local Funds, which has the effect of reducing its revenues.

International charitable organizations which accept *zakah* as well as other donations are a recent phenomenon in the Muslim world. A number of these organizations have come in existence very recently. They perform no specialized activity in respect of *zakah*, which constitutes only one source of revenue. Therefore, most of the above features of charitable societies apply to them. Finally, the OIC is endeavoring to set up a World *Zakah* Fund dedicated to the *zakah*.

## 1.2 Collection and Disbursement of *Zakah* by Semi-Governmental Organizations

The Nasser Social Bank in Egypt is about the only model in existence of the semi-Governmental organ used for the collection and distribution of *zakah*.<sup>1</sup> The following paragraph is, therefore, devoted to this model.

Since its establishment, the Bank has concerned itself with the collection and disbursement of *zakah*.<sup>2</sup> For this purpose, it created the General Department for *zakah* which is concerned with providing information on and creating *zakah* Committees that deal directly with the *zakah* payers and recipients under its supervision. The Bank also receives *zakah* directly and disburses it through its branches in many Egyptian towns. The Bank has elaborated its own *zakah* regulations and by-laws, on whose basis a large number of *zakah* committees were established either on a local level in towns, or on a vocational level in Ministries and companies or on a social level in clubs and associations.

In cooperation with these committees the Bank's *Zakah* Department undertakes publicity works through publications, lectures and seminars. It also maintains contacts with prospective *zakah* payers to urge them to pay their *zakah* and help them calculate its amount.

*Zakah* is collected through *zakah* Committees and the Bank branches and offices. The Bank requires that *zakah* Committees should remit all their revenues to the Bank where they are entered in a special *zakah* account. The Bank offices and branches receive *zakah* directly and enter the revenues in their special *zakah* accounts. *Zakah* both in cash

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<sup>1</sup>As far as I know, the World Islamic Relief Agency is also semi-Governmental but it does not deal exclusively with the collection and disbursement of *Zakah*.

<sup>2</sup>Information here is drawn mainly from the expose of "*Zakah* Experience of Nasser Social Bank" presented by Mohammad Aly Fouad Radwan at the "Seminar on Financial Resources of the State in Modern Society from Islamic Point of View" held in Cairo in 1986. Proceedings of the Seminar were published by the Islamic Research and Training Institute in 1409H.

and kind may be given to the Bank, but *zakah* Committees are authorized to sell the *zakah* paid in kind if perishable and to deposit the proceeds. Non-perishable *zakah* in kind is kept for distribution to deserving recipients. Furthermore, *zakah* committees and the Bank offices accept *sadaqah* and donations.

Distribution of *zakah* is normally carried out by the Bank offices and branches directly to recipients upon justifiable recommendations made by *zakah* Committees after an examination of cases. The *Zakah* Department of the Bank may also disburse *zakah* to projects or programs deemed deserving by the Department according to Committee recommendations. *Zakah* may be disbursed by the Committee after endorsement by the Bank, especially in the cases of *zakah* in kind. It should be noted here that the *zakah* Department also dispenses donations and *sadaqah* in addition to *zakah*.

Mention should be made of the fact that the Bank shoulders all administrative costs of the process of collection and distribution of *zakah*, and work on *zakah* Committees is carried out voluntarily. Thus, nothing is taken out of the collected *zakah* to meet the expenses and services of the Bank.

In 1985, there were 3,000 *zakah* Committees and the number of *zakah* payers reached 580,000 while the number of recipients reached 690,000.

The following features are salient to the institutional form of collection and disbursement of *zakah* at Nasser Social Bank.

- A. Through information on *zakah*, the Bank reached a high level of performance. In 1985, it has been able to contact more than 1 per cent of the population, while its *zakah* distribution reached 1.5 per cent of the population. About 15,000 volunteers worked in the Bank's 3,000 *zakah* Committees;

- B. The Bank's *Zakah* Department diversified its methods of contacts with the donors and recipients, offering them a variety of services, through distribution of money and kind as well as its response to specific needs such as vocational training, provision of school books, clothing, etc.
- C. *Zakah* proceeds were low. In 1985, these proceeds amounted to L.E. 6.27 million, which is very little for Egypt, especially that the Bank is the only national institution for the collection and distribution of *zakah* in the country. Some estimates of anticipated *zakah* receipts in Egypt put the figure at over L.E. 1.5 billion. Moreover, the actual receipts in 1985 are too low considering the number of *zakah* Committees and *zakah* payers as it provides an average receipt of L.E. 2,000 per Committee and L.E.11 per payer.
- D. Disbursements of *zakah* receipts are low, never reaching two-thirds of the total receipts in any single year since the Bank started its *zakah* activity in 1973 up to 1985. Disbursement even dropped to about half of total receipts for several years.
- E. There is no institutionally structured religious supervision and control. The organs of collection and distribution neither include personnel with *shari 'ah* experience nor are subject to religious control to monitor consistency with *shari 'ah* requirements. This does not mean, however, that the *zakah* Department does not seek religious opinions through liaison with the Ministry of *Awqaf* or *Dar al Ifta'*; nor does it indicate the total absence of religious experience in all *Zakah* Committees, for members of such Committees may well be *Shari'ah* scholars and imams of mosques. It only means that there is no built-in religious expertise and control in the structure of the *Zakah* Department.

### **1.3 Collection of *Zakah* from those who volunteer to pay it and its Disbursement by Governmental *Zakah* Organs**

With the establishment of governmental organs for *zakah*, the institutional models of collection and disbursement have assumed a new

set up in a number of Islamic countries. The features of these models depend on budget allocations, legal limitations and the *zakah* organs' ability to adopt innovative and creative methods of work. Some Islamic countries have set up legally and financially independent *zakah* bodies, such as the Kuwait *Zakah* House the *Zakah* Fund in Jordan, similar Funds in Iraq and Tunisia, *Zakah* Council in Bangladesh and other such organs. While all these organs are independent in respect of *zakah* receipts, their administrative independence varies from country to country. The Kuwait *Zakah* House may enjoy the largest measure of independence, since it falls under the Minister of Awqaf who heads a Board of Directors vested with most administrative powers for the management of the House.

### **1.3.1 Collection of *Zakah* from those who volunteer to pay it**

Most government organs depend on direct relations with *zakah* payers. In fact, they may even sit back and wait for payers to reach out to the Administration to pay their *zakah*.

There are, however, a number of governmental organs that undertake information and publicity campaigns through books and pamphlets, posters and media advertising as well as mailing letters to or maintaining personal contacts with *zakah* payers. The month of Ramadan is considered the most favorable season for such campaigns.

Since some governmental *zakah* organs receive a substantial amount in donations and subsidies, their programs of resource development are not confined to *zakah*. For this reason we note a marked emphasis in their information material on social aid and assistance in order to appeal to prospective donors, although it is only natural that in order to convince *zakah* payers to give them their *zakah*, these organs need to publicize the different kinds of services and social welfare they offer.

Some *zakah* organs are flexible enough to diversify their channels of communication with *zakah* payers. As an example, some *zakah* funds install boxes in heavily frequented places, such as shopping centers,

mosques or government offices, or they run mounted caravans to collect *zakah* and donations, or they may avail themselves of evening programs to introduce themselves and their activities to the public.

In most countries, governmental *zakah* institutions co-exist with popular committees and charitable societies to collect and distribute *zakah*. These committees and societies normally maintain close relations with the governmental institutions especially those which specialize in *zakah* collection and distribution. For its part, the governmental institution is normally interested in giving support, encouragement, supervision and even financial assistance to such committees and societies. Yet, these committees and societies are not obliged to remit their *zakah* receipts to the governmental institution, nor are they obliged to observe the institution's modalities in distribution.

### **1.3.2 Distribution of *Zakah***

The nature of the funds received by governmental organs influences their distribution pattern and social services. In addition to *zakah*, these bodies receive donations from the public and subsidies from either the state or the Head of State.<sup>3</sup> *Zakah* organs therefore define their disbursements in such a manner that ensures that disbursements in the areas (*masarif*) defined by *shari'ah* are never less, but sometimes more, than *zakah* receipts. These organs, however, dispense their total receipts from other sources on social assistance, whether or not this assistance is covered by *zakah*. Disbursement of *zakah* may be effected in one of two ways: through institutions or directly.

Disbursement through institutions is normally carried out by the governmental *zakah* organ in cooperation with other governmental institutions such as the Ministry of Health and Hospitals in respect of the needy who are sick, the Ministry of Education in respect of poor

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<sup>3</sup>For example, out of total revenues of the Kuwait *Zakah* House in 1988 amounting to KD 10.45 million, KD 4 million came as a state subsidy. This subsidy represents 230 per cent of *Zakah* receipts which amounted to KD 1.7 million in 1988. (See "Annual Report of Kuwait *Zakah* House", 1988).

students, or the Department of Prisons in respect of families of prisoners. The *zakah* organ contacts the relevant government department to jointly examine the deserving (*mustahiq*) cases, and actual disbursement is effected through the relevant department. In some cases, the *zakah* organ may pay directly to the eligible family.

One governmental *zakah* organ has developed an innovative method of disbursement that may be considered similar to disbursement through the institution. It has authorized the payers of *zakah* themselves to dispense *zakah* in a system called "allocated *zakah*". Under this system a payer of *zakah* may indicate the need of any of his relatives or acquaintances for *zakah* and he pays part of the *zakah* due on him to the governmental institution which authorizes the payer to pay the balance to his deserving relatives or acquaintances. This way, the government institution reconciles the religious preference of paying *zakah* to kith and kin, on the one hand, and the governmental function of *zakah* collection and distribution, particularly when the payment of *zakah* to the state entails tax deductions. This system further preserves the anonymity and dignity of recipients and encourages *zakah* payers to concern themselves with the fulfillment of the needs of their kith and kin. Disbursement of *zakah* directly by governmental *zakah* organs is effected under specific procedures. The needy themselves submit applications. In the case of families which abstain from asking applications may be submitted on their behalf by those who know them. The disbursement service in the institution refers the applications to its social workers who examine each case to determine eligibility. After approval, *zakah aid* is disbursed either by installments or monthly stipends. Administrative overheads may be paid from the public state budget, and the *zakah* Fund incurs no such costs as salaries of personnel or other office costs.

### **1.3.3 Comments on Governmental Organs which receive Voluntary Payments of *Zakah* and Disburses *Zakah* to Deserving Recipients "Mustahiqqin"**

I. The close relation between the *zakah* organs and Ministries of *Awqaf* and Religious Affairs gives them access to religious knowledge and advice. In fact, some of these organs have even set up religious advisory committees on *zakah* matters

- II. State sponsorship of these organs has facilitated their work and relieved *zakah* receipts of many administrative costs while maintaining the independence of *zakah* receipts.
- III. Distribution of *zakah* by these organs is confined to two categories of *zakah* recipients, the poor and the needy. Some organs may extend their disbursement to cover a third category, the poor wayfarer "Ibn al Sabil".
- IV. Total *zakah* receipts are very small compared with all the *zakah* dues that should be paid by the communities in which these organs operate.
- V. These organs make a point of working out innovative methods for the collection and distribution of *zakah* in order to draw the largest possible number of *zakah* payers and to widen the scope of distribution.
- VI Although many serious efforts have been made to reduce the sense of degradation felt by the poor in filing applications and the consequent examination of these application, the procedure still produces a sense of social indignity.

These organs may vary in the degree of flexibility they manifest in their operation: while some organs confine themselves to receiving *zakah* due and accept *zakah* in money only, others accept *zakah* in both money and kind, the *zakah al fitr* and other general and specific donations.

## **2. INSTITUTIONAL MODELS FOR COLLECTION OF ZAKAH IN THE CASE OF OBLIGATION TO PAY ZAKAH TO THE STATE**

Part I reviews the institutional forms of collecting and distributing *zakah* in the absence of legal obligation to pay *zakah* to the state. We note that institutions receiving *zakah* rely on their own efforts to persuade the public to pay *zakah* and that some institutions mobilize a large

number of volunteers, while others resort to creative methods to convince *zakah* payers to pay their *zakah* to the institutions.

Legal obligation to pay *zakah* to the state, however, has a tremendous effect on the channels of *zakah* collection and distribution, thus rendering the institutional models for both operations rich and varied and could possibly provide applicable models for other parts of the Muslim world. In view of this importance, Parts II and III are devoted to models for the collection and the distribution of *zakah* under legal obligation, respectively.

Legislation in six Islamic countries provides for some sort of obligation to pay *zakah* to the state. These are the Yemen Arab Republic, Saudi Arabia, Malaysia, Libya, Pakistan and the Sudan. The coverage of the kinds of *zakah* and Zakatable assets under such obligation varies from one country to the other. Thus, the legal obligation in Yemen covers both property *zakah* (*Zakatul Mal*) and breaking-the-fast *zakah* (*Zakatul Fitr*). In Saudi Arabia, Libya, Pakistan and the Sudan, only "*Zakatul Mal*" is covered, while the obligation in Malaysia covers only "*Zakatul Fitr*", leaving "*Zakatul Mal*" to the discretion of the payers.

As for the types of property (*mal*) covered by the obligation, statutes in Yemen and the Sudan provide for payment of *zakah* on all kinds of Zakatable wealth, covered in books of *fiqh*, such as agricultural produce, livestock, tradeable items and both apparent and non-apparent property. Libya limits the obligation to agricultural produce and livestock, silver and gold and minerals, leaving *zakah* on money, silver and gold, minerals, financial accounts and tradeable items to the individuals to disburse on their own.

In Saudi Arabia, the legal obligation covers agricultural produce, animals and tradeable items (including cash assets of companies, corporations and other commercial establishments). Thus, bank accounts and cash assets are not covered if owned by those other than such establishments. In Pakistan, the *Zakah* Act covers 11 kinds of financial and some monetary assets, in addition to agricultural produce, leaving

current accounts in banks, cash holdings, tradeable items and animals on which *zakah* may be paid by the owner on his own.

These countries further differ in respect of the organs of *zakah* collection and disbursement. Some entrust these functions to a single body, such as the *zakah* Board in Pakistan, Religious Councils in Malaysia and the *Zakah* Chamber in the Sudan. Other countries may have an organ for the collection of *zakah* independent of its disbursement, such as in Saudi Arabia, Yemen and Libya. In Saudi Arabia, disbursement is the responsibility of the General Department of Social Security in the Ministry of Social Affairs and Labor, while Libya spreads this function over three bodies depending on the type of disbursement (*masarif*). In Yemen, disbursements were effected through cooperation councils, but they are now effected through the General State Budget, keeping apart the share of collectors (*Al 'Amilin*).<sup>4</sup>

This part reviews the institutional models for the collection of *zakah*, grouped by types of zakatable wealth and outlines the main features of such models. Part III, on the other hand, reviews the models for *zakah* disbursement.

## **2.1 Models for Collecting *Zakah* on Agricultural Produce and Livestock**

The Sudan has yet to collect *zakah* on livestock, and I have not been able to gather information on the models operating in Yemen. This leaves only the Saudi Arabian model for collecting *zakah* on livestock. On the other hand, Saudi Arabia, Pakistan and the Sudan have a rich experience in collecting *zakah* on agricultural crops, which will be reviewed here.

In Saudi Arabia, *zakah* on livestock is collected by a roving government team called functionary or "*Amilah*" in Arabic. It consists

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<sup>4</sup>Of *Zakah* receipts, 12% is given to the tribal chiefs, the sages, trustees and collectors, in accordance with instructions of the Ministry of Finance.

of a number of government employees, supported by auxiliary staff and guards. The team is centrally commissioned by the Ministry of the Interior and the *Zakah* Administration to collect the due *zakah*, either in cash or kind, in accordance with detailed instructions.

*Zakah* on agricultural produce is collected in Pakistan through local *zakah* committees, which are selected at the level of the town or its part, the village or its part, for every 1000-1500 inhabitants. These committees are purely popular in the sense that they include no officials or government employees. No recipient is eligible for committee membership. Every year, the central *Zakah* Council determines the minimum area of land whose owners are to pay the due *ushr*. This area is determined based on the crop of the year, taking into account natural adverse conditions and other such factors. A farmer of an area less than this minimum is left to disburse his *ushr* as he wishes. This measure was adopted to avoid the dilemma posed by the difference of *fiqh* views on the requirement to first meet the basic needs of growers.

Local committees perform both arbitrary assessment and actual collection of due *zakah* in cash only. In case of arrears, the Committee may ask the Taxation Department to help in their collection. It should be noted that the *Zakah* Act requires the payment of 5% on all crops regardless of the type of irrigation, assuming that the farmer will disburse the balance.

In the Sudan, the collection of agricultural *zakah* takes place at the marketing stage through the so-called "crop markets" which are state controlled and at which every farmer is obliged to market his produce. Taxation organs collect both taxes and *zakah* at these markets on the basis of the produce being actually marketed. Thus, the *zakah* office does not engage in any prior assessment or actual collection. The office collects *zakah* in kind in 22 specified cases, although it may accept cash. The actual collection is carried out by office personnel or by tax officers.

In Saudi Arabia collection takes place in accordance with either one of two models: (a) the system of assessment by functionary teams (or "*Amilah*", pl. "*Awamil*") or the model of collecting *zakah* at the

marketing stage as it is applied to wheat. The roving teams ("*awamil*") assess the due *zakah* on crops, except wheat, at one *ushr* or one half *ushr* depending on the type of irrigation (by rain or otherwise). For the collection of assessed *zakah*, the poor are referred to the growers to receive *zakah* in kind directly from them.

This model was applied in the case of wheat up to 1403H when the government sponsored a program for the expansion of wheat cultivation, under which the government buys the produce at prices which include subsidies to wheat growers. *Zakah* in this case is collected at the time of delivery of wheat to the General Establishment of Silos and Mills by deducting the amount of *zakah* from the cash value of the crop received and remitting the deductions to the *Zakah* Administration.

In Malaysia, the obligation covers the payment of certain types of *zakah* at the states level, but allows payers to voluntarily pay *zakah* on agricultural produce to the state. In the meantime, it applies a system which is both voluntary and obligatory. *Zakah* workers are appointed by the Islamic Affairs Council in every state to receive agricultural *zakah* from the payers. Of these receipts, 1/8 is allocated to the workers.

## **2.2 Models of Collecting *Zakah* on Goods for Trade**

*Zakah* on goods for trade is collected in the Sudan and Saudi Arabia on the basis of a *zakah* Declaration filed by the payers with the *Zakah* Administration, which checks the accuracy of the declaration and may ask for its revision. The Administration may also proceed to make an arbitrary assessment if it deems the declaration unacceptable or if the *zakah* payer keeps no systematic accounts acceptable to the Administration. *Zakah* is then paid directly to the cashier of the *Zakah* Administration. When arbitrary assessment is made, several factors are taken into account, such as imports during the financial year, contracts concluded with the state or its organs, assumed rate of profit in the given trade, etc.

*Zakah* on goods for trade also covers hotels, real estate agencies, travel agencies and trucks and taxis. In all cases where no systematic

accounts are kept, arbitrary assessment of *zakah* is made. It should be pointed out however that in the case of real estate agencies and travel agencies both capital and profit are considered in the *Zakatable* assets, while owners of hotels and cars pay *zakah* in respect of assessed net revenues only.

### **2.3 Models for Collection of *Zakah* on Financial and Monetary Assets**

Most *zakah* received in Pakistan come from financial assets as regulations require the establishment in which such assets are deposited - such as banks, post offices, saving funds, insurance companies and other savings enterprises as well as shareholder companies - to deduct due *zakah* on all such assets and remit receipts into *zakah* accounts in the Central Bank. Thus, this model of collection adopts the procedure of "withholding at the source" by a large number of establishments. As a result, the Central *Zakah* Council incurs only minor administrative costs in respect of the follow-up, control and checking and no cost at all in respect of levying and collection, which are the responsibility of a large number of establishments, just as in the case of tax collection in many countries. The Central *Zakah* Council circulates instructions to these intermediary establishments on the manner of calculating *zakah* as appropriate. It is to be noted that these establishments are required by law to perform the function of collecting *zakah* and to cooperate with the Council in this respect.

It should also be noted that in Saudi Arabia and the Sudan, financial assets of persons and enterprises subject to *zakah* on goods for trade and possessing regular accounts which serve as the basis for their *zakah* declarations are treated in the same manner as *zakah* on goods for trade. In other words, they are assessed in accordance with religious rules, calculated on the basis of *zakah* declaration and records of accounts auditing. Those persons and enterprises who have no goods for trade and are not, therefore, required to file *zakah* declarations, are exempt from *zakah* collections. These include persons who keep savings accounts and most current accounts in banks. The reason is that present regulations in both countries do not require banks to reveal to *zakah* administrations

details of these deposits or to deduct *zakah* from them. The same applies to insurance policies and other financial and monetary assets.

In Malaysia, *zakah* on financial and monetary assets is paid directly to *zakah* Funds by those who wish to pay without the intervention of *zakah* workers in villages and towns.

#### **2.4 Models for Collecting Other Types of *Zakah***

This section deals particularly with three types of *zakah*: *zakatul fitr*, *zakah* on salaries, and *zakah* on professionals such as doctors, engineers, lawyers, accountants, as well as and establishment of art and entertainment.

As for *zakatul fitr*, it has been the practice of Muslims to disburse it individually and directly to the poor and the needy around the end of the month of Ramadan. In most cases, this *zakah* is dispersed in kind - a measure (*saa*) of barley or dates, or half-a-measure of wheat. Most contemporary *zakah* legislations (Saudi Arabia, Pakistan and the Sudan), do not provide for the collection of *zakatul fitr*, on the assumption that individuals give it out directly. As mentioned above, the Libyan *zakah* law alone enumerates *zakatul fitr* among the types of *zakah* that must be paid, but leaves it to individuals to pay freely.

Only Yemen and Malaysia make it mandatory to pay *zakatul fitr*. State laws in Malaysia stipulate that *zakatul fitr* is payable to the state and is collected by *zakah* collectors designated by the Islamic Affairs Council (or the *Zakah* House) for every small locality so that each collector may collect *zakah* from a small number of Muslims (About 400 in the state of Nigeri Simbilan). Each collector has a mandate of one month, Ramadan, and is given 1/8 of the receipts of *zakatul fitr*. Collectors are selected from among the religious and pious people, normally the imams of mosques, for a term of one year which may be renewed. This *zakah* is collected as an amount of money fixed every year by the Islamic Affairs Council.

In Yemen, the Department of Duties determines every year the *zakatul fitr* which is due. Under applicable statutes, government and other public and private institutions collect *zakah* on the basis of lists containing the names of the people who should pay *zakah* and the number of their family members. *Zakatul fitr* is thus deducted directly from their salaries and is transferred to the relevant income item in the State Budget.

*Zakah* on salaries and wages is collected in the Sudan only. Regulations provide that it should be withheld at source - like taxes - by public and private employers, account being taken of "*nisab*". Exemption is made for amounts necessary to meet basic needs, both of which are determined by the *Fatwa* Committee in the *Zakah* Chamber. The collected *zakah* is then transferred directly to the account of the *Zakah* Chamber.

Saudi Arabia applies *zakah* on professionals such as doctors, engineers, lawyers, accountants, consultants and establishments of art and entertainment. It is an *income-zakah* similar to *zakah* on wages and salaries in the Sudan. Direct assessment and collection are exercised by *Zakah* Administration officers. Individuals working in such professions are also required to file a *zakah* declaration. In the absence of systematic book-keeping by the payers or if the declaration is deemed inadequate, the Administration may proceed to arbitrary assessment in accordance with indicators and criteria by the Administration of *Zakah*. Only individuals who are self-employed in these professions are required to pay *zakah*; if, on the other hand, they are employed and are paid wages, even higher than the net income of the self-employed, they are exempt from payment of *zakah* to the state.

#### **2.4.1 Comments on Models for Collection of *Zakah* A.**

##### ARBITRARY ASSESSMENT (ARABIC: KHARS)

In the Sunna, arbitrary assessment is recorded only in respect of *zakah* on agricultural produce. In practice, however, this arbitrary assessment is extended to cover other parts of *zakah* such as *zakah* on goods for trade, on professionals such as doctors and engineers and

owners of trucks and taxis. This method is approximate, as it assumes a fixed amount as the zakatable asset for all persons exercising the same profession, such as in the case of taxi drivers all-over Saudi Arabia, regardless of the town or location. The zakatable asset may alternatively be fixed by sub-dividing all individuals in the same profession into groups, as in the case of doctors, and a fixed *zakah* is imposed on each group. Surely there are several advantages in arbitrary assessment, particularly when *zakah* payers are divided into groups. It makes the duty of the individual towards the state clearer. It reduces the administrative costs of assessment and collection and it facilitates predictability of receipts. On the other hand, it is not based on the true zakatable asset, and may be unjust either to the payer or the beneficiary.

It may be proposed that payers be given the chance to appeal against the assessment if they feel that they should pay less than the assessed amount. The letters of assessment and claim should clearly inform the payer that his religious obligation is not fulfilled before God unless he pays his *zakah* fully, and that the State authorizes him to personally pay to eligible recipients whatever amount he needs to pay over the assessed amount to fully discharge his *zakah* duty.

It is also proposed that criteria of arbitrary assessment should be reviewed periodically, especially when the amount assessed is imposed on a class of payers, or to tie the assessment to some indicators according to which the assessed amount could be adjusted. Saudi Arabia has indeed linked arbitrary assessment on doctors to the salaries of their counterparts in the Ministry of Health.

A revised system of arbitrary assessment could also be introduced which may be called the personal arbitrary assessment, in the sense that every person may be assessed separately in accordance with a number of indicators such as the income of counterparts (as in the case of doctors), the number of employees, the location of his office, the type of profession, the level of specialization and the earnings index for services in the country.

A justification often cited for failure to make the *zakah* on goods for trade mandatory is the difficulty of assessment and, collection and, consequently the high cost of collection. If arbitrary assessment is applied to this *zakah* - as done in Saudi Arabia - it would increase *zakah* receipts in countries such as Pakistan, Malaysia and the Sudan.

#### **B. COLLECTION BY THIRD PARTY**

Certain types of *zakah* are collected by third parties, such as the *zakah* on agriculture and salary in the Sudan, *zakah* on owners of trucks in Saudi Arabia or *zakah* on financial and monetary assets in Pakistan. Collection by a third party may also take the form of withholding *zakah* at the source as in the case of the *zakah* on salary in the Sudan. Similar to this is the deduction from values due to payers as in the case of *zakah* on wheat in Saudi Arabia; or it could take the form of withholding while in deposit as the *zakah* on savings accounts and insurance policies in Pakistan, or collection could be performed by another collecting agency as in the case of *zakah* on trucks and taxis in Saudi Arabia which is collected by the same offices that collect the fees on licenses. Finally, collection may be carried out by recipients personally as in the case of *zakah* on dates in Saudi Arabia, where distribution committees order *zakah* payers to deliver *zakah* in kind directly to recipients.

All these forms of collection make the task of collection easier and less costly. One advantage of the collection system in Pakistan is that it has practically eliminated collection costs reducing the tasks of the *Zakah* Council to control and statistical functions. These collection models should be seriously considered in any universal application of *zakah* rules in any Islamic country.

It should be added that in the Sudan, *zakah* on livestock has not entered into force yet, notwithstanding a legal provision since 1984, because of difficulties in assessment and collection. We believe that it would have been possible to enforce this *zakah* with the application of a system combining the elements of arbitrary assessment and collection by a third agency in the first stage, and then introducing improvements with the growth of the *zakah* apparatus.

### C. COLLECTION IN KIND

Collection of *zakah* in kind is carried out in some cases and, if coupled with appropriate distribution models, could effectively deliver assistance to the needy in the required form. The collection and distribution of *zakah* on dates in Saudi Arabia could be viewed as a model of collection and distribution in kind. Similar instructions could be given to wholesale traders, especially in respect of such items as rice, sugar and wheat, to disburse their *zakah* directly to the poor.<sup>5</sup>

### 3. MODELS OF ZAKAH DISBURSEMENT IN THE CASE OF ITS OBLIGATORY PAYMENT TO THE STATE

It is clear that *shari'ah* obligates disbursement of *zakah* dues to specific categories of beneficiaries, specified by the Qur'an and does not leave this to human judgement. It is also established in the *Sunnah* that *zakah* employees were sent to conduct collection and disbursement operations together, and that they would return empty-handed. However, the economic and political changes that have taken place in Muslim countries resulted in generating various models for the disbursement of *zakah*. It is useful to study and compare such models.

To understand these models, it is necessary to note that the most modern *zakah* systems did not find it necessary to include all the eight categories of *zakah* beneficiaries mentioned in the Qur'an in the actual disbursement of *zakah* receipts, excepting that of the Sudan. We find that the *zakah* system of Pakistan provides for limiting disbursement to one or two categories, namely, the poor (*al-fuqara*) and the destitute (*al*

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<sup>5</sup>Another point should be added here; even if it relates to another paper submitted at this Conference. Regardless of the familiar *fiqh* positions, and under the brunt of a sense of injustice in leaving large incomes outside *Zakah* systems, some countries impose *Zakah* on some incomes, including hotel services and entertainers, in conjunction with vocations like doctors and accountants. This model of the universal coverage of *Zakah* should be noted by those countries which apply *Zakah* only partially, especially that there are assessment and collection models that could reduce the cost of including professionals and services incomes in the *Zakah* system.

*masakeen*). It should also be mentioned that in Yemen, Malaysia, Saudi Arabia and Pakistan salaries of staff engaged in *zakah* administration as well as administrative expenses pertinent to *zakah* are covered by the government budget, not by *zakah* receipts. This does not mean the non-allocation of a share to those who assist in the collection of *zakah* from the share of those engaged in the administration of *zakah* (*al-'amilin*), who were included in the Qur'an among the eight *zakah* beneficiaries. This is applied in Malaysia, where *zakah* workers (other than staff members of the *zakah* Institution) are paid 12.5 per cent of *zakah* receipts, and in the Sudan, where the share of *al 'amilin alayha* is given to any person assisting in the collection of *zakah*. Disbursement instructions in Pakistan allow local committees to hire accountants and to cover administrative expenses out of their allotted shares of local *zakah* funds. The members of the local committees are not entitled to any amounts of *zakah*. Saudi Arabia stands as the only state where *zakah* workers and pertinent administrative expenses are not paid out of *zakah* revenue.

In this part, I shall review the models of distribution, which can be categorized into (a) distribution through the state public budget and (b) distribution through specialized *zakah* organs. I shall also demonstrate that the distribution by *zakah* organs can be made either directly to individuals or indirectly through other governmental or non-governmental institutions. Further, I shall explain the distributional role that can be played by the popular committees of *zakah* institutions.

### **3.1 Distribution Model through the State Public Budget**

This model is based on the principle of itemization in the state public budget of *zakah* expenditure heads, and the specification of official governmental organs to undertake the actual disbursement of *zakah* in accordance with *shari'ah* and administrative provisions. This model is applied in Saudi Arabia as *zakah* is spent mainly on the poor and the needy through the General Administration of Social Solidarity under the Ministry of Social Affairs and Labor. The model is also put into use in Yemen where *zakah* revenue is spent on items of disbursement specified

in the public budget out of the eight categories mentioned in the Qur'an, with particular attention to the poor and the needy.

A few years ago, three quarters of *zakah* revenue in Yemen was distributed through popular co-operative councils. The remaining quarter of *zakah* revenue was distributed through the Public Budget.

Under this model, *zakah* is disbursed by one or more administrations according to the budget items. In Saudi Arabia, for instance, the entire *zakah* revenue is disbursed by the General Administration for Social Solidarity, in the form of monthly stipends or lump sum payments to needy individuals and families without informing them of the fact that the money they receive is from *zakah*.

Social workers at the Administration for Social Solidarity undertake the task of examining applications and making sure that recipients are worthy of such subsidies which are offered according to the number of family members and at rates determined by the General Administration itself. It is to be noted here that, in Yemen, the portion of *zakah* specified for *zakah* workers is paid to the tribal chiefs, sages and others who are actually involved in the operation of *zakah* collection.

### **3.2 Distribution Model through *Zakah* Organs**

*Zakah* receipts are not included in the state public budgets in the Sudan, Pakistan and Malaysia. The Libyan system stipulates that *zakah* receipts should be kept separate and that they should be distributed through the General Authority for Social Security (60%), the Department of *Zakah* Affairs (10% for *zakah* workers), and the Islamic Propagation Society (30% for the way of Allah, heart reconciliation and wayfarers).

In Pakistan, the Sudan and Malaysia, *zakah* administrations (irrespective of their different designations), undertake the distribution of *zakah* to recipients. In Pakistan, the entire *zakah* receipts are distributed to the poor and the needy except for a maximum of 10% of the allotments to local *zakah* Committees which may be used for miscellaneous administrative expenses. In the Sudan and Malaysia, on

the other hand, *zakah* receipts may be spent on any of the eight beneficiary categories.

*Zakah* distribution through *zakah* organs may be under any of the following models:

- A. Distribution Model Through Institutions.
- B. Distribution Model Through Governmental Authority.
- C. Distribution Model Through Local Committees.
- D. Direct Distribution Model Through *Zakah* Organs themselves.

### **3.3 Distribution Model through Institutions**

This model is so common in Pakistan that about 40-50% of *zakah* receipts are actually distributed through institutions. According to this model, Provincial *Zakah* Administrations ask a large number of institutions which, due to the nature of their activity, have frequent contacts with the poor and the needy, to provide lists of people who need *zakah* aid. After approval of the lists by the provincial administration, the required sums are passed on to the management of those institutions which in turn disburse the same to recipients in one installment or spread payments over several periodical installments, as the case may require.

These intermediary institutions could be either governmental or non-governmental. They are often requested to form a special administrative unit to act as liaison with the *Zakah* Fund. They are also subject to a subsequent financial and administrative audit by the Provincial *Zakah* Administration to check the disbursement of funds transferred to them. These institutions could be classified into 5 groups as follows:

- A. Institutions of public education
- B. Training and vocational institutions
- C. Health institutions, hospitals and clinics
- D. Religious education institutions
- E. General or special charity societies.

Moreover, the Central *Zakah* Council in the Federal Capital earmarks some funds for the National *Zakah* Fund<sup>6</sup> and some other institutions of public benefit such as the Leprosy Hospital in Karachi.

It should be noted that instructions issued by the Central *Zakah* Council require strict observance of the principle of giving *zakah* to the poor in the way of making him own what he receives, leaving nothing whatsoever in the hands of the intermediary institution. Thus, *zakah* money is given to poor students in the form of monthly or quarterly cash installments. In the case of trainees in vocational and training centers they receive stipends, in addition to some necessary materials such as cloth. At the end of training, they also receive some tools of training such as sewing machines or carpentry tools. In hospitals, *zakah* aid is disbursed in the form of food, medicines and clothes if the intermediary institution does not provide these items free to patients, and especially when the health establishment is privately owned and provides food and clothing at the expense of the patient. This also applies in T.B. sanitarium where treatment extends over a long time. Charitable societies<sup>7</sup> deal with the council in the same manner. Finally, the distribution through religious educational institutions takes place by giving money to the school administration for distribution to poor students in the form of food, clothes, books and other school necessities. This sort of *zakah* has clearly helped the growth of religious schools.

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<sup>6</sup> A public authority financed by the State. Its objective is to set up the capital infrastructure required for disbursement of *Zakah*, such as houses for the old, the crippled and the mentally retarded and for beggars, as well as orphanages. The Fund may run these houses for a period of time. The *Zakah* aid it receives from the Central Council is meant to finance food, clothing, medicines, and other items which could be given to residents of those houses. The construction and maintenance of the buildings themselves is met by direct government budgetary appropriation to the National *Zakah* Fund.

<sup>7</sup> Some of these societies run houses for orphans, the handicapped, beggars and others.

### **3.4 Distribution Model through Governmental Authorities**

This model is common in the Sudan, where 3/8 of *zakah* receipts are paid in the office of the Provincial Governor for the purposes of the wayfarers, heart reconciliation and in the way of Allah. These distributions have helped in extending *zakah* assistance to refugees who flowed into the Sudan from abroad and to displaced persons who moved from war zones in the northern parts. This model of distribution is not subject to any subsequent audit by *the Zakah Administration* which does not usually receive prior lists of recipients for approval.

The distribution of *zakah* collected in kind on agricultural produce in Saudi Arabia could be included under this model. It takes place through distribution committees appointed by the Imarah (regional government). The committees issue delivery orders for recipients asking *zakah* payers to deliver each recipient certain amounts of the produce. Under this model of distribution in kind, eligibility is ascertained by the governmental *zakah* committee but actual disbursement is carried out by the payer. Thus the *zakah* Administration carries no costs for the transportation and storage of *zakah* collected in kind.

### **3.5 Distribution Model through Local Committees**

The *zakah* and *ushr* law in Pakistan endorsed local committees as an essential instrument for the application of *zakah*. They are assigned the role of *zakah/ushr* distribution to individuals, in addition to their function of assessing and collecting the *ushr* on agricultural produce. The Pakistani model is based on complete separation between the Central or Provincial *Zakah* Councils and eligible recipients. Distribution thus takes place only through institutions and local *zakah* committees.

The committees are formed in the locality, each serving 1000 - 1500 inhabitants. Members are selected in the mosque for a 3-year term in the presence of representatives from the district or provincial administration of *zakah*. There are conditions that should be met by committee members, including one that a committee member should not be a recipient. There are some 36,000 committees comprising more than

250,000 members, all of whom are volunteers who receive no indemnities.

Local *zakah* committees make an inventory of deserving recipients (*fuqara'* and *masakeen*) in their respective localities. Several kinds of assistance are disbursed, notably periodic aid to poor persons and families who, for one reason or another, are not expected to move out from the poverty zone, and one-time assistance disbursed in cases of disasters and accidents such as fire or death, or to help in meeting financial burdens as in the case of marriage. Finally, there is vocational assistance which is disbursed to able-bodied persons in the form of tools to earn their living or small capital to start their own businesses. The most important example of this last type of assistance is providing peddlers with a cart and money for their goods or a part thereof. At directives from the Central Council, Provincial Administrations issue detailed instructions governing each type of assistance, such as eligibility conditions and amounts which are observed by the local committees. The crucial point, however, is that local committees are assigned the function of determining the eligibility of recipient persons or families, as well as of actual disbursement, without prior approval from the Provincial Administration.

Local committees are required to keep a number of records, documents and data. Thus, they may retain an accountant for part-time service. Often, one such accountant may serve 8-10 local committees. Administrative costs of the committees, however, should not exceed 10 per cent of the amount given them by the Provincial *Zakah* Administration for disbursement. In practice, the administrative cost of most local committees is less than 5 per cent.

The committees are subject to administrative and financial audit by District (part of Province) *Zakah* Committees and Provincial *Zakah* Councils. The Provincial Council may investigate complaints against local committees and suspend any member or even refer a member for judicial prosecution. Cases of *Zakah* Funds abuse, however, are very rare if measured against the large number of committees.

### 3.6 Direct Distribution Model

Under this model, the decision to disburse assistance is taken directly by the *Zakah* Administration itself. This decision may be taken either upon an application submitted by a recipient or at a recommendation from a local or a non-governmental *zakah* committee. Often, the Administration will first check the eligibility of the recipient through its social workers. In most cases, *zakah* will be disbursed by the Administration to the recipients, although the Administration may sometimes disburse it through a local committee. This model is most widely used in the Sudan and Malaysia.

Under this model, *zakah* is disbursed in Malaysia to the poor, the needy persons accepting Islam and the wayfarers. The mosque committee<sup>8</sup> will first draft a list of the poor, the needy and the other eligible recipients for submission to the District *zakah* Administration and then to the *Zakah* Committee in the State capital where the decision is taken centrally. The matter may be referred to the Council of Religious Affairs if the amount requested so warrants. Aid is disbursed directly to recipients from the *Zakah* Fund in the State. Religious Affairs Councils in the respective States issue the necessary instructions to mosque committees to check eligibility and the amounts disbursed to the recipients in each category. The State *zakah* house also receives applications from potential beneficiaries directly and then examines and decides upon them.

In the Sudan, applications for assistance are received directly by the *Zakah* Chamber and its branches as well as by popular committees. The role of these committees is only advisory, i.e., making recommendations of beneficiaries to the Chamber, which alone checks eligibility, takes the decision and disburses *zakah* to recipients.

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<sup>8</sup>These committees are appointed by the State Religious Affairs Council to undertake mosque activities, such as education, and Haj and Umra trips. A committee normally consists of 10 to 15 members, well-known for good conduct and leadership abilities. Normally the *Imam* is a member. It is not specialized in *Zakah* matters alone.

### 3.7 Conunents on *Zakah* Distribution Models

- A. The multiplicity of *zakah* distribution models in Islamic countries enriches practical experience in distribution and enables respective countries to adopt the model most suitable to its nature and society in respect of the economic infrastructure and social relation. It is also a sign of flexibility that belies the apparent rigidity of models found in classical books of tradition.
- B. The model of local committees with an effective role in *zakah* collection (of some types at least) and distribution has an important informational impact, i.e., quickly spreading awareness of the importance and religious rules of *zakah*. The Pakistani model, for example, implies the involvement of more than 250,000 persons in the process. Moreover, this model ensures some sort of democracy in collection and distribution.
- C. The disbursement of *zakah*, as well as its collection, requires cooperation among several governmental and non-governmental bodies. The institutional distribution model is effective in delivering *zakah* assistance to those who need it most since this model reaches them where it would be easier to determine their needs and deliver assistance.
- D. Distribution in kind could be achieved without large transport and storage costs as indicated by the Saudi Arabian model in the case of dates. This model could be further developed into a system similar to food coupons according to which coupons, good only for the purchase of foodstuffs from retail outlets, are distributed. It may also be developed to ensure the in-kind nature of distribution by allowing retailers to exchange the coupons at wholesale outlets. Wholesale traders would keep the coupons as evidence of paying *zakah* dues on them.
- E. Although priority in *zakah* disbursement should be given to the poor and the needy (*fuqara* and *masakeen*) some *zakah* regimes have been able to accommodate most types of disbursement (*masarif*) and

recipients eligible for them. This is particularly clear in the distribution models of the Sudan and Malaysia.

- F. *Fiqh* tradition in several schools of jurisprude maintains that the *zakah* fund should be considered independent, in respect of its resources and disbursements, from the budget of the State. Thus, they speak of a separate *zakah* treasury whose resources and expenditures are not mixed with other items of state treasuries. This tradition may have a great informational benefit in maintaining *zakah* as a clear Islamic ritual of worship in the society in all stages of collection, management of receipts and distribution. For this reason, some countries make a point of preserving this independence even when it means financing some types of disbursements (*masarif*) by the governmental authorities themselves.
  
- G. *Zakah* distribution systems failed to effectively reduce the procedure of "*zakah* application filled by the recipient in person". Filing such an application detracts from the personal dignity of the poor, especially when they have to gather at the relevant office to follow up their applications. Perhaps the model of popular or local committees which are entrusted with the function of determining the conditions of deserving recipients and of disbursing *zakah* to eligible recipients in accordance with clear instructions could alleviate the effect of begging for *zakah* on the part of recipients. Furthermore, it may be possible to adopt the idea of the designation of deserving recipients by a third party in the locality in order to take account of families which do not ask for *zakah* and which do not show the signs of need in spite of their poverty.

#### 4. CONCLUSION

In this paper, I have made a point of presenting a comparative examination of the models for *zakah* collection and distribution in contemporary Islamic communities and countries. This review covered collection and distribution by charitable societies and governmental and non-governmental institutions, in both cases of the existence and absence of legal obligation to pay *zakah* to the state. Most information and

remarks contained in this paper were collected through direct contact with these *zakah* organizations over the last few years. The remaining data were collected from information scattered in official reports of *zakah* institutions.

I believe that there is much room for the improvement of the economic and social consequences of *zakah* if collection and distribution models are re-examined to make for more efficiency and more intimate linkage with the *zakah's* aim of cleansing and growth. Such development would certainly help external the application of this pillar of Islam in an increasing number of Islamic countries and communities.

**Part Three**  
**CASE STUDIES**

## INDIA

FAZLUR RAHMAN FARIDI\*

### 1. SOCIO-ECONOMIC BACKGROUND

The volume of *zakah* and *ushr* funds and their distribution system are a function of two variables: general economic conditions of the Muslim community in India and the state of its socio-religious institutions. The size of total *zakah* and *ushr* funds collected in a community depends on the proportion of its economic prosperity and collective awareness towards these institutions. It is, therefore, necessary to begin with an overview of the socio-economic conditions of Indian Muslims.

Unfortunately, at the national level there is an almost total absence of any empirical investigation into the conditions of Indian Muslims, partly because official statistics on the economic situation lack any religious breakdown in accordance with the State's secular pretensions, and partly because the Muslim community itself has not sufficient awareness to undertake these studies. Most of existing analyses are based on estimates at best, or upon some indirect indices of economic prosperity such as ownership of private cars, telephone numbers, hospital attendance and etc. However, some state-level studies have recently been undertaken, and a few case studies of representative localities have been made. Results of these studies largely corroborate educated guesses and serve to fill in the gaps in indirect indices of economic prosperity. Below, we quote some of these studies and treat them as fairly representative of the economic conditions of general Muslim masses in India except for specific pockets of affluence. This approach is highly defective from accuracy point of view, but the conclusions therefrom are broadly correct since they confirm casual observations and hence, no

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formidable objections have been raised with respect to their general validity.

Two studies were undertaken in Karnataka state, one by Dr. G. Thimmiah in 1974-75' and the other by the Karnataka Minorities Commission in 1984<sup>2</sup>. Dr. Thimmiah's study showed that the condition of Muslims was slightly better than that of Harijans (the depressed class), with 56.5% living below the poverty line. The Report of the Karnataka Minorities Commission showed that 60.36% of Muslims were landless laborers. It also showed that Muslims had constituted 5.21% and 5.09% in the recruitment of Departmental Committees and State Public Service Commission respectively during the period 1977-78 and 1983-84. Another study conducted by the Institute of Islamic Studies in Bombay during 1986-87 showed that Muslims were only 3.1% of 16,000 workers in 18 selected industries with a worker drawing a salary of Rs. 3,000/-p.m.<sup>3</sup> Another study conducted by Sulaiman Sait and reported in IMMA Journal Vol. 3, 1981, showed that the number of Muslim directors in public limited companies was 160 (2.66%) and their representation in highly paid government jobs was 3.5%. A case study conducted in a village of the Howrah district (West Bengal) by Dr. Rahim Mondal showed that 87% of Muslims owned less than 1 acre of land and earned only an average monthly income of Rs. 123.<sup>4</sup> Other studies and estimates reveal that most of the Muslim population are small shopkeepers, artisans, laborers and some doing other menial jobs. It has been estimated that out of 2,832 large Industrial Corporations, each with sales of Rs. 50 million and above, only 4 were owned by Muslims.' Another case study of Ahmedabad Muslims, by Dr. K.G. Munshi showed that their average annual per capita income was Rs. 698.3 while the national average (1986-87) stood at Rs. 781.5 (about 11% lower).<sup>6</sup> In a paper presented to an I.C.S. Seminar and later published in "The Indian Muslim Situation", C.A. Abdussalaam has attempted at a quantitative study of the economic backwardness of Indian Muslims.' On the basis of 43 indicators of educational and economic backwardness all given equal weight, he has worked out a simple arithmetic mean of coefficient of equality at 42.

(Formula is  $CE = \frac{\% \text{ representation of community}}{\% \text{ share of that community in the total population}} \times 100$   
The normal value being 100.

If the CE is below 100% the community is backward. Some of his indicators include literacy, enrollment in schools, colleges, professional courses, advanced teaching positions held, scientific awards, high ranking government and public sector jobs, and occupational patterns. He does not consider income, wealth and land holdings.

On the basis of this factual information it is possible to surmise that Muslims in general live in conditions worse than other Indians, except perhaps the harijans and some aboriginal tribes. Average per capita income of Muslims is estimated to be at about 15-20% below the national average of Rs. 781.5 (1986-87).

These studies also indicated a wider disparity of income and wealth distribution among Muslims than that of the nation as a whole. While only 2.77% of the Karnataka population had an income of about Rs. 20,000/- p.m. 4.80% of Muslims fell under this category. While 72.90% of Muslims had a yearly income of less than Rs. 5,000/-, 6.88% of Muslims had land holdings exceeding 20 acres.<sup>8</sup> If we add to these statistics on Muslim pockets of affluence and metropolitan areas, the greater inequality of distribution among Muslims can be confirmed (e. g. in Bombay, Delhi, Bhiwandi and etc.). These rudimentary statistics show that in addition to general poverty among the Muslims, economic inequality is more pronounced within the community.

These investigations form an intelligent estimate as to the potential volume of *zakah* and *ushr*. Although its total yearly volume cannot be estimated in view of the fact that the bulk of these funds are privately disbursed, yet the fairly accurate statistics of the ratio, flowing into traditional and some emergent *zakah* institutions as well as interest-free credit societies estimate the total annual *zakah* and *ushr* funds generated at about Rs. 37 million.

As regards the social conditions of Indian Muslims, no comprehensive analysis is intended here. We will point out only those aspects that are relevant to the subject matter and determine the volume of zakah and its distribution. The community feeling among Indian Muslims, despite highly publicized superficial denominational differences, has been historically very strong. Recently it is evident from an enthusiastic response to appeals for financial succor to the victims of communal riots. The most recent example of this response has been the unprecedented flow of cash and kind to the victims of the communal violence in Bhagalpur after Meerut and Bhiwandi riots. Thus in times of adversity the dormant solidarity of the Indian community is activated and sectarian differences recede. This feeling has often transcended geographical boundaries as demonstrated by Muslim sympathy for the Afghan Mujahideen and Palestinian refugees.

Mosques and religious schools proliferating almost throughout the whole of India are another example of the general religious commitment of the indigenous Muslim community. Their maintenance involves a substantial amount of funds which are provided exclusively by the community in terms of *awqaf*, agricultural properties, donations, *sadaqah* and *zakah*. The maintenance of thousands of mosques in India includes the wages of Imams and Moazzins and the operation of Qur'anic schools which have been made possible through the cooperation of the community. Then existence of orphanages, musafirkhanas (Travellers temporary hostels) in important towns, and recent upsurge of charitable hospitals, welfare societies, Islamic credit cooperatives, professional colleges and polytechnic are other examples of active community concern.

It would be wrong to suggest that all these institutions are funded wholly by the *zakah* or *sadaqah*. But except for the professional schools, colleges, credit societies and musafirkhanas, they are largely maintained through incomes from *sadaqah*, donations and some *zakah*. It is true that most of these services are poorly managed and maintained but their very existence is an eloquent testimony to the deep sense of solidarity and collective concern that exists among the Muslims of India.

## **2. THE NATURE OF PROBLEMS**

The problems of Indian Muslims are many and cannot be exhaustively surveyed here on account of the limited scope of our study. However, a few of these problems may be briefly mentioned in the present context. The greatest problem faced by the Muslims of India is the general economic poverty of the community which, inter alia, is caused by the paucity of financial wherewithal, the inadequacy of skills and the lack of entrepreneurial abilities. The wide disparities of income and wealth only accentuate the intensity of this economic background. Moreover, the comparatively vast resources of *zakah*, *ushr* and *awqaf* funds are capriciously handled along traditional lines, with a little regard for the needs of the community. Our analysis below reveals these funds are very substantial. These estimates are very conservative and leave out substantial amounts of *awqaf* wealth (estimated at Rs. 50 million by Prof. Khusro, the former Vice Chancellor of Aligarh Muslim University, India). An efficient and collective management of *zakah* and *awqaf* funds along non-traditional lines and in response to the urgent need of the poorest sections of the Muslim community can ameliorate their conditions to a large extent.

## **3. ZAKAH AND USHR DISBURSEMENT: TRADITIONAL WAYS**

### **3.1 Private**

Private and individual disbursement of *zakah* and *ushr* has been traditionally the most important means of distribution in India on account of the breakdown of collective institutions after the fall of Muslim rule, lack of appreciation for the needs of these institutions and, last but not the least, deep rooted ignorance of what the *zakah* and *ushr* may be expended upon. Most of these funds are expended on donations and subsidies to relatives, paupers and religious schools. Charities to relatives and paupers are generally in cash or kind (limited to food grains) and sometimes in the form of clothes or food. Such disbursements are rarely intended to provide tools, equipments, education or investment capital.

Our estimate shows that about 50% of total *zakah* and *ushr* funds are distributed in this manner.<sup>9</sup>

### 3.2 Collective Disbursement System

The most important need of the community has been the provision of religious education through religious schools which are spread throughout India. Their financing has always been a great problem. Some of these schools have attained a status similar to reputed religious educational institutions elsewhere in the Muslim world both in respect of academic excellence and the number of yearly graduates. But thousands of these schools operating in townships or the country side, only offer basic instruction and employ only one or two teachers. These institutions are largely attended by students from economically impoverished sections of the community. Fees charged are nominal. Food and lodging are provided free of charge. In many cases, these schools provide for the yearly clothing needs of the students as well.\*\* The sum total of their financial needs runs annually into millions of Indian Rupees.

An analysis of their non-zakah financial resources reveals that major sources of their revenue are fees, donations, *awqaf*, revenues from agricultural land and *sadaqah*. As indicated above, fees are nominal and the proportion of students granted fee concessions is fairly high. With few exceptions, most of these institutions do not have any agricultural property or *awqaf*. Whatever property the institution possesses is almost invariably in the form of land on which the impoverished buildings of the *Madrasah* stands. Thus, in terms of the ability to generate income these resources are not significant in most cases. As for those larger and more fortunate institutions bestowed with productive *awqaf* property, their incomes have tended to stagnate as *awqaf* property is subject to the Rent Control Act in India. Pure donations are casual and irregular. Taken together these resources do not cover more than 20% to 25% of the yearly expenditure of these institutions.

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\*\*For example the IOS survey showed that all important *madaris* had provided free food and lodging to all its students in Tamil-Nadu (1987).

The only important *non-zakah* source is *sadaqah*. It is impossible to give a precise estimate of *sadaqah* revenues for the religious schools in India for the simple reason that it takes a myriad of forms. On occasions that call for the feeding of the poor, some people choose to invite the wards of these institutions to dinner. In many instances such occasions are frequent. Another form of *sadaqah* is the provision of clothes to students of these schools. According to a common practice of Indian Muslims, students are also invited to recite Qur'an on the death anniversary of near and dear ones, and receive food and clothing in return. Still another form of *sadaqah* is the daily allotment of wheat flour (called "chutki") or a small cash stipend to those specified by the institutions. In view of these and numerous other forms of *sadaqah*, it is not possible to make a precise quantitative assessment of their contribution, although "chutki" and daily stipends are included in the budgetary statements in some of these schools.

But all of the above mentioned resources amount to slightly more than half of the total expenditure for most of the religious schools. The remaining part is financed out of *zakah* collections. A rough estimate of the total number of small, medium and large religious schools have been given in the annexure below. They number about 3,500. This is a very conservative estimate and does not include improvised schools operating on a part-time basis in mosques or community centers. On average, we have estimated an annual expenditure of about Rs. 30.8 million. If approximately 60% of this is met from *non-zakah* revenues, about Rs. 11.5 million are raised through *zakah* and *ushr*. The details of this estimate is explained in a note below.

However, in the budgetary estimates of the religious schools, *zakah* and *ushr* are, with few exceptions, under-estimated. The reason for this, according to the received opinion of the Hanafi School in India, *zakah* cannot be paid directly to institutions, including religious schools, in consideration of the problem of *tamlík*. The interpretation of '*fi sabilillah*' holding the provision of religious education as a legitimate head of *zakah* expenditure is also not accepted by the Hanafi school in India. But the need to finance these institutions has been overwhelming. That the organization and maintenance of these institutions is crucial for

the cultural preservation of the community has been universally acknowledged in India. Well-to-do members of the community have been enthusiastic in helping these institutions through *zakah*. But for the interpretation of the Hanafi school cited above, *Zakah* funds would flow directly to these institutions. The need to maintain religious schools has forced the administrators of these institutions, frequently supported by the Hanafi Jurists, to circumvent this interpretation of *Shari'ah* and devise ingenious ways to collect *zakah* for their benefit. The dominance of the *Hanafi* School has prevented them from resorting to the opinions of other schools of Islamic jurisprudence. This state of affairs continues even today despite the moderation evident among some *Hanafi* jurists in India.

The device invented to circumvent the *Hanafi* restriction was to send collectors to people who pay *zakah*, collect it from them and hand over the amount so received to poor students in the school a large number of whom donate this amount to the school. In this way a substantial amount of *zakah* funds are recorded as donations in the budgets of religious schools. It is a fairly accurate, even modest, estimate, that an average of 40% - 50% of the total revenues of religious schools emanate from this source. The author of this study tried his best to get breakdown of donations and identify the *zakah* converted into simulated donations in the case of some large institutions, but failed on account of the inability of these institutions to give a precise breakdown. In private, however, they admitted that a large portion of revenues shown as donations originated in *zakah* collected in this manner.

The most significant aspect of this kind of organized collection of *zakah* is that substantial revenues are channelled to fulfil a very genuine need of the Muslim community in India. The origin of this practice dates back to a century and had ensured a collective utilization of at least a part of *zakah* midway between the uncoordinated private disbursement of *Zakah* and state controlled disbursement. As stated earlier, some religious schools, established in the late 1980s, such as *Jamia-al-Falah*, do not subscribe to the Hanafi interpretation and accept *zakah* directly. Their budgetary estimates show broadly the same pattern, that is, about 40% of their revenues originate from *zakah* collections.

The impact of this system on religious education in India is crucial in so far as it helps to channel substantial amounts of *zakah* funding to traditional Islamic education. As discussed above, these funds are the mainstay of their revenues. Although statistics show them as composing about 40% of the total revenues, this is only an average figure. The only sources of income for a number of small religious schools are *zakah* and voluntary *sadaqah*. Food and clothes provided to the students in almost all the residential schools are financed largely through *zakah* and *sadaqah*. This provision becomes all the more important if we realize that the bulk of students in almost all the residential schools are financed largely by the *zakah* and *sadaqah*. It becomes further important if we realize that the majority of the student populace in these institutions cannot afford the luxury of any education whatsoever. Another factor that must be stressed is the total absence of any alternative system of religious education in India. Of course, some modern educational institutions run and administered by Muslims such as the Aligarh Muslim University offer instruction in theology to Muslim students but that instruction is by and large, marginal and sub-standard. Almost all Islamic scholars, jurists, huffaz of Qur'an, experts in *Hadith* and *Imams*, have traditionally been graduates of these schools. Without their silent dedication to the cause of Islam and their yeoman's service to Islamic education, in the absence of any worthwhile pecuniary benefit, the Indian Muslim community would have long since lost its identity.

The system of *zakah* collection invented and used by religious schools is certainly not the ideal in respect of its formal collective nature. There is no formal community-wise arrangement and no supreme institution to collect the *zakah* and distribute it to various other institutions. Hence, there is an element of chance involved. Large schools receive the bulk of the *zakah*. Some schools with efficient organizations, coopt more than their legitimate share of the *zakah*, while denominational differences affect its proper distribution. Yet, there is an informal arrangement built on the silent consensus of the community, that ensures a relatively judicious sharing of these funds. *Zakah* payers are selective in paying of their *zakah*, distributing their funds in accordance with the reputation of institutions, their size and also not infrequently, their denominational preference. Thus, all get their share, none is

denied. In the absence of a formal collective arrangement of *zakah* this device serves the purpose admirably.

#### **4. COLLECTIVE DISBURSEMENT OF ZAKAH: NON-TRADITIONAL WAYS**

##### **4.1 Dawah Organizations**

*Zakah* expenditure on Islamic education is historically the oldest and the widest in coverage. Another formal arrangement relates to organized *Dawah* activities in India, better known as Islamic movements. The most prominent and effectively organized Islamic movement in India, *Jamaat-e-Islami*, holds the view that one of the heads of *zakah* expenditure, *fi sabilillah* includes expenditure on any organized *dawah* effort and *iqamat-e-deen* and that these efforts are aspects of *Al-Jihad*. Moreover, the movement believes that collective payment and distribution of *zakah*, in the absence of any Islamic political administration, can best be undertaken through the *Jamaat* or any other similar association. Hence, ever since its inception the *Jamaat* has made it obligatory for formal members to pay the *zakah* and *ushr* to its *Baitul-M'al* and encourages its sympathizers to do the same. These people are asked to indicate those relatives and others whom they want to pay from their *zakah* and *ushr*. The *Jammat* considers these indications and either acts to distribute the specified amounts or asking individuals to distribute their *zakah* directly and submit their accounts to the *Jamaat*. The remaining funds are expended on activities related to *dawah*. The *Jamaat's* budgets do not give a detailed breakdown of *zakah* revenues. Hence a precise estimate of its *zakah* and *ushr* revenues for the entire period of its existence is not possible. But if we make an accurate background projection of its current sources of revenues, the contribution of *zakah* and *ushr* to its budget ranged between 5% and 10%.

The revenues raised from *Jamaat* resources include, as indicated above, the *zakah* and *ushr*, in addition to individual contributions from members, income from the sale of books, one or two *awqaf*, and donations from sympathizers. All these are pooled together to finance the

multifarious *dawah* activities of the *Jamaat*. But *zakah* and *ushr* revenues not distributed to specified relatives of the contributors are spent on helping the poor and a portion of these revenues is earmarked for *dawah* activities. Estimates of the yearly revenues of the central *Jamaat* ranged from Rs. 500,000 and Rs. 1 million during the period of 1978-1988. But the total revenues of zonal headquarters and local units were about three times this amount. Of this figure about 5% to 10% were made up of by *zakah* and *ushr*. Quantitatively speaking, this is a very small amount. But insofar as it is one of the devices through which collective pooling and distribution of the *zakah* are carried out in India and used an organized means of financing *dawah* activities and to help the poor, it has a symbolic and administrative value. Local units of the *Jamaat* in many parts of the country provide the facility of collective disbursement of the *zakah* to the masses. Separate accounts of *zakah* are maintained and spent on the heads of expenditure specified in the Qur'an. The total amount of *zakah* in the *Jamaat* controlled *Zakah Baitul Mal* is quantitatively not significant since the organization has been reluctant to pursue this objective and publicize it. However, the volume of *zakah* and *ushr* funds flowing through the *Jamaat* can be more accurately gauged if we take into account a number of welfare-oriented societies that function under the umbrella of the *Jamaat*. These include the cooperative credit societies (such as one attached to the headquarters) spread over India, hospital establishments (such as the Maternity Home at Hyderabad) part-time medical clinics and social service organizations such as the recently established U.P. Falah-e-Aam Society. The total yearly turn-over of these credit societies has been impressive. For example, the one at the *Jamaat's* headquarters distributed more than Rs. 1 million as interest-free loans within a period of 9 years. if all of the credit societies are lumped together, it is estimated that the flow of funds exceeds Indian Rs. 6 million. Welfare activities also account for a few millions. Accurate estimates of the total amount of funds flowing through these institutions are impossible to make since three-fourths of them operate on a very small scale. Yet, these provide crucial services to the community. Some interest-free credit societies operating under the umbrella of the *Jamaat* collect funds from two major sources, namely, interest-free deposits (*Amanat*), donations and *zakah* funds. The *zakah* funds are maintained separately, accounting for about 5% to 10% of the total funds raised.

These societies grant interest-free loans against movable assets to meet consumption needs, as well as rehabilitation loans. They also extend financial aid from the *zakah* funds to those who are unable to repay a loan. Hospitals and part-time clinics provide free treatment and medicine or charge nominal fees. These institutions are financed from donations, *sadaqah* and *zakah*. The activities of welfare societies such as the one in U.P., include schools, interest-free societies, free clinics, libraries and institutions to help the poor. Resources are comprised of subscriptions, donations, *sadaqah* and the *zakah*.

#### **4.2 Special Zakah Funds**

*Zakah* funds or the *BaitatZakah*, is a recent phenomenon in India. It indicates the increasing awareness of Indian Muslims. Separate *zakah* funds were established in many cities in the late 1970s and early 1980s. About 10 *zakah* funds are operating in Uttar Pradesh and another in Bihar. These funds or *Buyut*, as these are alternatively called, are exclusively private organizations run by socially conscious Muslim individuals who have joined together through an informal consensus. Most of these funds do not have any rules of conduct and function in a chaotic way, but some are efficiently administered and enjoy the confidence of the local populace. A large number of these *zakah* funds are very small in terms of the size of their collections but a few have substantial *zakah* collections. Some of these *zakah* funds operate under the AICMEU (All India Council of Muslim Economic Upliftment). As an example, we may cite the establishment in April 1989 of *BaitatZakah* in Bombay, under the auspices of AICMEU. Within a few months of its existence this fund collected Rs. 91,891.00 directly and Rs. 175,000 through the help of a philanthropist. As the table-2 (8. Appendices) indicates, the *zakah* funds are distributed in the form of scholarships, building repairs, rehabilitation, medical aid, education, debt, relief and etc..

The most important feature of these funds is the nature of their assistance. They provide relief both in terms of cash and kind. The latter covers the purchase of simple tools for earning a livelihood, the repair of houses, medicines and medical treatment, etc. Most of these

institutions distribute funds to broadly the same deserving people but their activities are confined to the regions in which they are located and most of their revenues originate in the same locality, with the exception a few like the Crescent Charitable Trust (CCT) of Aligarh. An analysis of the nature of their activities can be made below. We have chosen two institutions as typical, namely, the CCT, Aligarh and *Baitu-al-Zakah*, Bombay. The objectives of CCT are to provide to education, medical aid, house repairs, help to charitable institutions, relief to riot victims and rehabilitation.

*Bait-al-Zakah* (under AICMEU) has defined its objectives in broader terms in its report:

"It was established for centralized collection and distribution and to reorient the distribution policy of *zakah* funds according to the need and requirement of Muslim Society."

In the previous paragraph we have noted the distribution targets, purpose and media of disbursement. These two examples are typical of emerging *zakah* institutions in India. Although they are still few in number and hence the volume of *zakah* handled by these institutions is comparatively insignificant, yet the idea has been well received by the Muslim community throughout India and efforts are afoot to establish such institutions where the conditions are conducive for a variety of reasons, the most important being the absence of any precedent and the inexperience of the organizers, many of these newly-established organizations have failed. It is worth noting that these efforts have rarely been opposed or their relevance and validity questioned by orthodox religious authorities, which indicates that necessity has overcome orthodox resistance, if any.

But of much greater influence is the way the *zakah* funds are distributed by these institutions. As described above, distribution is not limited to cash disbursement, as has been the universal practice of individual *zakah* assesses in India. Much the greater part of these funds is distributed in kind, such as the form of medical provisions, clothing,

housing and on rehabilitation works such as the purchase of simple tools of trade, the repair of houses, the marriage dowries of poor girls, provisions for education, etc. These institutions still fall short of direct investment to enable the poor to earn and to own their own businesses. Perhaps the size of their income and lack of any clear vision as to the most productive avenues of investment are deterrents to these activities.

### 4.3 Interest Free Societies

In recent years a large number of interest-free societies have started functioning in India. Some of them such as *Al Amin* Society of Bangalore, *Baitun Nasr* of Bombay and the Muslim Fund of Najibabad, handle substantial funds. Although the chief objective of these institutes professed to be the mobilization of invested funds and savings and their provision on an interest-free basis, with the passage of time some of them have taken up the collective organization of *zakah* as well. The recent experience of the Muslim Fund of Najibabad is worth noting. The Fund obtained income tax exemption on donations and asked the salaried class to channel the *zakah* through their donations and receive income tax exemptions. The idea was welcome, but unfortunately, the subsequent amendment of the income tax law adversely affected this system. Although the scheme was ingeniously conceived, it has yet to succeed. Some other credit and welfare societies also collect *zakah*, such as the one at Etawah (Uttar Pradesh) and Siwan Educational and Welfare Trust. This is an entirely new device but future prospects are bright.

## 5. SUGGESTIONS

The foregoing survey of the state of *zakah* collection and disbursement underlines the necessity to- strengthen the emerging arrangements of collective mobilization of *zakah* resources in India and its judicious distribution in accordance with the pressing needs of the community and *Shari'ah* rules. The following measures should be adopted to achieve this goal :

A. A comprehensive educational program should be launched to instruct the community in the concept of *zakah* and *ushr* and the desirability to

manage these funds collectively. In spite of the emerging *zakah* institutions and increasing awareness in respect of its collective mobilization, the vast majority of *zakah* payers still prefer to distribute *zakah* individually and privately and are not convinced of the legitimacy of alternative arrangements.

At the same time, the community should also be informed as to in the wastage involved in duplication and the small amounts distributed to the needy through private arrangements.

B. An important need of the new institution is the almost total lack of funds with which to start a collective arrangement. Quite a few *zakah* funds have fallen because of their inability to engage the services of committed and competent staff from the beginning. If they manage to keep going, they have shown an admirable ability to meet such expenses through the use of *zakah* resources. A good example is the *Bait-al-Zakah*, AICMEU, Bombay. It is, therefore, necessary that ways and means should be found to provide necessary capital to such institutions at the outset. The amounts involved would be modest and for a very short duration, until the institution gets going.

C. To encourage income-tax assesses to pay *zakah* through such institutions, it is necessary that suitable amendments to the Indian income tax laws be made. The existing income tax laws grant exemption to donations made to charitable institutions but do not make any specific provisions enabling the Muslim community to pay *zakah* through such institutions and qualify for tax exemptions. On account of this legal constraint most Muslim businessmen and salaried workers prefer to pay *zakah* individually and do not show it in their accounts. If they make donations to certain non-Muslim charitable institutions, they qualify for tax exemption. This is an anomaly that needs to be rectified by the collective efforts of the community to persuade legislators to recognize their religious needs and convince the public opinion by highlighting the egalitarian advantages flowing from such payments. This legal provision, if granted, is likely to increase *zakah* revenue many times over.

D. An general order of priorities needs to be worked out on an all-India level, with marginal variations arising from regional differences.

At the same time it is necessary to restrict cash disbursements to what is absolutely necessary as sanctioned by *Shari'ah*, and to increase disbursement in kind to those categories specified in the Qur'anic verse on *zakah*.

E. To inspire confidence and safeguard against mis-management it is suggested that *zakah* funds should be separated from interest-free credit (cooperative) societies, since many of them have tended to combine two different departments under a single overall arrangement. They argue that these institutions provide *Qardh-e-Hasan* to the needy for their consumption requirements out of those funds. But this has led to some genuine misgivings *zakah* payers.

F. In order to avoid possible conflict of interest between the traditional system of *zakah* collection, particularly that of religious educational institutions, and the new emerging collective institutions, it is necessary to win their confidence and encourage them to join in the new effort. This can be done by offering them a surety that their share in the *zakah* funds will be maintained or possibly increase through more efficient management of *zakah* and *ushr* funds. It is hoped that those institutions will extend their cooperation willingly since it will ensure them a steady flow of income without the antiquated and cumbersome traditional system of collections.

It is our conviction that the realization about the crucial role and potentialities of *zakah* and *ushr* funds has taken root in the Muslim community. A sincere and concerted endeavor along the lines suggested above is likely to be extremely beneficial and productive.

## **6. ESTIMATE OF YEARLY ZAKAH AND USHR FUNDS**

As noted in the text of this paper, no statistics of the total *zakah* and *ushr* funds are available in India. However, it is possible to make an

informed estimate as to the total possible *zakah* and *ushr* funds in India on the basis of following premises:

A. The number of actual *zakah* payers is comprised of a fairly high percentage of the prosperous (defined as those whose annual income/savings are above *Nisab*) on account of the fact that affluent Muslim communities like the Khwagas, Mammon, Punjabi Biradari, Delhites are known to be very particular about *zakah* payments, while other affluent Muslims such as traders, industrialists and many land owners also pay *zakah* and *ushr* regularly. Some affluent Biradari's spend their *zakah* funds on the welfare of their own community, but some funds are earmarked for others as well. For example, the Agha Khan sect spends part of its *zakah* outside its own community. Accurate quantitative estimates are simply not possible due to lack of any empirical investigation.

B. It has been observed that, except for the affluent sects noted above, a large part - perhaps 1/3 - of these funds flow into *deeni madaris*.

C. Other institutions, such as charitable hospitals, *zakah* funds, community services provided by affluent Muslim sects, *dawah* organizations, etc., account for about 10% to 15 % of total *zakah* funds.

D. A large part of these funds are disbursed privately. Estimates made from a sample of 50 cases in two Indian towns, Lucknow (North) and Cochin (South) show that in both towns about 2/3 of *zakah* was spent privately. Although this cannot claim to be scientifically accurate estimate, it nevertheless has been accepted as an average as it is supported by casual observations.

On the basis of the above, we have treated the estimate of *zakah* income of religious schools as roughly 1/3 of the yearly *zakah* funds (Rs. 12.36 million). Thus, total yearly *zakah* funds are estimated at Rs. 37.0 million. This is by no means an over-estimate, since we have consciously underestimated the *zakah* spent by affluent sects on their own people, and more importantly, we have no accurate estimate of the ratio of *zakah* flowing into recurrent riot relief funds. It has been

reported that the *Zakah* constituted about 30% of Rs. 67 lakhs disbursed by *Jamaat-e-Islami* alone during and after a single Riot of Meerut, while private disbursements also included *zakah*. See various issues of *Dawat* (Urdu) Tri-Weekly Delhi.

## 7. NOTES

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- B. Karnataka State Minority Report, 1984.
- C. Muslim India Vol. 54, p.273, June 1989.
- D. Mondal, Sekh, Rahim on Culturogenil Poverty -  
"Observations from a Muslim Village in West Bengal" (Paper submitted to the International Seminar on Islamic Economics and the Economy of Indian Muslims - IOS, New Delhi - July 1989).
- E. Muslim India 1986 ("Socio Economic Conditions of Muslims in India").
- F. Munshi, K.G. "The Muslim Situation in India" ((I.A. Ansari ed.) Sterling Publishers (Pvt) Ltd., Delhi 1989, p.132).
- G. Abdussalaam C.A. "Muslim Backwardness: A Quantitative Analysis", The Muslim Situation in India (I.A. Ansari ed.), Sterling Publishers (Pvt) Ltd., New Delhi 1989, p.80.
- H. Ibid Report of Karnataka State Commission 1984.

I. -----

These estimates are based on a sample survey conducted by social workers in two towns - Lucknow and Cochin. Findings are based on interviews, and unpublished information supplied by social workers. These findings have been broadly confirmed by social institutions elsewhere, such as societies working under *Jamaat-e-Islami*, Hind, independent *Bayait al-Zakah* working in U.P., Bihar, A.P., Maharashtra and elsewhere. Hence it is safe to surmise that about 50% of the *Zakah* is distributed privately and individually.

## APPENDICES

Table 1

### DEENI MADARIS (RELIGIOUS INSTITUTIONS) AND ZAKAH DISTRIBUTIONS ESTIMATES (ANNUAL)

Estimated No. of Deeni Madaris (1)	Estimates of Total Income (Yearly) (2)	Estimates of Total Expenditure (Yearly) (3)	Zakah and Ushr (Yearly) (4)
2,500	Rs.30,400,000	Rs. 30,100,000	Rs. 12,360,000 (40% of total income)

#### Notes :

1. An estimate of the total number of deeni madaris has been prepared on the basis of comprehensive surveys of U.P., Bihar, West Bengal, Tamil Nadu and Maharashtra. Detailed information about other states was not available and, therefore, only Metropolitan areas, such as Hyderabad, Gulbarga, Mysore, Bangalore and etc., have been counted. In view of this constraint, estimated numbers may fall well-short of actual numbers.

We have also excluded part-time centers within religious institutions, particularly those involved in recital of Qur'an and instruction in Urdu. If we included these schools as well, the numbers would certainly exceed the estimate.

2. Expenditure estimates have been made on the basis of averages 'worked out as below:

Famous schools, like Jamia Deoband, Mazahirul-Ulum, Saharanpur, Jamia Al Falah, Azamgarh and Jamia Salam Umarabad have comparatively much larger budgets. For instance, estimates for Deoband vary between 5 to 10 million Indian rupees. However, more than 3/4 of deeni madaris are very small in size, or of medium size.

The pay-scale in larger schools ranges between Rs.400-1200 per month but they are still much lower than that of secular schools. However, as compared to smaller schools (which rarely exceed Rs.200 p.m.) they are quite high. Teachers live on extremely low incomes and embody matchless examples of sacrifice and devotion to the cause of Islamic education.

In view of the above, we have taken the highest salary scales and the lowest and, in consideration of the large number employed in smaller schools, obtained the following averages:

- A. Average number of teaching staff: 2 per school,  
Average monthly pay: Rs.200/- p.m.  
Total average expenses on teacher salaries per year:  $\text{Rs.}200 \times 2 \times 12 = \text{Rs.}4800$ .
- B. Other expenses include food and clothes provided to poor students, rent, maintenance and administrative staff @ Rs.630 p.m.  
Average yearly expenses:  $\text{Rs.}630 \times 12 = \text{Rs.} 7,560/-$ .  
Thus the yearly total expenses are estimated at Rs. 30.9 million.
- C. Yearly *Zakah* and *Ushr* income has been estimated at 40%. These include the amount shown as *Zakah* and *Ushr* and donations discussed above.
- D. Balanced budgets have been shown on account of the lack of statistics as regards drawings on carry-over from the previous year, ad-hoc donations and interest-free loans.
- E. Major sources of income are donations,, income from rent, agricultural land, *waqf* property, *Zakah* and *Ushr*. Recently the state governments in India have started granting financial aid to Arabic Madaris. The conditions accompanying these aids have created resentment and hence many deeni madaris have refused to accept such aid.

**Table - 2**

**TOTAL ZAKAH COLLECTED BY BAIT-AL-ZAKAH, BOMBAY  
(6.4.1989 - 19.8.1989)  
TOTAL AMOUNT COLLECTED - RS. 91,891.00**

**TOTAL AMOUNT SPENT (HEADWISE):**

	Head	Amount	Percentage on Total Amount
1.	Casual grants	Rs. 7,200	7.8%
2.	Scholarship (Wazifa)	Rs. 12,900	14.03%
3.	Building repair	Rs. 38,889	42.03%
4.	Rehabilitation	Rs. 2,500	2.72%
5.	Debt relief	Rs. 5,000	5.44%
6.	Medical aid	Rs. 2,000	2.17%
7.	Education	Rs. 1,400	1.52%
8.	Official expenses	Rs. 2,804	3.05%
9.	Others (Misc.)	Rs. 2,000	2.17%
	Total expenditure	Rs. 74,693	
	Balance	Rs. 17,198	

**Table - 3**

**MUSLIM DIRECTORS IN PRIVATE LIMITED COMPANIES**

Sample	No. of Companies	Total No. of Directors	No. of Muslim Directors
1	67	607	7 (including 2 civil servants)
2	49	506	9
3	70	580	10
4	73	728	7 (including 2 civil servants)

Source: Muslim India, New Delhi, Vol. II, No. 1, p.17; Vol.II, No. 14, p.63; Vol. II, No. 18, p.279; Vol. 1, No. 12, p.546.

**Table - 4**

**MUSLIMS' EMPLOYMENT ( % )**

S.N.	Company	Executive Cadre	Supervisory Cadre	Workers Cadre
1.	Tisco	4.1	5.6	10.30
2.	Texmaco	Nil	0.3	4.4
3.	Mafatlal	Nil	1.72	3.53
4.	Calico	0.68	N.A.	10.2
5.	Mahindra & Mahindra	1.48	2.25	5.02
6.	Orkay	3.3	3.0	11.9
7.	J.K.Industries	2.63	2.28	4.51
8.	Indian Explosives	Nil	2.73	7.09

Source: Muslim India, New Delhi, Vol. II, No. 1, p.17

**Table - 5****MUSLIMS AS SENIOR OFFICIALS**

S.N.	Company	Total	Muslims
1.	Pond's India Ltd.	115	1
2.	Delhi Cloth Mill	987	2
3.	Brook Bond India Ltd.	73	14
4.	Ambalal Sarabhai Enterprises	628	5
5.	Mukand Iron & Steel Works Ltd.	625	7
6.	Nicholas Lab. India Ltd.	209	2
7.	J.K.Synthetics Ltd.	536	5
8.	East India Hotels Ltd.	120	6
9.	Modi Alkabs & Chemicals Ltd.	30	Nil.
10.	Cosmopolitan Hotels Ltds.	15	Nil
11.	Indian Tobacco Co.	966	17
12.	Gujrat Aromatics Ltd.	9	Nil

Source: Muslim India, New Delhi, Vol. II, No. 4, p.64.

**Table - 6****DISTRIBUTION OF POPULATION BY MAIN OCCUPATION IN TUMKUR DISTRICT**

Main Occupation	Caste Hindus	S.C.	S.C.	Muslims	All
Laborers	9	28	24	22	17
Artisans	4	4	1	13	5
Marginal cultivators	21	26	23	20	22
Small cultivators	25	18	24	12	23
Medium Cultivators	29	8	17	9	23
Large Cultivators	2	-	-	-	1
Business and Trade	3	1	2	8	2
Professional and salaried workers	5	2	2	13	5
Others	2	3	3	3	2
Total	100	90	96	100	100

Source: V.M. Rao: Barriers in Rural Development, ISEC, Working paper, Bangalore, 1982.

**Table - 7****MUSLIMS IN GOVERNMENT SERVICES**

Services	Total Number	No. of Muslims	Percentage share
Secretaries of the Central. Secretariat	416	6	1.5
Indian Administrative Services (as on 1.1.1981)	3,883	116	2.98
Indian Police Services (as on 1.1.1976)	1,753	50	2.8

Sources: Muslim India, Vol. II, No. 18, p.253, Vol. I, No. 1, p.17.

**Table - 8**

**MUSLIM DIRECTORS OF PUBLIC SECTOR BANKS  
(AS ON 1981)**

S.N.	Institutions	Total	Muslims
1.	Life Insurance Corporation of India (Central Board, Zonal Board, various Committees)	225	4
2.	Indian Overseas Bank	13	Nil
3.	Bank of Maharashtra	28	Nil
4.	Indian Bank	13	Nil
5.	Allahabad Bank	41	1
6.	Union Bank of India	14	Nil
7.	Syndicate Bank	20	Nil
8.	Dena Bank	20	Nil
9.	Canara Bank	27	Nil
10.	United Commercial Bank	18	- 2
11.	Central Bank of India	22	Nil
12.	United Bank of India	14	Nil
13.	Bank of India	24	Nil

S.N.	Institutions	Total	Muslims
14.	Bank of Baroda	27	Nil
15.	Punjab National Bank	38	Nil
16.	Andhara Bank	17	Nil
17.	Corporation Bank	21	Nil
18.	Oriental Bank of Commerce	23	2
19.	New Bank of India	25	1
20.	Punjab and Sind Bank	13	Nil
21.	Vijaya Bank	25	Nil
	TOTAL	698	10

Source: Muslim India, Vol. 1, pp.30-31.

**Table - 9**

**CO-EFFICIENTS OF EQUALITY IN RESPECT OF SOME CATEGORIES**

Class I posts in Public Sector Undertakings	27	(20)
Class II posts in Public Sector Undertakings	36	(21)
Class III posts in Public Sector Undertakings	101	(22)
Class IV posts in Public Sector Undertakings	87	(23)
Class III posts in Banks	18	(24)
Class IV posts in Banks	18	(25)
Class III posts in Private Enterprises	69	(26)
Class IV posts in Private Enterprises	66	(27)
Class I posts in State Government Services	28	(28)
Class II posts in State Government services	37	(29)
Class III posts in State Government Services	39	(30)
Class IV posts in State Government Services	53	(31)

Note: C. Abdussalam Calculation noted in the text.

# KUWAIT'

ABD AL-QADER DAHI AL-AJEEL<sup>2</sup>

## INTRODUCTION

The Kuwait *Zakah* House (KZH), a government institution with an independent budget was established by Law No. 5 in 1982. Its objective is to collect and distribute *zakah* funds, and donations according to *Shari'ah* provisions. The *Zakah* House is charged with undertaking charitable and welfare activities encouraged by Islam, making people aware of the duty of *zakah* and its role in life, and spreading the spirit of social solidarity and welfare amongst the people in a practical manner through its activities and works.

### I. STAGES OF ZAKAH APPLICATION IN KUWAIT

The application of *zakah* in Kuwait has passed through the following three stages:

#### Stage One : Official Levying of Some Types of *Zakah*

Historical studies indicate that the State of Kuwait did not have any law regulating *zakah* ever since its foundation, nor did it undertake the task of assessing the *zakah*, as its payment was left to the discretion of citizens. The state, however, had been levying *zakah* on livestock, fish and agricultural produce. It stopped levying *zakah* on these assets after the discovery of oil.

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<sup>1</sup>This represents a model for non-compulsory payment of *Zakah* in one of OIC members states.

<sup>2</sup>Acting Director, The Kuwait *Zakat* House, Kuwait.

## **Stage Two : Public *Zakah* Committee**

In accordance with what Allah the Almighty says, "*And let there be from you a nation who invite to goodness, and enjoin right and forbid indecency. Such are they who are successful*", a number of Muslims in Kuwait met to consider the conditions of some poor and needy families and to present the necessary aid to them. They decided to form a committee to collect *zakah* and distribute it to the needy individuals and families. They agreed that there was no way to tackle this matter except through the reactivation of the role of the mosque as the socio-cultural and religious institution which looks after the affairs of all Muslims, as well as being a place for worship.

As such the first *Zakah* Committee was formed in 1973 at the Othman Mosque in the Houli area which was inhabited by about 7.5% of the total population of Kuwait. Its objective was to collect *zakah* voluntarily paid by Muslims and distribute it through legal channels to those who deserve it. As a result of its success achieved through the public response, Muslims in other mosques formed similar *Zakah* Committees in their areas. The number of *Zakah* Committees has now reached 25 distributed throughout Kuwait. All these Committees work voluntarily with the objective of collecting *zakah* funds and spending them on those eligible to receive *zakah*. Each group of these Committees comes under one of the public institutions charged with the role of supervising and coordinating activities of the Committees. These Committees have achieved great success in making people aware of the duty of *zakah*.

## **Stage Three : A Semi-Government Institution**

As a result of the increasing public awareness about *zakah*, as the right of Allah over the wealth of *sahib-e-nisab*, and in view of the success of the Committees, both the people and the government wished to establish a *zakah* house as a semi-government institution for the voluntary collection of *zakah*.

## II. THE KUWAIT ZAKAH HOUSE (KZH) .

### 2.1 Objectives

The Kuwait *Zakah* House was a pioneering step to reactivate one of great pillars of Islam by collecting and distributing *zakah* and charities in the best legal ways compatible with the rapid developments and contemporary needs of Kuwaiti society. The main objectives of the *Zakah* House are, therefore, to collect and distribute *zakah* funds and charities to their *Shari'ah*-defined heads of expenditure.

### 2.2 Resources

Article H of the Law establishing the *Zakah* House stipulates that the resources of the *Zakah* House shall consist of the following:

- A. *Zakah* funds which are voluntarily paid by individuals or others.
- B. Grants and contributions made by public institutions, authorities, societies, companies and individual (charities).
- C. Annual subsidies by the State.

Article 26 of the Statute of KZH provides that the Board of Directors shall draw up general policies and rules for the investment of entire resources in a manner compatible with the provisions of Islamic *Shari'ah*. Investment return is part of the resources.

#### A. Promotional Policies

As such, the House shall collect voluntary *zakah* funds from individuals or others. Since the law has made the *zakah* voluntary and non-compulsory, reducing the resources of the KZH and minimizing the importance of the duty of *zakah*, a heavy burden has been placed upon House to draw up following specific policies to promote this duty:

**- MEASURES FACILITATING ZAKAH PAYMENT**

- A. The *Zakah* House Fund receives *zakah* in the morning and the evening.
- B. Funds may also be deposited with **any** of the KZH branches or banks in Kuwait at the A/C 215800.
- C. Three *Zakah* House mobile Units (Vans-Caravans) visit various areas in the country according to a pre-arranged schedule on specific dates, each unit stopping for one week at a certain area. These units are mobile branches of the KZH.
- D. Donation boxes are placed in cooperative societies and super markets urging people to pay *zakah*.
- E. Round-the-clock service depositories, similar to auto cash service at banks are placed at the entrance of the KZH headquarters so that any one can pay his *zakah* at any time.
- F. A special telephone hot line is installed at KZH. Any one who wants to pay *zakah* may dial it. As soon as the caller mentions his address, the management concerned will send a collector to receive the *zakah*.

**- MEASURES FACILITATING ZAKAH ESTIMATION**

The *Zakah* House has published a booklet entitled "The *Zakah* Directory" which aims at clarifying the information needed by the *zakah* payer, supplemented by figures which deal with the legal aspect of the *zakah*.

In view of the diversification of investments and the diversity of commercial companies and firms, the KZH set up a specialized committee to examine the assessment of *zakah* on different kinds of companies. The Committee has drafted guidelines for the assessment of *zakah* on companies and a model for *zakah* budgets of different types of

companies to facilitate assessment zakatable assets and *zakah* due for any company.

**- DIVERSIFICATION OF CHARITABLE ACTIVITIES**

This aims at diversifying the services offered to develop the society and satisfy the needs of the poor through numerous and diversified activities. These services cover all categories of the people which need assistance to promote their social and economic levels, such as for different poor families, the students' fund, the prisoners' families fund, the patients' care committee, orphans' sponsor scheme, the students' education fund, etc. This diversification is intended to satisfy the donors' preferences.

**- CORRESPONDENCE AND VISITS TO LEADING DONORS**

The *Zakah* House seeks to establish contact with all businessmen and commercial firms and companies in order to explain the role of the House in reviving the duty of *zakah*. It also aims to consolidate relationships with leading businessmen and donors through personal interviews and visits so that they are familiar with the activities and achievements of the House.

**- INFORMATION AND PUBLIC AWARENESS**

The *Zakah* House is keen to make use of all mass media to acquaint people with the duty of *zakah*, explain various activities and functions of the House in accordance with its policy and thus generate public awareness.

The following table indicates the development of *zakah* funds collected ever since the establishment of the House as well as other funds as a direct result of these policies:

**Table 1**

Year	Kuwait Dinar in (000)							
	1982	1983	1984	1985	1986	1987	1988	1989
<i>Zakah</i>	645	966	1287	1284	1511	1910	1775	2082
Charity	73	405	738	843	1035	460	415	630
State help	2000	4000	4000	4000	4000	4000	4000	2750
Development and Investment (Real Estate revenues + deposits+ savings)	87	242	397	598	742	860	947	1060
TOTAL	2805	5613	6422	6725	7288	7230	7137	7522

The above table indicates a drop in the funds collected in 1987 as a result of the opening of a special account for charitable projects as shown by the revenue of these projects in 1987 and the following years. Charities include the sacrificial meat scheme outside Kuwait, and the breaking of fasting feasts throughout the month of Ramadan in and outside Kuwait, the Orphans' Uniform Scheme, the Pilgrims Scheme in Kuwait, atonements and other stipulated funds.

#### **B. Development and Investment Policies**

With regard to development and investment, the *Zakah* House used in all its banking transactions two kinds of accounts, namely, current and savings accounts. The House received a good return from its savings accounts. In addition, appropriate deposit methods are used for surplus funds so that deposits have been spread out to enable the House to withdraw deposits when necessary in any month of the year. The *zakah* has not been invested by the House except in a savings account to be able to take cash from it at any time. This ensures that no decrease in *zakah* funds can occur and that the principal will be maintained through revenues generated therefrom. All the funds are to be distributed among the needy people without any kind of delay.

Among the most important methods and projects worked out to explore other resources for the House are the following:

## - CONTINUING SADAQAH AND WILLS FUND

The House established this fund in 1984 to collect *sadaqah* and invest them in accordance with the provisions of *Shari'ah* and with investment rules to realize the maximum and most secure return to be spent on various charitable activities.

The Fund manages the funds of wills one-third of which are under the supervision of the House to implement the bequests and organize spending. The number of wills up to the end of 1989 was seven in addition to three real estate properties donated, including a 5-storey building, a 7-storey building and a house.

**Table 2**

	Kuwaiti Dinars in(000)							
Revenue	1982	1983	1984	1985	1986	1987	1988	1989
<i>Sadaqah</i>	-	-	-	351	114	538	318	283

Revenue of 1985 included a *Waqf* for the *Zakah* House valued at KD 325,000. The 1987 revenue included KD 350,000 donated by two families for the purchase of real estate as *Waqf* for the *Zakah* House.

### 2.3 Distribution

The *Zakah* House has both local and external distribution policies:

#### 2.3.1 Local Distribution

All *zakah* funds collected are spent inside the country by the House through its Local Activities Department. As for other funds indicated in the above revenue table, these are spent both in and outside Kuwait. Through this department the *Zakah* House has undertaken a pioneering role in charitable activities in the country, where studies and

field visits are made to investigate applications for assistance to make sure they deserve such help.

#### **A. Forms of Assistance**

##### **- MONTHLY ASSISTANCE**

This is paid to deserving recipients who need constant aid. They include orphans, divorced women, old people, the handicapped, medical patients, permanent low income groups, families of prisoners and missing persons, and students (these cases come under "the poor and the needy"). At the end of 1989 the number of families that received monthly assistance was 939, receiving a total of KD 458,000.

##### **- LUMP SUM AID**

This is paid to families who are in temporary need for any number of reasons. This covers those whose hearts are to be reconciled [to Islam], debtors, wayfarers, as well as the poor and the needy. Furniture replacement, education, fire damage repair, medical care, low income assistance, building assistance and rehabilitation are also covered. 6276 families benefitted in 1989 receiving a total of KD 1,931,000.

##### **- INTEREST-FREE LOANS**

These loans are granted to those who need a sum of money and are capable of repaying it. The rule of interest-free loan (*Qard Hassan*) applies to these cases. The beneficiary obtains the appropriate loan provided that such a loan is paid back in convenient installments. The number of loans provided in 1989 was 242, totalling KD 332,000.

##### **- SUITABLE AIDS FOR DIFFERENT FAMILIES**

Since monthly assistance, lump sum aid and interest-free loans are given to any one who applies to the *Zakah* House for help, the House has not neglected those whom the insensitive might consider solvent because of their difference, while they are in urgent need of help. These families

do not come to the House to express their need because of difference. The House employs various ways and methods to reach these families and accordingly extends to them necessary assistance in a manner which would preserve and respect their dignity. Aid is extended after ascertaining of their need through trustworthy charitable people. About 400 restrained families have benefitted from the scheme.

- DONATIONS IN KIND

The House receives donations in kind, such as clothes, food, furniture, electricity equipment, etc. in the form of *zakah* or *sadaqah*, through the section responsible for the donations in kind. These items are classified and distributed to needy families by the local activities department, helping to improve the quality of life for poor families. This promotes the ideals of brotherhood and love amongst members of society. 12,216 families comprising 85,000 members benefitted from donations in kind. Since the establishment of the House more than 25,000 families comprising 134,050 members benefitted from this kind of aid. They account for 7% of the total population of Kuwait, which was 1,915,000 according to census figures of 31 December, 1988.

**B. Social Investigation Procedures - -**

- RECEPTION

The concerned official receives a particular case alongwith the paper indicating the time set for it and checks that with the schedule. He gives a number to the case to be presented to the investigator at the specified time. If there is no time set for the case, the official concerned registers the beneficiary's name and presents it to the investigator to investigate his request and check whether the distribution rules apply to him. At this stage, the case may be rejected or accepted. The beneficiary will then be given an appointment for reference to his case with the requisite documents.

- OFFICE INVESTIGATION

The special investigator meets the applicant case at the assigned date, examines the problem and its causes, reviewing the documents which substantiate the case. He, then, writes his report, entering the necessary information into the computer and providing the beneficiary with a reference card containing his name, the file number and other information. The file will then be sent to the examination and follow-up section which, after reviewing its contents, sends on to the local distribution committee for field investigation or for the director's approval under the authorization given to him.

- FIELD INVESTIGATION

The investigator concerned reviews the study reference sent from the office investigation section, sets a date for a field visit to observe at first hand the applicant's living conditions and the general standard of his accommodation. After that he writes a report and enters it into the computer and sends the file to the investigation and follow-up section which examines it and then refers it to the local distribution committee or for the director's approval.

- THE LOCAL DISTRIBUTION COMMITTEE

The Committee was formed with the approval of the *Zakah* House and under a ministerial decree. The Committee is assisted by a Board member. It consists of the Director General of the House, the Deputy Director General, the Director of Local Activities, a Social Services Officer and a Representative of the Ministry of *Awqaf* and Islamic Affairs. It meets thrice a week. Its terms of reference include the following:

- i. To draw up and implement the policies related to local distribution.
- ii. To determine the priorities and amounts of legal *zakah* expenditure, as well as of general charities and welfare, according to the provisions of *Shari'ah*.

- iii. To approve controls and conditions related to local distribution.
- iv. To submit to the Board a quarterly report on its activities.

- THE DIRECTOR'S AUTHORIZATION

This deals with the authority given to the Director General by the Local Distribution Department, permitting immediate assistance up to a maximum of KD 200 to needy families and approving the delivery of necessary items to needy families (such as air conditioners, refrigerators, washing machines, etc.).

The examination and follow-up section submits a list of the names of needy families to the Director General following the approval by the Director of the Department.

- DISBURSEMENT PROCEDURE

The minutes of the approval of the Local Distribution Committee and the Director' authorization are referred to the Examination and Follow-up Section so that the official concerned can enter the data of the approved minutes into the computer and print disbursement forms. These forms are sent in duplicate to the head of section for approval. The original is sent to the Financial Affairs Section and the copy is to be kept in the case file.

The Finance Department pays the approved assistance to the applicant. When the disbursement procedures are completed, the families who receive monthly assistance are registered and referred to the Productive Rehabilitations Section.

**C. Productive Rehabilitation Section**

The Section aims at transforming needy families receiving monthly assistance into productive families with skills and definite trades to improve their own social and financial conditions and to realize a better life for themselves. The objectives of the Scheme are :

- i. To develop the latent capacities and skills in society.
- ii. To utilize the manpower and skills of needy people and raise their morale by helping them to acquire definite trades to secure a better life.

The section examines the conditions and potentials of families in order to contribute to existing production sectors such as sewing, smithing, carpentry, etc. This section raises the financial assistance to needy families by 25% during the theoretical and practical training period. Assistance to these families continues up to the stage of actual production, when an improvement of their economic condition is achieved. The assistance comes to an end at this stage. The section began operating early in 1987 with scientific studies to investigate the views of needy families, their goals and the kinds of work suitable for them. Up to mid-1989 the Section trained 99 families in sewing, embroidery and artistic works. They have been provided with sewing machines and some materials to encourage them to home production.

#### **D. Coordination with Official and Private Institutions**

Ever since its establishment the Zakah House has been coordinating and cooperating with official and private agencies to achieve its objectives through joint projects to unify common approaches and remove obstacles to providing aid. Here are examples of this coordination.

##### **- STUDENT FUND**

This fund has been established in cooperation between the Social Services Department at the Ministry of Education and the Zakah House to realize economic and social welfare for the students' families at schools in Kuwait so that they can continue their education.

- PRISONERS' FAMILIES FUND

This fund has been established in cooperation between the Prisons Administration at the Ministry of Interior and the *Zakah* House to assist prisoners' families. The House also cooperates with the Deportation Department at the same Ministry to assist the deportees.

- THE PATIENTS' COMMITTEE

The Committee has been set up in cooperation with the Patients Relief Fund and the Ministry of Public Health. It assists families whose heads have become unable to work as a result of sickness and, in consequence, do not have a steady source of income. Assistance is extended until they can resume their normal work. The *Zakah* House intends to develop its services and external assistance in coordination with the ministries and governmental institutions in order to compliment and improve these activities.

- LOCAL ZAKAH COMMITTEES

The *Zakah* House issues the regulations for *Zakah* Committees through which it supervises their financial and administrative activities and ensures that their work is according to established rules and regulations. The House supports *Zakah* Committees to make up resource deficits and to assume a role in the service of society and in managing charity in the best possible way. In 1989 the House extended support to 20 *Zakah* Committees by a total of KD 180,000.

### **E. Local Projects**

The *Zakah* House carries out the following seasonal projects in the country:

- BREAKING OF FASTING FEASTS

The House has held the fast-breaking feasts throughout the month of Ramadan ever since 1983 in pursuance of what Allah the Almighty

says: "And feed the needy, the orphan and the prisoner, for love of Him", and in line with solidarity and mental love among the members of the society. In 1989 forty-nine mosques were selected to offer these meals in areas where residents need such feasts. During this year 135,627 meals were distributed at a total cost of KD 109,000.

- SCHEME OF THE SACRIFICIAL MEAT

The House has supervised the collection and distribution of sacrificial meat ever since 1983 for the fulfillment of one of the fundamental religious rites. The Scheme aims also at facilitating the collection and distribution of meat to those deserving, in application of the principle of social solidarity in the society. The *Zakah* House provides refrigerated vehicles in the main areas in Kuwait to receive sacrificial meat. The meat is cut and packed under the supervision of the House officials for delivery to the needy and poor families who receive assistance from the *Zakah* House and local *Zakah* Committees. In 1989 about 846 sacrifices were distributed to 1,174 families.

- THE ORPHANS' CLOTHES

In order to promote social solidarity and love and make orphans happy the *Zakah* House started the Orphans' Uniform Scheme in 1984 in cooperation with Local *Zakah* Committees as the disbursement agency, and the Ministry of *Awqaf* and Islamic Affairs as the financing agency. KD 16,630 were paid to 1,663 orphans in 1989.

- ZAKAH AL-FITR FEAST

The House organizes annual the process of collecting and distributing the *zakah al-fitr* in kind and cash during the month of Ramadan. The House acts as a conduit between those who pay the *zakah* and those entitled to receive it. The House distributes *zakah* in kind only. The total cash collection of Eid Al-Fitr *Zakah* until 1989 amounted to about KD 32,091. The House also received large quantities of rice, flour and dry milk and they were distributed to 23,225 beneficiaries.

#### - PILGRIMS SCHEME

Since 1987 House has organized an annual program for pilgrims in Kuwait to assist poor people eager to perform Haj but incapable of doing so because of their material conditions. This program is undertaken in cooperation with the Kuwaiti Haj campaigns which allocate free places to the *Zakah* House to nominate qualified families to perform Haj. 85 needy people have been assisted to perform this duty.

#### 2.3.2 External Distribution

#### - ORPHAN'S SPONSOR SCHEME

The *Zakah* House established this Scheme on Muharram 8, 1404H. (October 10, 1983) in line with the Prophet's (Pbuh) *Hadith* which says: "The orphan's sponsor and I are in paradise like this. He raised his forefinger and middle finger and widened them out". The establishment of this Scheme came as a result of charitable and social work and of social solidarity among Muslims. It is a reflection of the role Islam cares for orphans who have no guidance to improve their social, educational, health and psychological conditions.

The Scheme takes care of Muslim orphans in Arab and Islamic countries. It selects reliable agencies which subscribe to a sound Islamic educational system that raises orphans properly. The Scheme encourages donors to sponsor orphans so that its management forms a liaison between the sponsor and the orphans. The management carries out disbursement, control and follow-up of orphans' living conditions. To achieve these objectives the House periodically sends representatives to examine the orphans' conditions and circumstances. At the end of 1989 the Scheme covered 27 countries with a total 15,792 orphans from these countries receiving benefits. The number of the sponsors was 12,000. An amount of KD 1,590,000 was spent in 1989.

**Table 3**

	Kuwaiti Dinars in (000)						
Revenue	1983	1984	1985	1986	1987	1988	1989
Orphans' Sponsor Scheme	155	933	1106	1276	1731	1623	1926

- BREAKING OF FASTING FEASTS

The House holds annual fast-breaking feasts throughout the holy month of Ramadan outside Kuwait. The House started the Scheme in 1989 in seven countries where 274,760 feasts were offered at a total cost of KD 78,434.

- SCHEME OF THE SACRIFICIAL MEAT

The House organizes the slaughter of sacrifices in a number of Arab and Islamic countries, sending representatives to supervise this operation in cooperation with Islamic and charitable institutions in these countries. In 1989 the Scheme was carried out in 13 countries and the sacrifices donated were 10,973 at a total cost of KD 227,980 from which 165,000 people benefitted.

- ISLAMIC RELIEF SOCIETIES

The *Zakah* House supports Islamic societies and agencies outside Kuwait to enable them to undertake charitable activities and care for Muslims in the best possible way. The House receives a number of visiting delegations representing Islamic societies and agencies from all over the world and examines their objectives and activities, acquainting itself with the conditions of the Muslims they care for. The House assists these organizations after examining their requests. 213 such agencies received assistance from the House, totalling KD 350,700 in 1989.

As to relief activities, the House plays an effective role in relieving the effects of disasters and calamities which inflict parts of the Islamic and Arab world such as wars, earthquakes, floods, drought and famine. Under this Scheme, the House provides the necessary aid to victims in these countries. The House has cooperated with the International Islamic Charitable Organization in Kuwait in the formation of the joint Kuwaiti Relief Commission which comprises all charitable societies and committees in Kuwait. These groups cooperate in the collection of donations in the case of disasters such as floods, etc. and spend them according to the most pressing priorities. An amount of KD 941,000 was spent in 1989.

**Table 4**

		Kuwaiti Dinarsin (000)					
Revenue	1983	1984	1985	1986	1987	1988	1989
Relief	-	-	-	-	767	1624	376

It is evident that relief revenue in 1989 was less than that in 1987 and 1988. This was because of the information drive to aid Bangladesh in 1987 and Bangladesh and the Sudan in 1988 as a result of floods during that period.

- THE GLORIOUS QUR'AN PROPAGATION SCHEME

In pursuance of the objectives of the *Zakah* House, which include the implementation of charitable and philanthropic activities, and in view of the wide-spread ignorance in the Islamic world of the contents of the Qur'an and the dearth of copies of the Glorious Qur'an, the House adopted a scheme for the propagation of the Qur'an in 1986 to achieve the following:

- To make Muslims aware of and acquainted with their religion by publishing the teachings and meanings of the Holy Qur'an.

- To open a new and important venue for charity for donors by propagating and publishing the Qur'an.
- To publish of the Holy Qur'an and its meanings in various Muslim languages to provide a copy of the Glorious Qur'an.

About 85,000 copies of the Holy Qur'an were printed and distributed up to the end of 1989 shown in Table 5 :

**Table 5**

Country	No. of copies
The Philippines	15,000
Burkina Fasso	15,000
People's China	10,000
Niger	.15,000
Pakistan	20,000
Somalia	10,000

- CHARITABLE SCHEMES

The House undertakes charity schemes such as mosques, health centers, orphanages, schools, drilling of wells, etc. outside Kuwait. Donors provide financing for these projects whereas the House assumes the responsibility for follow-up and supervision. The House envisages the need to sponsor some of the projects, particularly those related to productivity and rehabilitation. The House provides financing for these projects and implements them under its supervision. They are selected according to Muslims' regional needs. 1,055 projects have been implemented up to the end of 1989, as follows:

**Table 6**

Mosques	306
Wells	507
Schools	30
Clinics	23
Orphanages	24
Islamic Centers	11
Others	154
<b>Total</b>	<b>1,055</b>

**Table 7**

Revenue	Kuwaiti Dinars in (000)						
	1983	1984	1985	1986	1987	1988	1989
Charity projects (building of mosques, schools, wells drilling, etc.)	-	-	125	263	705	861	810

- STUDENT EDUCATION FUND

The House established this Fund in 1985 to support Muslim students who are unable to continue their education due to financial constraints. The objectives of the Fund are:

- To develop the Islamic society by improving the educational standard of its members and encouraging them to educate themselves.
- To provide suitable opportunities for education to needy students so that they can continue their education at various levels.
- To direct students towards studies urgently needed for the growth and development of Muslim societies, especially specialized technological studies.

The Fund provides monthly assistance to students, Kuwaitis or residents of Kuwait, carrying out their studies abroad, in the form of interest-free loans to be paid back six months after graduation. 146 students benefitted from this Fund up to the end of 1989 in various fields of specialization. The Fund also extends permanent and monthly assistance as (non-refundable) grants to African and Asian students at Al-Azhar or other universities as shown in Table 8. The number of scholarships extended by the House is shown in Table 9 :

**Table 8**

<b>Al-Azhar University</b>	<b>596 African students</b>
<b>Imam Mawdoudi Institute Lahore, Pakistan</b>	<b>38 Chinese students</b>
<b>Other Universities</b>	<b>55 Palestinian students</b>

**Table 9**

		Kuwaiti Dinars in (000)					
Revenue	1983	1984	1985	1986	1987	1988	1989
Students	-	-	-	-	36	37	59

### **2.3.3 Administration**

The role of the House has not been confined to collecting and distributing *Zakah* funds and charities. It has also nurtured executive bodies, applying administrative development principles by promoting staff efficiency and training. It also reviews financial and administrative regulations. It has developed a formula for the organizational structure that realizes efficiency and effectiveness and employs administrative methods to achieve its objectives. It also applies a system of incentives to secure a better production result. The stages of administrative development at the *Zakah* House involve the following:

## STAGE ONE: BUILDING UP A STRONG AND TRUSTWORTHY MANAGEMENT

Allah the Almighty Says: "O my father, hire him for the best (man) that thou can hire is the strong, the trustworthy". To achieve this goal and raise staff efficiency, and performance, the House employs the following methods:

### A. Training

The House adopts training as a means to develop the capabilities and skills of senior officials and staff to make up for the shortage of experienced and efficient people. For this reason the House has established a development and training section to prepare the annual training plan in coordination with other departments and the agencies which organize training courses. This section has also been assigned to evaluate the effect of these courses on the development of staff capabilities.

### B. The Spread of Functional and Administrative Concepts

In addition to training courses, the Planning, Development and Follow-up office undertakes to prepare administrative studies on the administrative process for directors and its practical applications in the *Zakah* House, such as the delegation of authority, leadership: applied and theoretical study, the art of the reprimand, personnel behavior and human relations, delay exercises in the fulfillment of works, reasons behind personnel neglect, time management and utilization, and Islamic management principles at the *Zakah* House. The Legal Affairs Office undertakes to explain to personnel their rights and duties through periodical bulletins.

### C. The Spread of Islamic Concepts related to Productivity and Proficiency

The Legal Affairs Office delivers weekly lectures on the need to adhere to the ethics of Islam in work to faithfulness, trustworthiness,

decency and cooperation, and the need to devote all office hours for work.

The Office also circulates cultural bulletins covering topics intended to raise the standards of personnel, such as the importance of trustworthiness, good behavior and tolerance. It also prepares special papers for directors explaining certain *Zakah* provisions and highlighting Islamic aspects in administrative activities.

#### D. Staff Productivity Measure

This process aims ..at urging personnel to increase their productivity, to devote office hours for work, and tighten control on personnel activities. This is a basic step to improve performance rates in all the activities of the House.

#### E. Auto-Control

The House seeks to develop the auto-control of officials and staff. In this regard the work charter was published in January 1989, which includes some general directives and guidelines to help officials and staff in their work. The charter calls on every official to practice self-control following every action he does so as to develop his skills and capabilities in order to perform his work efficiently and effectively.

#### F. Incentive System

Incentives play an important role in the development of innovative and creative thinking and improving the levels of performance, raising the quality of . service rendered and reducing complaints. Since the legal incentives available in the civil service system are limited and small, the House has explored alternative incentives to encourage the staff for the improvement of their performance. These incentives include the following:

## First: Incentives for Performance Improvement

### 1. Ideal Employee

This aims to give incentives to staff and introduce self-motivation so that an employee will develop his performance. An ideal employee is selected every three months through a system set out for this purpose. All applications are treated confidentially according to certain criteria.

### 2. Ideal Management

This is a system introduced by the House to motivate personnel with respect to collective work. The ideal management will be selected every six months according to specific criteria.

## STAGE TWO: INTRODUCING NEW METHODS AND SYSTEMS FOR MINISTRATIVE EFFICIENCY (1985 TO 1989)

The House seeks to use the newest and most advanced methods and systems for administration.

### A. Comprehensive *Shura* (Counsel) in Decision-making

Most major decisions are taken in a long consultation with the parties concerned. Most decisions related to personnel are made after canvassing all views thereon through questionnaires, to ensure that the best ideas are taken into account so that the wisest decision is implemented in the best possible way.

### B. A System of Management Through Objectives

A remarkable development in the implementation of this system by the House took place when its importance was realized after the expansion of KZH activities. There is also a need to have set goals to be achieved by different departments in order to continue a steady improvement in their performance. The first semi-annual plan was

developed in November 1986. It was later agreed to draw up annual plans as from 1988 to 1989.

The system is being efficiently implemented and this has affected the House activities. There is a specialized Office for Planning, Development and Follow-up which supervises the House departments when they draw up their plans. General policies are designed by all departments in coordination with the Director General so that the departments would follow them in designing their annual plans. Each department holds several meetings with its staff to determine the targets of the annual plan and the ways to implement them.

The Planning, Development and Follow-up Office makes a monthly check of the implementation of the plan and submits a monthly report to the House Directors Committee, indicating the works that are implemented and those yet to be carried out. Each departmental director could be asked at the committee meetings as to why some items of his department's plan have not been implemented and he will be requested to set a new deadline for implementation.

In order to raise competitiveness between the House Departments in implementing their plans, a scale of the percentage of the plan achieved is drawn up and distributed to department directors to compare against the percentages they obtain every month. The percentage of the plan implemented is one of the criteria for selecting the ideal department.

### C. Work Control System

In view of the importance of this system in the development of work and discovery of flaws, the House has adopted the following methods:

- Field visits to all departments by the Planning, Development and Follow-up Office, to review the progress of work and report any observations to the Director General.

- Field visits to all departments by the Legal Affairs Office and *Shari'ah* Commission to examine the work from the legal perspective.
- Follow-up of the achievements of the departments and the implementation of the monthly plan by asking the departments to prepare a report on their monthly achievements and the activities implemented within the plan.
- Time sheet control (office working hours), comparing the observations of each department personnel as to office hours and sending a list of personnel who do not observe office hours to the Directors committee so that each director can follow-up the work of his staff.

#### D. Recruitment System

A recruitment system was developed early in 1989 to select the best applicants for jobs. A special committee has been set up to interview applicants nominated by the departments concerned. On the basis of an interview which covers aspects of the applicant's personality, experience and qualifications, he would be accepted or rejected. The system aims at improving the efficiency of the House staff through appropriate selection of the best applicants.

#### STAGE THREE: EMPHASIZING INNOVATIVE AND DEVELOPMENT TREND

This stage was started from June 1989. The House strives to enhance the innovative and developmental trend among officials and staff to develop its activities and services given the fact that its works are new and untried. It has been essential, therefore, to preserve in innovation and development in order to achieve the level of efficiency needed for the implementation of KZH work. This trend can be developed through the following methods:

- A. Holding weekly meetings of the Directors Committee, consisting of the Director General, his deputy and department directors to achieve the following objectives :
- To draw up plans for the development of work at the *Zakah* House
  - To discuss and implement recommendations formulated at the Board meetings.
  - To discuss reports and recommendations of committees and task forces.
  - To review reports and notes on the follow-up House Schemes and activities.
  - To review and comment upon progress reports on departments and offices and take relevant decisions thereon.
  - To discuss members' suggestions and certain consequential suggestions made by the KZH staff.
  - To undertake a monthly review of the implementation of the annual plan.
- B. Holding a weekly meeting for each department to review its work, solve problems arising therefrom, to examine suggestions for the development of the work and follow-up the implementation of the department's annual plan.
- C. Encouraging proposals for the improvement of performance, increase the House revenues and the reduction of costs. The House pays due attention to staff suggestions. There is a special office of Planning, Development and Follow-up assigned to consider these suggestions and submit its views to the Management for final action, approval, rejection or postponement. The employee concerned is informed accordingly and the three best suggestions are rewarded annually.

The number of suggestions and the number of staff members who present them indicates to what extent the House has succeeded in enhancing creativity and imagination of the staff. From 1986 to April 1989, 329 suggestions were made by 95 employees (43% of the House staff).

- D. Organizing field visits to other related institutions and agencies for staff to benefit from their experiences.

#### STAGE FOUR: CONTINUING PROCESS OF REVIEWING ORGANIZATIONAL STRUCTURE

##### A. Review of the Organizational Structure

As a newly established institution and in view of the rapid growth of its activities and the need to establish new departments, the House from time to time reviews its organizational structure with the aim of re-distributing authorization and dividing work to satisfy new and existing needs and development priorities. The development and amendment of the organizational structure has passed through three stages since the KZH was established.

##### B. Administrative Powers

It was very important for the administrative powers to match the new assignments given to directors and others. The House Management, represented by the Board, its committees and the Director General, used to delegate powers as and when dictated by the development of work and according to the general interest. Therefore, several resolutions were adopted in the past to delegate certain powers.

##### C. Evaluation of Work Arrangements, Simplifying them and Reviewing Regulations and Rules.

Work arrangements at all House departments are organized with the aim of simplifying and developing them to speed up the achievement of services, especially those related to the public. The KZH annual plan

calls for an evaluation to be made of all activities and Schemes carried out by various departments. The House undertakes a periodic evaluation of its rules and resolutions and suggests necessary changes for the improvement of the work.

STAGE FIVE: UTILIZATION OF MODERN ADMINISTRATIVE METHODS,  
ECHOLOGIES AND HUMAN EXPERIENCE

The House seeks to benefit from all technologies, methods and tests which may be utilized to develop its activities and make it an innovative modern institution. This may be seen in the following examples:

A. Using the computer in the House to facilitate activities and services for beneficiaries and improve efficiency. For this purpose the House has established a Computer Department comprising well trained and efficient cadres as well as most advanced equipment. The Department has also developed the auto systems currently in operation at the House to cover all the activities, like the systems used for social service and orphans sponsor programs. The development and introduction of the computer into the social service has eased procedures for processing applications and to a great extent has reduced the time required to apply for aid and receive it.

The system provides all necessary statistics for drawing up future policies and reports that will facilitate the decision making process. This system is connected with the computer at the Finance Department in order to secure accuracy and speed in financial follow-up. The Computer Department also undertakes studies on modern technologies the House may utilize, such as office automation, the visual display of documents, electro-sonic response services, etc.

The department undertakes the purchase of all electronic equipment for other departments and trains the House staff on utilizing modern technologies and looks after operation and maintenance thereof. Although it is a new institution, the *Zakah* House has preceded many governmental institutions in the utilization of modern technologies.

B. A self-control system and its gradual implementation is under consideration as: a. possible replacement for the time card which would) be published in some: departments: as: an experiment.. The work charter of the House has; been published containing, a set of basic principles which explain the rights and duties of officials and staff vis-a-vis: the House to' promote self-control among, them..

C. Implementation of a' human relations system in administration and urging middle. management. to observe this method. Social activities are' being organized among, management and. staff to promote the human' relations system.,

D. Utilization of all modern technologies (fax, telex,: file-keeping machines, letter-folding and enveloping machines., presentation machines).

E. Preparing a data base to enhance. the. decision-making. process. As a first step in. this regard,, a. revision was carried out. in 1985 of the reports submitted' by' various; departments'.. They' have been improved and amended. Reliance: on. figures: has: been intensified because they clearly show performance rates and. within the departments'.. In 1989 all reports submitted by the departments to various bodies: inside and outside the House were calculated and included in a list indicating type time and destination of the: reports; to' catalogue: all the information and data released by various; departments: for easy access..

For this it this clear that the House is anxious to utilize developments in technology and theoretical fields to make the KZH a pioneering Islamic institution.

#### **2.3.4. Information**

In order to interiink the resources and distribution methods of the House with the information as: to) the role of the House' in reviving the duty of *Zakah*;; the KZH paid due attention to public awareness and conceived of distinct approach to public relations characterized by the: following attributes :

- Objective

The KZH seeks to bring the duty of *zakah* into the life of the people so that they revere it as one of the pillars of Islam. To this end the House emphasizes its legal dimension and the positive effects the *zakah* has on both the individual and society.

- Creative

The KZH always seeks to adopt advanced methods and avoid backward and hide-bound practices. Nor does it repeat the same ideas and expressions in its information bulletins.

– Disciplined

Due attention is given to the general situation in the State and the KZH reacts to current developments, carefully monitoring trends in public opinion, and ,acquainting itself with general policies so that it may act approximately.

– Active and Effective

The various activities of the House are monitored and continuously modified. Efforts are diversified to maintain continuity.

– Multi-Source

Full coverage of the news about activities of the House is disseminated to the mass media not only via the information section of the House but also through various organizations with which the House cooperates.

– Subjective

All activities and achievements of the House are highlighted and important statistics are presented in an accurate, honest and trustworthy manner.

## - Quiet and Balanced

The distinctive image and reputation of the House is safeguarded. In public replies and interviews controversy, defamation and slander is avoided. Suggestion rather than declaration and objectivity without triviality is the hallmark of the KZH. In this way information plays a prominent role in the attainment of the goals of the House especially regarding the revival of the duty of *zakah* among Muslims and encouragement to spend money for Allah's sake, as well as to increase the sense of solidarity and love in Islamic society. To increase public awareness of the House and its charitable activities the following means are used:

### 1. Books and Publications

The House annually publishes a number of books and brochures on *zakah* and House activities and schemes, including a book on research works and proceedings of the First *Zakah* Conference, a book on *Zakah Fatwa* (Legal opinions) book, a brochure on the *zakah* of commercial and industrial wealth, a *Zakah Al-Fitr* pamphlet, a pamphlet on the *zakah* of money and jewellery, a bulletin on provisions for atonements and offerings, etc.

In addition, the House publishes a quarterly bulletin on donation in which it explains the duty of *zakah* and informs the public of KZH activities and achievements.

### 2. Various Information Publications

The House has published and distributed a number of publications to serve its activities, goals and schemes. It enhances public awareness through posters, calendars, a Ramadan calendar, etc.

### 3. Radio and TV

The House has utilized radio, and TV in explaining the duty of *zakah* and KZH' activities. A number of radio, and TV' interviews have been

arranged including full coverage of KZH activities. In addition a daily radio program *has* been produced during Ramadan every year called "pay *zakah*" as well as a special TV program during Ramadan called "charity land". In addition, short TV ads are broadcast all the year round urging *people to pay zakah*.

#### 4. Exhibitions

The House participates in various exhibitions held in Kuwait including the Arab Book Fair the Islamic Book Fair Muslim Child Week, etc. to inform people of its objectives and charity activities.

#### 5. Press

KZH news are always covered in local papers, so that readers can follow the organization's activities. This coverage includes articles, features, public statements and press releases on *zakah* provisions and spending for the sake of Allah.

#### 6. Cultural Contests

The House holds an annual cultural contest to acquaint people with the duty of *zakah*, its provisions and the House activities and schemes. Thousands of citizens take part in such contests in which valuable prizes are given to the winners.

#### 7. Posters

The House distributes various posters throughout Kuwait calling on people to pay *zakah* and spend for the sake of Allah.

#### 8. Information about the House Activities and Schemes

In its annual report the House presents information on its activities and schemes. The House also answers citizens' questions and inquiries through participation in seminars and lectures held by public societies or agencies.

1. The law establishing the House has made zakah voluntary and not compulsory which has reduced its resources as indicated in the above revenue tables. This effectively minimizes the importance of the zakah as the third pillar of Islam.

2. The absence of a special headquarters for the House in which the nature of its activities and the various categories of beneficiaries are taken into consideration, has led to constraints on the development of its services and more rapid progress. The House carries out its work from two separate buildings located in a residential area, which militates against optimum speed and efficiency in the execution of the work. A 10,000 sq. meter piece of land, located in the governmental quarter south Al-Sorrah, has been recently donated by the State for new KZH premises.

3. A number of technical and administrative qualified officials have left the House service due to overwork load and low salaries.

### **2.3.6 Credibility Building in KZH**

Among the salient features of the success achieved by the House has been the high credibility it enjoys within the society. This credibility increases day by day which is manifested by the interest of philanthropists in the House, the increase in its resources and in the number of needy and poor people who benefit from its activities and schemes. The House has been anxious to provide all elements that enhance this credibility, including the following:

#### **A. ADMINISTRATIVE ELEMENT**

The House has been keen to provide all factors that ensure the efficiency and development of administrative work:

- clear-cut objectives determining the course of work.
- specific policies governing the course and direction of work.

- division of work strategies by arranging priorities and gradual implementation.
- balanced planning characterized by flexibility and comprehensiveness.

As far as staff are concerned the following are adopted:

- a flexible organizational structure satisfying present and future requirements.
- an effective follow-up system as to the performance of personnel and departments.
- refreshment courses for personnel and department directors to improve the efficiency and performance.

These points have contributed to the creation of a unique working environment which has helped to place the House on an outstanding reputation.

#### **B. THE LEGAL ELEMENT**

The House has a *Shari 'ah* council comprised of a group of Kuwait's leading scholars, which reviews its activities and regulations to ensure that they are in accordance with *Shari'ah*. This council also answers all the inquiries received by the House, an activity which has the effect of reassuring those who deal with the House that the funds are spent in accordance with *Shari'ah*.

#### **C. THE TECHNOLOGICAL AND SCIENTIFIC ELEMENT**

The House employs the most advanced technology and scientific methodology to guarantee speed, accuracy and efficiency of performance. The computer, whose programs have covered a large number of its activities is an element that plays a central part in the operations of the House.

#### **D. INFORMATION**

The House has succeeded in establishing good relations with all sectors of the society through its propaganda activities. The House familiarizes the public with its programs through TV, radio, press, books, bulletins and various publications.. In this respect most modern techniques in mass communications are used. An attempt is made to transmit a true picture of its various activities including its difficulties.

#### **E. FINANCIAL ELEMENT**

The aim of this is to reassure those who pay the *zakah*, as well as philanthropists and charities, that their money is under the supervision of truthful people Who will distribute the same Ito the needy in accordance with *Shari'ah*. This is achieved through:

- strict financial control
- spending controls
- provision of documents, certificates and proofs to corroborate that applicants genuinely deserve assistance

#### **F. SOCIAL ELEMENT**

The House seeks to establish the family spirit among the community of Muslims .and manifest solidarity and love among them:

- utilizing of mass media to explain these concepts.
- undertaking projects to achieve these goals, as with fast-breaking feasts, sacrificial meat distribution, pilgrim assistance, etc.
- training of personnel in the art of dealing with the ,public to alleviate their worries and sufferings, find solutions to the problems within the Muslim community and actively redress them.

#### G. INNOVATIVE ELEMENT

This relates to flexibility of action, encouraging suggestions and objective criticism, and opening, new work: practices and diversification, using, various methods. to collect *zakah* funds and *sadaqah* as well as facilitating the payment: of the *zakah*.

#### H. FLEXIBILITY

Shari'ah, financial and administrative controls should not prevent the House from being. flexible in its dealings with certain sectors of society and. with certain. special cases.. One example is the case of different families who,, out of shyness,, do not beg, for help. The House has established a special system in order to become acquainted with these families and their conditions. in order to provide them with. aid in a way that. preserves their dignity and modesty.. Besides, the doors of directors and officials are always open to beneficiaries. Their criticism and suggestions are taken seriously.

The above-mentioned elements have contributed toward gaining public confidence in the House. This is manifest in the following:

1. Steady annual growth. of KZH. resources from. *zakah* and charities, reflecting the rise of confidence in the House among donors and *zakah*-payers as indicated' by the rise in numbers.
2. Steady growth in the number of needy families applying for KZH assistance The number of applicants reached a rate of 120 families per day in 1989..
3. Major development in the House charity schemes outside Kuwait the cost of which is met. by KZH benefactors'. The number of such benefactors: has increased over the past few years. They have sponsored charity projects such. as. mosques, water wells,, schools, clinics, orphanages',. etc. The number of these projects reached 1,055 in 1989.

4. Numerous delegations visiting the House to learn about its experience, regulations and activities and to seek cooperation with the KZH to implement this experiment in their home countries. This is an obvious indication of the respect and confidence the House enjoys outside Kuwait.
5. The participation of large number of alms-givers and benefactors from outside Kuwait in KZH Schemes such as the orphans' sponsor and the continuous alms and wills fund and the receipt of large amounts of money from countries such as Saudi Arabia, is an obvious proof of the confidence which the House enjoys in the greater Muslim world.
6. The House receives a large number of letters every week from different countries in addition to continuous telephone calls requesting assistance, inquiring about 4 Schemes or asking for its bulletins and publications. This demonstrates the people's confidence and interest in the Kuwait *Zakah* House.

#### **2.3.7 Conclusion**

In view of the above indications and observations we conclude that the Kuwait *Zakah* House enjoys the confidence of Muslims inside and outside Kuwait. This confidence has been growing stronger with the passage of time. The Muslims now rely on it as a trustworthy agency in charge of their *zakah* and alms which are properly spent in accordance with Shariah principles and provisions.

" Praise be to Allah, Lord of the Worlds"

# MALAYSIA

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## 1. INTRODUCTION: HISTORY, ORGANIZATIONAL, ADMINISTRATIVE AND LEGAL FRAMEWORK

### 1.0 Introduction

*Zakah* is an obligatory payment upon all Muslims who satisfy necessary conditions. Being one of the five pillars of Islam, it has necessarily been an individual and societal feature of any Muslim community everywhere and since the advent of Islam. Indeed, this assumption can also be extended to the Malaysian experience whereby the emergence of Islam in the 13th century A.D. established the tradition of *zakah* payment.

### 1.1 Historical Background

Historically, the issue of *zakah* and its concomitant aspects may be traced to specific periods in Malaysian history. As far as relatively

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accurate history is concerned, it is safe to say that the administration of *zakah* formally evolved during the colonial and post-colonial eras.

Briefly, *zakah* payment during the pre-colonial era was not administered formally. It used to be guided more by the village tradition of contributing *zakah* proceeds to religious teachers who either might spend it for their own needs or those of eligible beneficiaries. This is not certain. What is clear is that such forms of *zakah* payments arose from a high esteem the peasants held for their religious teachers. Not surprisingly this tradition still continues in some states today. It may be further said that much of the *zakah* paid during those days came from the yields of paddy cultivation, a common profession of the time.

During the colonial period, a dichotomy was established by the British with the administration of Islamic matters and Malay customs, on the one hand, and other aspects of state and national administration which were governed by the British civil and criminal legal systems on the other. The former was administered by a central organization in each state. Gradually this organization came to be known as the Council of Religion and Malay Customs. It was this Council which governed Islamic *affairs* and Malay customs, including the *zakah* administration. Kelantan was the first state in Malaysia to establish such a Council which became a model for other states. Under this model, *zakah* administration for each village was under its respective village imam. Eventually, part of the *zakah* collected at the village level was surrendered to the state as a source of financing for the administration of Islamic affairs.

Indeed, much has occurred from the colonial period to the present, but these events are addressed in this paper to focus on the current situation. It is fair to state that the current state of affairs is not entirely free of the colonial legacy.

## **1.2 Organizational and Administrative Framework**

Although the administration of *zakah* in Malaysia has been institutionalized, this does not imply that its administration in various states is systematically synchronized and coordinated. The *Zakah*

Administration for each state' is still independent. The result is that several models; of organizational structures have been adopted by various states in Malaysia (refer to Charts 1 - 6).

To understand this one needs to be aware of the Malaysian Constitution. The constitution has clearly stipulated the areas which fall under the jurisdiction of the federal and state governments by placing the division of power under the federal state and concurrent lists. The federal government administers among others things foreign affairs, defence and security, administration of justice, citizenship and naturalization, finance, trade and industry, communications, education, health, labor and social security. The state government covers Muslim laws and Malay customs, land, agriculture, forestry, state government machinery; state works; and water, and local government among other things. Finally, the concurrent list includes: social welfare, town and country planning; public health, drainage and irrigation.

Every state has its own written constitution and Head of State. The Head of State is; also the Head of Islamic affairs in each state. In the cases of Maul Pinang, Melaka, Sabah and Sarawak (which do not have Heads of Islamic affairs: at state level) and the Federal Territory, the National Ruler is the Head for Islamic affairs.

Since Islamic affairs fall under the jurisdiction of Heads of State, *zakah* is entirely administered by individual states. The main policy making and administrative body is; the respective State Council of Religion. The only exception is Kedah which is under an independent board named the *Zakah* Committee operating, under a separate *Zakah* Office directly responsible to the State Ruler.

With the Heads of States, also acting as the Heads of Islamic affairs the State passes statutes and regulations pertaining to state *zakah* administration. The federal government can recommend only the proposals and it is up to the respective states to adopt or reject them. This being the case, one cannot really say that the administration of *zakah* in Malaysia is; presently institutionalized at a federal level. This has been

a major obstacle towards a more systematic and effective administration of *zakah* in Malaysia as a whole.

While the relationship between the federal government and respective state Councils of Religion is clear, the relationship between the Councils and respective state governments are not uniform throughout Malaysia. Each state government also has what is known as the Department of Islamic Affairs which is part of the state government machinery. The scope of this department vis-a-vis State Islamic Affairs and the role of the Councils of Religion depend on the following factors:

1. Who is the Head of the State Council of Religion.
2. Whether the Council is self-financing.
3. Whether the Council is state-assisted either financially or administratively.

And where *zakah* administration can be affected, additional factors include the following:

1. What the position of the *Zakah* division in the whole set-up of the Council?
2. Whether the *zakah* administration is merely a unit of the whole Council set-up. Whether its administration is given a greater independence and more significant role to play in enhancing Muslim community's welfare.
3. Whether the *Zakah* administration an independent body or still tied to the Council within the latter's organizational framework?

Indeed, further questions may be raised in order to explore the nature of the relationships between the Departments of Islamic Affairs and the Councils of Religion, and subsequently, the manner in which *zakah* is being administered in various states.

However, to simplify the picture, it is correct to say that the Department of Islamic Affairs is more concerned with matters such as the administration of religious schools, official da'awah activities, the arrangement of religious courses, the enforcement of Islamic laws, bearing administrative expenditure pertaining to Islamic affairs conducted by the state government and the administration of the *Shari'ah* courts. The Councils of Religion, on the other hand, will focus on the administration of *zakah*, bait al-mal funds, waqf and inheritance matters.

The independence of each state to administer Islamic affairs including *zakah* is evident from different organizational frameworks that each has adopted. As evident from various organizational charts of the Councils of Religion, each organizes its administration in a manner which suits its needs. There may be areas which are common to all. For example, each council has a unit or a committee for the administration of *zakah*. However, the difference may lie in the role that *zakah* is allowed to play within the organizational set-up. Our study reveals that *Zakah* Divisions in the Federal Territory and Perak, for instance, are more effective in their planning and use of funds mainly because the role of *zakah* has been allowed to develop. This will be more apparent when we analyze the uses of *zakah* funds. The role of *zakah* has not been fully appreciated, the development of its administration has been pathetic, resulting in idle *zakah* funds, more use of *zakah* funds for investment purposes than to meet the needs of beneficiaries and lack of imaginative and constructive endeavors to create an awareness among the Muslim community to pay *zakah*.

Earlier, we raised questions as to whether the State Councils of Religion are self-financed or state-supported. The question who is the Head of the State Council of Religion has also been raised. We find that except for Kedah, the main *zakah* governing body for each state and the Federal Territory is the Council. In all cases, the Council is a state statutory body. However, some are fully self-financed, while others receive some amount of state assistance. It is normally given in the form of annual financial assistance to meet administrative costs or/and seconded staff from the State Department of Islamic Affairs to meet staff inadequacy in the Council.

Self-financing or state-support has its advantages and disadvantages, depending on how the administration (of the Council reacts to a given situation. In some cases, the self-financed councils managed to develop a spirit of self-reliance thus generating efforts towards more productive work especially in *Zakah* administration. In such cases it is well-known that the survival of the Council depends on how efficiently the administration is organized. Any inefficiency is only to the detriment of the Council. Hence, the effect here is positive. However, it is also true to say that in some cases the extent of this positive effect is limited by the fact that the Head of the Council cannot concentrate on the administration because of other offices he already holds. Hence, it may be possible to generate the positivism mentioned earlier if The Head of the Council devotes all his attention to the council and does not hold any other offices. This may cause him to be more attentive to the administration of Council matters rather than merely given a fraction of his potential commitment.

State assistance is welcomed by any administrative body. However it should be strictly supervised in order not to result in negative attitudes towards the commitment needed in the administration of significant Islamic matters such as :*zakah*, *waqf*, inheritance and other *Baitul Mal* funds. These are matters of trust that should not be betrayed for this its a betrayal of the sacred trust given by Allah \Whoits Glorious and Exalted.

An examination of the lists of Heads of the State (Councils of Religion (refer to Table t in Appendix Two) only confirms the earlier statement that the administration of *zakah* and (other Islamic :affairs still remains a state matter. This study, however, has discovered that even though the Heads maybe high-ranking figures of the state There are cases whereby this has not been as significant a factor as (expected in terms of generating more efficiency in the administration of *zakah*. Many implications may follow from this observation, most of Which revolve around the question of 'whether some of these Heads (could have shown a greater accountability and commitment in the *zakah* administration. The greater the authority that *one* has in *the* administration of Islamic affairs the greater the responsibility *one* shall have. The higher is the

Head of the Council is in the hierarchy, the higher too are the expectations of the Muslim community.

As regards the system of *zakah* collection, one finds that there is much in common among the states. Basically, there are two channels through which the Muslim community can pay their *zakah*: firstly, the appointed staff, and secondly, the offices of the Councils of Religion (refer to Table 2 in Appendix Two). Other than these, district qadis and *zakah* supervisors assist in the collection of certain types of *zakah* in some states. For example, in Kelantan, the *zakah* staff are empowered to collect only certain types of *zakah*, namely *Zakah al-Fitr* and *zakah* on cereals, mainly paddy harvests. *Zakah* on wealth and commerce are payable through the offices of the Council. The rationale behind this is to prevent the *zakah* staff from receiving too large a portion of *zakah* paid had they been responsible for the collection of *zakah* on wealth and commerce. However, this question would not have arisen if the council was following a criterion of allocating *zakah* funds according to needs and priorities of beneficiaries rather than adopting the principle that 1/8 or more of the *zakah* will be collected by the staff for their benefit.

The appointments of officers and their assistants are made according to state Islamic laws and any gazetted *zakah* regulations of the Council. There are basically two types of appointments:

1. Fixed appointment: Officers and their assistants are appointed over their districts or villages for an unspecified period of time. They will remain in position as long as they are approved by the respective state Councils. Normally, such appointments are given to officers of the .mosques, that is, the imams and other representatives of mosque committee.
2. Timed appointment: Those so appointed are normally empowered to collect *zakah* in a certain area for a specified period of time; for example for a year or a season. Such appointments are done annually and need not necessarily be the same person for every year.

Whichever term of appointment is applicable, the appointed officers and their assistants must surrender the *zakah* proceeds to the Council. In most cases, the share for the staff will be given before the *zakah* proceeds are finally delivered to the Council. In fact, of all the eight units of beneficiaries, it is the staff who receive their shares first.

### **1.3 Legal Framework**

The power to administer *zakah* in each state in Malaysia is subjected to the respective state constitution and laws. Each state has its own enactment on the administration of Islamic affairs which includes general clauses on *Zakah* administration. Subjects covered in these clauses include the basic system of *zakah* collection, that is, through the appointed staff, recipients of *zakah* proceeds and the liability of prosecution for those who prevent others from paying *zakah* and do not themselves pay *zakah* or pay *zakah* through unofficial means, except where stated otherwise (refer to Table 3 in Appendix Two). The amount of fines or the prison sentences imposed for such offenses are also stated.

However, not all state enactments on Islamic affairs are explicit in these matters. Hence, it has been found necessary to formulate *zakah* regulations to specify detailed procedures for *zakah* administration in each state. Enforcement, however, is not possible when these regulations have not been gazetted as part of the state laws. Enforcement is only possible if violations of gazetted regulations are made. Regulations which are not gazetted can only act as guidelines. In some states, such as Terengganu, no *zakah* regulations exist (at least as of 1987) since it was felt that the state enactment on the administration of Islamic affairs is sufficient to enforce, the administration of *zakah*.

It is both interesting and disturbing to observe that, in reality, absolute enforcement of *zakah* laws, especially with regard to the non-payment of *zakah* or the payment of *zakah* through unofficial means does not exist. Many constraints give rise to this situation. The more conspicuous constraints are as follows:

1. The inadequacy of *zakah* laws in empowering *zakah* administrators to check bank accounts. Here, banks are able to deny access to their customers' accounts based on the confidentiality privilege enjoyed by their clients.

2. The unwillingness or hesitancy of some *zakah* administrators themselves. In some states, it is felt that Council administrators do not take the issue of non-payment of *zakah* as seriously as in the case of non-payment of income taxes. The fear of non-payment of income taxes seems to supersede what should be a greater fear of non-payment of *zakah*. This, unfortunately, is another manifestation of the colonial legacy inherent in the mentality of many in the Muslim community, especially in the urban areas.

3. Apathy on the part of some Council administrators to act decisively. Even though there have been efforts on behalf of the federal government to improve the administration, these have not yet been adopted by some states which are still half-hearted in their commitment towards the improvement of *zakah* administration. This should not be the case even though the prerogative over state Islamic affairs lies with the state.

In the light of the above, one may ask whether the penalties imposed by the *zakah* laws are so severe that they cause some Council administrators to be reticent to prosecute open violations of the law.

The penalties for violations of *zakah* laws are listed in Table 4. They vary from state to state. The listed penalties are maximum fines or periods of imprisonment. In other words, a lesser penalty may be meted out. In spite of the laws, records of certain states indicate a rigorous less than imposition of these penalties for cases of non-payment of *zakah*. Generally, most *zakah* administrators admit that there is still much *zakah* that goes uncollected on wealth and commerce. However, the aforementioned constraints do hinder an effective method of collecting these forms of *zakah* according to the law.

It is a sad that there is still a substantial number of Muslims who will only pay other types of *zakah* by coercion under gazetted enforcement procedures. The unfortunate implication is that for some Muslims, the Holy Qur'an and its sacred injunctions on *zakah* are still insufficient to generate a sense of accountability towards its payment. Existing Shari'ah laws in Malaysia are still in need of an increased jurisdictional authority. The effectiveness of *zakah* administration should never be segregated from the total overview of the existing state of the *Shari'ah*. To expect *zakah* to be established successfully in Malaysia while the *Shari'ah* is still not comprehensively enforced is unfair. The question remains: "Where do we go from here, given the constraints?"

## **2. THE COLLECTION OF ZAKAH IN MALAYSIA 2.0**

### **2.0 Introduction**

The overall success of *zakah* collection in Malaysia should not be regarded as a real achievement. Even though the *zakah* collected from year to year indicates a positive trend, (see Table 5, Figure 12, in Appendix Two) and the amount of *zakah* gathered from twelve states in West Malaysia increases from M\$18.69 million in 1983 to M\$24.4 million in 1988, this increase mainly forms contributions from a few states and from certain types of *zakah* only. The Federal Territory and the states of Perak, Selangor and Johore are the states which gathered the largest amount of *zakah* during this period. The most significant increase in collection was from Perak and the Federal Territory. The collection in the Federal Territory increased by 136% between 1983 to 1988. Perak increased its collection by 85 % within the same period (see Table 7 in Appendix Two).

Statistics on *zakah* collection in Malaysia show that the percentage of *Zakah al Fitr* collection is higher than *zakah* on wealth. Factors such as these would not have been there if the *zakah* on the wealth of Muslims were effectively collected. This phenomenon is quite common as Figures 1 to 8 show that in the states of Perlis, Pahang, Negeri Sembilan, Johore and Selangor the percentage of *Zakah al Fitr* collection has always been more than that on wealth and income figures for Selangor, Penang Perak

and the Federal Territory indicate that the amount of *zakah on wealth* is finally beginning to overtake *Zakah al Fitr*.

As shown in Table 6, types of *zakah* other than *Zakah al Fitr* are:

- A. *Zakah* on business
- B. *Zakah* on agriculture (paddy)
- C. *Zakah* on savings
- D. *Zakah* on livestock.
- E. *Zakah* on mining.
- F. *Zakah* on other kind of wealth.

*Zakah* on agriculture in Malaysia is imposed on income derived from paddy crops, while *zakah* on livestock is imposed on income obtained from cattle, sheep and buffalo husbandry. *Zakah* on mining is imposed on income derived from gold and silver. *Zakah* on savings is obtained from *zakah* paid by the Lembaga Urusan dan Tabung Haji (LUTH) on behalf of its depositors, as well as from individuals.

The above analysis, shows, in terms of that percentage, *Zakah al Fitr* and *zakah* on agriculture are among the biggest sources of collection. This does not imply that the overall community of Muslims in Malaysia does not place an importance on *zakah* on wealth. In fact, a substantial proportion of the Muslim community in Malaysia pays their *zakah on wealth* informally, through certain private organizations or directly to the individuals or families. These private channels of payment are regarded as unofficial, whereas the *zakah* payments to the Wilayah/State *Baitulm als* or *zakah* offices are regarded as official.

Given the above facts it is necessary to determine how the *zakah* system could be improved both at state and national levels, so that the amount of the *zakah* collection can be increased to the maximum level. The issue will be discussed in the following sections. The question of improving *zakah* collection at all levels in Malaysia involves many issues e.g., existing methods of *zakah* collection, laws related to *zakah* collection, forms of collection, potential *zakah* collections, related

difficulties and shortcomings. It is the purpose of this chapter to focus on these issues so as to put them in their proper perspective, in order for appropriate policy measures to be designed which will lead to the achievement of desired goals.

## **2.1 The Current Methods of *Zakah* Collection in Malaysia**

The methods of *zakah* collection may be grouped into three categories:

1. Collection by appointed staff.
2. Collection through offices of the state religious departments.
3. Collection through salary deductions by employers.

The first method, through the appointed staff, has been practiced by almost all of the states in Malaysia, except that the authority given to the staff may be different from state to state. As an example, in Kedah, the appointed staff is only authorized to collect agricultural *zakah* and *Zakah al Fitr*, while *zakah* on other forms of wealth is to be paid directly to the *zakah* officers at state *zakah* offices.

The second method has been widely used where *zakah*-payers have to come to the nearest *zakah* offices to have an assessment of their wealth and then pay the *zakah* accordingly.

The third method enables the Muslim employees to pay *zakah* through deductions at source from salary which is done by employers. This method is similar to the practice of the Department of Internal Revenue which collects taxes in this way.

The above three methods are the only methods formally recognized as official and legal under the existing laws.

## **2.2 The Law Related To *Zakah* Collection**

What are the penalties imposed on those who do not pay their *zakah* through the above-mentioned three channels? Since *zakah*

administration comes under state jurisdiction, the penalties vary from state to state. This is due to the fact that each state has its own *zakah* laws without reference to a uniform national perspective (see Table 2). For example, in the State of Kedah only the *zakah* on agriculture is required to be paid to the *Zakah* Office, while the *Zakah al Fitr* is not required to be paid to this office. Other kinds of *zakah* are also not collected by the *Zakah* Office. However, in our view it is preferable that if one wishes to pay the *zakah* one should pay it through official channels. The law in Kelantan makes it compulsory that 2/3 of all kinds of *zakah* be paid to the *Zakah* Office and the *zakah*-payer is free to distribute only 1/3 of the *zakah* individually.

Table 4 shows the differences in penalties for violation of the *zakah* laws. The maximum penalty is \$500 and the minimum is \$10. The maximum period of imprisonment is 6 months and the minimum is 7 days. Negri Sembilan, Perak and Kedah are among the States which impose the highest penalty and imprisonment. On the other hand, Johore only imposes the maximum penalty of \$10 and no imprisonment.

The issue now is how far the said laws are being enforced and how many Muslims have been penalized for not paying the *zakah*. All the available information in this regard indicate that the enforcing authority, the Islamic Religious Council (IRC), has not been enforcing the laws. The possible reasons are as follows:

1. There is no proper database of *zakah*-payers and, thus, it is not possible for the IRC to trace Muslims who fail to pay *zakah* through **them**.
2. Unwillingness on the part of the officers, even though they are aware of those who are liable to pay *zakah*, to list those who fail in their duty.
3. There is a shortage of staff to implement the *Zakah* Laws. The state *Zakah* Office is small and only able to carry out daily administrative duties (see Table 18 in Appendix Two).

The *zakah* laws do not give authority to enable officers to carry out investigations, especially those related to the checking of accounts and confidential financial details.

Apart from enactments and state *zakah* regulations, the Income Tax Act of 1967 also allocates the *zakah paid* by the individual. A person who pays *zakah* can be exempted from paying income tax equivalent to the amount of *zakah* paid, on condition that the receipt is attached.

### **2.3 The Sources of *Zakah* Collection**

As mentioned above *zakah due* in Malaysia is derived from five main sources; *Zakah al Fitr*, agriculture, business, savings and wealth.

- 1. *Zakah al Fitr***
- 2. *Zakah* on agriculture (mainly paddy crops)**
- 3. *Zakah* on business**
- 4. *Zakah* on savings**
- 5. *Zakah* on wealth**

Other sources of *zakah*, such as *zakah* on live stock, and gold also exist. Lately, several states have issued fatwas related to *zakah* on salary. As a result, many in the Muslim community have begun to pay *zakah* on their earnings. The payment is normally made through salary deduction by employers. By doing this the *zakah* payers will receive a *rebate* from their total personal income tax. There are other sources of *zakah* as well but the amount collected is considered insignificant.

However, as mentioned above, there are a large number of Muslims who still do not pay *zakah* to the Islamic Religious Council. Instead, they pay *zakah* through informal or unofficial channels. This situation calls for the determination of factors which induce the practice of *zakah* payment to unofficial channels by a large segment of the Muslim population in Malaysia. The major factors responsible for this practice are as follows:

1. The uniqueness of the *zakah* laws to each state. The most striking example is that of Kedah. Kedah is the only state in Malaysia which provides only for the collection of *zakah* on paddy crops. Payment of other types of *zakah* may be made individually but not through the *Zakah* Office. The argument here is that the collection of *zakah* on paddy crops is large enough.

2. The lack of publicity and information on the types of *zakah* that should be paid.

3. The inadequacy of the *zakah* laws. This has already been elaborated on the preceding section. With the exception of Kedah, all other states focus their efforts on the collection of *Zakah al Fitr*. Several reasons are responsible for the practice:

A. *Zakah al Fitr* is collected only once a year in the holy month of Ramadan. The Muslim community believes the payment of this *zakah* to be an undying and unquestionable feature of Ramadan. Hence most pay the *Zakah al Fitr* as a traditional feature of Ramadan. The holy month of Ramadan does tend to enhance the Muslim's faith and commitment towards the supererogatory actions that are closely associated with the holy month, such as *sadaqah*, tarawih prayers, increased frequency of listening to religious talks, etc.

B. The amount of *Zakah al Fitr* payable is almost insignificant for the average Muslim. It varies between states but normally remains in the range of M\$2.30 to M\$2.50 per individual per year. This amount is indeed minimal as compared to the amount that may be collected for other types of *zakah*.

C. The calculation of the *Zakah al Fitr* is not as complex as the calculation of other types of *zakah*. This may not be a justifiable reason but in reality, it has been a constraint in Malaysia resulting from ignorance.

D. Because it is paid once a year, *zakah* administrators find it administratively easier to manage as compared to the varied time-scale of

payments for other types of *zakah*. Again, this may not be a justifiable reason.

## **2.4 Potential *Zakah* Collection**

The total *zakah* collection as a whole will definitely increase many times over if the administrative system of *zakah* in all the states can function in the same way as the Income Tax Department. This potential is not because, with Allah's blessings, Malaysia has been one of *the* fortunate Muslim countries in the world. Allah, the Glorious has endowed this land with numerous sources of wealth. It is estimated that the *zakah* collection from agricultural wealth, mining, livestock, business and industry should be more than sufficient to uplift the economy of the Muslims in this country. It should be more than enough to solve the problems of poverty of the Malaysian Muslims. We believe that from this *zakah* many development projects can be initiated to help the Muslim Ummah. In a survey conducted in February 1990 by two journalists from the local magazine, "Dewan Masyarakat", Hj. Jajuli Abdul Rahman and Sadafur Rosli, it is estimated that not less than M\$343.55 million of *zakah* on wealth could be collected in the year 1988. This figure is a rough estimation based on data obtained from various sectors, including agriculture, livestock, business, industry, saving/investment bank and salary. Table 9 shows an estimation of *zakah* collection for the year 1988 from various sectors.

## **2.5 Problems and Shortcomings of *Zakah* Collection**

1. The above discussion shows that administrative difficulties are the ones most commonly faced in *zakah* collection. One of the major stumbling blocks is that of manpower and expertise. The causes of this problem include the lack of training in the field of *zakah* administration and the shortage of senior *zakah* officers to plan and coordinate the administration and the lack of budget allocation to employ enough qualified and capable *zakah* officers as in Negeri Sembilan. Another important stumbling block is built into the financial structure of the state *zakah* offices. For example, in Negeri Sembilan the Council of Religion, being self-supporting, obtains most of its finances from *zakah*

collections which are very small to begin with. The lack of finance is not so much a problem because it appears from Appendices 11 to 14, that the total collection of *zakah* far exceeds the total expenditure. Rather, our observations show that the lack of finance, if it exists in a severe form, arises from the fact that other assets such as *waqf*, have not been mobilized effectively. For example, at present there are no senior officers supervising the administration of *waqf* in Negeri Sembilan. This amounts to a waste given the inherent potential of *waqf* assets. It is only fair to point out that Negeri Sembilan is not alone in this predicament.

As for the question of expertise, it is not merely a question of having an officer from a "religious" background like a graduate in *Shari'ah*. It is also imperative that *zakah* administrators should also be supported by those with administrative training and skills, as well as those with economic and management backgrounds. This observation is not meant to be prejudicial to any party, rather it emanates from the conviction that *zakah* administration is also an economic-oriented profession. Indeed, failure to realize this has in some states caused unconventional data filing, lack of creative planning, publicity campaigns and mobilization of potential *zakah* funds. More often than not, unused *zakah* funds sit idle rather than being invested. However, it is the writer's belief that substantial investment of *zakah* funds is justified only if one is satisfied that the destitute, the poor and other deserving rightful recipients of *zakah* have been satisfactorily attended to.

In some states the heavily understaffed *zakah* departments have not been able to educate the public as to the importance of paying the *zakah*, and this lack of effective publicity has also resulted in low *zakah* collection as compared to the vast potential that exists in our society. In most Councils there is only one *zakah* officer with a handful of clerks and typists under him. More often than not these same clerks and typists also perform other functions and duties.. In some states, the *zakah* officer is also the officer in- charge of *waqf* and other departments which should justifiably have their own officers.. Hence,. it is not surprising that publicity of *zakah* is inadequate in specific terms of frequency and scope. States which are hindered in this way would not have any *zakah* officials in their offices to deal with administration if they were' out promoting

*zakah*. Thus most of the time *zakah* education through *zakah* publicity campaigns is side-tracked and given a low priority. As a result, the Muslim Community remains ignorant. All these negative factors aggravate the existing ignorance of the community about all forms of *zakah* other than *Zakah al Fitr*.

Another consequence of the lack of manpower is the inadequacy of organized survey data or a census to facilitate *zakah* administrators in their planning. Such surveys are still conducted annually by district and village staffs. These surveys have proven to be effective for the collection and disbursement of *Zakah al Fitr* and can be improved to facilitate the administration of other types of *zakah*. These surveys could be extended to cover progress reports on the assistance provided by *zakah* funds to individuals and assessments of the impact of *zakah* mobilization on the community welfare at the village, district and state levels.

2. Legal constraints seem to be another major problem faced by the *zakah* administrators, and this problem has been elaborated on earlier sections. What can be reiterated, however, is that the effectiveness of *zakah* administration lies in the strength and scope of the laws and accompanying *zakah* regulations. Access to confidential information on assets of Muslims should be a privilege of *zakah* administrators. Of course, certain procedures need to be outlined in order to avoid any abuse of this privilege.

3. Another serious problem in *zakah* administration arises from the absence of coordination among states over matters such as the fixing of the *nisab* for paddy crops. Perlis fixes at 373 gantang, Selangor at 363 gantang, while Johor at 358 1/3 gantang. Such inconsistencies only prove to be a source of confusion for the Muslim community. However, this is not as serious as other previous mentioned problems and shortcomings.

4. Under the section on the organizational and administrative framework, we showed that some Councils were state-assisted while others were self-supporting. State assistance is financial, including salaries for officers seconded from the State Department of Religious Affairs. The discrepancy arises in the case of administrators working under state

government finances. For *zakah* administrators who are under finance solely from *zakah* funds, their salaries and other benefits are dependent on the state of *zakah* funds. In view of the limited funds, this group could not be accorded the same benefits enjoyed by their counterparts under state government finance. A possible solution can be devised to seek an approach with better incentives for *zakah* administrators, irrespective of whether they are state government servants or the staff of the financially-independent Council.

Finally, *zakah* administrators generally admit that they face the problem of *zakah* payment made through unofficial channels. The majority claim that *the* problem is not significant but there is a lack of evidence to substantiate this claim. However, this subject will be discussed further in the following section on the basis of a survey conducted in the month of Ramadan to get an impression of some questions pertinent to this issue. (Aidit).

### **3. ZAKAH DISTRIBUTION IN MALAYSIA\***

#### **3.0 Introduction: Eligible Beneficiaries**

The appropriate disbursement of *zakah* to the destitute and the needy is no less important than the payment of *zakah* by those obliged to pay it. According to Ghazali the uses of *zakah* funds in Malaysia are influenced significantly by the following three factors 1:

#### **1. Interpretation of the beneficiaries eligible to receive the *zakah*.**

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\*This chapter heavily draws on the following two works:

- (a) Aidit bin Ghazali, "Zakat Administration in Malaysia", a paper presented at the workshop on Islam and Economic Development of . Southeast Asia, held in Singapore, 24 to 25 August, 1987, organized by the Institute of Southeast Asian Studies (ISEAS).
- (b) Muhammad Arif and Hj. Jamil bin Osman, "Eradicating Poverty in Malaysia: The Case for *Zakat* as one of the Means - Problems and Prospects"- a paper presented at the National Seminar on Islamic Economics organized by the Kulliyah of Economics, International Islamic University, Malaysia, 19 to 20 December, 1989.

1Aidit Ghazali, Ibid, pp. 26-28.

2. Allocation for beneficiaries considered existing in each state.
3. Priorities over beneficiaries considered existing in each state.

The interpretation of beneficiaries eligible to receive *zakah* in the Malaysian context consists of the following eight categories':

1. "Faqir" refers to a person who has property or vocation or received income from other sources not exceeding 50% of the cost of living of an average person and/or his dependents.
2. "Miskin" refers to any person who has property or income from vocation insufficient to meet his daily needs and those of his dependents.
3. "Amil" refers to the Council appointed official at the village, district and state levels responsible for the collection and where necessary the disbursement of *zakah* proceeds.
4. "Muallaf" refers to a person who has newly embraced Islam and is in need of financial assistance.
5. "Ibnus-sabil" refers to any person from any state who undertakes a journey with legal purposes and is in need of assistance even though he may have property in his own state.
6. "Fi-Sabil-Allah" refers to a person who is engaged in an activity or activities to uphold and defend Islam and its welfare.
7. "Gharim" refers to a person who is in debt for the purposes acceptable by *the Shari'ah*.
8. "Riqab" refers to a person held *in* slavery or bondage who needs *assistance* to free himself from such obligations which have been imposed on him.

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<sup>2</sup>Ghazali, Ibid. pp. 27-28.

Tables 14 to 16 show statewise disbursements to each category of beneficiaries for various years. Some of the important facts revealed by these tables are as follows:

1. High expenditure on *'Amilin* demonstrates high costs of *zakah* collection and its administration.
2. High expenditure on the *Faqir* and *Miskin* is an indicator of the problem of wide-spread poverty.
3. There exists a variation in the expenditure on different beneficiaries. This shows that all the beneficiaries are not treated equally, rather they are prioritized.

In some states like Perak, Kelantan and Negri Sembilan the expenditure on *Amil* (*i.e.* cost of collection and administration of *Zakah*) was initially higher than disbursements to *Faqir* and *Miskin*. It is only in recent years that the situation in these states is improving, and the costs as a percentage of total collection are gradually declining, while the percentage share of *Faqir and Miskin* is gradually increasing. The situation in Perlis, on the other hand, is quite the opposite, as in recent years the costs as a percentage of total collection have shown an upward trend.

The role of *zakah.*, in an Islamic economic system is important from the point of view of addressing the question of poverty in the society. In 1970, the incidence of poverty for Peninsular Malaysia stood at 49.3%. Through the implementation of the New Economic Policy (NEP) the government has been able to make a substantial dent in poverty over the years and by 1987 the incidence of %poverty had dropped to 17.3 percent. Despite this remarkable success of the government's policies, one fact still stands out that the Malays who have been historically the poorest in Malaysia still form the majority of the poor in the country. This is demonstrated in Table 10.

This table shows that in 1984 the number of poor Bumiputra households was 388,800, a figure which increased to 393,500 in 1987.

It should be remembered that during the period 1985-87 the Malaysian economy was hit by a serious recession. In any economic downswing the poor are the first and worst hit, especially when there is no state sponsored social security system. This was true of the Bumiputras during the 1985-87 recession, which was why the number of poor Bumiputra households increased in 1987 as compared to 1984.

The data in Table 10 helps us to put the problem of Malay poverty in the proper national context as it shows that the majority of the poor are actually Malay Muslims because it is they who form the majority of the Bumiputras in the Peninsular Malaysia. This fact is underscored by Table 11.

This table shows that more than 80% of the poor of the nation are still the Malays. It is commendable that due to the consistent efforts of the government through the NEP, the incidence of poverty has been falling over the years for all ethnic groups. Table 1 shows that in 1984 the incidence of poverty for Malay households was 25.8% which in 1987 fell to 23.8%. For Chinese households in 1984 it was 7.8% and in 1987 it fell to 7.1%. Indians it fell from 10.1% in 1984 to 9.7% in 1984. These numbers indicate that the NEP is definitely making headway but the fact remains that the Malays still remain the single largest poor community in the nation.

### **3.1 Eradication of Poverty: The Potential of *Zakah***

Eradication of poverty is a task demanding a comprehensive plan and mechanism. *Zakah* disbursement, although managed under different set-ups subject to various state administrations does not presently have any mechanism aimed at the eradication of poverty of the target group(s). In all the states *zakah* is collected and disbursed mostly in the form of cash and constitutes a very small amount in per capita terms.

Eradication of poverty is a task demanding an all out comprehensive plan and mechanism. Any attempts to eradicate poverty must confront three immediate problems:

1. The establishment of immediate support system for the poor and the needy.
2. The eradication of the causes of poverty.
3. The devising of a mechanism that enables the poor to be economically self-supporting.

Malaysia is a Muslim majority society. Among the Muslims a significant number of those liable for *zakah* do pay *zakah*. In recent years as the economic conditions of Malays have improved due to the NEP, the *zakah* collection has also shown an upward trend. This statement is based on the data for *zakah* collection for the *Bait-al-Mals* of the states of Selangor and of Willayah, as shown in Table 12.

Thus, as the economic conditions of the Bumiputras (mainly the Malays in West Malaysia) improve, both the number of *zakah* payers and the amount paid as *zakah* (excluding *Fitra*) also shows a definite increase over the years. This upward trend in *zakah* collection is not limited to the Willayah Baitulmal alone, rather it is a nation-wide phenomenon and all the states exhibit the same trend to varying degrees. Although *zakah* collection data for each state is not available Table 5 gives some idea as it provides data for three more states: Negri Sembilan, Perak and Perlis.

In summary this section on distribution highlights the following issues:

1. Widespread poverty among a significant fraction of the Muslim population of Malaysia.
2. The rising trend in the collection of *zakah* funds' over the years.
3. The lack of any coordinated efforts to use *zakah* funds to develop a comprehensive plan to eradicate poverty on a permanent basis by helping the poor become economically self-supporting.

### **3.2 Recommendations**

1. *Zakah* distribution among the legitimate beneficiaries should take place under a comprehensive poverty eradication plan. This plan should not only take into account immediate relief but also the long term goal of making the poor economically self-supporting.
2. The State *Baitul Mals* are ill-equipped to develop and implement the above plan due to the lack of qualified staff, and the absence of professional and infrastructural network. Therefore, it is advisable if *zakah* distribution is coordinated with the government's Social Welfare Department which has both the qualified staff, professional field workers and a nationwide network of infrastructure.
3. The purpose of this poverty eradication plan should be to make the poor and the destitute economically self-supporting by providing them with skills, vocational training, equipment and tools, etc.
4. One can stipulate that legal issues may arise if *zakah* funds are used in this manner as well. If this is the case, then guidance should be sought from experts of Islamic law.

## **4. PROBLEMS WITH THE ZAKAH SYSTEM IN MALAYSIA**

### **4.0 Introduction**

Since 1957, there has been little change in the *zakah* system from a legal standpoint. From an administrative perspective, there have been some changes based on the realization of its importance as a mechanism to eradicate poverty and uplift the economic well-being of the Ummah. These administrative changes have been superficial in nature and have barely made the system workable. The underlying mechanism is still antiquated, a relic of the colonial past.

#### 4.1 Lack of Commitment

Much has been written and discussed about these shortcomings but the status quo has not changed. The main weakness can be summarized in one word - commitment. Without commitment, we do not have the will to change. The will here lies with our leaders, political or otherwise. It starts with leadership and translates itself into institutional lethargy. Even if it is realized by groups or individuals outside the system, it is difficult to institute changes from outside. Changes must come from within.

Lack of commitment translates itself into lack of clear purpose. The purpose of *zakah* as mentioned in Islam is clear, as a mechanism to alleviate the problems of the 8 beneficiaries. For *Zakah al Fitr*, which is to allow the poor and the destitute to partake in the festivities at the end of Ramadhan, the response has always been overwhelming. This case is not true for *zakah* on wealth. As long as the *zakah* administration remains just another government mechanism or agency, necessary dynamism will never exist<sup>3</sup>.

Furthermore, the current leaders of these *zakah* institutions are not academically or professionally qualified to undertake the task of managing these institutions. Nearly all of them are graduates in religious studies from local or foreign universities. They are conversant with religious matters of a general nature but not specific to the actual practices and administration of trade, business and *zakah* issues. Also, as in the past, the best and brightest students usually undertake more commercial programs of study such as medicine, engineering, economics, etc., rather than religious studies. Upon graduation, they will head for firms and government departments that are relevant to their qualifications. Those that are admitted into religious degree programs do so as a matter of necessity rather than choice.

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<sup>3</sup>Read Kohli's "Why government firms don't work" in World's Executive Digest, February 1990.

## 4.2 Lack of Management Expertise

Naturally, owing to the lack of capable leaders, all the consequences devolve on the administrative machinery of the *zakah* system. Whilst "administration" is the term used to describe such government mechanisms, "management" is more appropriate term<sup>4</sup>.

The word "management" relates to inter-related work, formed of activities that closely relate to one another and that have common characteristics derived from the essential nature of the work. The four management functions are planning, organizing, leading and controlling'. It is easy to see that the sub-functions of the above four functions have not been undertaken by the *zakah* administration.

The sub-functions under planning are forecasting, setting objectives, programming, preparing schedules, budgeting, setting policies and procedures. Those related to organizing are creating organizational structures, delegating work and developing inter-relationships. Leadership entails making decisions, communicating decisions, selecting people, and training and motivating them. Lastly, controlling requires setting performance standards, measuring and evaluating actual performance against set standards and taking corrective action where deviations occur.

It is unfair to say that all of these sub-functions have not been carried out by the administrative mechanism. They do carry them out to some degree but effectiveness can only be gauged if all sub-functions are carried out meaningfully. For example, without clear objectives, the total planning processes are incomplete, resulting in fragmentation and loss of direction. Budget becomes a table of figures for administrative files,

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<sup>4</sup> Louis A. Allen "Common Vocabulary of Professional Management" 6th. Edition, Louis A. Allen Associates Inc. Palo Alto, 1983.

<sup>5</sup> See "Profit from non-profits". Business Week, McGraw-Hill Publication, March 26, 1990.

rather than a driving mechanism. Also, the other three functions will be operating at sub-standard levels'.

Therefore, inadequacies as described in publications on the subject stem from root causes which are a direct result of the lack of commitment.

### **4.3 Lack of Information**

*Zakah* administration is service-oriented and therefore, information intensive. In order for it to be effective, the administration must have accurate and current information on the Muslim population as to the real or potential to the *zakah* contributors or, conversely, *zakah* recipients. This database can either be built from scratch or extracted from current data bases already existing, such as the National Registration Department and the Department of Inland Revenue. With complete information the administration can target the collection and distribution processes accurately, thereby maximum the effectiveness of its scarce resources. Such databases require the use of computer systems and the expertise of professionals in the field. Also, the validity of information must be tested consistently, which is not the case with any of the state *zakah* administrations.

### **4.4 The Legal Aspects**

Many publications on the *zakah* have blamed the legal mechanism of *zakah* as a real barrier to progress, citing numerous minor inconsistencies as well as its primitive nature. Other criticisms include the disagreement between states as to emphasis on collection, distribution, implementation and supervision and procedures for non-compliance.<sup>7</sup> In our view, these differences do exist and can be amended only if our leaders, administrators and Islamic scholars can resolve these differences

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<sup>6</sup> See Chapters 4 and 7 of Aidit Ghazali's "Zakat-Satu Tinjauan" IBS Buku Sdn Bhd - 1988.

<sup>7</sup> See 'Zakat di tinjau dari perspektif social, undangundang dan taksiran' Chapter 2, edited by Dr. Mohammad Ali Baharum, Abim, Kuala Lumpur 1989.

and work towards some kind of consensus. This change has been made difficult because under the constitution of the country, religious affairs are the prerogative of each state. This has led to an obsession among the states with guarding their powers against standardization, at the expense of change for the better. To improve the situation both leaders and scholars have to rise above their narrow constituencies and start thinking in terms of the entire Muslim nation and its long-term goals.

Furthermore, the lack of understanding of *fiqh*, and the absence of essential understanding *zakah* have led the scholars to ignore the largest group of potential *zakah* contributors who are the salaried workers and professionals earning more than M\$2000 a month. This could bring in an additional 13,500 new contributors and nearly M\$7 million in *zakah* revenues<sup>8</sup>.

The deliberation and debate has been long and agreement seems finally to be at hand which will lead to standardization and, ultimately, uniformity of application.

To sum up, the problems cited are mainly people-related and can be amended quite easily so that commitment will prevail. Much work is required to make it a reality. Given the resources that exist and those that can be channelled to this noble venture, success is possible.

## **5. SELECTED ISSUES ON ZAKAH IMPLEMENTATION IN MALAYSIA**

### **5.0 Introduction**

As mentioned earlier in chapter 1, the *zakah* administration of each state in Malaysia is an independent state matter. Each state is free to determine its own law and policies on the *zakah* administration. The states have their own Religious Councils which report directly to their respective Heads of State (i.e. Sultan/Agung). This independence has led

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<sup>8</sup>See 'Zakat Harta', Dewan Masyarakat, DBP, September 1989.

to a number of interesting phenomena and issues in the implementation of *zakah* in Malaysia. The more prominent ones among them are the following:

### **5.1 Zakah Payment Through Unofficial Channels**

Apart from Kedah and Kelantan, all other States in Malaysia require Muslims to pay their *zakah* and *Zakah al Fitr* to the State Religious Council or its representative. Any Muslims who are caught paying *zakah* to others than the Religious Council or its representatives paying *zakah* at all may be fined or jailed or both.

The fine varies from state to state. In some states, for example, the maximum fine is ten ringgit (\$10.00 while in other states such as Negeri Sembilan it can reach a maximum of \$500.00. Jail sentences also vary. In Terenggan the maximum jail sentence is 7 days while in Break it is 6 months. It seems that the law is not strict enough when compared to the days of the Caliph Abu Bakr.

However, in the case of the state of Kedah, the Muslims are only required by law to pay *zakah* on paddy crops to the Religious Council. For other types of *zakah*, especially *Zakah al Fitr* they are allowed to pay through unofficial channels. Another exception to the rule is the state of Kelantan which allows its *zakah* payers to pay 1/3 of their *zakah* through unofficial channels, while the balance of 2/3 must be paid on paddy crops to the Council. Although fines and jail sentences are imposed upon those who fail to pay their *zakah* through official channels, one may find that it is a widespread practice in all states to pay *zakah* through unofficial channels. Given the prevalence of this practice one is tempted to ask the following questions:

- i. Why do the Muslims prefer to pay *zakah* through unofficial channels despite the existence of Religious Councils and the laws discouraging such a practice?
- ii. What is the extent of this practice both in terms of the number of payers and the amount of *zakah* paid? Although it is difficult to

estimate the percentage of Muslims in this country who pay their *zakah* dues through unofficial channel one can find the reasons why they prefer to do so?

In 1987 a survey was conducted by Aidit Ghazali to determine the reasons for such practices. The results of the survey shown in Table 13 indicate that a significant proportion of the respondents (about 60%) claims that they are more satisfied with their own individual efforts to pay *zakah* directly to the beneficiaries. Does it mean that they are in a better position than the Religious Council in determining the beneficiaries of *zakah*? It is also interesting to note that the majority of the respondents come from Kedah, a state which legally allows Muslims to pay their *Zakah al Fitr* through unofficial channels.

Another 17% of the respondents claim that they do not have confidence in the Council's ability to administer *zakah* distribution. Whether or not this allegation is true needs to be studied. However, cases such as the misappropriation of *zakah* funds by the Council's staff members, the unspent *zakah* funds left in investment accounts with the Islamic Bank earning profits while poverty among Muslims has not been alleviated, are certain to weaken confidence in the Religious Councils as distributors of *zakah*. The third common reason, given by about 13% of the respondents relates to political factors. They believe that the Religious Council represents the political party in government which in turn is against their personal political beliefs. It is not surprising to find the majority holding this view are mainly from Kedah and Terengganu where the Parti Islam Se-Malaysia (PAS), the opposition party is active. Other reasons cited by the respondents include belief in the inefficiency of the Council's collection efforts (8%) and the inconvenience of going to the Council's office to pay (2%).

## **5.2 Issue of Unpaid *Zakah***

The problem of Muslims paying their *zakah* dues through unofficial channels, is not as serious as that of those who do not pay *zakah* at all, especially the *zakah* on wealth and income. It is estimated that in 1988 only about 8.3% of the total *zakah* due was collected or paid

to the Religious Councils. A balance of 91.7% or \$335.68 million remained uncollected or unpaid<sup>9</sup>.

Table 9 shows that about 60.1 % of the Muslims pay *Zakah al Fitr*. This high percentage is not surprising since Muslims in Malaysia are aware of this form of *zakah* which is collected during the month of Ramadan. The remaining 39.9% could comprise those who cannot afford to pay i.e. the destitute, and those who pay through unofficial channels. In the case of agricultural *zakah*, about 45.3% is collected throughout Peninsular Malaysia. This is indeed the highest percentage in relation to other types of *zakah* collected, excluding *Zakah al Fitr*. In a survey made by the writers it was found that almost all the collected agricultural *zakah* comes from *zakah* on paddy crops. A very small proportion was collected from other agricultural produce. Therefore, it seems that only the paddy farmers are paying agricultural *zakah* while other farmers are not doing so. This suggests that paddy farmers are more aware of their religious obligations than other groups.

The next highest *zakah* collection is that on livestock of which 16% is collected. Although the third highest it is, in absolute terms, insignificant, contributing only about \$3,2,00 to a total *zakah* collection amounting to \$30.23 million.

Other types of *zakah* and their respective percentages of collection are business (8%), savings (4.26%), mining (3.4%) and others (3.39%). A decade ago, the amount collected from *zakah* on business was insignificant and its percentage was negligible. By 1988 the amount of *zakah* collection on business has increased to \$3.99 million even though the percentage of collection is still relatively very small.

However, the actual amount of *zakah* collection on business assets is even higher than agricultural *zakah*, comprising about 13.2% of the total *zakah* collected. The reasons for this phenomena are the growing

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<sup>9</sup>This figure would be reduced further if the payment of *Zakah* through unofficial channels are taken into account.

number of Muslims engaged in business and their increasing awareness of *zakah* obligations.

### **5.3 Objectives of *Zakah* Collection**

*Zakah* plays an important role in an Islamic economic system. It transfers payment from the wealthy to the poor for the purpose of redistribution of wealth and income throughout society. It is expected that through *zakah* every member of the society is assured a minimum means of livelihood.

In the case of Malaysia, *zakah* benefits are not really transferred from the wealthy to the poor. Table 9 shows that the second highest percentage of *zakah* collection after *Zakah al Fitr* is from agricultural activities which amount to 45.3 % although in terms of total *zakah* collected, it is the fourth highest, totalling about \$3.123 million. As mentioned earlier, almost all of the agricultural *zakah* is collected from paddy farmers who are one of the poorest groups in Malaysia. In fact, 50% of the paddy farmers in West Malaysia were officially classified as poor during the second half of the decade of 1980s, as their average monthly household income was only \$222.00. (Mid-Term Review of Fifth Malaysian Plan 1986-1990, p. 46). They are, however, carrying an enormous share of the *zakah* burden at present. In one study conducted in 1978 among paddy farmers in Malaysia, it was found that the imposition of *zakah* tends to exacerbate the inequality of net income distribution among the farmers, although this is not the result of *zakah* per se but is rather caused by the structure and implementation of *zakah* (Ismail Muhd Salleh and Rogayah Ngah, p. 113). Other *zakah* payers comprising wealthier groups such as businessmen and professionals have not been paying the *zakah* dues required of them. Only 8% of *zakah* due from business was collected and only 4.26% from savings.

The above observations indicate that the *zakah* is collected from the poor and paid out to the poor while it should be collected from the wealthy and distributed to the poor. This is a sad situation, indeed. If *zakah* is supposed to be a tool to redistribute wealth and income, then

something must be done to change the present situation. It should not be left to the paddy farmers to bear the burden of the *zakah*.

#### **5.4 *Zakah* on Salary and Business**

Of late, there is a growing debate in Malaysia regarding the issue of *zakah* on salaries and business activities and corresponding exemptions from income tax. Various seminars were held during the 1970's and 80's to examine the *zakah* system in Malaysia as well as to discuss the above issues.

The imposition of *zakah* on salaries is the most controversial issue. Proponents of *zakah* on salaries argue that the Holy Qur'an only mentions the payment of *zakah* in general terms. No specific types of wealth or income are mentioned. Furthermore, if farmers have to pay *zakah* on their produce, therefore, by analogy, salaried workers and professionals should also pay *zakah*. Nevertheless, those who adhere to the *Shaft* School of believe otherwise. Unless some definite decisions are made by those in authority, the *zakah* on salaries may not see the light of day, especially in certain states in Malaysia.

To date only Wilayah Persekutuan and Selangor have adopted a ruling that salaried workers and professionals must pay *zakah* on their incomes. They have even come up with a means of computing the *zakah*. Other states have adopted the more cautious approach of waiting for the National *Fatwa* Committee to give a ruling on the issue. Once this has been done, they will implement the ruling in their respective states.

The rebate on income tax equivalent to the *zakah* payment is another issue that can only be resolved by the government. At present, according to the Income Tax Act of 1967, only individuals can claim for rebate from income tax on their *zakah* payments. This ruling is not applicable to companies or corporate bodies. Hence all companies, including Bank Islam, must not only pay *zakah* on business revenues, which cannot be claimed for an income tax rebate, but they must pay income tax as well. This creates a double bind for companies that want to adhere to Islamic principles. At the moment, the only option for

companies that want to pay *zakah*, while, at the same time being liable to pay income tax, is their tax burden by treating *zakah* payments as donations to approved charitable institutions. This is obviously not enough since there is a limit on the amount of donations that can be deducted from income tax. The government should amend section 6 A(i) of the Income Tax Act of 1967 to grant eligibility to corporate businesses to claim their *zakah* payments against their income taxes.

## **6. PRESENT GOVERNMENT EFFORTS TOWARDS IMPROVING ZAKAH ADMINISTRATION**

### **6.0 Introduction**

Government efforts toward coordinating, upgrading, improving and modernizing *zakah* administration have been encouraging in the last decade with very rapid progress being made over the last few years. This is something that would have been unmanageable to Muslims in the 1970s. The Government was instrumental in this success story, although other factors were also important.

The present state of affairs is the outcome of serious efforts by the invested by Federal and some State Governments to appraise and analyze factors that have contributed to decades of malaise, in the implementation of the *zakah*. Those efforts took the following forms:

1. This was a period of critical appraisal as to the efficacy of governmental strategies to uplift the socio-economic well-being of the Malays who belonged to the lowest income grouping in Malaysia. The Islamic options were not completely ignored. In fact, the establishment of the Islamic Bank of Malaysia is one notable outcome of this concern. But *zakah* as a matter of policy was not an active option given the fact that past studies had indicated that its role tended to be regressive and, in consequence, ineffectual as a policy instrument.<sup>10</sup> As far as the *zakah* is concerned, most general enquiries, discourses and discussions held

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<sup>10</sup>Ismail Salleh and Ragayah Ngah, op. cit.

during this period were focussed on removing constraints and obstacles that prevented its use as a potent socio-economic policy. These issues were initiated and expressed forcefully during this period through national and international seminars, workshops, and conferences, with extensive support and cooperation of the Government and local institutions of higher learning.

2. Besides facilitating these deliberations, the Federal Government also initiated case studies of existing *zakah* administrative systems in various states and how such a system can be integrated into the machinery of State government. One particular example was the MAMPU study of the Islamic and administrative set-up in Kelantan to ascertain shortcomings and explore potentials for improving effectiveness and efficiency in discharging its responsibility to the Muslim community. With the blessing of the National Religious Council, the findings of this study were discussed and extrapolated into recommendations for all the State Religious Departments to adopt. One exception was the Federal Territory Religious Department which was established in the 1970s with a modernized legal and political framework that has allowed for a continuous process of regeneration and self-improvement.

3. Prior to this, the Income Tax Act of 1967 allowed a rebate deductible from tax payments for amounts that have been paid for *zakah* and other contributions supported by original receipts from official religious organizations. This provision had several shortcomings presently under study.

4. The Islamic Center also played an institutional role under the Chairmanship of the Minister in charge of religious affairs in the Prime Minister's Department, assigned to coordinate activities within the states as well as to initiate studies on various issues of Islamic Law, including the *zakah*. This center was instrumental in initiating a campaign to promote awareness of the *zakah* and it was also in a position to answer enquiries pertaining to the *zakah*. State politics notwithstanding, only detailed evaluation will reveal whether the Islamic Center has really influenced the Muslim population which is the ultimate arbiter of reform.

In summary, the period of the 1980s has been a period of assessment and evaluation of felt perceived need for improvement in the *zakah* administration through the initiative of specific sectors in the Federal Government and various State Religious Councils participating with varying degrees of enthusiasm.

## 6.1 Current Efforts

Efforts undertaken in the years coinciding with the Malaysian Plan (1985-1990) reflect present efforts by the government to implement progressive ideas that have emerged from as a result of scholarly debate and apply these ideas to the administration of *zakah* affairs in Malaysia. The preparation, compilation and completion of the draft *zakah* and *Fitrah* Act for the Federal Territory (1987) were undertaken during this period.<sup>11</sup> At the same time serious efforts were being made by various agencies whose activities relate directly or indirectly to the *zakah* [especially Religious Councils and the Internal Revenue Department] to provide accurate information and guidelines for salaried *zakah* payers as well as for other categories of *zakah* payers who potentially face a two-fold levy on their assets.

In the last few years there had also been concerted efforts by the Islamic Center to develop a database on the *zakah* in cooperation with State Religious Councils. The database was established in order to obtain adequate information necessary for the formulation of policies aimed at redressing and/or solving specific problems in *zakah* management. One example is the efforts to accelerate and facilitate the computation of *zakah* that will benefit both *zakah* officers and *zakah* payers. Another notable effort has been the extensive campaigns to encourage the *zakah* especially that which culminated in Yang Di Pertuan Agong, the sovereign Head of the country recently officially initiating a *zakah* project.

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<sup>11</sup> The Federal Territory was founded in 1974 as a separate administrative unit in the Malaysian Constitution with Laws passed through Parliament unlike State Laws which have their own Legislative Assemblies.

Efforts are presently being made by a significant number of State Religious Councils and Departments to reorganize their administrative system according to the suggestions and recommendations made by the Modernization and Administration of Manpower Planning Unit in the Prime Minister's Department. There have also been concerted efforts made by the universities to train graduates who are equally competent in economics, management, law and *Shari'ah*, in order to provide skilled and management for the Administration of *Zakah*, *Awqaf* and the *Bait-al-Mal*. The International Islamic University is a case in point, having provided thus for 4 to 5 groups of graduates in law, economics, and management. Unfortunately, the number entering State Religious Councils and *Bait-al-Mals* has been very low. Perhaps, this is another indication of the unimpressive image projected by State Religious Councils to the public at large.

Lately, although not without legal constraints, there has been some fruitful participation among State Religious Councils, coordinated by the National *Fatwa* Council located in the Prime Minister's Department under the Religious Affairs Unit. Some progress has been made through the transmission of materials and information that can be used by the respective Councils. Despite local sensitivities and legal constraints, there is potential for other programs to be rationalized on a national scale, especially regarding the issue of *zakah* on salaries.

Salient aspects of current efforts were explored in the context of the following:

#### **1. 1988 National Seminar on Coordination of *Zakah* and Income Tax**

This Seminar was watershed in the long-standing debate over *zakah* on salaries. Organized jointly by the Internal Revenue Department of the Treasury, Prime Minister's Department, Religious Affairs and the *Bait-al-Mal*, Federal Territory, the aim of this Seminar was to focus on the shortcomings of the 1967 Income Tax Act especially those pertaining to rebates on *zakah* and *Zakah al-Fitr*. The following limitations of the 1967 Act were highlighted:

- A. *Zakah* rebates allowable only for individuals and not for companies was considered to be unfair.
- B. The 1967 Act did not account for informal *zakah* which was, in consequence, paid over and above the compulsory *zakah* and *Zakah al-Fitr*, because they could be substantiated by official receipts issued by official religious authorities.
- C. The 1967 Act also did not allow for the excess of *zakah* over the value of tax to be credited into the tax payers account.

Serious efforts are currently being made to review the problems enumerated above so as to accord *zakah* its proper position in Malaysia where the official religion is Islam. The fact that there are continuing discussions on the subject is in itself an indication of the contributions made by the Government of Malaysia towards rationalizing and improving the existing system of *zakah* administration.

Though these problems are yet to be resolved, we have already seen a growing number of *zakah* payers voluntarily enquire about *zakah* being deducted from their salaries. Even in these States with no *Fatwas* calling for compulsory payment of *zakah* on salaries, State Councils are receiving enquiries and even payments of *zakah* on salaries. This Seminar was a very positive step, to the extent that it generated awareness of the issue while setting up a system wherein those people who were willing to pay *zakah* on salaries would be able to do so. In other words, Muslims who choose to pay *zakah* on salaries, savings and the like can be assured that their contributions will be facilitated.

The Internal Revenue Department has shown a willingness to assist those states which have adopted the *zakah* on salaries, especially the Federal Territory *Baitul Mal* in the preparation of regulations and a system of *zakah* collection comparable to that found in the Income Tax Department. A clear indication of this is seen in the draft of the Federal Territory *Zakah* and *Fitrah* Act of 1987, which is discussed below.

**2) The Federal Territory *Zakah* And Fitrah Act of 1987 As A  
Model For An Effective System Of *Zakah* And Fitrah**

This Act is a significant improvement over the *Zakah* and *Fitrah* Regulations of Wilayah of 1974, because it effected the following far-reaching changes:

- A. Aspects of enforcement are laid down in a greater detail to complement the proposed re-organization of the *Bait-al-Mal* as an important Islamic economic institution in the Federal Territory.
- B. A comprehensive system of regulations was established to overcome the limitations found in various state religious enactments passed during and shortly after Independence in 1957. This system has been retained intact, but for a few amendments down to the present.

The nature of existing enactments is such that it has been very difficult if not impossible to prosecute offenders in courts of law, by virtue of the fact that coverage of enactments on *zakah* has been scanty and has had to be supplemented by regulations which were not necessarily gazetted but simply additions to existing enactments. This Federal Territory *Zakah* Act is an up-to-date formulation in that the *zakah* laws once approved are legally enforceable by virtue of having been passed by an act of Parliament.

Secondly, the Act empowers the *zakah* management to demand that eligible *zakah* payers submit a prescribed form with relevant particulars on their income the assessment of *zakah*. The *zakah* officers are empowered to demand access account books, bank statements and related documents.

The officer is also empowered to undertake a complete assessment of all lands, buildings, books and other documents. In the case of books and documents, he is fully empowered to inspect copies, if not to take temporary possession of them.

On the whole, this Act calls a mode of conduct on the part of the *zakah* payer similar to that required of him by the Income Tax Department. It is well defined and should be prototype for eventual adoption by various states in Malaysia. Of equal significance is the fact that the formulation of this Act gives the *Shari 'ah* Court power to try any *zakah* related offence and, on conviction, to impose the legal penalties.

## **6.2 Progress on Articulation of Ideas**

This Act explicitly mentions that corporate entities as well as individuals are equally liable for *zakah* by virtue of their business assets. For the purpose of this Act, "business" has been defined to include individuals, joint ventures of companies while the term companies is further defined to encompass the case of a separate legal entity in any written law outside Malaysia.

That the income from employment is included as a chargeable item, indicates a departure from the conservative stance adopted by some states' *fatwas*. Once fully operational, the returns are anticipated to increase many times over especially for the Federal Territory which contains a high proportion of salaried Muslims. In fact, some States have already adopted this category of zakatable income without depending on legal powers of enforcement. It is only a matter of time before all States must seriously consider whether to adopt the imposition of *zakah* on income, especially when the amount paid is deductible from the income tax levied by the Income Tax Department. As mentioned earlier, this facility is only now provided for individuals.

Nevertheless, there are many issues which have not yet been resolved by this Act and which will had to be included in the agenda for future action. Firstly, this Act does not deal in sufficient detail with the distribution of *zakah* funds. The *Zakah* Officer is only empowered to calculate the proportion of *zakah* according to criteria of distribution determined by the Council. Vital aspects of the economy of Muslims in consequence, are not within the purview of this Act but left to the wisdom of the concerned authorities. Discrepancies will continue to exist between different States adopting different criteria in accordance with

their own historical and economic situations. Given the availability and proper utilization of skilled management, this open ended feature of the Act could actually be the strong point rather than a shortcoming.

Another item in any future agenda should be the rationalization of the mode of distribution of *zakah* funds, especially to those recipients belonging to the *Faqir* and *Miskeen* groupings. In order to create longer-term benefits through self-help, a re-examination of the practice cash disbursement has been proposed in the hope that some form of combined assistance can be provided so as to eradicate dole mentality among Muslims except for those unable to work or earn income due to obvious disabilities.

### **6.3 Reorganization of *Zakah* Administration**

As mentioned above, a law is only as good as the system within which the law operates. As long as the management of the *Bait-al-Mal* is inefficient and not goal oriented, enforcements will be a liability to the system because non-payment of *zakah* could be due to lack of confidence in the capabilities of the authorities concerned. It was in this light that the Modernization and Administration of Manpower Units (MAMPU), a unit of the Prime Minister's Department, undertook a study of the administrative structures of State Religious Departments and proposed changes for adoption by the respective states. As mentioned earlier, one study undertaken by MAMPU concerned the duplication of activities and inadequate manpower in administration of Religious Affairs including *zakah* in the State of Kelantan. The Federal Territory Department of Religious Affairs had already been moving in the right direction since the 1970s so it was not covered in the MAMPU proposals for administrative reforms of State Religious Departments. Nevertheless, there was another proposal submitted by the Religious Affairs Division of the Prime Minister's Department to establish a *Bait-al-Mal* in the Federal Territory

in the form of a draft Federal Territory *Bait-al-Mal* Authority Act of 1987. This was to be a model that could be adopted by other States.<sup>12</sup>

In order to appreciate the efforts that are being undertaken by the Federal and State governments, the following observations could be made about the MAMPU studies.

A. Firstly, until as late as 1985 there was in practice very little coordination between various states especially in respect of *zakah* and *Bait-al-Mal*. This has its historical and constitutional origins and has been exacerbated by problems of duplication and inadequate implementation of modern management practices in administering the machinery of state.

B. Secondly, there has been a lack of emphasis on both quality and quantity of manpower needed in the State Religious Departments to handle the myriad of problems related to the religious functions assigned to the state. Since the Federal Government participants in awarding posts, it must also be held responsible with the State governments for this administrative malaise. In the present situation it is not uncommon to find B category staff handling portfolios that under modern administrative structures would require A category officers. In most cases, personnel are assigned to religious departments from other divisions of the state administration without necessary training in Islamic *Shari'ah*. When a Religious department undertakes the job of implementing policies adopted by Religious Councils with personnel who are not competent to administer religious affairs for the lack of their proper education, this creates serious problems.

C. When issues pertaining to *Zakah*, *Awqaf* and other sources of the *Baitul Mal* are handled by the personnel without economic and/or management related skills very serious problems can arise. It is

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<sup>12</sup>This proposal was submitted to the National Religious Councils under the chairmanship of the Prime Minister in February 1988, but the basic idea of status conversion to a statutory body was rejected, although other recommendations were accepted.

unfortunate that the administration of a government sector with so much socio-economic potential has been so neglected, which results in an absence of commitment or, demoralization among staff. Officials are neither properly selected nor properly supervised. The end result is the collapse of confidence in the ability of the *Zakah* Office to discharge its responsibilities in accordance with the socio-economic dictates of Islam. The hardcore poor remain unaided unless they make an effort to seek assistance. The officials collect hefty amounts of *Zakah Al-Fitr* designated to non-existent heads of expenditure which are instead either invested or given to other beneficiaries, but no attempt has been made to distribute of *zakah* funds according to modern social needs and practices. Corporate-based models should be set-up to deal with the administration of the *zakah* which can have so much positive impact on the socio-economic welfare of the country.

D. State Councils have demonstrated a reluctance to adopt new proposals, for reasons best known to themselves.

Given the above scenario, it is only logical that current thinking among concerned and well-informed Muslim scholars emphasizes the following changes:

A. That the manpower in the Religious Departments be upgraded and the number of posts be increased after job specifications have been reorganized to achieve newly defined goals. This is in line with the MAMPU study.

B. That the *Bait-al-Mal* should be a corporate entity with competent management to administer the collection of funds to undertake economic studies, to maintain a research database and properly maintain its own accounts. State *Bait-al-Mals* have a great potential to tap previously untapped resources and manage funds in such a way as to contribute to the New Economic Policy of eradicating poverty among the deserving heads of expenditure, particularly the *Faqir* and *Miskeen* (*i.e.* the poor and the needy). The structure found in the *Bait-al-Mal* of the Federal

Territory allows for the Director of *Zakah* to distribute the *zakah* funds for the short-medium and long-term well-being of the recipients.<sup>13</sup>

C. As a next step, a national entity to coordinate the *Bait-al-Mals* should be established, comprising directors of State *Baitul Mals*, senior government officers from the relevant departments [especially the Income Tax Department, the Socio-economic Research Unit, and the Islamic Center for the Prime Minister's Department], experts in law and other academicians involved in economics, management and accountancy.

#### **6.4 Adoption of the above Proposals: Status**

The proposal to establish all *Bait-al-Mals* as legal entities has been rejected although other important recommendations have been accepted.<sup>14</sup> In the case of the Federal Territory *Bait-al-Mal*, although it is still under the policy guidance of the Federal Territory Religious Councils and although its manpower comes mainly from the Federal Territory Religious Department posts, it has exhibited higher levels of competence in discharging its duties. Whether or not its success has played a role in the recent clamor for changes in other states is debatable. But Selangor, Perak and Penang are States which seem to be ready for change.

The upgrading and additional creation of posts has not been easy. It has been speculated by some that the negative views of high level government officers as to role of Religious Departments/Councils, especially in the context of economic development policies, has been an adverse factor. On the other hand, these Departments/Councils have difficulty justifying additional posts and/or the necessary upgrading because of the poor system of administration itself. This vicious circle is

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<sup>13</sup> Not to be left out of this structure is the role of a *Shari'ah* expert to serve as secretary to the corporate body of *Bait-al-Mal*.

<sup>14</sup> The rejection of the proposal to establish the *Bait-al-Mals* as legal entities is not without foundation, if we consider the failure of many similar entities in the other Government Sectors. Perhaps, in future, proper feasibility studies may be executed by Universities on a case-by-case basis before consideration by the National Religious Councils.

due mainly to the inability of the State Councils, Departments and even the State Secretary to convince the Public Service Department and the Federal Treasury to increase the quantity and quality of posts required. Job criteria and work volumes are not easily assessed by the Departments themselves. Because they are now part of the mainstream bureaucracy they are less structured, and less goal-oriented, concerned mainly with religious teaching and the enforcement of religious laws.

The point here is that as perceptions are different, explanations and interpretations of the problems are also different. It is up to intellectuals to provide cogent and articulate solutions, using modern management systems and ideas to justify the use of public funds for the socio-economic well-being of the Muslims.

It is important for institutions of higher learning to disseminate ideas through consultancies, advisory services and training programs for the Departments/Councils concerned. Certain programs are presently under way and many more are in planning and preparatory stages. The Kulliyah of Economics of the IIU has established a linkage with the State of Penang to provide expertise for computerization and related management consultancy. In the pipeline are post-graduate diploma programs in economics, management and accounting for *Shari 'ah-trained* officers. The Mara Institute of Technology may undertake similar short-term programs for B category/diploma holders. There ought to be training/diploma programs on *Shari 'ah* and Common Law subjects for those without the requisite background, quite akin to the present diploma course for qadis.

## **6.5 The Issue of Public Awareness**

Even if we have the Draft Laws approved and the manpower provided for, there cannot be progress in the administration of *zakah* unless and until it becomes an integral part of the life of the Ummah. Then again, until Muslims become aware of the importance of the *zakah*, *zakah* payers and recipients have greater confidence in the capacity and commitment of the *zakah* authorities to discharge their responsibilities, there cannot be a viable *Bait-al-Mal* as a potent force in the socio-

economic upliftment of Muslims in Malaysia. Therefore, although the need to educate may appear less urgent, it is too important to be given less attention. Although the *zakah* campaigns undertaken thus far have been admirable tangible benefits of *zakah* on society are yet to be manifested, acknowledged and appreciated by the Nation. The task may be monumental but it is not impossible.

## **7. ADVOCATIONS 7.0**

### **Introduction**

The state of *zakah* administration in Malaysia clearly reveals that there is still much room for improvement, involving many participants, from the federal government, the state authorities, *zakah* administrators and from the grass-roots Muslim community. The approach taken should take into consideration a wider number of factors rather than merely focusing on the official *zakah* administration. Improvement in the *zakah* administration at all levels should subject to simultaneous reviews of legal constraints, public attitudes, political will and the development of more flexible attitudes to coordination and cooperation between states and their respective Heads of Islam. *Zakah* administration is not merely a religious issue. It is an administrative and socio-economic factor. In many ways, the ability to manage the administration will determine the efficient and effective mobilization of *zakah* funds. Based on this perspective, the following suggestions should be considered. These are not new to those familiar with the issues.. However, the Muslim community at large needs to be reminded continuously as to the seriousness of the matter.

### **7.1 The Education System**

The character of the Muslim community must be educated to understand, appreciate and commit to the values and principles of Islam in general, and *zakah*, in particular. If Muslims are not educated and enlightened as to the true position of *zakah* in Islam, then it should not be surprising that Muslims treat the duty of *zakah* lightly. This insensitivity can be minimized, if not eradicated, by revising the formal and informal systems of Islamic education concerning the *zakah*.

The education referred here is not only formal education in schools, universities and the like. Informal education is also important. Public lectures, mass media, publications, etc. can provide exposure to the constructive problem-solving role of *zakah* in modern Muslim society. These activities can be organized by the Religious Councils.

However, these activities should not be limited to the Religious Councils and Religious Departments. The Education and Information Ministries should also play a complementary role in promoting the *zakah*. These various entities would act in unison towards this common objective. The absence of such complementarity will only delay or hinder progress. Contradictory action by any of these entities could even lead to a negative net result.

Nevertheless, the Muslim community as a whole must take it upon themselves to seek Islamic knowledge instead of waiting for knowledge to come to them in the form of talks organized in the mosques, programs in the electronic media, and so forth. This passive attitude must be changed and the Islamic leadership of villages, towns, cities, districts, states and the whole nation must not leave any stone unturned to ensure that the Muslim community is educated.

## **7.2 The Role of *Ulama***

The role of the *ulama* must be enhanced in efforts to provide, where possible, a consensus on many *zakah*-related issues that may arise from the complexities of modern life. Matters such as *zakah* on salaries and professional income, *zakah* on provident funds, *zakah* on investment the extent to which the *Shafi'i* school should be the determining factor for new *zakah* issues, the effectiveness of the *zakah* laws vis-a-vis public interests and the interpretation of various heads of expenditure, still demand urgent solutions. Similarly, the use of *zakah* funds to eradicate poverty by providing the poor and the destitute with opportunities and means to become economically self-supporting through vocational training, skills, equipment and tools, etc., is a matter that needs the immediate attention of the *ulama*.

This can be expedited by the ulama familiarizing themselves with the socio-economic and other worldly disciplines that may have been removed from present *Shari'ah* studies. Regular and more frequent meetings and dialogues among concerned Muslim scholars and intellectuals should be arranged.

There is a need to review the interpretation of the beneficiaries or heads of *zakah* expenditure, especially the categories of *ar-riqab*, *al-gharimin*, *fi-sabilillah* and *muallafah-qulubuhum*. This is imperative if one is not to deny the rights of others over the *zakah* funds solely because of indifference and insensitivity over the possibility of widening the definitions of the eight *ansaf*. For example, for how long a period after conversion to Islam can a person be called *a muallaf*? Should it depend on the time period or the state of iman and understanding of the *muallaf*? Is there really no scope for *ar-riqab* and *al-gharimin*? These and several other questions demand long overdue answers.

### **7.3 Zakah Laws and their Enforcement**

Serious efforts on the legal front have to be made by the federal and state governments to facilitate *zakah* administration, including the adoption of common *zakah* laws and regulations, an increased jurisdictional scope for *zakah* administrators, reordered priorities of *zakah* payment over income-tax obligations and more rigorous surveillance of possible violations of *zakah laws* by *zakah*-payers and officials and the misuse of *zakah* funds.

### **7.4 Zakah Administration**

#### **7.4.1 The Religious Council Level**

The administrative problems highlighted earlier should be solved immediately. This necessitates proper planning by the Councils sensitive to the needs of the *zakah* administration. Inadequate manpower has been a problem for too long. In every state, perhaps with the exception of the Federal Territory, there is an urgent need for additional *zakah* officers. However, as important as quantity may be, it is the quality of

administrators that must be improved. They should be well-versed in the subject of *zakah* in all aspects and be possessed of sufficient administrative and planning skills. Adequate training and more importantly, careful selection of potential administrators with commitment to the implementation of the *zakah*. Public awareness of *zakah* obligations will follow.

It is hoped that pertinent information such as comprehensive surveys on relevant issues, organized data filing, up-to-date audited financial statements and assessment of the impact of *zakah* mobilization on community welfare can be developed to contribute to a more organized administrative base.

#### **7.4.2 The State Level**

A more cohesive form of coordination and cooperation is needed to introduce and improve systematic procedures in the States. Unnecessary discrepancies in *zakah* administrative procedures should be avoided to facilitate planning at the federal level. More discussions, dialogues and regular meetings to brainstorm ideas and constructive criticisms should be held among all the heads of *zakah* administration from each state. Similar forums should also be scheduled with federal authorities. The present initiatives of a few *zakah* administrators who take it upon themselves to organize such meetings are not enough. Proper scheduling and the setting of agendas should be organized by a secretariat appointed to coordinate these meetings.

#### **7.4.3 The Federal Level**

Although each state has prerogatives over Islamic affairs within its jurisdiction, the federal government, due to its advantage of being able to view perspectives at the national and international levels, must continuously work towards improving the state of *zakah* administration in the interest of the Malaysian Muslim community as a whole. A good start would be to enhance its awareness of the subject and take all sincere comments as seriously as considers outside perspectives. The accomplishments of the federal authorities thus far cannot be denied.

Answers must be sought as to how to expedite coordination of Islamic affairs among the States. However, in order for the federal government to succeed in this matter, States must not feel that their rights are threatened.

The federal government must do its part to erase the image that the Religious Departments and Councils are dumping grounds for inefficient civil servants. The Federal Government can, perhaps, begin by ensuring that more qualified and senior civil servants take the helm of these departments and councils.

### **7.5 Establishment of a Consultancy Services Network Among Related Institutions of Higher Learning**

The basic idea here is that *zakah* institutions and various councils and departments stand to benefit much from the willingness of interested institutions of higher learning, like the Kulliyah of Economics, the International Islamic University and others yet to be confirmed, to provide consultancy services pertaining to the various problems and suggestions outlined in this paper. The available professionalism should be taken advantage of since besides this, those who will subsequently become involved a consultancy services will be those who desire to help enhance the performance and image of the institutions officially designated to look after the affairs of the Muslims.

### **7.6 Conclusion**

The *zakah* may have been institutionalized in Malaysia, but this study reveals that areas of confusion and misunderstanding remain as to the concepts of the *zakah* in particular, and the *Bait al-Mal* in general. The colonial legacy has been largely responsible for the present apathy of many Muslims towards obligation of the *zakah*. The legal base related to the *zakah* is limited by the dichotomy which exists between the so-called "religious matters" and the administration of worldly affairs.

Another matter of concern is the lack of intellectual and practical effort to extend the interpretation and appreciation of the concepts in

*zakah*, most importantly, the interpretation of the heads of expenditure. As a result, we find states such as Negeri Sembilan, Kelantan and Johor without expenditures for the categories of *ar-riqab* and *al-gharimin*. *Melaka* has no expenditure for *ar-riqab* while Perlis and Pulau Pinang have only token allocations for *ar-riqab* and *al-gharimin*. These states, however, are not the only ones with such deficiencies. It is difficult to accept that some of heads of expenditure were only applicable to the early days of Islam and invalid for the present and future. It is long over due for Muslim scholars to interact with Muslim intellectuals committed to the cause of Islam and plan for more constructive approaches.

It is not wrong to say that the full potential of *zakah* in Malaysia has still not been realized. Continued indifference to this matter can only damage the Muslim community, considering the fact that poverty, and disparities in income and wealth have yet to be overcome. Hopefully, this study has managed to contribute some useful insights and stimulate greater commitment to resolve this affair which is a Divine trust between man and Allah and between Muslim and Muslim.

## APPENDIX I

### A. A NOTE ON THE STUDY

The Islamization of economy is a great challenge calling for comprehensive approach. Unlike interest-free banking, the question of an effective *zakah* administration should not have been difficult. The experience shows that despite a consensus among the Ummah on this issue, the *zakah* system is not well organized in the contemporary Muslim world. Unlike interest-free banking, the usefulness of *zakah* for Muslim society is universally appreciated. Ironically, the institution of *zakah* remains ineffective and unable to influence those variables which it was established to target. In the past, it was easy to lay the blame for this weakness at the doors of the colonial masters. But now after nearly four or five decades of independence, this excuse is no longer valid for Muslim countries.

The Third International *Zakah* Conference is a timely event, allowing for ulama, scholars, professionals and administrators from Muslim countries to analyze and evaluate the performance of their respective *zakah* systems. This study on Malaysia, has been undertaken for this conference. In order to study the problem in all its dimensions, the Kulliyyah of Economics of the International Islamic University in Malaysia, formed a study group consisting of six professionals specializing in economics, business and accounting. This group met regularly under the leadership of Dr. Hj. Jamil Osman who coordinated this research project at various levels. The group also benefitted from earlier works by scholars who had pioneered the works on the *zakah* in Malaysia. During the research and deliberations it was felt that more current and detailed information was needed to fully understand the problems and the factors behind them. The group benefitted from the field work carried out in the States by the following members of the Kulliyyah's teaching staff: Sr. Rokiah Alavi, Dr. Syed Abdul Hamid Al-Junaid, Sr. Latifah Mohd. Nor, Sr. Salamah Abdullah Yusof, Sr. Putri Nor Suad, Br. Alias, Dr. Hj. Jamil Osman, Dr. Muhammad Arif and Br. Nordin Hj. Mohd. Zain.

These men travelled to various States to interview officials, administrators and religious figures, and collect data. Thanks are also due to the Kulliyah's Research Officer, Sr. Halida, who helped in the compilation of data. All this data were necessary to develop a comprehensive understanding of the nature of the problems involved and to formulate a package of prescriptions for policy-makers to increase the efficacy and efficiency of the *zakah* system. The government of Malaysia is doing much to eradicate poverty and help the poor, but the government also needs help, ideas and recommendations by experts to achieve its goals more effectively. It is hoped that this paper will generate a healthy discussion in the on-going debate on the effectiveness of the *zakah* system in Malaysia and will contribute to better solutions. It is only fair to say that this work would not have been possible without the help and cooperation of many people, e.g. officers and staff of the *zakah* departments and *Bait-al-Mals* of various States and the Wilayah, the teaching staff of the Kulliyah of Economics who undertook the field work and members of the typing pool of the Kulliyah, mainly Sr. Raja Ida. Amiroh, Sarinah, Rohani, Suriani, Raja Rozlinda, Br. Mat Salleh, Fauzi, Wisham and Karim, members of the administrative staff also deserve thanks. Finally, we are grateful to Sr. Teh Noranis and Ridwan of the computer center. The authors are solely responsible for any remaining errors and would welcome comments.

## **B. NOTES**

1. The estimated total of paddy planters who qualify to pay *zakah* is 30,000 based on income exceeding 400 gantang (nisab) after deducting credits and their deductions. The average income of the farmers is 611.1 gantangs or M\$2,360/year. This implies that the total *zakah* collection which is supposed to be collected is M\$6,948,900 (at the rate of 10%). (Source: Laporan Lembaga Paddy dan Beras Negara 1988).
2. a. This livestock covers cattle/buffaloes and goat/sheep. There are about 350 cattle/buffalo owners and the number who owns more than 30 is only seven, with an average of 35 per owner and with the total collection of M\$6000/year.

b. The owners of the goat/sheep comprises 3,536 and only 71 owners have an average of 50 on which it is obligatory to pay *zakah*. It is estimated that the total collection is M\$15,900.

3. Mining: It is estimated that about \$2 million of the total income derived from mining belongs to Bumiputra. If it is estimated that only 10% from the one operator there is obligatory for *zakah*. No less than M\$50,000 be collected from this source.

4. Gold and silver : In 1988, M\$12,594.10 was collected from *zakah* on gold and silver. It is estimated that M\$30,000 could be collected from that *zakah*.

(Source: Majlis Ugama Islam Negeri-Negeri)

5. Business: In 1988, it was estimated that the number of companies owned by Muslims was 40,000 with a net amount of M\$2,000 million that was zakatable, i.e. after calculating existing stock, cash assets in hand and in the bank, accounts with creditors, cash flows investment accounts and the deduction of all debts. It was calculated that M\$50 million of *zakah* can be collected from this sector.

(Source: Statistical Department, Primary Statistics Related to Ownership and Participation in Trade and Industries, Malaysia 1981 -1982. Adopted for 1988.

6. Trade and Industries: In 1988, it was estimated that zakatable assets from these sectors were M\$3,000 million. This implies that M\$75 million of *zakah* could be collected from trade and industries.

(Source: MIDA report, 1988)

7. Saving Banks: In 1988, it was estimated that a total of M\$1,250 million of savings was invested by 7 million savers. If only 30% out of the total savers fulfilled the "*Hawl* and *Nisab*", there would be a total of M\$25 million that could be collected from *zakah* on savings.

8. Employees' Provident Fund: The estimated Muslim contributors are 3.5 million with a total contribution of M\$3,167,041. If 20% of the contributors are obliged to pay the *zakah*, (i.e. 700,000 contributors), the

amount, would be M\$1,900,225. Thus, the total *zakah* due from these contributors is approximately M\$47,506. (Source: Lapuran RMK 1986-1990).

### **C. ZAKAH ON BUSINESS AND ITS METHODS OF COMPUTATION**

#### **I. Introduction**

The collection of *zakah* on business has shown a tremendous improvement over the last decade. At the end of 1988, the business *zakah* collection for Peninsular Malaysia stood at \$3.997 million, an increase of 63 % over the 1983 collection (see table 6), making an average annual increase of about 13% since 1983.

The increase of *zakah* collection can be attributed to the increase in the Islamic consciousness among Muslim businessmen as well as the success of *zakah* campaigns by various state and federal religious bodies. The amount of *zakah* a Muslim businessman has to pay, however, depends on the state that he resides in and the method of *zakah* computation used. A businessman could be paying \$1000 as business *zakah* if he resides in state A, but the amount could be greater or smaller if he pays in another state. There is no uniform method of business *zakah* computation in Malaysia at present, unlike the business income tax.

#### **H. Method of Computation**

There are three methods for computation of business *zakah* which are currently practiced in various states and institutions in Malaysia. The basic differences among these methods lie in the interpretation of the term '*urud al-tijarah*' which means wealth derived from business transactions. These methods are given as below:

### First Method<sup>15</sup>

This method of computation is currently being practiced by the *Bait-al-Mal* of Perak, Kedah, Wilayah Persekutuan and other States. Under this method, *urud al-tijarah* is viewed to comprise only current assets, i.e. cash in hand, cash in banks, accounts receivable, whose collection is definite, and stocks or inventory.

The stocks should be valued at cost price. *If* the value of a current asset at the end of year exceeds the nisab, then 2.5% of that value must be paid out as *zakah* on business. Although the method is simple, it cannot fully apply to companies in service industries such as real estate agents, stock brokerages and consultancy firms. These companies do not have stocks and hence their *zakah* payment may be lower than manufacturing or trading companies, even the latter's profits may be higher.

### Second Method<sup>16</sup>

This method is currently being practiced by the *Bait-al-Mal* of Perlis and the Pilgrim Management Fund Board. It is similar to the first method except that the definition of *urud al-tijarah* is expanded to include current asset and profit from investments. In addition, the value of stock is not stated at cost, as is the case of the first method, but at current market prices.

Although this method incorporates more items which increase *zakah* payments, it still has the same limitation as the first method, i.e. it does not provide *zakah* solutions for companies in service industries.

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<sup>15</sup>Various Guidebooks on Business *Zakat* Computation by Baitulmal of Perak, Kedah and Wilayah Persekutuan.

<sup>16</sup>Guidebook on Business *Zakah* Computation by *Bait-al-Mal* of Perlis and Mohd. Abdul Wahab, Percukaian dan *Zakah*, p. 14

### Third Method<sup>17</sup>

This method, adopted by Bank Islam Malaysia Berhad, is totally different from the above two methods. In this method, the difference between current assets and current liabilities called net working capital, is added to the profits for the year to get the value of *urud al-tijarah*, (merchandise). If this wealth exceeds nisab, then 2.5% is taken as *zakah* on business.

The application of the above three methods gives three different amounts of *zakah* to be paid. This illustration can be seen below:

<b>First Method</b>	<b>1989</b>
Current Asset	\$ 85,000
<i>Zakah</i> (2.5%)	\$ 2,125
<b>Second Method</b>	
Current Asset	\$ 85,000
Profit from Investment	\$ 10,000
<i>Zakah</i> (2.5%)	\$ 2,375
<b>Third Method</b>	
Current Asset	\$ 85,000
Current Liabilities	\$ 30,000
Net Working capital	\$ 55,000
Net Profit before <i>zakah</i> & Tax	\$ 10,000
<i>Zakah</i> (2.5%)	\$ 1,625

Thus those who use the third method will pay the least amount of business *zakah* while the second method gives the highest amount of *zakah* to be paid. The differences of interpretation of "*urud al-tijarah*" although legitimate, can create doubts among Muslim businessmen as to the suitability of the method used. Therefore, what is needed is the

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<sup>17</sup>Mustapha Hamad, *Zakat* and Business Organization.

formulation of a standard method of computation that is applicable to all Muslims and institutions irrespective of their state of residence.

### III. *Zakah* is on Individual Muslims

One of the conditions for *zakah* payers is that they must be Muslims. Companies, be they sole proprietorships, partnerships, limited or private limited, although separate legal entities, do not fall under the category of individual Muslims. Therefore, it is the duty of owners, partners or shareholders to make sure that their companies pay business *zakah* on their behalf.

The payment of business *zakah* becomes more complex if partnerships or limited or private limited companies are of joint ownership between Muslims and non-Muslims. Should that partnership or company pay the *zakah* or not? The Islamic ruling on this issue is clear. It is the duty of the Muslim partners or shareholders to make sure that their company pays business *zakah*. And the amount of the *zakah* paid will naturally be different from that of a company fully owned by Muslims, because non-Muslims do not have to pay *zakah*. This point can be illustrated below<sup>18</sup>.

#### Example 1. Companies Owned by Muslims

Suppose the amount of *urud al-tijarah* of a company is \$ 65,000 and the amount of business *zakah* to be paid is \$ 1,625. This company has 5 shareholders. All of them are Muslims and each holds 20% share of the company. The equity amount of the company is as follows:

	<u>Amount Invested</u>	<u>Percentage</u>
Shareholder A	\$ 10,000	20%
Shareholder B	\$ 10,000	20%
<u>Shareholder C</u>	\$ 10,000	20%

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<sup>18</sup>Mustapha Hamad, *Zakat and Business Organization*.



The amount of *zakah* liability for each Muslim shareholder will be as follows:

<i>Urud al-tijarah</i>	\$ 65,000	
<i>Zakah (2.5%)</i>	\$ 1,625	
		<u><i>Zakah Liability</i></u>
Shareholder A	<u>10,000</u> x 1625	= \$ 325
	50,000	
Shareholder B	x Nil	Nil
Shareholder C	<u>10,000</u> x 1625	= \$ 325
	50,000	
Shareholder D	<u>10,000</u> x 1625	= \$ 325
	50,000	
Shareholder E	<u>10,000</u> x 1625	= \$ 325
	50,000	
	TOTAL	= \$ 1,300

Note that the amount of *zakah* paid is actually \$ 1,300 and not \$1,625. The non-Muslim share (shareholder B) is not taken into account in the payment of *zakah*.

## APPENDIX II : TABLES

**Table 1**

### CHAIRMAN OF STATE COUNCIL OF RELIGION

State	Chairman
Perlis	Regent
Pahang	Regent
Melaka	Chief minister
Johor	State exco member
Perak	State exco member
Terengganu	Head of State Dept. of Islamic aff.
Pulau pinang	Head of State Dept. of Islamic aff.
Kedah	Member of Parliament <i>Zakah</i> Administration is chaired by the Kedah State Secretary, under the <i>Zakah</i> Committee.

Source: State Enactments, *Zakah* Regulations and Information Provided by *Zakah* Administrators.

**Table 2**

### TYPES OF *ZAKAH* THAT CAN BE COLLECTED THROUGH OFFICIAL CHANNEL

Channel	Council office	Amil
State		
Perlis	all	<i>Fitr</i> , cereals
Pulau pinang	all	<i>Fitr</i>
Kelantan	all	<i>Fitr</i> , cereals
Perak	all	all
Terengganu	all	all
Pahang	all	<i>Fitr</i> , cereals
Melaka	all	all
Johor	all	all

Source: State Enactments and *Zakah* Regulations.

**Table 3****VIOLATIONS THAT MAY CAUSE PROSECUTION**

Violation State	Avoiding payment	Paying <i>Zakah</i> through unofficial
Perlis	x	x
Pulau pinang	x	x
Kedah	for cereals	Except for <i>Fitr</i>
Kelantan	x	1/3 may be paid through unofficial channels
Pahang	x	x
Negeri sembilan	x	x
Melaka	x	x
Johor	x	x

Source : State Enactments and *Zakah* Regulations.

Note : (x) = Applicable to state concerned.

**Table 4****PENALTIES FOR VIOLATIONS OF ZAKAH LAWS**

Penalty State	Maximum Fine (\$)M	Period of Maximum Imprisonment
Pulau pinang	100	7 days
Kedah	500 (for <i>zakah</i> on paddy only)	6 months (for <i>zakah</i> on paddy only)
Kelantan	300	1 month
Perak	500	6 months
Terengganu	100	7 days
Pahang	100	1 month
Selangor	100	7 days
W. Persekutuan	100	7 days
Negeri Sembilan	500	6 days
Johor	10	-
Sarawak	200 (for other than <i>Fitr</i> ) 25 (for <i>Fitr</i> only)	-

Source : State Enactments and *Zakah* Regulations.

**Table 5****ZAKAH & FITRAH COLLECTION BY STATE AND YEAR  
1978 - 1983**

(State	1978	1979	1980	1981	1982	1983
W. Persekutuan	415,166.67	575,501.79	760,034.74	1,006,547.64	1,742,701.64	2,155,737.54
Selangor	969,839.67	915,803.59	915,803.59	1,039,520.16	1,091,884.25	2,338,561.00
Pahang	na	na	na	na	na	na
Perak	1,400,746.75	1,574,934.64	1,725,759.42	1,902,509.86	2,191,358.00	2,547,213.00
Johor	1,835,518.00	2,004,864.00	2,163,082.00	2,536,951.00	3,090,960.00	3,369,247.00
Pulau Pinang	754,710.00	487,061.81	571,133.60	571,954.15	652,555.67	736,492.70
N.Sembilan	545,710.00	606,343.77	649,303.27	761,627.05	908,742.94	1,009,511.30
Melaka	na	na	na	na	660,756.62	803,218.83
Perlis	394,521.58	659,592.19	666,283.18	855,462.43	705,653.39	724,363.86
Kelantan	na	na	na	na	na	1,295,244.00
Terengganu	593,123.00	755,323.00	Na	976,165.43	901,553.92	1,066,892.76
Kedah	na	na	na	na	na	1,295,244.00
Total	6,909,588.30	7,579,424.50	7,588,096.21	9,650,737.20	11,946,166.43	18,693,254.99

**Table 6\*****ZAKAH & FITRAH COLLECTION BY STATE AND YEAR  
1984 - 1989**

State	1984	1985	1986	1987	1988	1989
W. Persekutuan	3,171,514.23	2,525,788.37	2,980,984.68	3,784,941.62	5,085,631.53	3,487,523.50
Selangor	2,667,000.00	2,685,030.00	3,121,030.00	3,415,300.00	3,915,000.00	Na
Pahang	na	na	1,635,974.94	1,827,341.33	1,915,000.00	2,081,916.20
Perak	2,942,266.00	2,743,727.00	3,280,529.00	3,964,962.00	4,703,463.00	5,276,047.00
Johor	3,827,059.00	3,537,120.00	4,055,445.00	4,365,966.00	4,835,579.00	5,468,265.00
Pulau pinang	798,674.37	752,995.43	893,729.23	983,003.36	1,102,818.34	1,406,470.80
N.Sembilan	1,160,716.00	1,033,517.93	1,341,419.82	1,407,214.08	Na	na
Melaka	980,309.95	794,128.20	964,486.65	899,863.65	1,213,224.84	1,266,362.16
Perlis	1,117,003.19	958,577.46	1,120,219.63	1,000,434.37	1,172,529.99	1,245,362.48
Kelantan	2,868,885.00	2,168,455.00	1,810,266.41	2,251,534.86	2,278,611.70	Na
Terengganu	1,338,659.89	1,132,833.26	1,386,019.24	1,420,734.46	1,915,252.11	2,127,242.16
Kedah	1,628,447.00	1,662,570.00	2,038,485.02	2,763,240.42	1,696,757.02	2,020,475.70
Total	22,500,534.63	19,994,742.65	24,628,589.62	28,084,536.15	29,840,332.29	24,379,665.00

\*Sources : Annual Reports of the *Bait-ul-Mas* of the Relevant States; Various issues

NA = Not available.

**Table 7****ZAKAH & FITRAH COLLECTION BY SOURCES IN WEST MALAYSIA:  
1983 - 1988**

Year	Fitrah	Total								
		Property/wealth	Business	Agriculture	Live stock	Mining	Savings	Others	Total	(incl. <i>Fitrah</i> )
1983	9,701,444.46	3,627,433.44	2,451,628.70	1,730,406.41	2,370.00	-	239,138.29	732,957.69	10,838,226.53	22,246,556.26
1984	10,097,097.99	4,637,374.07	4,014,092.28	2,131,173.94	433.75	433.75	206,850.08	1,159,100.40	12,149,458.27	19,807,094.46
1985	10,478,029.28	3,928,332.03	1,857,904.32	2,429,496.01	2,750.00	212.80	267,169.02	843,201.00	9,329,065.18	24,310,989.51
1986	11,974,691.73	5,707,302.96	3,130,714.17	2,499,297.57	5,615.00	524.24	533,187.84	459,656.00	12,336,297.78	27,694,994.84
1987	12,581,881.99	7,680,286.00	2,625,168.69	2,835,405.78	4,073.50	217.08	1,284,019.80	683,944.00	15,113,114.95	29,345,369.95
1988	12,284,667.45	8,332,668.52	3,997,959.61	3,123,374.73	3,803.50	1,711.37	1,065,201.77	535,983.00	17,060,702.50	23,629,847.48

Source : Computed from the Annual Reports of The *Baitul-Mals* of the Relevant States, (Various Issues).

**Table 8****PERCENTAGE INCREASE IN THE COLLECTION OF ZAKAH & FITRAH 1983 & 1988**

State	1983	1988	% Increased
W. Persekutuan	2,155,737.57	5,085,531.53	136
Selangor	2,338,561.00	3,915,000.00	67
Perak	2,547,213.00	4,703,463.00	85
Johor	3,369,247.00	4,835,579.00	44
Penang	736,492.07	1,102,818.34	50
Melaka	803,218.83	1,213,294.84	51
Perlis	724,363.86	1,172,529.99	62
Kelantan	2,646,773.00	2,278,611.70	14
Trengganu	1,066,892.76	1,915,252.11	80
Kedah	1,295,244.00	1,696,757.02	31
Total	18,921,606.92	29,840,232.29	58

Source: Annual Reports of the *Baitul-Mals* of the Relevant States;  
Various Issues

**Table 9****NUMBER OF STAFF IN THE ZAKAH DEPARTMENT BY STATES AND CATEGORIES: 1988**

States	'A' scheme	'B' scheme	'C' scheme	'D' scheme	Total
W.Persekutuan	4	7	16	11	38
Selangor					
Johor	1	1	8	2	12
Penang	1	1	9	6	17
Perak	2	1	7	10	20
Perlis	1	1	9	2	13
Kedah					
N. Sembilan	0	0	12	1	13
Melaka	1	1	2	2	6
Pahang	0	3	12	1	16
Kelantan	1	0	4	0	5
Trengganu	1	0	1	14	16
Total	12	15	80	49	156

**Table 10****ESTIMATED AND ACTUAL COLLECTION OF ZAKAH IN WEST MALAYSIA 1988**

Type of Zakah	(i) Estimated		(ii) Actual		Percentage of collection (actual/estimate % 100)
	(M\$mill)	% of total	(M\$mill)	% of total	
Firm	21.9	5.99	13.170	43.57	60.14
Agricultural	6.90	1.89	3.123	10.33	45.26
Livestock	0.02	0.01	0.0032	0.01	16.00
Business	50	13.68	3.997	13.22	7.99
Mining	0.05	0.01	0.0017	0.01	3.40
Savings	25.0	6.84	1.065	3.52	4.26
Others	261.58	71.58	8.87	29.34	3.39
Total	365.45	100.00	30.23	100.00	8.27

**Table 11\*****WEST MALAYSIA : INCIDENCE OF POVERTY AND NUMBER OF POOR HOUSEHOLDS BY ETHNIC GROUP - 1984 AND 1987**

Ethnic Group	1984		1987	
	Incidence of Poverty (%)	No. of Poor House-holds	Incidence of Poverty (%)	No. of Poor House-holds
Peninsular Malaysia	18.4	483,300	17.3	485,800
Bumiputra	25.8	388,800	23.8	393,500
Chinese	7.8	66,100	7.1	61,700
Indian	10.1	25,000	9.7	26,700
Others	22.0	3,400	24.3	3,900

Source : Mid-Term Review of the Fifth Malaysia Plan 1986-1990 (p. 55)

\*Taken from : Arif and Jamil, Ibid p. 3

**Table 12\*****MALAYS FROM THE MAJORITY OF THE NATION'S POOR: WEST MALAYSIA**

Ethnic Group	1984		1987	
	Total No. of Poor Households	as % of Total Households	Total No. of Poor Households	as % of Total Households
Bumiputra	388,800	80.45	393,500	81.0
Chinese	66,100	13.68	61,700	12.7
Indian	25,000	5.17	26,700	5.5
Others	3,400	0.70	3,900	0.8
TOTAL	483,300	100.00	485,800	100.0

Source : Mid-Term Review of the Fifth Malaysia Plan 1986-1990 (p. 55)

\*Taken from : Arif and Jamil, Ibid p. 4

**Table 13**

**UPWARD TREND IN *BAIT-AL-MAL* ZAKAH COLLECTION:  
SELANGOR AND FEDERAL TERRITORY**

Year	Selangor <i>*Bait-al-Mal</i>		Wilayah <i>**Bait-al-Mal</i>		Ownership of Share Capital in Corporate Sector: Pen. Malaysia		
	Zakah Collection excl. <i>Fitra</i> (\$Mill.)	No. of Zakah Payers excl. <i>Fitra</i>	Zakah Collection excl. <i>Fitra</i> (Will.)	No. of Zakah Payers excl. <i>Fitra</i>	Total (\$Mill.)	Bumiputra Ownership (\$Mill.)	Bumiputra Ownership as % of Total
1969	NA	NA	NA	NA	4677 a1	70.6a1	1.5a1
1970	NA	NA	NA	NA	5329 a2	125.6a2	2.4a2
1975	0.024	330	0.015	25	9890 a3	768.1a3	7.8a3
1976	0.030	399	0.018	45	NA	NA	-
1977	0.047	563	0.026	95	NA	NA	-
1978	0.088	NA	0.071	257	NA	NA	-
1979	0.15	629	0.196	640	NA	NA	-
1980	0.12	755	0.288	508	32420.4a4	5930.6a4	18.3a4
1981	0.35	781	0.492	638	NA	NA	-
1982	0.51	848	1.190	1030	NA	NA	-
1983	0.81	1002	1.584	1485	49708.2a5	13036.9a5	26.3a5
1984	1.09	1039	2.543	1576	NA	NA	-
1985	0.09	1079	1.982	1822	77964.4	14883.4	19.1
1986	1.16	1645	2.298	2471	NA	NA	-
1987	1.70	1850	2.911	3237	NA	NA	-
1988	2.06	2327	4.174	4434	97971	19057.6	19.4

\* Source : *Bait-al-Mal*, State of Selangor

\*\* Source : *Bait-al-Mal*, Wilayah

NA = Not Available

a1 = Mid-Term Review, Second Malaysia Plan p. 40.

a2 = Third Malaysia Plan, p. 86.

a4 = Third Malaysia Plan, p.70.

**Table 14****REASONS FOR PAYMENT OF ZAKAH THROUGH UNOFFICIAL CHANNELS**

State	Reasons				
	Inconvenience of going to the council's office	Lack of confidence in the council's administration of zakah distribution	Inefficiency of council's collection efforts	Political Factor	Satisfied with own individual
Kedah	3	9	2	23	124
Perak	1	11		8	12
S'for	0	0	7	0	0
N.Sembilan	0	2	0	0	2
Melaka	0	0	0	0	0
Johor	0	0	0	0	0
K'tan	0	0	0	0	14
T'ganu	2	31	17	11	35
Total	6	53	26		188
%	2.0	17.0	8.0		60.0

Source: Aida Ghazali, *The Phenomena of Zakah Payment Through Unofficial Channels - An Empirical Analysis*, p. 17.

**Table 15****DISBURSEMENT OF ZAKAH ACCORDING TO ASNAF- PERLIS: 1982- 85**

Asnaf	Year			
	1982	1983	1984	1985
<i>Fakir/ Miskin</i>	120,120.40	121,668.40	125,642.00	127,076.20
<i>Amilin</i>	262,439.46	210,221.52	275,118.84	300,672.12
<i>Mullaf</i>	4,766.00	3,752.00	4,170.00	4,072.50
<i>Rikab</i>	-	-	-	-
<i>Gharimin</i>	-	-	-	-
<i>Fisabilillah</i>	308,080.17	362,780.96	489,437.22	453,432.25
<i>Ibnusabi</i>	-	-	-	195.20

Source: *Zaka h In Malaysia -resent Future Status*" by Nik Mustapha bin Hj. Nik Hassan. A paper presented at the International Seminar on Islamic Economics, organized by the Kulliyah of Economics, International Islamic University, Malaysia, 6-9 July, 1987; (p. 31).

**Table 16**  
**DISBURSEMENT OF ZAKAH FITRAH**  
**TO FAKIR AND MISKIN - SELANGOR : 1977-82**

***Fakir***

Year	No. of <i>Fakir</i>	Amount/Head	Total
1977	4214	\$20.00	\$ 84,280.00
1978	5024	\$19.00	\$ 95,456.00
1979	5678	\$18.00	\$102,204.00
1980	5519	\$23.00	\$126,937.00
1981	5834	\$30	\$175,020.00
1982	5437	\$38	\$206,606.00

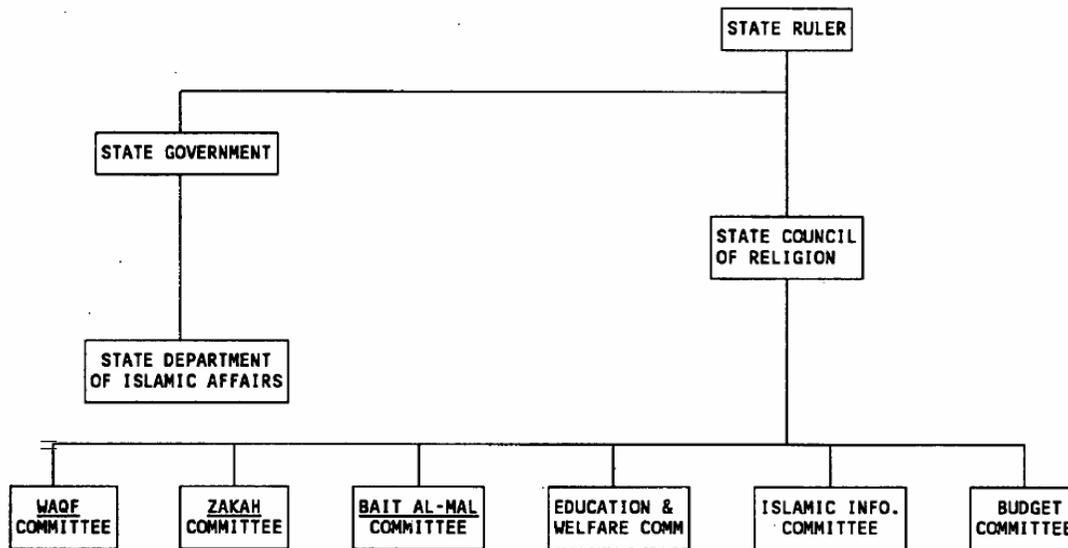
***Miskin***

Year	No. of <i>Miskin</i>	Amount/Head	Total
1977	14,828	\$ 7.00	\$103,796.00
1978	14,726	\$ 7.00	\$103,082.00
1979	14,708	\$ 7.00	\$102,956.00
1980	13,625	\$ 9.00	\$122,625.00
1981	14,235	\$12.00	\$170,820.00
1982	13,998	\$15.00	\$209,970.002

Source: "*Zakah* In Malaysia - Present Future Status" by Nik Mustapha bin Hj. Nik Hassan. A paper presented at the International Seminar on Islamic Economics, organized by the Kulliyah of Economics, International Islamic University, Malaysia, 6-9 July, 1987; (p. 31).

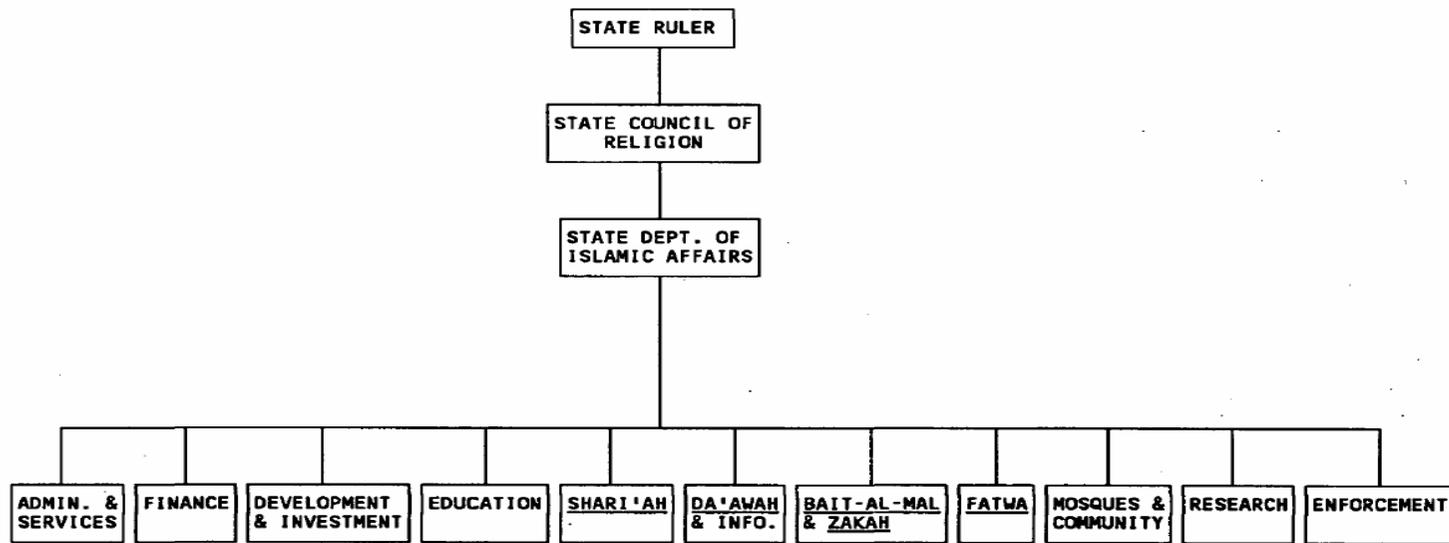
## APPENDIX III : CHARTS

Chart 1



**CHART 1:** THE MOST COMMON ORGANIZATIONAL FRAMEWORK AMONG STATES, ILLUSTRATING THE RELATIONSHIP BETWEEN THE STATE COUNCIL OF RELIGION AND THE STATE DEPARTMENT OF ISLAMIC AFFAIRS. ZAKAH ADMINISTRATION IS UNDER A ZAKAH COMMITTEE UNDER THE COUNCIL AND SEPARATED FROM THE BAIT-AL-MAL COMMITTEE.

Chart 2



**CHART 2:** AN ORGANIZATIONAL FRAMEWORK WHICH ILLUSTRATES A SITUATION WHEREBY IT IS NOT ENTIRELY CLEAR AS TO WHETHER THE ZAKAH ADMINISTRATION IS TOTALLY ACCOUNTABLE EITHER TO THE COUNCIL OR TO THE DEPARTMENT OF ISLAMIC AFFAIRS. ZAKAH ADMINISTRATION IS MERGED WITH THE ADMINISTRATION OF THE BAIT-AL-MAL.

Chart 3

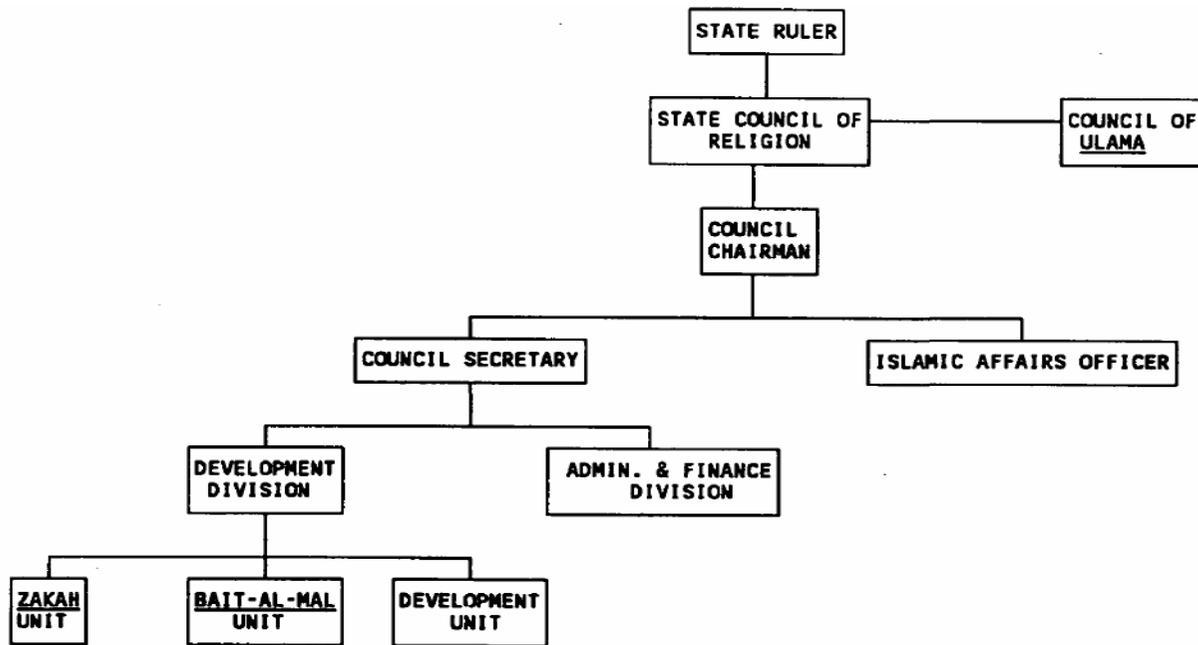
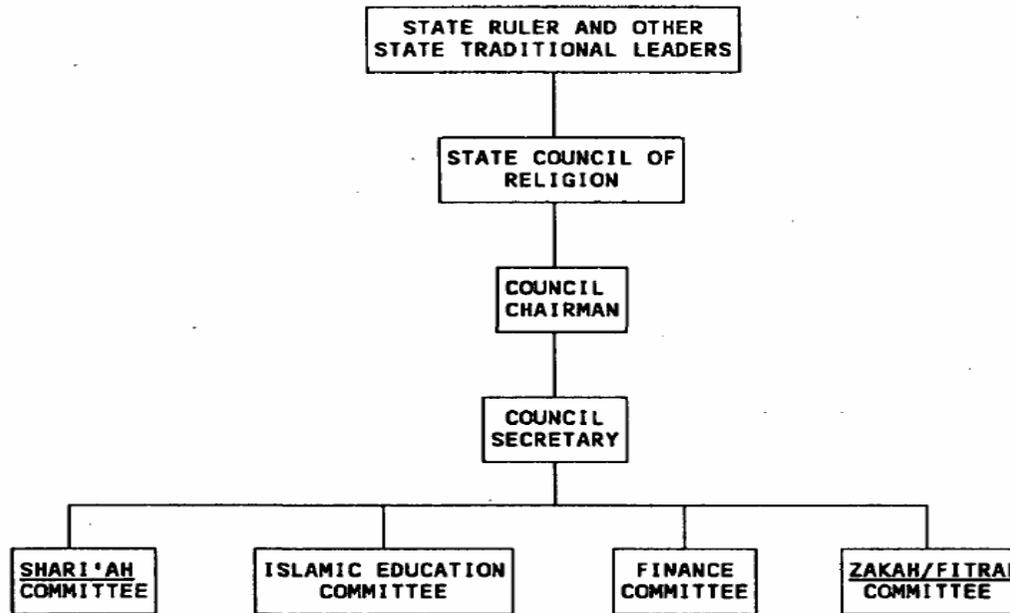


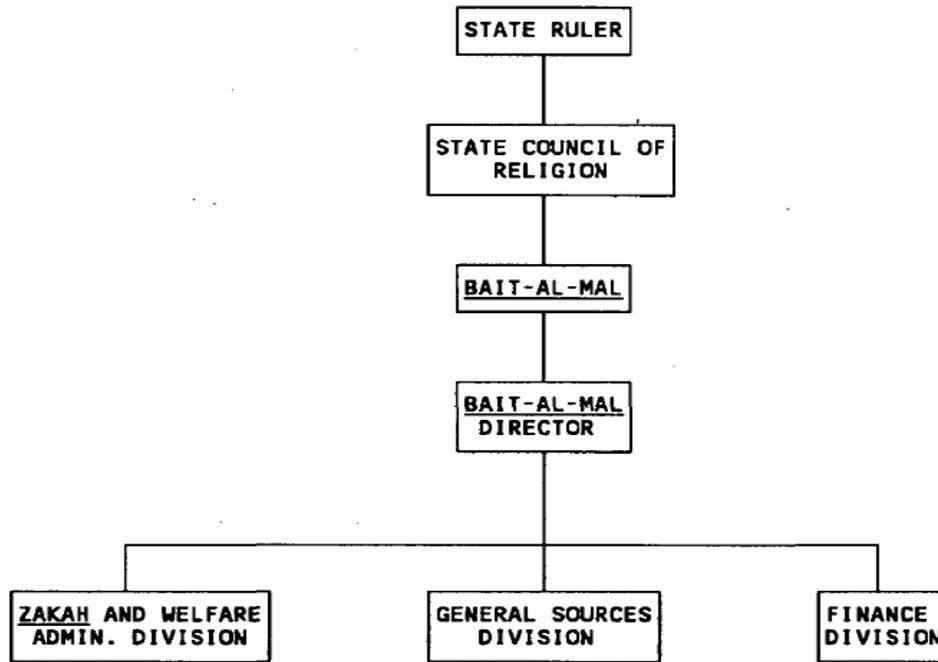
CHART 3 : AN ORGANIZATIONAL FRAMEWORK WHICH ILLUSTRATES THE COMMONLY-HELD POSITION OF THE COUNCIL OF ULAMA, VIS-A-VIS, THE STATE COUNCIL OF RELIGION.

Chart 4



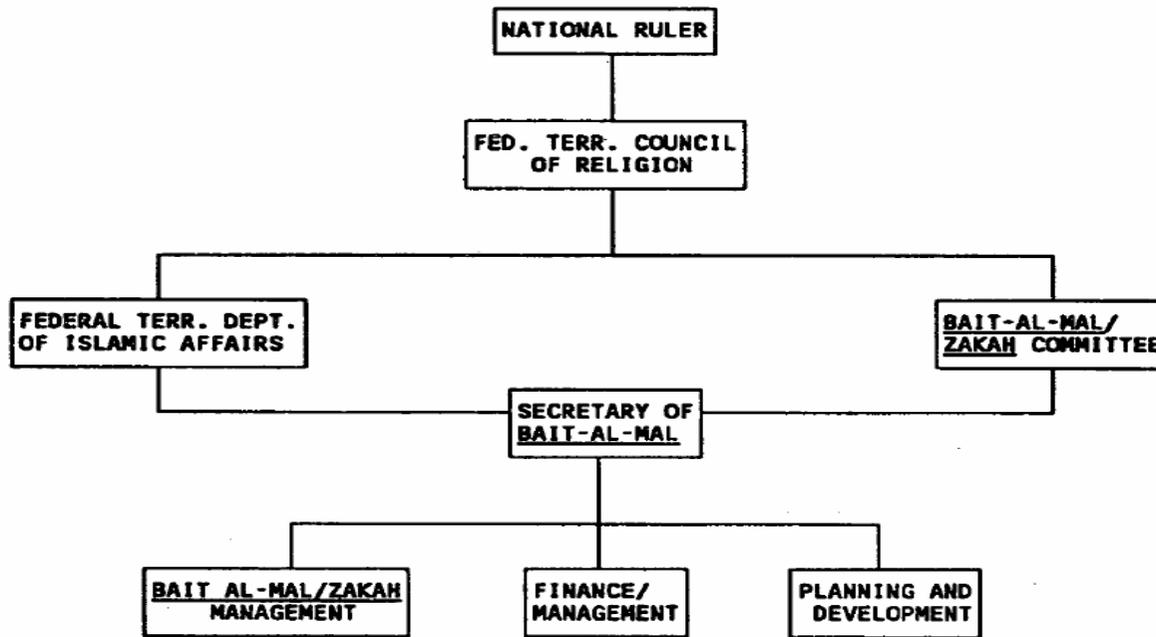
**CHART 4:** AN ORGANIZATIONAL FRAMEWORK WHICH ILLUSTRATES THE LEADERSHIP OF THE COUNCIL AS BEING HELD BY A COUNCIL BODY, COMPRISING THE STATE RULER AND STATE TRADITIONAL RULERS.

**Chart 5**



**CHART 5:** AN ORGANIZATIONAL FRAMEWORK WHICH ALLOWS FOR A MORE DYNAMIC ROLE BY THE BAIT-AL-MAL. ZAKAH ADMINISTRATION IS UNDER THE BAIT-AL-MAL DIRECTORSHIP AND DOES NOT EXIST AS MERELY A UNIT OF THE WHOLE FRAMEWORK.

Chart 6



**CHART 6:** AN ORGANIZATIONAL STRUCTURE WHICH HAS BEEN PROPOSED AS ONE THAT CAN ENHANCE THE EFFECTIVENESS OF ZAKAH ADMINISTRATION IN THE CONTEXT OF A MORE DYNAMIC ROLE THAT CAN BE PLAYED BY THE BAIT-AL-MAL.

## **APPENDIX IV**

### **A - DATA SOURCES**

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2. Report from the Council of Religion and Malay Customs of Wilayah Persekutuan. (1978 - 1989).
3. Report from the Council of Religion and Malay Customs of Perak (1978 - 1989).
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5. Report from the Council of Religion and Malay Customs of Johor (1978 - 1989).
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7. Report from the Council of Religion and Malay Customs of Negeri Sembilan (1978 - 1989).
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# PAKISTAN

PARVEZ AHMAD BUTT\*

## 1. INTRODUCTION

*Zakah*, including *ushr* (which is *zakah* on agricultural produce), is one of the fundamental pillars of Islam. Literally, *zakah* means growth, extension and purification of the human soul from greed, lust and malevolence. Technically, it means a complete, unilateral and unconditional, but obligatory, transfer by a Muslim of the ownership of a prescribed proportion of his property, to a poor Muslim, if the former owns or possesses wealth more than the limit prescribed by the *shari'ah* (*nisab*, it being Rs 3,200/- for the current *zakah* year).

Thus *zakah* is not merely a good turn, nor a charity but a divinely bestowed and clearly defined right of the poor in a Muslim community over a portion of its riches owned by the affluent. It is not only an obligation on the *sahib-e-nisab* of the community to give unto the poor (the *mustahiqeen*) what Allah has commanded, but it is also the obligation of the Islamic State to ensure that the well-to-do discharge their obligation and that the poor receive their rights. *Zakah* and *ushr* are not treated as taxes in Pakistan. The amount collected as *zakah* or *ushr* is not included in the budgets of the federal or provincial Governments. Instead, it is treated as money belonging to the poor (*mustahiqeen*) and held in trust by the Central *Zakah* Administration.

Pakistan, being a state established in the name of Islam, is committed to doing all that may be necessary to enable its Muslim citizens to order their lives, individually and collectively, in accordance with the precepts and tenets of Islam. Article 31 of the Constitution of Pakistan clearly lays down that "the State shall endeavor, as respects the Muslims of Pakistan, to secure the proper organization of *zakah*".

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Pakistan was established on 14 August, 1947. During 1950, some efforts were made to organize the institution of *zakah* on a voluntary basis. Those efforts did not produce tangible results and were soon given up. On 10 February, 1979, a Draft *Zakah* and *Ushr* Order, 1979, was published, for the purpose of eliciting public opinion. On 24 June, 1979 a partial *Zakah* Law, called the *Zakah* and *Ushr* (organization) Ordinance was promulgated, setting up a 5-tier *Zakah* Organization, with one Central *Zakat* Council at the Center, a Provincial *Zakat* Council in each of the four Provinces, a District *Zakat* Committee in each district, a *Tehsil/Taluqa* *Zakat* Committee in each locality (a locality being a village in the rural area with a population of about 2,000-3,000; and a ward in the urban area with a population of about 3,000 to 4,000). The complete ordinance, called the *Zakah* and *Ushr* Ordinance of 1980, was promulgated on 20 June, 1980. Its provisions relating to *zakah* became operative immediately and those relating to *ushr* were enforced on 15 March, 1983. The following are classes of *Zakat* Councils and Committees of the country which are reconstituted every three years:

Central <i>Zakat</i> Council	1
Provincial <i>Zakat</i> Councils	4
District <i>Zakat</i> Committees	81
<i>Tehsil/Taluqa</i> <i>Zakat</i> Committees	300
Local <i>Zakat</i> Committees	37,880

The 16-member Central *Zakat* Council is headed by a Judge of the Supreme Court of Pakistan, 8 non-official members including three ulama and seven official members including the Administrator-General of *Zakah*, Federal Secretaries, Finance and Religious Affairs and the Chief Administrators of *zakah* of four provinces. The Council provides policy guidelines and exercises general superintendence and control over matters relating to *zakah* and *ushr* in the country.

The 10-member Provincial *Zakat* Council in a province is headed by a Judge of the High Court, 5 other non-official members, including three ulama and 4 official members that include Provincial Secretaries of Finance, Local Government and Social Welfare Departments and the

Chief Administrator of *Zakah*. The Council exercises general superintendence and control over matters relating to *zakah* and *ushr*, particularly disbursements from *Zakat* funds in the Province.

The 7-member District *Zakat* Committee consists of a Chairman who is a non-official, 5 other non-official members, and the Deputy Commissioner. The District Committee under the guidelines provided by Central and Provincial *Zakat* Councils, oversees the functioning of the *Tehsil* and Local *Zakat* Committees in the district, and the assessment and collection of *ushr*, disbursement and utilization of *zakah* funds by the Local *Zakat* Committees. Non-official members of the District Committee are nominated by the Provincial *Zakat* Council.

The seven-member Tehsil Committee consists of a Chairman, the Assistant Commissioner of the Tehsil and five non-official members. For the formation of the Tehsil *Zakat* Committee, all the Chairmen of the Local *Zakat* Committees in the tehsil constitute an electoral college to elect, from amongst themselves, 6-member for the *Tehsil Zakat* Committee. These members, along with the Assistant Commissioner, then meet to elect one of their own members to be the Chairman of the Tehsil *Zakat* Committee. The Tehsil Committee renders similar functions in respect of the Local *Zakat* Committees as are performed by the District *Zakat* Committee over the Tehsil *Zakat* Committees and the Local *Zakat* Committees.

The 7-member Local *Zakat* Committee consists of a Chairman and 6 members who are all non-officials. They are selected by the adult Muslim residents of the locality, who elect one of them as their Chairman.

The above organizational set up has been presented graphically in an Annex.

The Local *Zakat* Committee is the most important grass-roots tier of the *zakah* system. Its functions include determining the amount of compulsory *ushr* demanded according to the Ordinance, collecting

voluntary *zakah*, donations and disbursing *zakah* money, transferred to it by the Provincial *Zakat* Council, to the *mustahiqeen*. It maintains accounts of the Local *Zakat* Fund in the prescribed manner, and selects and registers those residents of the locality who need *zakah* assistance.

## 2. ZAKAH COLLECTION

The *zakah* law applies to all Muslim citizens of Pakistan. But if a person feels that the *zakah* levies are not in accord to his faith and school of *fiqh*, he can seek exemption from such levies by filing a declaration on oath, according to a prescribed procedure.

The *zakah* is not deducted at source on all assets that are subject to *zakah*. This is done only in the case of 11 assets mentioned in the First Schedule to the Ordinance: (1) Bank Savings Accounts; (2) Notice Deposit Accounts; (3) Fixed Deposit Accounts; (4) Savings Certificates; (5) NIT Units; (6) ICP Certificates; (7) Government Securities; (8) Shares of Companies; (9) Annuities; (10) Life Insurance Policies; and (11) Provident Funds. All these assets are those that are kept in government or legitimate financial institutions where deduction at source can be made without any enquiry or reference to the asset-holder. The purpose of restricting the compulsory deduction of *zakah* to the 11 assets was to initially establish a system which is operationally feasible, administratively convenient and socially acceptable within the existing economic framework. The government, however, continues to consider bringing more assets into the compulsory net of *zakah* collection.

All other assets on which *zakah* is payable under the *shari 'ah* have been listed in the Second Schedule to the Ordinance and the owner is expected to pay *zakah* on these assets on his own to the *mustahiqeen* of his choice. These items are:

- A. Gold and silver and manufactures thereof
- B. Cash
- C. Prize bonds

- D. Current accounts and foreign currency accounts
- E. Loans receivable, excepting loans receivable by banks, other financial institutions, statutory corporations and companies
- F. Securities including shares and debentures
- G. Stock-in trade of:
  - i. Commercial undertakings
  - ii. Industrial undertakings
  - iii. Precious metals and stones
  - iv. Fish and other catch/produce of sea, except catches by indigenous techniques
  - v. Agricultural/including horticultural and forest produce
  - vi. Animals (fed free range in pastures)
  - vii. Wealth and financial assets other than those listed in the Schedule on which *zakah* is payable according to *shari'ah*.

## 2.1 Definitions

It may be useful to define the following critical terms used for the assessment and collection of the *zakah* in the context of the *Zakah* and *Ushr* Ordinance of 1980:

A. *Nisab*: *Nisab* in relation to the assets liable to *zakah*, except agricultural produce is defined as 612.32 grams of silver; or cash or gold, the aggregate value of which is equal to the value of 612.32 grams of silver; or 87.48 grams of gold (about 150 American dollars).

B. *Sahib-e-Nisab*: means a person who owns or possesses assets not less than *nisab* but does not include the following:

- i. a government or local authority
- ii. legal corporation, company, enterprise or its subsidiary owned wholly by the government or local authority

- iii. a *Zakat* fund
- iv. a charitable endowment
- v. a religious school
- vi. a mosque

C. Valuation Date: For all zakahable assets, except the agricultural produce, it is the 1st day of the *zakah* year, the first day of the month of Ramadan each year.

D. Deduction Date: For each zakahable asset the deduction date is the date on which the institution, agency, office or organization in custody of the asset, actually deducts the *zakah* at source. In relation to the bank savings accounts and similar accounts the date is the first of Ramadan. In the case of other types of zakatable assets, it is the date on which the asset matures, or the asset holder encashes it or receives income from it.

## 2.2 Exemptions

Exceptions and Tax Concessions: According

to the *Zakah* Law of Pakistan -

- A. Non-muslims and non-Pakistanis are exempt from the compulsory deduction of *zakah*
- B. An income tax assessee's total income is reducible by the amount paid by him to a *zakat* fund
- C. A wealth tax assessee's assets in respect of which the payment of *zakah* or the contribution in lieu thereof has been deducted at source, are entitled to exclusion from his taxable wealth
- D. Land revenue and development cess are not to be levied on the land with produce upon which compulsory is levied, *ushr* or a contribution in lieu thereof is made.

## 2.3 Collection

*Zakah* collection began immediately after the enforcement of the *zakah* and *ushr* Ordinance of 1980 on 20 June, 1980. *Zakah* collected compulsorily on the 11 assets mentioned in the First Schedule to the Ordinance during the previous nine years is as follows:

**Table**

***Zakah* Collected during 1981-89**

(Rupees in million)

1400-01 AH (20-6-80 to 3-7-81)	844.25
1401-02 AH (4-7-81 to 22-6-82)	798.51
1402-03 AH (23-6-82 to 12-6-83)	855.19
1403-04 AH (13-6-83 to 31-5-84)	1,011.33
1404-05 AH (1-6-84 to 21-5-85)	1,230.86
1405-06 AH (22-5-85 to 10-6-86)	1,439.01
1406-07 AH (11-6-86 to 28-4-87)	1,513.66
1407-08 AH (29-4-87 to 17-4-88)	1,944.19
1408-09 AH (18-4-88 to 7-4-89)	2,190.01
1409-10 AH (First 11 months)	2,398.51

There has been an average increase of about 12% in the collection of *zakah* every year. During the first 11 months of the *zakah* year 1409-1410 AH, *zakah* collection has registered an increase of more than 12% over the same period in the previous year.

## 2.4 Deducting Authorities

Financial institutions such as banks, post offices, national savings centers, life insurance corporations, companies and such institutions as are maintaining the assets mentioned in the First Schedule, deduct *zakah* on the valuation date. The deduction date, encashment, maturity, declaration of profit etc. would be determined accordingly. The amount so deducted by these institutions is deposited into the Central *Zakat* Fund.

*Zakah* proceeds kept in the Central *Zakat* Fund are distinct and separate from government funds and are controlled by the Central *Zakat* Council according to the requirements of the Provinces and the needs of *mustahiqeen*. *Zakat* funds have been established at 3 levels under the law:

- A. The Central *Zakat* Fund (one): at the Central level
- B. The Provincial *Zakat* Funds (Four): one in each of the four provinces
- C. The Local *Zakat* Funds (37,880): one in each Local *Zakat* Committee

The major source of income for the Central *Zakat* Fund is the *zakah* deducted at source by the banks and other financial institutions. The Provincial *Zakat* Funds receive 6 monthly installments from the Central *Zakat* Fund and similarly the Local *Zakat* Funds receive 6 monthly installments from the Provincial *Zakat* Funds besides *ushr* receipts. A very small amount of self-assessed *zakah* (voluntary *zakah*), *atiyyat* etc. are also credited to these funds. A flow-chart of *Zakat* Funds is placed as an Annex. All the *zakah* funds are audited annually under the law. The Audit Report of the Central *Zakat* Fund is placed before the Parliament; that of the Provincial *Zakat* Fund before the respective Provincial Assembly; and that of local *Zakat* Funds before the respective District Councils.

### **3. ZAKAH UTILIZATION**

*Ayah 60 of Surah Taubah* specifies the eight categories of *mustahiqeen* (beneficiaries) eligible to receive *zakah*:

- 1. *Fuqara* (the poor)
- 2. *Masaakeen* (the needy)
- 3. *`Aamileen* (those employed to administer *Zakat* Fund)
- 4. *Muallafat at Quloob* (those whose hearts have been or have to be reconciled to Truth)
- 5. *Fi al Riqaab* (those in bondage)
- 6. *Ghaarimeen* (those in debt)

7. *Fee-Sabil-Allah* (in the cause of Allah)
8. *Ibn-al-sabeel* (the wayfarers)

Pakistani *Zakah* Law attaches the highest priority to the first two categories i.e. *fuqara* and *masaakeen*. This will be clear from the relevant text which reads as follows:

1. First and foremost: assistance to the *mustahiqeen*, that is, the needy, the indigent and the poor, particularly orphans and widows, the handicapped and the disabled eligible to receive the *zakah* under *shari 'ah* for their subsistence or rehabilitation, either directly or indirectly, through *deeni madaris*, or vocational educational institutions, or public hospitals, clinics, dispensaries or health laboratories;
2. Secondly, the administrative expense of the *Zakat* Administration at various levels
3. Thirdly, any other purpose permitted by *shari'ah*.

According to the *shari'ah* principle of '*tamleek*', the *zakah* must be placed into the ownership of an individual *mustahiq*. These amounts cannot, therefore, be utilized for collective or community projects.

### **3.1 Releases from Zakat Fund**

The amounts collected in the Central *Zakat* Fund are disbursed by the Central *Zakat* Council through institutions at the national level, besides periodical releases to the Provincial Funds for arranging their disbursement through institutions serving the *mustahiqeen* and through the Local *Zakat* Committees.

### **3.2 Policy Guidelines**

The Central *Zakat* Council has laid down guiding principles for the disbursement of *Zakat* Funds. The present policy is as follows:

- i. The Provincial *Zakat* Council shall retain 40 per cent of the amount received from the Central *Zakat* Fund and the remaining 60 per cent shall be transferred by it to the Local *Zakat* Committees in the province.
- ii. The amount kept by the Provincial *Zakat* Council shall be utilized as follows:

Stipends and scholarships through educational institutions ...	50 per cent
Stipends through <i>deeni madaris</i> (religious schools)	20 per cent
Medical aid through hospitals and dispensaries	10 per cent
Assistance through social welfare institutions	10 per cent
Others	10 per cent.

- iii. The *zakah* amounts received by the Local *Zakat* Committees during a year shall be utilized as follows:

For rehabilitation	At least 45 per cent
For subsistence	Not more than 45 "
For administrative expenses ...	Not more than 10 "

*Zakah* for the subsistence and direct rehabilitation of individuals (by way of small business etc.) is provided by the Local *Zakat* Committees as they are the best judge of the bonafides of *mustahiqqeen* and their needs. The annual provincial figures in this regard are given in Annexes. Rehabilitation of *mustahiqqeen* by the Provincial *Zakat* Council is primarily through institutions. *Zakah* annual assistance to the provinces are disbursed as below :

- A. through *deeni madaris*
- B. for post primary scholarships and stipends
- C. through social welfare institutions
- D. for medicare

### 3.3 Emergency Relief

In view of the emergencies that have occurred in the provinces from time to time, such as drought, floods, fire, or accidents, the Central *Zakat* Council, during 1987-88, decided to place an imprest amount of Rs. 100 million with the provinces. The Punjab was provided Rs. 59 million during 1987-88 and Rs. 7.5 million during 1988-89. Sindh and NWFP were provided Rs. 61 million and Rs. 14 million, respectively. Baluchistan was provided Rs. 9 million during 1988-89. The Islamabad Capital Territory was provided Rs. 1.8 million during 1988-89.

### 3.4 Housing for Shelterless

A scheme for providing houses for *mustahiqqeen* without shelter is under-way. Under this scheme 59,000 houses are being constructed throughout the country from the *zakah* funds, at an estimated cost of about Rs. 1,600 million. So far 16,000 houses have been constructed.

### 3.5 Beggar Homes

Nine beggars' homes - 1 in the Punjab, 2 in the NWFP, 5 in Baluchistan and one in Islamabad - have been set up under the *zakah* system to provide food and shelter to the homeless indigents, and beggars, and to rehabilitate them. In these homes they are provided food and shelter, medical treatment and vocational training etc. for their rehabilitation.

At the beginning of 1988-89 there were 281 destitutes in these homes with 1,102 rounded up and brought in during the year, making a total of 1,383. Of these, 1,119 were allowed to go either on the guarantee of their guardians, or were deemed to have been rehabilitated. There were 264 inmates remaining at the end of the year.

### 3.6 *Ushr*

*Ushr*, which is *zakah* on agricultural produce, is charged on a compulsory basis at the rate of 5 per cent of the produce of the land

owner. On this, a rebate is allowed to the extent of 1/3rd in case of tubewell irrigation and 1/4th in other cases. The following are exempt from the compulsory levy of *ushr*:

- i. persons whose produce is less than 948 kilograms worth of wheat. This is *nisab* for *ushr*; and
- ii. all tenants farmers.

The amount of *ushr* is calculated by the land owner himself and deposited in the Local Zakat Fund. If a Local *Zakat* Committee feels that the amount of *ushr* calculated by the land owner is too low, it can recalculate the amount and increase accordingly. All *ushr* receipts remain with the Local *Zakat* Committee and are to be utilized in the same way as the *zakah* collected.

The annual position of **assessment and collection of *ushr*** up to 1989 is as follows:

(Figure: in million rupees)

<u>Assessment</u>	<u>Collection</u>		<u>Percentage</u>
Rabi 1983:	179.61	177.27	98.70
1983-1984:	262.74	256.80	97.74
1984-85:	271.03	255.30	94.20
1985-86:	264.38	242.12	91.58
1986-87:	250.42	210.08	83.89
1987-88:	246.44	202.85*	82.31*
1988-89:	152.89**	41.156*	26.91*

(\* Collection ongoing and incomplete)

(\*\* Assessment figures incomplete)

The declining trend in the assessment and collection of *ushr* is mainly due to the fact that the expected assistance from the provincial revenue officials in its collection is not forthcoming. Mainly, *ushr* is

self-assessed by the assessee under the current system and deposited with the Local *Zakat* Committee.

#### 4. ADMINISTRATIVE EXPENSES

Administrative expenses have been kept to a minimum. The entire administrative expenditure of the Central *Zakat Council*, Central *Zakah* Administration, Provincial *Zakat* Councils, Provincial *Zakah* Administrations, District *Zakat* Committees and the Tehsil *Zakat* Committees is borne by the Federal Government. Only the Local *Zakat* Committees have been allowed to spend 10% of their total receipts from *zakah* on their administrative expenses.

#### 5. ZAKAT FOUNDATION

In the matter of utilization of *Zakah* Funds the emphasis is being shifted gradually from subsistence to rehabilitation. Since the principle of 'tamleek' has not permitted spending *zakah* revenues on infrastructure necessary for rehabilitation, for example, the construction of buildings, salaries for trainers, and the purchase of equipment, a National *Zakat* Foundation was set up in 1981 with a grant of Rs. 100 million from the Federal Government. The National *Zakat* Foundation, during the last eight years has released Rs. 107.78 million for 188 projects. Of these, 62 were in the Punjab, 48 in Sindh, 33 in the NWFP, 43 in Baluchistan and 1 in the Islamabad Capital Territory. These are mainly vocational training centers, technical training centers, beggars homes, and social welfare, health and educational institutions. The annual break-down of the amounts released is as follows:

(Amount in million Rupees)

<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
9.35	9.49	12.89	24.02
<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
11.50	15.84	19.58	5.11 (up to Feb., 1990)

The Foundation is being managed by an Administrative Committee headed by the Federal Minister for Finance and an Executive Committee headed by the Federal Finance Secretary. Provincial Sub-committees have also been constituted in all the four provinces to help approve schemes relating to the strengthening and expansion of social welfare institutions serving the *mustahiqqeen*. The Provincial Sub-committees examine and approve schemes up to Rs. 5 million while schemes with larger outlays are considered by the Executive Committee or the Committee of Administration.

## **6. AMENDMENTS IN ZAKAH LAW**

The *Zakah* and *Ushr* Ordinance has been amended 7 times since 1980. The amendments made over a period of more than 9 years are aimed at improving the administrative aspects of the system and making structural changes. Recently amendments have been made to federalize the administrative structure to achieve, a unified chain of command. Another source for improvements in the system is provided by field studies, surveys and suggestions from the public. Dr. Monzer Kahf's Report on *zakah* and *ushr*, and the Household Survey on *zakah* and *ushr* conducted by the Federal Bureau of Statistics have been of help in guiding us in many ways in improving the system. The International Institute of Islamic Economics of Pakistan is completing another field survey on the operational aspects of *zakah* and *ushr*.

## **7. CONCLUSION AND OBSERVATIONS**

A. The *zakah* system has taken root and is here to stay. Almost two million persons in the country every year benefit from it directly or indirectly.

B. The administrative structure needs to be strengthened at the provincial, district and local levels. There is a need for more full time officers and staff instead of part-time staff, who are also performing other duties at the provincial and local levels.

C. The *zakah* programs in the form of financial assistance, free medical care and the provision of houses to the shelterless are directed towards alleviating hard core poverty and benefit people at the lowest levels of society.

D. There has been little achievement in reducing professional beggary in the country. *Zakah* programs can be effective against beggary only in close collaboration with the police, social welfare institutions and local municipalities.

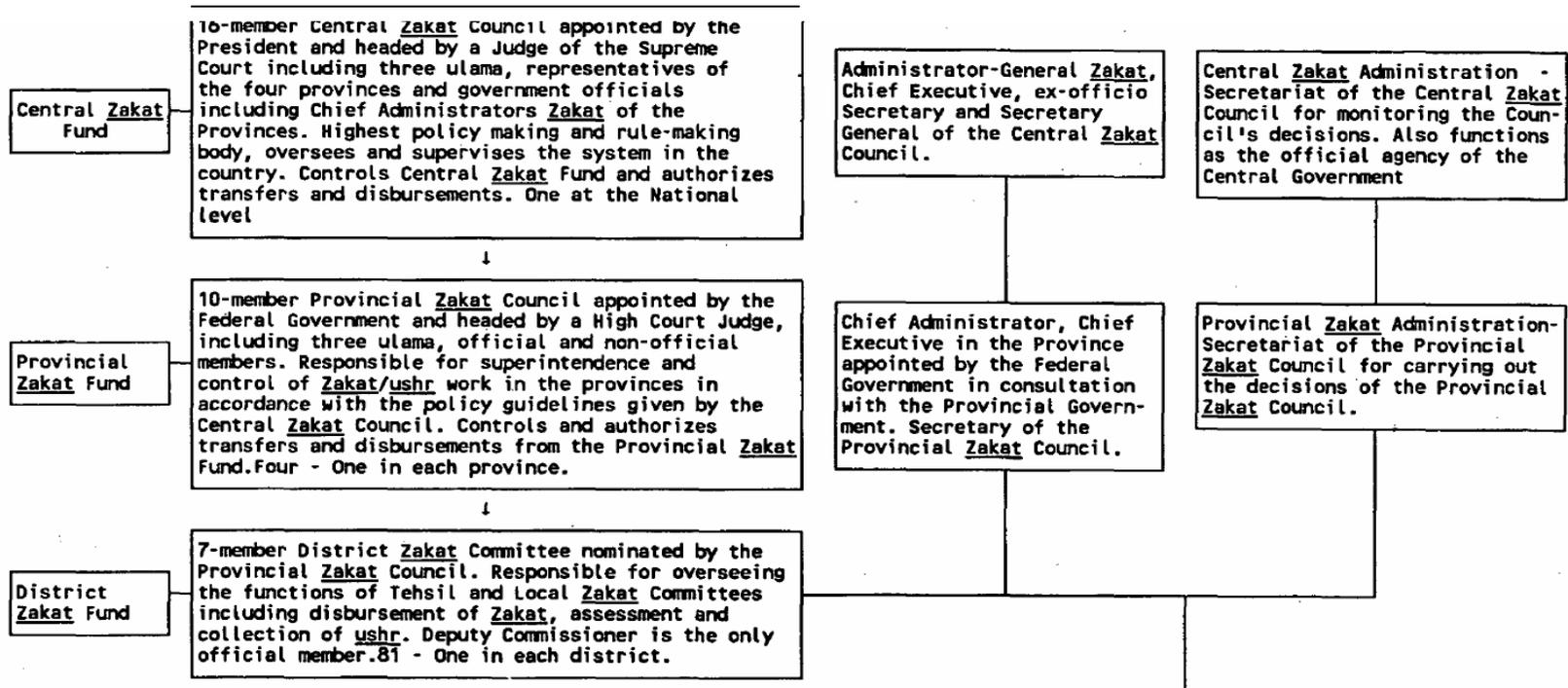
E. Rehabilitation programs can be launched with the help of unspent balances of *zakah* by basing such programs on the imparting of skills and training followed by rehabilitation grants to trained persons.

F. *Zakah* accounts and all other relevant information and statistics need to be computerized for easy accessibility and reference.

G. There is a need for better publicity to create awareness about programs through which deserving persons can benefit.

H. There is a growing opinion that those who are not liable to payment of *zakah* for any reason should be made to pay a tax on the same scale. The proceeds of such tax should be devoted to financing social welfare programs in the country.

## OPERATIONAL CHART OF THE ZAKAT SYST



(continued)

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Tehsil Zakat Fund

7-member Tehsil Zakat Committee constituted by the District Zakat Committee from amongst the Chairmen of Local Zakat Committees of the Tehsil. Responsible for overseeing, disbursing and utilizing Zakat Funds by Local Zakat Committees, assessment and collection of ushr, providing guidance to local Zakat Committees. Assistant Commissioner is the only official member. 300 - One in each Tehsil/Taluqa/Sub-division.

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Local Zakat Fund

7-member Local Zakat Committee in each Village/Deh,/Ward for a population of 2-3 thousand in rural and 4-5 thousand in urban areas, consisting of all non-official members. Constituted by the District Zakat Committee. Responsible for disbursement and utilization of Local Zakat Funds, determination of mustahiqeen, determination of ushr accounts and its collection. Prepares and maintains accounts of Local Zakat Fund. 37,880 Committees



**Table - 1****DISBURSEMENTS FROM THE LOCAL ZAKAT FUNDS FOR  
GUZARA (SUBSISTENCE ALLOWANCE)****CENTRAL ZAKAT ADMINISTRATION  
MINISTRY OF FINANCE**

Year	Punjab	Sind	NWFP Capital Territory	Baluchistan	Islamabad	Total
<b>Part A</b>						
<b>Amounts Disbursed</b>						
(Figure: in million rupees)						
1400-01AH	280.600	57.153	71.841	27.480	1.368	438.442
1401-02AH	354.650	68.330	79.385	21.819	4.318	528.502
1402-03AH	82.600	94.718	93.972	4.863	3.190	279.343
1403-04AH	573.740	81.250	81.502	28.056	4.542	769.090
1404-05AH	376.510	62.365	75.600	16.611	2.847	533.933
1405-06AH	124.450	14.671	38.056	8.540	1.120	186.837
1406-07AH	247.330	84.942	74.125	53.829	2.700	462.926
1407-08AH	193.150	78.130	40.150	35.140	2.700	349.270
<b>Total:</b>	<b>2233.030</b>	<b>541.559</b>	<b>554.631</b>	<b>196.338</b>	<b>22.785</b>	<b>3548.343</b>

<b>Part B</b>						
<b>Number of Beneficiaries</b>						
1400-01AH	537,654	420,562	130,055	196,688	4,530	1,289,489
1401-02AH	540,290	425,600	112,070	196,688	12,559	1,287,207
1402-03AH	524,342	472,890	110,803	57,166	9,866	1,175,067
1403-04AH	528,425	510,300	103,017	96,915	6,398	1,245,055
1404-05AH	463,860	315,000	95,000	74,580	4,576	953,016
1405-06AH	198,624	97,808	185,344	26,601	1,250	509,627
1406-07AH	137,389	471,900	170,000	74,000	3,000	856,289
1407-08AH	321,955	520,871	335,281	81,022	3,000	1,262,129
<b>Total:</b>	<b>3,252,539</b>	<b>3,234,931</b>	<b>1,241,570</b>	<b>803,660</b>	<b>45,179</b>	<b>8,577,879</b>

**Table - 2****DISBURSEMENT FROM THE LOCAL ZAKAT FUNDS  
AS REHABILITATION GRANTS****CENTRAL ZAKAT ADMINISTRATION  
MINISTRY OF FINANCE**

Year	Punjab	Sind	NWFP	Baluchistan	Islamabad Capital Territory	Total
<b>Part A</b>						
<b>Amounts Disbursed</b>						
(Figure: in million rupees)						
1400-01AH	2.397	Nil	0.169	Nil	Nil	2.566
1401-02AH	15.494	Nil	0.597	Nil	Nil	16.091
1402-03AH	26.318	55.115	0.605	Nil	Nil	82.038
1403-04AH	50.525	54.350	26.183	12.400	1.590	145.048
1404-08AH	16.964	50.000	27.413	0.100	1.764	96.241
1405-06AH	124.440	14.670	16.367	2.156	1.120	158.753
1406-07AH	247.330	84.942	74.125	17.943	2.700	427.040
1407-08AH	193.150	176.022	64.444	16.734	2.700	453.050
Total:	676.6	435.099	209.903	49.333	9.874	1380.827

<b>Part B</b>						
<b>Number of Beneficiaries</b>						
1400-01AH	1,598	Nil	336	Nil	Nil	1,934
1401-02AH	8,608	Nil	606	Nil	Nil	9,214
1402-03AH	13,109	33,062	582	Nil	Nil	46,753
1403-04AH	16,210	18,050	23,228	4,920	575	62,983
1404-05AH	6,405	21,230	17,080	400	588	45,703
1405-06AH	94,316	4,890	10,911	2,599	375	113,091
1406-07AH	123,650	28,314	24,500	24,000	900	201,364
1407-08AH	93,121	166,216	35,500	14,840	900	310,577
Total:	357,017	272,762	112,743	46,759	3,338	791,619

**Table - 3****DISBURSEMENTS FROM THE PROVINCIAL ZAKAT FUNDS  
TO DEENI MADARIS****CENTRAL ZAKAT ADMINISTRATION  
MINISTRY OF FINANCE**

Year	Punjab	Sind	NWFP	Baluchistan Islamabad Capital Territory	Total	
<b>Part A</b>						
<b>Amounts Disbursed</b>						
(Figure: in million rupees)						
1400-01 AH	9.400	0.011	2.756	1.811	Nil	13.978
1401-02 AH	17.230	0.600	4.122	0.317	Nil	22.269
1402-03 AH	28.190	1.308	5.742	3.870	Nil	39.110
1403-04 AH	8.890	4.735	8.463	1.291	0.078	23.457
1404-05 AH	53.340	7.475	12.099	9.642	0.418	82.974
1405-06 AH	59.310	11.740	16.705	0.198	0.497	88.450
1406-07 AH	88.870	10.577	15.791	10.653	1.073	126.964
1407-08 AH	74.990	29.956	15.208	10.160	1.015	131.329
<b>Total:</b>	<b>340.2</b>	<b>66.402</b>	<b>80.886</b>	<b>37.942</b>	<b>3.081</b>	<b>528.531</b>

<b>Part B</b>						
<b>Number of Beneficiaries</b>						
1400-01AH	35,000	269	7,785	24,147	Nil	67,201
1401-02AH	45,000	364	10,068	2,113	Nil	57,545
1402-03AH	46,000	1,354	13,720	25,802	Nil	86,876
1403-04AH	13,813	8,115	14,596	2,151	65	38,740
1404-05AH	53,742	9,700	15,361	16,069	1,697	96,569
1405-06AH	82,760	18,900	15,114	331	829	117,934
1406-07AH	88,795	23,827	26,981	17,755	1,789	159,147
1407-08AH	75,036	40,539	18,143	16,488	2,238	152,444
<b>Total:</b>	<b>440,146</b>	<b>103,068</b>	<b>121,768</b>	<b>104,856</b>	<b>6,618</b>	<b>776,456</b>

**Table - 4****DISBURSEMENTS FROM THE PROVINCIAL ZAKAT FUNDS  
THROUGH SOCIAL WELFARE INSTITUTIONS****CENTRAL ZAKAT ADMINISTRATION  
MINISTRY OF FINANCE**

Year	Punjab	Sind	NWFP	Baluchistan	Islamabad Capital Territory	Total
<b>Part A</b>						
<b>Amounts Disbursed</b>						
(Figure: in million rupees)						
1400-01AH	7.130	0.251	0.505	0.055	Nil	7.941
1401-02AH	10.050	0.007	0.162	0.919	1.463	12.601
1402-03AH	1.360	0.145	0.197	2.077	0.500	4.279
1403-04AH	10.920	0.526	0.311	1.629	0.578	13.964
1404-05AH	23.840	0.720	2.015	3.987	0.689	31.251
1405-06AH	15.940	0.250	0.501	2.814	0.019	19.074
1406-07AH	4.500	1.430	0.628	1.764	0.043	8.365
1407-08AH	7.440	1.556	0.848	6.905	0.037	16.786
<b>Total:</b>	<b>80.8</b>	<b>7.135</b>	<b>5.167</b>	<b>20.150</b>	<b>3.329</b>	<b>114.261</b>

<b>Part B</b>						
<b>Number of Beneficiaries</b>						
1400-01AH	45,000	464	955	103	Nil	46,522
1401-02AH	30,000	12	622	923	386	31,943
1402-03AH	764	656	444	5,318	420	7,602
1403-04AH	10,525	1,241	614	864	273	15,517
1404-05AH	19,870	1,999	3,232	4,976	198	30,275
1405-06AH	12,910	2,500	779	1,408	30	17,627
1406-07AH	3,750	2,325	1,000	716	72	7,863
1407-08AH	3,377	2,540	542	920	62	7,441
<b>Total:</b>	<b>126,196</b>	<b>11,737</b>	<b>8,188</b>	<b>15,228</b>	<b>1,441</b>	<b>162,790</b>

**Table - 5**

**DISBURSEMENTS FROM THE PROVINCIAL ZAKAT FUNDS  
FOR MEDICARE**

**CENTRAL ZAKAT ADMINISTRATION  
MINISTRY OF FINANCE**

Year	Punjab	Sind	NWFP	Baluchistan	Islamabad Capital Territory	Total
<b>Part A</b>						
<b>Amounts Disbursed</b>						
(Figure: in million rupees)						
1400-01AH	1.380	Nil	0.004	Nil	Nil	1.384
1401-02AH	1.850	Nil	0.032	0.389	Nil	2.271
1402-03AH	0.140	0.125	0.315	0.070	Nil	0.650
1403-04AH	3.120	0.515	0.793	0.225	Nil	4.653
1404-05AH	16.300	11.775	4.000	1.294	Nil	33.369
1405-06AH	14.520	1.290	0.490	5.200	0.026	21.526
1406-07AH	9.320	10.043	1.828	2.975	0.110	24.276
1407-08AH	25.050	13.868	1.774	3.012	0.435	44.139
<b>Total:</b>	<b>71.61</b>	<b>37.616</b>	<b>9.236</b>	<b>13.165</b>	<b>0.571</b>	<b>132.268</b>

<b>Part B</b>						
<b>Number of Beneficiaries</b>						
1400-01AH	10,000	Nil	12	Nil	Nil	10,012
1401-02AH	12,000	Nil	80	1,766	Nil	13,846
1402-03AH	4,750	2,600	4,650	242	Nil	12,242
1403-04AH	40,950	4,542	2,633	734	Nil	48,859
1404-05AH	155,342	11,775	3,233	4,109	Nil	174,459
1405-06AH	137,618	5,500	7,767	433	2,234	153,552
1406-07AH	88,333	21,483	6,000	10,000	281	126,097
1407-08AH	50,233	38,519	2,463	7,010	480	98,705
<b>Total:</b>	<b>499,226</b>	<b>84,419</b>	<b>26,838</b>	<b>24,294</b>	<b>2,995</b>	<b>637,772</b>

# SAUDI ARABIA

ABDUL AZIZ M. RASHID JAMJOOM\*

## 1. MODES OF *ZAKAH* COLLECTED FROM INDIVIDUAL ESTABLISHMENTS REGISTERED WITH THE MINISTRY OF COMMERCE

A. Should such establishments submit systematic accounts certified by a chartered accountant, zakatable assets will be as follows:

- Capital according to systematic accounts
- All reserves and allocations with the exception of allocations for the depreciation of fixed assets
- Current creditors' accounts of the establishment owner
- Profits brought forward from previous years
- Profits of the accounting year in question after having been modified by legally non-acceptable expenditures
- Total profits

The following are deducted from the total:

- Net fixed assets after depreciation
- Balance of formation expenses
- Investments at home and abroad
- Losses in previous years
- The balance representing the legally zakatable assets
- Matured *zakab* at the rate of 2.5 per cent

B. Should the individual establishment fail to submit systematic accounts (and this is, more often than not, the case), as there is nothing in the law forcing the *zakab* payer to submit such accounts, the Department will be obliged to determine the value of the matured *zakab*

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according to the rule of arbitrary assessment. Zakatable assets consist of:

- Capital as declared by the *zakah* payer
- Estimated profits at the rate of 15 per cent of capital (in case the tax payer is inactive) or
- Contractors' profits computed at the rate of 15 per cent of the aggregate works carried out during the accounting year after a deduction of 30 per cent of the estimated profits against expenditures
- Zakah at the rate of 2.5 per cent

## **2. ASSESSMENT CRITERIA OF ZAKATABLE ASSETS UNDER SAUDI LAW WITH REGARD TO PERSONS WHO DO NOT KEEPSYSTEMATIC ACCOUNTS**

Circular number 2/8443/2/1 issued by the Department on 08.8.139211 refers to how zakatable assets of this category of tax-payers are to be assessed. Likewise circular number 11498/2 issued by the Department on 25.12.1400H shows how to deal with loans obtained by *zakah* payers who are subject to arbitrary assessment for the determination of their zakatable assets.

In the light of the aforesaid, the assessment elements of zakatable assets are, briefly given, as follows:

### **A. Capital at the beginning of the year**

Capital is determined at the beginning of the year by various means, such as consulting the commercial register, the contract of association or any other relevant documents. Should it appear that the information obtained from these documents as to working capital does not tally with the actual facts, the Department may proceed to make its own estimates based on such considerations of the scale of the business activity and the number of capital cycles, in line with established traditions in each industry, trade or business.

## B. Net profits at the end of the year

These are determined on the basis of total operations undertaken by the *zakah* payer during the year, provided that net profit is not less than 15 per cent of documented general revenues, or they are determined on the basis of the number of capital turnovers.

Having secured the approval of the Ministry of Finance and National Economy that the standard 15 per cent arbitrary profit rate which had been applied to all kinds of business activities be reduced to 10 per cent in the case of importers of specific food provisions and 5 per cent in the case of importers of vegetables, fruits and livestock, while remaining unchanged in the case of all other business activities, the Department issued its periodical circular number 2 for the year 1395H, specifying the 1394H zakatable assets of Saudi importers and those whose zakatable assets are determined purely on the basis of assessment. This circular dealt with new importers who commenced operations in 1394H and thereafter. Thus the zakatable assets for this particular category of *zakah-payer* in the year 1405H was SR 1,420,000 detailed as follows:

Capital at the beginning of the year 1405H is the same 1394H capital computed on the basis of the 1394H imports	..	1,000,000
Profits from the difference between the 1405H and 1394H imports amounting to SR 4 million at the rate of 15 per cent representing the net profit rate prescribed for imported cars	..	600,000
Minus 30 per cent thereof against expenses	..	180,000
Zakatable assets	..	1,420,000
Values of <i>Zakah</i> Dues @ 2.5 per cent	..	35,500

To compute the zakatable assets in this case for the year 1394H, capital was determined at the beginning of the year 1394H on the basis of 1/8th of all imports during this year. Add to the capital the amount of profit computed according to the percentage estimated for its particular form of activity, subtract 30 per cent of the estimated net profit and the result will be zakatable assets for the year 1394H. The year 1394H is considered the base year with regard to the capital of zakah-payers, as it will serve as the capital-base for successive years. The profit added to the capital is the profit accruing from the difference between the value of imports for the year 1394H and that for the subsequent year that *zakah* is being calculated. The profit yielded by this difference is computed at the rate prescribed for import activities with 30 per cent deducted therefrom against expenses. The estimated profit balance is added to capital and the total will represent the zakatable assets.

**Example:**

A zakah-payer engaged in the car import business imported cars worth 8 million riyals in 1394H. In 1405H his car imports were worth 12 million riyals, that is a difference of 4 million riyals between the 1405H and 1394H figures.

**3. ZAKAH ASSESSMENT MODES IN RESPECT OF MERCHANTS  
NOT REGISTERED WITH THE MINISTRY OF COMMERCE**

Being out of the Department's reach, it is difficult to induce these merchants to render account of their zakatable assets. However, some of them may be forced to approach the Department or any of its branches, offering to give account of their zakatable assets in order to obtain a clearance certificate which is a prerequisite for obtaining permission from the Ministry of the Interior to recruit manpower needed from abroad to take part in public tenders or to collect any money which government departments may owe them.

#### **4. METHODS OF ZAKAH COLLECTION FROM IMPORTERS ON THE GOODS THEY IMPORT**

- A. The Customs Department keeps the Department **regularly** informed, on an annual basis, of the total goods imported by these merchants.
- B. The zakatable assets of these zakah-payers are assessed in the manner specified in detail in circular 2 issued by the Department in the year 1395H.

#### **5. METHODS OF ZAKAH DETERMINATION IN THE CASE OF FACTORIES**

*Zakah* is collectable on working capital minus the value of those parts thereof which are frozen in the form of fixed assets. It is determined according to one of two methods as follows:

- A. If the zakah-payer submits systematic accounts showing clearly and accurately the scope of his operations, his zakatable assets will consist of the following:

Capital, reserves, profits brought forward from previous years, current creditor's accounts and the profits realized during the accounting period in question. Deduct from all this the net fixed assets, such as, machinery, equipment, buildings, land, etc. as well as losses suffered in previous years and the balance you have will represent the zakatable assets from which *zakah* is collected at the invariable rate of 2.5 per cent

- B. In the absence of systematic accounts *zakah* is assessed according to the rule of arbitrary assessment. The Department proceeds in such a case to fix the working capital at an estimated 25 per cent of the paid-up capital. The remaining 75 per cent is presumed to be frozen in fixed assets. Profits at the assessed rate of 15 per cent of the working capital are then added. The total will represent the zakatable assets from which *zakah* will be collected at the fixed rate of 2.5 per cent

## **6. THE PROCEDURES OF ZAKAH COLLECTION IN CASE OF AN INSOLVENT ESTABLISHMENT**

If the Department is satisfied that a *zakah-payer* is unable to settle his *zakah* bill in one single payment, it may accept payment in equal installments over a limited period of time.

## **7. ZAKAH AS ENTERED UNDER THE SPECIAL HEADING OF THE STATE BUDGET**

Collected *zakah* funds are entered under a special heading of the State Budget, namely, number 9200. *Zakah* funds are collected and delivered to the public treasury. The Ministry of Finance and National Economy is the party that is required to open a special account for these funds meant to be spent in full on social security along with whatever supplementary funds are allocated by the Ministry for this purpose, as is required by Royal Decree 32, dated 20 Shawwal, 1385H.

## **8. DIFFICULTIES FACED BY THE ZAKAH DEPARTMENT IN ZAKAH ASSESSMENT**

A. Sometimes it is difficult to get a true picture of the *zakah-payer's* business activity as individual *zakah-payers* are not required by the law to submit systematic accounts, whether they are involved in partnerships or other entities. On the other hand, joint stock companies and limited liability companies are dealt with according to the law pertaining to companies.

B. Many *zakah-payers* are often inattentive to their duty to call on the Department and have their *zakah* payment record adjusted according to their annual *zakatable* assets. This lax attitude is mainly due to the fact that no fines or penalties are imposed on *zakah-payers* who are behind in their payments.

## **9. METHODS OF ZAKAH COLLECTION AND DISTRIBUTION**

The Ministry of Finance and National Economy is entrusted with the task of collecting *zakah* in all categories. The distribution of *zakah*, however, is entrusted to Social Security, Ministry of Labor and Social Affairs, according to Royal Decree 22 dated 20 Shawwal, 1385H.

## **10. ZAKAH ASSESSMENT ON LAND PRODUCE OR LIVESTOCK**

The burden of determining zakatable assets does not fall within the jurisdiction of this Department. It is rather the responsibility of the General Bureau of Public Revenues of the Ministry of Finance and National Economy. Under a long-established procedure in the Kingdom, zakatable crops and fruits of the land are determined by special assessment committees composed of both government officials and private citizens. Special committees are responsible for the distribution of *zakah* to the beneficiaries. Speaking of *zakah* on livestock and its method of collection, we must point out that it is of two kinds: one is discharged during the winter season and the other during summer, to accommodate various regions. These committees are centrally based in-Riyadh.

## **11. LEVEL OF UNDERSTANDING OF ZAKAH LAWS BY ZAKAH COLLECTORS**

Thanks to their considerable experience and thorough assimilation of religious rulings and ministerial circulars and resolutions, *zakah* collectors are well aware of *zakah* rules.

## **12. REMUNERATION OF ZAKAH COLLECTORS**

They do not receive salaries from *zakah* funds. They receive salaries from the public treasury.

### **13. .ZAKAH ON THE JOINT STOCK COMPANY**

Usually these companies submit systematic accounts certified by auditors. Thus, it should be very easy to determine the shareholders zakatable assets by following the same method described in detail in paragraph (a) of the answer to the first heading. The *zakah* rate applicable to joint stock companies is the same as that for individuals, namely 2.5 per cent.

### **14. CRITERIA FOR ASSESSING ZAKATABLE ASSETS OF A MERCHANT**

As we have already explained, the zakatable assets of *a zakah-payer* who submits no systematic accounts, is not involved in contracting activity and has not imported any goods during the accounting year, are determined on the basis of the *zakah-payer's* working capital plus 15 per cent (not 10 per cent) of his capital as estimated profits.

### **15. ACTION AGAINST MERCHANTS WHO DO NOT REVEAL THEIR ACTUAL CAPITAL IN ORDER TO AVOID PAYMENT OF ZAKAH AND DISCHARGE OF OTHER OBLIGATIONS LAID DOWN BY THE STATE**

What basically counts in the computation of *zakah* is the *zakah-payer's* voluntary declaration of his zakatable assets. If the Department has strong doubts as to the accuracy of figures given by the *zakah-payer*, it may launch a field investigation to arrive at the truth of the matter, but this line of action is taken only as a last resort. On the other hand, some merchants give largely inflated figures for their capital in the hope of obtaining the kind of privileges which a modest capital-base does not entitle them to enjoy. Will the Department be inclined to verify the facts in order to arrive at accurate *zakah* figures?

As already explained, the voluntary declaration *a zakah-payer* makes is the basis on which the Department determines his zakatable assets. In the absence of systematic accounts it is quite difficult to determine the actual size of a *zakah-payer's* capital.

## **16. ZAKAH ON WHEAT, RIKAZ, PROFESSIONALS AND REAL ESTATE**

The General Establishment of Grain Silos is the party which collects this particular kind of *zakah*. It deducts the due *zakah* directly from the farmers and passes it on to the Department of *Zakah* and Income Tax. Minerals extracted from the earth, such as, petroleum, gold, iron etc. are termed *Rikaz*. The *zakah* rate in this case amounts to 20 per cent of its value. *Rikaz zakah* is the responsibility of the government represented by the Ministry of Finance and National Economy and the Ministry of Petroleum and Mineral Resources. The Department collects *zakah* to some extent from those belonging to liberal arts professions, such as, lawyers, engineers, accountants and doctors. This has been formally established in the case of doctors. As to other professions, a system is still to be worked out to determine how *zakah* is to be collected.

The Department collects *zakah* to some extent on real estate at the time of sale and purchase. This is true in the case of those who submit accounts detailing their activities in this field.

## **17. COMPLAINTS AGAINST ARBITRARY ASSESSMENT**

The Minister of Finance and National Economy agreed to a specific procedure under which grievances against arbitrary assessment of *zakah* could be referred to the Committee of Tax Appeal which would give its opinion in a strictly advisory capacity and not as a verdict with a judicial impact on the grievance in question. Thus, His Excellency the Minister would be able to formulate an administrative opinion on the grievance in question which he would then convey to the Department for enforcement. This particular procedure was detailed in the Minister's letter number 17/997 on 20 Rabi Al-Awwal, 1401H.

## **18. GUARANTEES FOR ZAKAH COLLECTION**

In spite of the fact that the Saudi *Zakah* Law does not impose any penalties or fines on *zakah-payers* who fall behind in both submitting the

declarations relating to their zakatable assets and effecting payment of their assessed *zakah*, this law and an accompanying executive bill have endorsed a variety of guarantees which ensure that due *zakah* is paid by zakah-payers without delay. Some of the guarantees are given below:

**A. The Last Instalment in each Contract is Withheld Pending Payment of *Zakah***

In an attempt to induce *zakah-payers* to effect payment of due *zakah*, the Council of Ministers passed a resolution (number 378 on 13.4.1391H) stipulating that:

- The Department of *Zakah* and Income Tax be provided with a copy of all contracts concluded between ministries and other government departments, on the one hand, and both Saudi and foreign companies and contractors, on the other.
- The last instalment of each contract be withheld until the company, the contractor or the caterer has produced a certificate from the Department of *Zakah* and Income Tax showing that their *zakah* and tax accounts are in order.
- A condition be included in bank credits calling for the last instalment to be withheld until a certificate is produced from the Department of *Zakah* and Income showing that the contractor or caterer concerned has already satisfied all claims relating to the *zakah* and the taxes he is required to pay.
- Directors of departments of finance, projects and budget shall be considered responsible for the implementation of the aforesaid articles, and that failure to do so shall be considered a punishable contravention under public civil service regulations. Consequently all government agencies and public establishments shall abide by the commitment to withhold the last instalment of each contract pending the submission by the zakah-payer of a certificate from the Department of *Zakah* and Income Tax to the effect that the *zakah* he is due to pay has already been settled. Should he fail to pay, the party

withholding the last instalment shall be contacted by the Department of *Zakah* and Income Tax and asked to deduct therefrom a sum equivalent to the *zakah* that has come due, arrange for it to be credited to the Department's account and release the balance.

- Recruitment authorities and the Ministry of Commerce shall be required to demand *zakah* settlement certificates as a pre-condition for the endorsement of recruitment applications.

#### **B. *Zakah* Defaulters to be Detained:**

In his letter number 1/361 on 15.01.1397H, His Highness the Deputy Minister of the Interior instructed His Excellency the Director of Public Security to inform policemen to see to it that *zakah* defaulters are made to honor their *zakah* payments when they are due and not to be lenient as the next step to be implemented by police authorities calls for defaulters to be arrested and detained. Consequently, the Department issued circular number 1551/676/3 instructing all its branches and financial departments to arrange for their representatives to meet chiefs of police in their respective areas to work out an effective method by which defaulters are made to honor their *zakah* commitments, provided that none of them is detained by the police before chiefs of police have been notified by the Department's branches as to the number of notices served to *zakah* and tax-payers, bringing to their attention the amounts they are required to pay in *zakah* or taxes on their annual assets and incomes. In other words, the Department and its branches must first exhaust all the usual means to settle claims before the police detain those who are behind in paying their dues to the public treasury.

#### **C. Refusal to Issue a Final or a Temporary Certificate**

Unless the *zakah*/tax-payer has got the necessary clearance for the year before a final or temporary certificate for the present year will be refused.

In circular 703/1 issued on 28.01.1398H, the Department made it clear that if the zakah-payer has no valid final or temporary certificate, his activities will be threatened by :

- His exclusion from participation in public tenders
- His inability to recruit the foreign manpower needed to run his operations
- His inability to cash the periodical or final installments of the value of projects he has carried out under contract for the government

Finding himself at such a disadvantage, the zakah-payer will be keen to pay his *zakah* dues and obtain a valid certificate thereof.

#### **D. Seizure of Imports by Customs**

Order 3135 on 21.02.1382H issued by His Royal Highness the Deputy Prime Minister authorizes His Highness the Minister of Finance and National Economy to endorse the seizure of defaulters' imports by way of punishment with the condition that they be released only after a certificate or a notice is issued by the Department declaring that defaulters have paid their *zakah* dues in full.

#### **E. Defaulters Banned from Leaving or Doing Business in the Kingdom**

Article XX of the Executive Bill of the *Zakah* Law issued under Ministerial Resolution 293 dated 06.8.1370H calls for the enforcement of the provisions of articles 21 and 31 of Ministerial resolution 340 of 01.7.1370H [bill of income tax] on persons required to pay the *zakah*. Article 21 of the Ministerial resolution (340) passed in 1370H stipulates that "Any merchant, businessman, ' trader or company - in short any taxable party - may be barred from carrying out his/its work in the Kingdom of Saudi Arabia on a temporary or permanent basis, from departure or from taking his/its funds out of the country if he/it fails to

pay on time, a tax that has come due, or if he/it gives false information in order to evade or help evade tax payment.

Likewise Article (31) of Ministerial Resolution (340) issued in 1370H stipulates that "Provision of collection law shall be applied to the collection of taxes and the fines concomitant thereon". The Ministry of Finance and National Economy shall have first priority with regard to all the property of persons and companies who have failed to pay off their tax debts. Furthermore, the government shall have priority over all other creditors in recovering its debts. No tax-payer shall be permitted to leave Saudi Arabia before it is ascertained that he has already paid his taxes.

Although Article (15) of the executive bill of *zakah* law provides for the enforcement of the provisions of the aforesaid Articles (21) and (31) in the case of *zakah-payers*, the Department requested H. E. the Minister of Finance and National Economy that the foregoing articles, with all the penalties they prescribe, be also applied to tax evaders. His Excellency approved sending a circular to those who are completely behind in their payments, asking them anew to pay the funds they owe the Department with a reminder that the Department would take steps to block their departure in accordance with Article (15) of Ministerial resolution 313 issued in 1370H should they fail to pay within one month, and would seize all their imports at the Customs or any matured payments government agencies may owe them in implementation of Article 158 of the competition and overbidding regulations. This is set out in detail in note 4 circulated by the Department in 1393H to all its branches and various financial departments.

#### **F. Major Contractors are Authorized to Deduct *Zakah* from Subcontractors and Pass them on to the Department**

Circular 4431/2 issued by the Department on 06.7.1397H calls on all contractors to cooperate with the Department to deduct *zakah* fees from funds due to every Saudi sub-contractor and turn it over to the Department along with a list of sub-contractors engaged under contract to carry out specific tasks and whose remunerations and funds due to

them appear under the contractor's-expenses presented to the Department as part of his accounts.

**G. A Zakah-payer may not enter any Tender**

He will not be invited by government agencies or public establishments affiliated with the government or companies to which the government is subscribing unless he submits a certificate from the Department of *Zakah* and Income Tax showing that he is current in his payments at the time of his participation in the tender. Another similar certificate must be produced at the end of work to ensure that a *zakah*-payer is not behind in his payments.

# THE SUDAN

## MOHAMMAD IBRAHIM MOHAMMAD\*

### 1. INTRODUCTION

This paper aims to document the Sudan's experiments in *zakah* collection by exposing it to criticism and examination to emphasize its positive aspects and correct its negative aspects. As a result, it may serve as a basis for international Islamic experiments.

The paper covers 10 Hijra years starting from 1 Muharram, 1400H to 30 Dhul Hijjah, 1409H with emphasis on the last 5 years, during which the payment of *zakah* to the State by every Muslim, male and female, has become compulsory. Hence, the official statistics have come into the picture.

#### 1.1 *Zakah* Collection by the State Before 1980

The Sudan encompasses a vast territory. Historians differed in estimating its area. Various powers with different religions and orientation came to this country. The first two Islamic States were established almost at the same time, namely the Zarqa Sultanate which ruled the centre, east and north of what is present-day Sudan, and the Islamic Poor State in the west. Two Islamic Kingdoms of Tagli and Mosba'at were established, followed by Turkish sovereignty which existed until the Mandist revolution and the fall of Khartoum in 1881. Historical references do not help to explain the situation of *zakah* in those Islamic States. It is supposed, however, that *zakah* was *in* force, despite some shortcomings. Therefore, we should pause a little to examine the situation under the Mandist Islamic revolutionary government.

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## 1.2 *Zakah* Collection by the Mandist State 1300H to 1317H (1881 to 1898)

The Mandist State remained in power during 1300H to 1317H (1881 to 1898). Its reign was marked by the application of *shari'ah* in all aspects of life, including the economy. The revenue of the State consisted of *zakah*, *spoils*, *fay* (booties) and *ushr* on commodities. The well-known Sudanese historian Makki Shabihah says "The backbone of life in the Mandi state was *zakah* on crops and livestock". In fact the *zakah* experiment in the Mandist State was characterized by the following :

A. The appointment of *zakah* collectors was made by Imam Mandi himself and, subsequently, by his successor Abdullah Ta'yeshi. This emphasizes the importance of *zakah* which was directly linked to the Head of State.

B. The disbursement of *zakah* was made at a specified area. The decree issued by the Imam and his successor determined the place for *zakah* collection and distribution.

C. The collector of *zakah* had to be a trustworthy man and his name would be listed in the same decree wherein he was ordered to observe Allah's teachings. A collector could not start his work without an order marked by the seal of the Head of State.

D. The decree would specify the school of thought applicable in this case and certain forms would be used for this purpose.

E. There was a well-defined administrative system for the treasury (*Bait-al-Mal*) which was divided into specific units. The general treasury was one of its most important units, with the *zakah* as its main source of income. It had branches in all regions. *Zakah* affairs used to be managed in different quarters by a trustee in charge of collecting *zakah*. He was assisted by a clerk and a collector.

F. The accounts of the treasury in general and of *zakah* in particular were confidential. Certain signs were used to indicate quantity and value.

It may be said that the interest shown by the Mandist State in *zakah* reflected one of the primary reasons for establishing an Islamic State and for which Mandism came into being. (5) See No.(6).

### **1.3 Cessation of *Zakah* Collection by the State**

The Anglo-Egyptian army moved into Sudan to put an end to the Islamic Mandist State and ruled from 1898-1956. It was not an ordinary army. In addition to its advanced weapons and training, the army was led by Lord Kitchener, who was an engineer by training. The army, thus, carried with it the seeds of secular western civilization. After the battle of Kavari in which 40,000 of the Mandi's followers *Ansar* fell as martyrs, the invading army prevailed and the Mandi's State came to an end. Kitchener established a secular system of government which separated religion from the state. The political, economic, social, educational and information system was secular and nothing of religion was left except for rites of worship and civil laws. As a result, *zakah* collection by the State was no longer implemented, along with other Islamic functions which had been the responsibility of the Islamic State.

### **1.4 The Nationalist Rule - 1956**

It is not surprising, then, that *zakah* collection by the state was abandoned under British imperialism. What is surprising is that the collection of *zakah* remained abandoned under the nationalist rule. When the Sudan gained political independence in 1956, the nationalist governments, civilian or military, did not collect *zakah* because of the secularism which prevailed the nationalist movements. But the call for the implementation of *shari'ah* in all aspects of life was reactivated and its revival continues.

### **1.5 Official Implementation - 1980**

Stage One: *Zakah* Fund 1400H to 140511 (1980 to 1985)

The fact that *zakah* collection by the state was completely abandoned under the imperialist rule and partly abandoned under the

nationalist rule does not mean that the practice of *zakah* discontinued among Muslims; rather it remained as an integral part of their religion and subject to personal implementation and judgement and the efforts of individuals. In 1400H, during the festivities celebrating the Fifteenth Century of Hijra, a number of Islamic activities were launched, including a *Zakah* Fund. This fund aimed at the implementation of *zakah* and the promotion of voluntary *zakah* in society. After that the Law of *Zakah* Fund for 1980 was passed (Jumad Thani 1400H (April 1980)). The experiment of the Fund was characterized as follows:

- *Zakah* is voluntary and non-compulsory.
- The Fund has a national status and a general seal.
- It is run by a Board that has a chairman and a number of active members.
- The management is divided into two sections: collection and information.
- The *Zakah* Collection Committee performs its duties through personal contacts with wealthy people who make charitable donations.
- The law stipulates that the *Zakah* Council should publish its accounts and submit the draft budget after approval of the Minister, and the accounts should be audited by an external auditor.

#### **ADVANTAGES OF THE FUND**

- It represents a first step towards implementation of the gradual *zakah*.
- Since it was run by a Board of Trustees, bureaucratic red tape was dispensed with. Moreover, the fact that it has nothing to do with the government increased the confidence of *zakah*-payers.
- It helped to make people aware of the *zakah* and encouraged *zakah* payment.

- It drew up studies to establish access to those who should be paying the *zakah*.
- The Fund has extended assistance to more than 5,000 families, and helped certain beneficiaries to secure ownership of some production equipment, and assisted students, the needy and the handicapped.

#### DISADVANTAGES OF THE FUND

1. The establishment of the Fund on a voluntary basis conflicted with *shari'ah*. There was a lack of response on the part of *zakah-payers*. The proceeds of *zakah* during / the period from 1400H to 1404H, totalled 1,416,371 Sudanese Pounds, derived mostly from the *zakah* of Islamic banks since their articles of agreement stipulate that they should pay *zakah*.
2. Only ten people composed the *zakah* fund staff, not nearly enough to carry out its responsibilities.
3. *Zakah* was only collected in the national capital.

#### **Stage Two: *Zakah* and Taxation Chamber 1405H to 1406H (1985 to 1986)**

The *Zakah* Taxation Act was issued on the 1 Jumad Thani, 1404H (14 March, 1984) becoming effective as from the 1 Muharram, 1405H (26 September, 1984). This was one of a set of Islamic laws passed in September 1983, which included the Islamic Penal Code of 1983 and the Civilian Affairs Law of 1984.

The most important features of this Act was that, for the first time since the fall of Mandist State in 1898, the payment of *zakah* was made compulsory for all Muslims male and female. It also gave the State the right to have *zakah* under its authority. In addition, it created a social solidarity tax on non-Muslims according to the same rate, *nisab* and amount as the *zakah*. At the same time, the act abolished about twenty kinds of taxes; a move that had profound economic implications. This

action made secular economists scathing in their criticism of the Act. It caused the then Minister of Economy to submit a memorandum to the President saying: "We have to prepare ourselves for a situation in which our programs with international institutions might come to a standstill if they are not convinced that the new situation will increase our resources, or at least maintain the present income levels. Some countries may stop their programs with the Sudan altogether because of their well-known attitude vis-a-vis the Islamic movement."

The deficit reached 820 million Sudanese Pounds about 40 per cent of the budget, which confirmed the statement of the Minister of Finance as to the views of the IMF mission. Those views stressed that a decline in tax proceeds would marginalize the role of the western system in the country's economic development. They proposed some reform measures. The opinion of the mission about the *zakah* was well known but there was no reason to abolish these taxes, either from a *Fiqh* perspective (there is a right on money other than *zakah*) nor from a practical view point since *zakah* heads of expenditure differ from those of taxes. There are taxes in conformity with religious orders to establish social solidarity such as a price-stabilization tax. In fact, a deficit occurred in budgets of both the central government and regional governments. Among the negative aspects of this Act was an inherent duplication of *zakah* and ordinary taxation. There was also duplication in implementation. The Act became effective on 26 June, 1984. The collection of *zakah* started in the same year (1984) as that of the 1983 taxes. There was also duplication in administration because *zakah* collection was assigned to the same authority in charge of tax collection, without efforts to increase its knowledge of *zakah* affairs. Apart from these defects, ordinary tax collection carried with a negative association among certain tax-payers. Moreover, there was no increase in manpower to collect the *zakah*.

**Stage Three: *Zakah* Chamber 1406H to 1410H (1986 to 1989)**

In order to perfect the *zakah* system and to correct the mistakes and negative aspects of the *Zakah* and Taxation Act a *Zakah* Law was issued in 1406H (1986). The main features of the Law are as follows:

- It stressed that payment of *zakah* to the State is compulsory.
- It separated *zakah* from taxes and established a special *Zakah* Chamber with an official status and an independent administration, headed by a Secretary General directly appointed by the Cabinet.
- It became affiliated with the Ministry of Social Welfare, rather than the Ministry of Finance, with complete internal independence.
- It did not affect taxes.
- It covered all regions in the Sudan.

**The law has, in fact, set the implementation of the *zakah* on the right path and, as such, the *Zakah Diwan* has begun to advance.**

Stage Four: *Zakah* Law 141011 (1990)

Some deficiencies appeared in implementation and in order to overcome these weakness, a new *zakah* law was adopted on the 9 Jumad Thani, 1410H (6 January, 1990). Its main features are :

***Zakah* is compulsory on the prescribed *nisab*.**

- The *zakah* heads of expenditure range from the needs of individuals and the community to the sacred duty of the State to safeguard religious and worldly concerns.
- It stresses the people's participation in the *Diwan* by establishing the High Council of *Zakah* Trustees and *Zakah* Trustees Councils in the national capital and the regions. It stipulates that popular committees should be set up to help in the distribution of the *zakah*.
- It expands the resources of the Cham<sup>be</sup>r. In addition to all kinds of *zakah*, including *zakah* funds from *zakah* houses and individuals throughout the Islamic world, it may also accept alms and donations

from inside and outside the Sudan. The Chamber may also obtain revenues from the investment of its own fund.

- It stipulates that *zakah* funds should be spent in the same area they are collected.
- It asks Sudanese nationals outside the country to pay their *zakah* to the Chamber, to be spent in localities selected by the High Council of *zakah* Trustees.
- It stipulates that any one who refuses, evades or refrains from the payment of *zakah* is subject to punishment.
- It considers Chamber funds as public funds which are governed by the penal code. It has exempted the Chamber funds from all kinds of taxes.
- It stipulates that no documents or facilities involving financial rights and privileges should be given to any one unless a certificate of *zakah* payment is submitted by him.
- It stipulates that *zakah* payments shall be deducted from taxes due.
- It allows 20 per cent of the *zakah* to be spent by *zakah* payers personally, on poor and needy relatives and neighbors.

One may wonder if the law will be applied to institutions and firms. Yes, that could be done because such legal bodies are similar to Islamic banks which have charity obligations towards individuals, families and charitable societies. They set aside a percentage of their profits or assets to meet these obligations.

#### GENERAL FEATURES OF THE ZAKAH CHAMBER IN THE SUDAN

- It is an official body established by law as a legal entity.
- It passed through four stages in application.

- It has an administrative structure in accord with the General Service Law in the Sudan.
- It is under the Ministry of Guidance and Orientation, since its major function is to acquaint people with *zakah*.
- It enjoys a large degree of freedom in its movement and activity.
- Its Secretary General is a senior state official.
- Its staff are State employees, obtaining the salaries and benefits of civil servants. They also receive special benefits.
- It is based on decentralization, so as to collect and distribute the *zakah* on a regional basis, with certain exceptions.
- It depends on self-financing: 10 per cent for administrative costs, 12.5 per cent for *zakah* collectors. This means that 10 per cent of total proceeds prior to the distribution of the *zakah* according to *Shari'ah*, shall be allocated for administrative costs such as construction, transportation and management, with 12.5 per cent for paying salaries and other benefits to *zakah* collectors.
- It enjoys freedom to practice and promulgate *fiqh* opinions and *ijtihad*. It has a *shari'ah-control* organ comprised of leading scholars in the Sudan, and follows the *Fatwa* of the *Ifta'* Council.
- It has a popular dimension in its control and implementation.
- It is in charge of voluntary alms and donations.

## **2. ZAKATABLE ASSETS**

### **2.1 Trade Funds and Merchandize**

Allah The Almighty Says: *O Ye who believe! spend of the good things which ye have earned.* Samrah Ibn Jundob, may Allah bless him,

narrates that "the Prophet (Pbuh) used to order us to pay *sadaqah* out of our tradable items." The following funds and items are subject to *zakah*:

1. Article 7 of the *Zakah* Law has adopted the widely accepted definition of tradable items: all that is tradable with the purpose of making profit, i.e., all merchandise. No *zakah* is due on items not meant for trade.
2. All commercial goods including recoverable debts, after having deducted all their liabilities.
3. All commercial goods and all monies used in trade transactions after one full year is passed.
4. *Nisab* on tradable merchandise which is calculated according to a gold standard.
5. The rate of *zakah* on tradable merchandise is one fourth of *ushr* (2.5 per cent).

**Table - 1**

***Zakah on Tradable Items 1405H to 1409H***  
(In Sudanese Pounds)

Year/Region	140511	140611	1407H	1408H	1409H	Total
Capital	4,310,760	6,784,856	4,216,414	7,215,261	8,719,000	31,246,291
Central	883,906	462,326	87,396	1,281,493	2,568,026	5,283,147
Northern	28,685	798,313	28,710	867,230	283,104	2,006,042
Eastern	196,248	185,146	257,527	1,338,434	737,006	2,714,361
Darfoor	11,874	7,639	167,600	465,815	131 788	784,716
Kordofan	66,520	85,781	36,339	45,378	-	234,018
<b>Total</b>	<b>5,497,993</b>	<b>8,324,061</b>	<b>4,793,986</b>	<b>11,213,611</b>	<b>12,438,924</b>	<b>42,268,575</b>

## **2.2 Zakah on Gold and Silver**

Article 8 of the law has imposed *zakah* on gold and silver other than articles of adornment (jewelry), if they, are held through one full year. The *nisab* of gold is 85 grams and that of silver is 595 grams. The article does not set a condition that gold and silver should be hallmarked. The rate is one fourth of *ushr*.

## **2.3 Money**

*Zakah* is also levied on paper money, coins, deposits, notes that have monetary value and can be used as a substitute for currency after one full year and if they reach *nisab*, whether they are hoarded, saved or not, at the rate of one fourth of *ushr* (Article 9).

## **2.4 Zakah on Agricultural Produce**

Pursuant to what Allah The Almighty Says: "And pay the due thereof upon the harvest day" (6:141), and the Prophetic *hadith*, narrated by Moaz Ibn Jabal, *ushr* should be paid in the case of a rain-fed and naturally irrigated land and half of *ushr* should be paid in the case of artificially irrigated land. The law put an end to *fiqh* differences on arable land that is zakatable and adopted Abu Hanifah's opinions, ordering *zakah* to be paid on all that is produced by land which is intended to develop land. In this respect, the land has been taken into consideration as to the general welfare and the development in agricultural economy. The law made *zakah* conditional on *nisab*, giving preference to the views of the majority of scholars over Abu Hanifa's in this respect. Articles 12, 13, 14 and 15 of the law deal with the details of this matter:

**Table - 2**

**Zakah on Agricultural land 1405H to 1409H**  
(In Sudanese Pound)

Year/Region	1405H	1406H	140711	1408H	1409H	Total
Capital	2,683	-	-	-	-	2,683
Central	13,315,874	3,235,390	5,551,827	18,691,453	-	40,794,544
Eastern	23,535,754	31,920,215	38,448,891	34,325,048	-	128,229,908
Northern	93,122	70,435	390,090	541,370	-	1,095,017
Kordofan	75,014	332,655	11,187	13,861	-	432,797
Darfour	780	34,437	4,095	-	-	39,312
Total	37,023,307	35,593,132	44,406,090	53,571,732	-	170,594,261

### 2.5 Zakah on Livestock

Article 16 of the law stipulates that livestock not used for ploughing are zakatable if they have been owned for a full year. Article 16 deals with sheep, article 17 with camels and article 18 with cows. The Sudan possesses a huge animal wealth. Statistics in 1986/87 showed the following:

Cows	=	about 20 million
Sheep	=	19 million
Goats	=	14 million
Camels	=	2,750,000

Animal wealth would have yielded a revenue amounting to 400 million Sudanese pounds but for the following reasons:

1. Difficulty in finding the optimum means for livestock preservation. Livestock in remote areas constantly move. A number of suggestions were included in the working papers presented calling for reliance on resources in the summer from the water supply authority and the pasture and fodder authority.
2. Drought and desertification has led to the death of large number of livestock, especially in west Sudan where the majority of cattle exists.

3. The ending of private administrative powers.
4. Lack of security.
5. Absence of manpower and material means to trace livestock and the lack of places for maintaining them.

This does not mean that we have remained inactive. Positive changes have taken place in the political situation, including the establishment of civil order and the return of private administration. Drought and desertification have receded, but there are other obstacles to be overcome.

## 2.6 Zakah on Income Generating Items

This covers all that yields revenue, such as industries, factories, etc.

**Table - 3**

### **Zakah on Income Generating Items 1405H to 1409H** (In Sudanese Pound)

Year/Region	1405H	1406H	1407H	1408H	1409H	Total
<b>Capital</b>	-	-	-	-	828,000	828,000
Central	-	-	58,200	-	<b>119,346</b>	<b>177,546</b>
Eastern	65,120	55,172	-	<b>98,287</b>	813,137	1,031,716
Northern	5,120	19,776	47,070	-	12,326	84,292
Kordofan	3,675	35,057	18,063	25,290	-	<b>82,086</b>
<b>Darfour</b>	<b>65,798</b>	11,128	37,910	75,980	-	<b>190,816</b>
	-----	-----	-----	-----	-----	-----
Total	<u>139,713</u>	<u>121,133</u>	<u>161,243</u>	<u>199,558</u>	<u>1,772,809</u>	<u>2,394,456</u>

## 2.7 Zakah on Salaries and Wages of Civil Servants in the State and Private Sectors

Zakah in this regard has met strong opposition from *shari'ah* and *nisab* points of view because a salary (in Sudan) is insufficient to satisfy the needs of a civil servant or worker. As for the *shari'ah* point of view, the law adopted the practice of Moawiyah and Omar Ibn Abdulaziz in

levying *zakah* on soldiers' salaries. Concerning *nisab*, it was calculated in Sudanese Pounds on the basis of the value of gold i.e. 11,475 Sudanese Pounds per annum constitute *nisab*.

As to the question about satisfying living needs, the Chamber made a study of the basic needs of an average family in the Sudan and found out its needs were in the range of 11,328 Sudanese Pounds 11328 per annum (944 Sudanese Pounds per month). A bulletin was issued, stating that the minimum zakatable salary shall be 1,900 Sudanese Pounds inclusive of monthly basic needs and *nisab* as follows :

Monthly basic needs	=	11,328/12	=	944
<i>Nisab</i>	=	11,475/12	=	956
Total			=	190

The table 4 indicates the *zakah* revenues from this category for the period 1405H.

**Table - 4**  
***Zakah* on Salaries and Wages 1405H to 1409H**  
(In Sudanese Pounds)

Year/Region	1405H	1406H	1407H	1408H	1409H	Total.
Capital	1,661,749	2,941,708	5,326,202	5,197,310	900,000	16,026,969
Central	30,164	59,411	87,396	225,631	1,799,426	2,202,028
Eastern	187,570	463,997	357,527	88,691	-	1,097,785
Northern	570,484	178,433	78,710	65,817	28,038	1,097,482
Kordofan	291,768	112,866	26,339	32,741	-	473,714
Darfour	74,251	70,167	72,282	89,275	-	305,975
Total	<u>2,815,186</u>	<u>3,826,582</u>	<u>5,908,456</u>	<u>5,619,465</u>	<u>2,727,464</u>	<u>20,977,953</u>

## 2.8 Income of Professionals

This category, which includes lawyers, doctors, chartered accountants, engineers and other professionals, is subject to the *zakah*,

and as with the salaries of civil servants, basic needs and *nisab* have been taken into account in calculating *zakah*. Collection of *zakah* from this group started in 1406H. The table 5 shows the *zakah* revenue from this category in the year 1406H.

**Table - 5**

**Zakah Collected from Professionals, 140611**

(In Sudanese Pounds)

<b>Region</b>	<b>Amount</b>
Capital	60,000,000
Central	478,562,000
Eastern	-
Northern	6,117,000
Kordofan	
Darfour	73,832
	<hr/>
Total	544,753,432

**2.9 Precious Minerals (Treasures)**

Article 1-1 imposed *zakah* on precious minerals at the rate of Khoms (one fifth) to be calculated after extraction. No such *zakah* has been collected as yet.

**2.10 New Categories**

These include dairies, poultry farms and fisheries which are to be included among income generating items, and livestock breeding farms which are to be included among tradable goods, and salterns which are to be included among minerals.

**3. WAYS OF ZAKAH COLLECTION**

The ways of *zakah* collection are provided in Bulletin No.1/89.

### **3.1 Merchandise**

#### **Forms**

At the end of every Hijra year, every *zakab* payer has to present a form, prepared by the Chamber along with documents supporting the information declared in the form. There are details and procedures related to this form.

#### **Examination and Estimation**

The Chamber carries out this process on the basis of the following principles:

- A. Evaluation at market prices
- B. Calculating the lunar year as a basis for *zakab* on merchandise
- C. Annual growth in real terms or by assessment
- D. Separation of fiscal years
- E. *Nisab*
- F. Ownership of wealth.
- G. Non-discussion of people to pay *zakab*

#### **Method of Examination**

This involves the updating of zakatable assets: paid-up capital at the beginning of the year plus net profits at the end of the year; carried-forward profits for previous years; deduction of all needs, allocations, credit balances and debts, along with real losses; investments in other enterprises; provisions for depreciation of assets; and provision for end-of-service allowances. Net fixed assets are deducted on condition that all their value is paid and that the amount should be within the paid-up capital.

### **3.2 Zakah on Agricultural Produce**

There are many types of fanning in the Sudan because the country has tropical, semi-tropical, rich and poor savana, desert and semi-desert

climates. The terrain is varied from sand and clay to ragged mountain ranges and hills, to fertile valleys and plateaus. Crops are either rain-fed or irrigated.

Article 12(1) of the law stipulates that everything yielded by the land is subject to the *zakah*. The Chamber collects *zakah* on produce from the land including all kinds of maize, wheat, millet, barley, cotton, sesame, peanuts, beans, sunflower, as well as banana, mango, orange, vegetables etc.

#### **Assessment**

- A. Estimation is the best way to calculate the *zakah* on agricultural produce. The Prophet himself (Pbuh) employed this practice.
- B. The law neither explicitly calls for assessment nor prevents it. Assessment of date yields is, in my opinion, of doubtful legality. This comes under what the Prophet (Pbuh) said: You are more aware of your every day affairs.
- C. In practice, this method has been applied in the northern region to date crop for the following reasons:
  - i. There are a lack of experts in this region.
  - ii. It is mere guess work and it may be dispensed with.
  - iii. In reality we should collect *zakah* on produce as soon as crops arrive in markets or when they are on their way to other markets, in which case assessment becomes redundant.
  - iv. When the *zakah* law came into force regional committees were set up to calculate the *zakah* on crops but they failed for practical reasons.

#### **Experiment of Crops Markets**

These are official markets for the sale of crops. As such, the *Diwan* coordinated with the administrative authority concerned and started to collect the *zakah* upon the arrival of crops to the market, provided that

all costs incurred after harvest, such as packing and harvest, . would be rebated, since *zakah* is only on the crop itself. The experiment has been very successful in Qadaref, East Sudan. Proceeds from the *zakah* on crops in this area amounted to 95 per cent of the total collected in the region and 50 per cent of all *zakah* collected in the Sudan.

#### **Cash or kind**

Originally *zakah* was collected in kind but for the most part it now has to be taken in cash from the value of the produce for the following practical reasons:

- i. The nature of produce, fruit and vegetables cannot be taken in kind because they become rotten very quickly.
- ii. *Zakah* on inedible produce like sunflowers or edible produce after manufacturing, like sesame and beans, should be in cash.

### **3.3 *Zakah* on the Livestock**

*Zakah* on livestock is collected according to cash value rather than kind because of the lack of manpower and material means to care and maintain the animals. This is still an experiment and contacts have been made with official authorities like pasture land, fodder and livestock departments and the shepherds union as well as local administrations to get their views as to the best ways and means to collect *zakah* on the livestock.

### **3.4 Income Generating Assets**

We have discussed the different kinds of income generating assets. The proceeds are what the beneficiary gets through donation or purchase, where the passage of one full year does not apply. The rate of *zakah* in this case is 2.5 per cent. The seller or the beneficiary pays the *zakah* to the Chamber. Bulletin No.27/89 has stipulated that a clearance certificate showing the payment of *zakah* should be obtained from the Chamber before certain official transactions can be completed, otherwise they

would not be officially validated. Real estate sales, for instance, could not be registered. The *zakah* on donated funds was not collected in 1410H, so no statistics exist.

### 3.5 Professions

We have mentioned different kinds of professions and trades and how the *zakah* is being collected by estimating annual income. If the annual income exceeds *nisab*, their costs and other original expenditures will be deducted and the remaining will become subject to *zakah*.

### 3.6 Salaries and Wages

Bulletin NO.21/89 defines both *nisab* and basic needs. As a result of this bulletin zakatable salaries have been reduced. The experiment of *zakah* deduction can be successful if *zakah* dues are deducted at source, as a responsibility of the employer and not of the employee.

**Table - 6**

**Total *Zakah* Collection during 140511 to 1409H**

<b>Category</b>	<b>Amount</b>
Merchandise	42.268.575
Agricultural Produce	170,594,261
Income Generating Items	2,394,456
Salaries, Wages and Professional income	20,977,953
Total	<u>218.235.245</u>

## 4. CONCLUSION

Let us conclude our study by giving some of the salient features of the Sudanese Experiment in the implementation of the *zakah* :

- In its endeavors to gradually implement *zakah*, the Chamber has passed through four stages until it has reached its present form.
- The official status of the Chamber has been instrumental in its success.
- The independent decision-making process led to the non-interference of the Executive authority in the collection and distribution of *zakah*.
- The popular control and operation of the Chamber increases its success in the overall implementation of the *zakah*. The Higher Council of Zakah Trustees is the supreme authority according to Article 31, charged with established policies, while the Popular Committees assist the Chamber in the implementation process.
- The Chamber experiments with *zakah* collection on crops through deduction at sources.
- The Chamber has adopted Shari'ah views on *zakah* collection and distribution and does not violate the accepted juridical opinions regarding these activities.
- 
- The Chamber develops, and expands the avenues of its expenditure, taking into consideration social realities and setting priorities accordingly.
- The Chamber aims to awaken public awareness about *zakah*. Chamber personnel are well-trained.
- The Chamber is responsible for all *sadaqah*, donations, charities and *zakah*.

The Chamber faces also the following problems in its overall performance :

- an all pervasive ignorance
- bias
- misconception
- geographical long distance of the country
- lack of easy means of transportation
- inexperienced staff
- uneasy access to information and statistics

# YEMEN

MUHAMMAD YAHYA HUSSEIN AL-'ADI\*

## 1. GENERAL DETERMINANTS OF ZAKAH LEVYING IN YEMEN

### 1.1 General Basis of Zakah

The *zakah* is one of the five pillars of Islam and a prerequisite of true faith. It is, therefore, ranked with worship in Islam. Allah says: "*Successful are the believers who are humble in their salah; who turn away from vain talk and who give the zakah*". (Al-Mumninun: 1-4). He also says: "*Perform the prayers and give zakah*", and "*Take zakah from their wealth so that you may thereby cleanse and purify them*". The Prophet (Pbuh) says: "Islam is based on five principles: the testimony that there is no God but Allah and that Muhammad is Allah's Prophet, the performance of the *salah*, the giving of *zakah*, the fasting in Ramadan and the performance of the pilgrimage to the House by all who can make the journey". The Prophet (Pbuh) used to send his messengers to the provinces to collect the *zakah* and order them to give it to the poor in those provinces. For example, the Prophet, while sending Muaz ibn Jabal to Yemen, said to him: "You are going to a people belonging to an earlier revelation. The first thing that you will invite to, is to testify that there is no God but Allah and that I am the Prophet of Allah. If they obey you in that, then inform them that God has enjoined on them five daily prayers. If they obey in that, then inform them that God has enjoined on them *a sadaqah* which is to be taken from the rich among them and to be given to the poor among them"<sup>1</sup>.

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<sup>1</sup>Al-Bukhari, Vol. II, P. 130; Al-Nasaei, Vol.III. p.4

## **1.2 State's Regime, Language and Religion**

Article 1 of the permanent constitution provides that Yemen is an independent Islamic State, with full sovereignty. It is a parliamentary republic based on the principle of *shurah*. The people of Yemen are part of the Arab nation. Article 2 stipulates that the religion of the State shall be Islam and that Arabic shall be its official language. Article 3 asserts that Islamic *shari'ah* is the source of all laws. This means that all the laws enforced in Yemen are traced back to the main sources of Islamic *shari'ah*, namely, the Quran, the Sunnah and Consensus.

## **1.3 Constituent Elements of the State of Yemen**

The main constituent elements of the State, as determined by the permanent Constitution, are three :

### **A. Social Constituents**

Article 6 of the permanent Constitution provides that "social solidarity, based on justice, freedom and equality, is the basis of society". The same article asserts further that "family is the nucleus of society and that it should be based on religion, morals and nationalism". This fact is taken for granted since family is the hub of society and has a special status in our Islamic Arab traditions. A well-regulated family is, therefore, the basis of a strong, firm social structure.

### **B. Political Constituents**

Article 8 states that "the State is to regulate public and private freedoms within the framework of Islamic Shari'ah and law. The State is also to guarantee security and equal opportunities for all citizens".

### **C. Economic Constituents**

One of the constituents with which the permanent Constitution is concerned is the State's observation of the principles of Islamic social justice. Article 10 provides that "The economy of Yemen should be

organized according to a state plan that observes the principles of Islamic social justice and has as its goal the development and improvement of production". Such a plan is not, however, to infringe on the state's sovereignty and independence.

#### **1.4 *Zakah* in Yemen**

The permanent Constitution of Yemen states that "*zakah* is a fundamental pillar of Islam and the state which is to endeavor to collect and spend it on its legal heads of expenditure".

#### **1.5 The State is Responsible for the Levying and Distribution of *Zakah***

The permanent Constitution of Yemen obliges the State to levy, collect and distribute the *zakah* in compliance with the provisions of Islamic *shari'ah*.

Since the time when the Prophet Muhammad (Pbuh) sent Saad Ibn Muaz to Yemen, the state has been playing a significant role in the management, collection and disbursement of *zakah*. Yemen, being an Islamic state since the dawn of Islam, relies for all its laws, systems and regulations on the Islamic *shari'ah*.

It is recognized that the *zakah* is levied, collected and distributed in compliance with the Divine Constitution. Hence Allah the Almighty says: "*Take zakah from their wealth so that you may thereby cleanse and purify them*". The state must, therefore, endeavor to levy the *zakah* and organize its payment and expenditure on legal items in such a way that warrants the simplifying of *zakah* procedures. The measures taken by the state ought to be appropriate for apparent and non-apparent wealth (though the latter has disappeared since banks and joint-stock companies have become widespread). Furthermore, the state ought to observe Allah's rights over man's wealth and to observe, as well, the secrecy of his affairs.

## 1.6 Continuity of *Zakah* Levy Development

The *Zakah* Administration has adopted a policy of continuous development of the *zakah*-levying system. This is expressed in the following actions:

- The organ established for the management of *zakah* has been evolved from a general department of the Ministry of Finance into an administratively and financially independent Administration unto itself, reporting directly to the Minister of Finance. This Administration consists of three general departments and eleven branch offices in the capital cities of Governorates, besides those branches already established throughout the districts of the Republic of Yemen.
- In 1975, a resolution for the establishment of the Administration was passed.
- The Republican Act for 1980 states that the Administration should be developed with regard to its organization and specialties.

Other resolutions were passed by the Minister of Finance concerning the formation of departments and divisions at the headquarters of the Administration, as well as the specification of departments and divisions at the branch offices, be they in capital cities or districts.

Steps have been taken to organize the *Zakah* Administration despite many obstacles encountered. Particular attention has been paid to documentation, forms and registers required for circulation, registration and deductions. Furthermore, mention should be made of the serious attempts to issue the draft resolution on the organization of *zakah* levy. Moreover, the *Zakah* Training Institute has been established with the aim of developing *zakah* management.

## **1.7 Types of Wealth liable to *Zakah***

Here, we do not want to go into the legal details as to the imposition of *zakah*. However, mention should be made of the fact that in Yemen *zakah* is assessed and levied in compliance with the Quran, the *Sunnah* and the Consensus. The different types of *zakah* are dealt with in detail as follows:

### **1.7.1 *Zakah* on Agricultural Produce**

This type of *zakah* is paid on all agricultural crops without being conditioned by the elapse of one year (*al-hawl*). On the land watered by rain, *ushr* is imposed, while on that irrigated by canal water, half *ushr* is imposed. *Zakah* on agricultural produce is levied in kind on crops that can be stored, e.g., coffee beans, corn, barley, lentils, broad beans, peas, etc. In some instances, this type of *zakah* is levied in cash on such crops that cannot be stored, e.g. vegetables and fruits. *Zakah* on honey is not excluded from this type of *zakah*. It is assessed at one *ushr* depending on the number of years that have elapsed.

### **1.7.2 *Zakah* on Livestock**

The animals liable to this *zakah* include cows, sheep and camels. It is to be levied according to the following rates:

#### **1.7.2.1 ZAKAH ON CATTLE**

For every 30 cows (over 119) one *Tabee* is to be paid, and for every 40 cows (over 119) one *Musinnah* is to be paid.

**Table - 1**

<b>Number of Heads</b>	<i>Nisab</i>
From 30 to 39	One <i>Tabee</i> or <i>Tabeeah</i> (one-year-old he or she-cow)
From 40 to 59	One <i>Musinnah</i> (2-year-old she-cow)
From 60 to 69	2 <i>Tabees</i>
From 80 to 89	2 <i>Musinnahs</i>
From 90 to 99	3 <i>Tabees</i>
From 100 to 109	One <i>Musinnah</i> and 2 <i>Tabees</i>

**1.7.2.2 ZAKAH ON CAMELS**

**Table - 2**

For every 40 camels (over 120) one Bint Laboon is to be paid, and for every 50 camels. (over 120), one *Hiqqah* is to be paid.

<b>Number of Heads</b>	<i>Nisab</i>
From 5 to 9	
From 10 to 14	One she-camel 2 she-camels
From 15 to 19	
From 20 to 24	3 she-camels
From 25 to 35	4 she-camels 1 Bint Makhad (2-year-old she-camel)

From 36 to 45	1 Bint Laboon (3-year-old she-camel)
From 46 to 60	1 Hiqqah (4-year-old she-camel)
From 61 to 75	1 Jazaa (5-year-old she-camel)
From 76 to 90	2 Bint Laboons
From 91 to 120	2 Hiqqahs.

#### 1.7.2.3 ZAKAH ON SHEEP

And for every 100 sheep (over 300) one sheep is to be given. This *zakah* is to be paid in cash, depending on prevailing market prices, and it must be conditioned by the elapse of one year.

**Table - 3**

Number of Sheep	<i>Nisab</i>
From 40 to 120	One 1-year-old sheep
From 121 to 200	2 sheep
From 201 to 300	3 sheep

#### 1.7.3 Zakah on Non-Visible Property

It comprises *zakah* on such property as gold, silver and paper money. The rate of this *zakah* is 2.5 per cent of the entire value of the property concerned. It is to be paid in cash annually during the month of Ramadan. The condition of "one-year possession" is essential, together with the *nisab* which is to be measured annually according to cyclical variations in gold and silver values.

#### 1.7.4 Zakah on Merchandise

In Yemen, it is also termed as "*zakah* on non-visible property". Its rate is 2.5 per cent of the entire capital.

### 1.7.5 *Zakah Al Fitr*

It is obligatory on a Muslim who is able to pay it. He is to pay it for himself and for those whom he supports. This *zakah* is levied once every year, usually at the end of Ramadan, and according to the rates decided by the Minister of Finance.

The different types of *zakah* can be paid either in cash or in kind. In a general sense, *zakah* is paid in cash except for the *zakah* on agricultural produce that can be stored, which is to be paid in kind.

- *The State uses its right to obligate subscribers to pay their due zakah. In case of their refusal to pay, zakah is compulsorily levied. Zakah on agricultural produce and livestock is imposed at certain times every year. Other types of zakah are levied during Ramadan, as previously mentioned.*
- *These do not include all types of zakah about which most modern scholars of Islamic fiqh agree, particularly the zakah on property in actual use (mustaghallat), and zakah on income (though it is partially covered in the zakah on goods for trading). Besides, it is to be noted that zakah on shares and deposits is not included in the known types of zakah.*
- *Zakah is of course imposed on Muslims and Muslims' capital. This is immediately manifest in the zakah on goods for trade.*
- *With regard to non-Muslims' capital, the state has imposed a labor tax at the rate of 2.5 per cent so as not to create any breach in such taxes as imposed on establishments.*
- *Article 9 of the Law of Taxation on commercial and industrial profits stipulates that, on determining the type of this tax, the paid zakah should be considered as a deductible expense.*

## 2. ZAKAH EXPENDITURE HEADS

*Zakah* is spent on the eight categories specified by Allah the Almighty as evident in the following verse: "*Sadaqah is only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors and for the cause of Allah, and for the wayfarer, a duty imposed by Allah*". (Holy Qur'an, Sura IX: 60).

This is a specification of the heads of expenditure of *zakah*. Taking into account the use of "*innama*", the article of intensification is evident that *zakah* cannot be disbursed otherwise.

- The State is more capable of organizing the levy and disbursement of *zakah* in compliance with *shari'ah*, thus guaranteeing that nothing can interfere with the processes of *zakah* levy and distribution.
- *Zakah* distribution by the state to recipients is to protect the dignity of the poor and the needy.
- Being one of the important resources of the State, the *zakah* helps to make considerable sums of money available for financing profitable investment projects.
- The State, managing *zakah*, will be able to furnish costly tools of production, which *zakah*-payers cannot individually afford.
- Moreover, the State can regulate *zakah* distribution according to priorities that are changeable in terms of time and place.

## 3. MANAGEMENT OF ZAKAH IN YEMEN ARAB REPUBLIC

*Zakah* is a financial obligation of Islam, which is why the government has placed its management under the supervision of the Ministry of Finance as currently represented by the Department of Duties (i.e. the Department of *Zakah*).

Reviewing the law that regulates the management of public finances in general and *zakah* in particular, one can see the care and attention the Yemen Arab Republic has taken to organize the above-mentioned department. The technical aspects of the . procedures of assessment, listing and levying of *zakah* are to be covered as follows:

### **3.1 The Ministry of Finance**

The Republican Decree No. (31) of 1974, which established and regulated the Ministry of Finance and its departments, stipulates that the Ministry should take over the following tasks:

- to propose the country's financial policy and supervise financial affairs within the framework of the current laws and the general policy of the State, as well as of the authorities mentioned in this resolution (Clause 1, Art.4).
- to levy the State's revenues imposed by the law in light of the methods prescribed by regulations and resolutions (Clause 3, Art. 4).
- to devise systems that guarantee the monitoring of public finances to prevent their being used inappropriately.
- to direct the general expenditure of the State in a way that will achieve the objectives of economic and social. development (Clause 5, Art 4).

The second section of the Decree, which regulates the Ministry and-- specifies its administrative organization, includes the General Department of Duties (*zakah*) within the revenue sector, one of the Ministry's three sectors (Item 4, Art.5).

The Prime Minister's Decree No. (8) of 1984 defined the responsibilities of the General Department as follows:

1. To prepare *zakah* assessments as imposed by the honorable Islamic *shari'ah* and to register the relevant limitations, whether those of *ashar el-amanah* (*zakah* on agricultural produces), *zakah* on non-apparent property (*zakah el-batin*), *zakah* on livestock (*al-anam*), or fast-breaking *zakah* (*zakah el fitr*).

2. To ensure that these duties in cash and in kind are levied on time so as to guarantee the state's full rights and to register the revenues of each type on the levels of *el-nawahi* (districts), *el-qadawat* (provinces) and *elalwiah* (governorates) monthly, trimonthly and at the close of the fiscal year. These transactions should be regularly reported to the General Department for the final statement of account.

3. To register the overdue duties and to follow up their collection.

4. To enforce the resolutions concerned with the *zakah* expenditure.

5. To decide on the trustees' pay and dues.

The Ministerial Decree No. (1) of 1974 defined the organization of the Ministry's departments and divisions, and their specialties. The General Department of Duties includes the following departments:

1. The department responsible for the assessment of duties.

2. The department responsible for the listing and following up the levy of duties.

3. The department responsible for the distribution of duties.

These departments were subdivided into divisions, each responsible for one of the Republic's governorates. However, it was subsequently found necessary to establish a separate organization or administration for the *zakah*, as the General Department was not able to accommodate the increasing responsibilities, whereupon the State established an Administration of Duties.

### 3.1.1 The General Department of *Zakah* Researchers

The General Department of *zakah* Researches was established along with other general departments within the revenue sector at the headquarters of the Ministry of Finance by the Republics Leadership Council Resolution No. (34) of 1975 (Art.2). At the same time the General Department of Duties was abolished and the Administration of Duties was established. So, the General Department of *zakah* Researches was to serve as a specialized department and as a link to the Ministry of Finance, supervising the management of public finances, while the Administration of Duties was to be devoted to the affairs of *zakah*.

### 3.2 The Administration of Duties

The Administration of Duties (i.e. of *zakah* affairs) is a specialized governmental authority that is practically responsible for the assessment and levy of *zakah*.

- On 18 March, 1975, the Leadership Council issued Republican Decree No. (33) of 1975, which establishes the Administration of Duties and defines its responsibilities.
- The first article of the above-mentioned decree stipulated the establishment and nomenclature of the Administration of Duties and that it was subordinate to the Minister of Finance. It also provided that its headquarters was to be in San'a and that it should have offices in governorates (*el-alwiah*) and branches in provinces (*el-qadawat*) and districts (*el-nawahi*).
- The tasks and responsibilities of the Administration were to be the supervision over the assessment, collection and disbursement of duties imposed by the Islamic *shari'ah*; the registration of limitations related to their assessment and collection; and an efficient control over their maintenance and disbursement by two general departments:

A. The General Department of the Assessment of Duties.

B. The General Department of Listing, Following-up the Levy and Disbursement of Duties.

- On 6 Jumada II, 1400H (corresponding to 21 April, 1980) the state realized that it was important to further develop the Administration of Duties. Therefore, it issued Republic Decree No. (56) of 1980, which enhanced the role of the Administration by reorganizing and extending its responsibilities.
- The second article of the above-mentioned decree stipulated that the aim of the Administration was to levy the *zakah* upon citizens. Therefore, it took over the following tasks:
  1. To make policies and propose general plans in the field of assessment, collection and disbursement of *zakah* within the framework of the state's policies and plans.
  2. To estimate the *zakah* which the Islamic *shari'ah* imposes on every liable person whether the *zakah* on agricultural produces, *zakah al-fitr*, the *zakah* on livestock or the *zakah* on non-apparent property (*al-batin*).
  3. To monitor collection and deliver the *zakah* periodically, so as to guarantee revenue for the Treasury.

The third article of the above-mentioned resolution stipulates the organizational framework of the Administration to consist of the following offices and departments :

1. The Head of the Administration
2. The Vice-Head of the Administration
3. The General Department of Inspection
4. The General Department of Duties
5. The General Department of Financial and Administrative Affairs
6. The Public Offices of Duties

The responsibilities and divisions of the above-mentioned departments are to be addressed in detail in the chapter devoted to the procedures of the assessment and levying of the *zakah*.

**3.2.1 The Minister of Finance Resolution No. (573) of 1984** regulates the subdivisions of the administrative framework and designates the tasks and responsibilities of departments and divisions subordinate to each general department.

**3.2.2 The Office of the Head of the Administration**

Article 2 designates the responsibilities of the Head's office, which is composed of :

- A. The Office Secretariat
- B. The Department of Legal Affairs and Grievances

**3.2.3 The General Department of Statistics, Planning and Follow up**

Article 4 of the above-mentioned resolution established the General Department of Statistics, Planning and Follow-up and designated its tasks and responsibilities. It composed of:

- A. The Department of Planning
- B. The Department of Statistics

**3.2.4 The General Department of Monitoring and Inspection**

The fourth clause of Article 4 stipulates the responsibilities of the General Department of Monitoring and Inspection, composed of:

- A. The Department of Monitoring
- B. The Department of Inspection

**3.2.5 The General Department of Financial and Administrative Affairs**

Article 5 of the above-mentioned resolution designated the tasks and responsibilities of this department. It is composed of the following departments and subordinate divisions:

**1. THE DEPARTMENT OF ACCOUNTS AND BUDGET**

Including the following divisions:

- A. The Division of Registration and Expenditure
- B. The Division of Audit and Collection
- C. The Division of Budget
- D. The Division of Archives
- E. The Treasury

The resolution designates the terms of reference for the above divisions.

**2. THE DEPARTMENT OF PURCHASE AND STORES**

Composed of the following divisions:

- A. The Division of Purchase
- B. The Division of Stores

**The decree designates the terms of reference for each division.**

**3. THE DEPARTMENT OF THE SECRETARIAT**

Composed of the following divisions:

- A. The Division of Correspondence
- B. The Division of Printing
- C. The Division of Archives
- D. The Division of Interior Services

The decree designates the terms of reference for each division.

**4. THE DEPARTMENT OF PERSONNEL AFFAIRS**

Composed of the following divisions:

- A. The Division of Organization, Arrangement and labor
- B. The Division of Employment Affairs
- C. The Division of Dues and Retirement Pensions
- D. The Division of Service Documents

**The decree designates the terms of reference for each division.**

### **3.2.6 The General Department of Duties**

Article 7 of the resolution designates the terms of reference for the General Department of Duties which is divided into the following departments:

- 1. The Department of Assessment and Enumeration
- 2. The Department of Following-up the Levy and Distribution
- 3. The Department of Edification and *Zakah* Researches
- 4. The Department of *Zakah* on Non-Apparent Property and Fast-Breaking (*zakah al-fitr*).<sup>2</sup> It consists of one division for *zakah al fitr*, and two divisions for non-apparent property: one for trading items and the other for corporations and companies.

### **3.2.7 The Office of Duties in *al-Lewa* (the Governorate)**

It is composed of the following departments :

- 1. The Department of Financial and Administrative Affairs
- 2. The Department of Duties
- 3. The Department of Following up Revenues
- 4. The Department of the Branch or al-Nahia (the county)

The decree designates the terms of reference of each department.

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<sup>2</sup>This department was established by the Ministerial Resolution No.(74) 1987.

### **3.3 The Administration Branches in the Capitals of Governorates**

The state made a further step to enable the Administration of *zakah* (duties) to execute its responsibilities through branches in the cities and capitals of the governorates (*al-alwia*). The Administration offices in the capitals of governorates consist of the following divisions:

#### **3.3.1 The Department of Duties**

Composed of:

- A. The Division of Assessment
- B. The Division of Following up the Levy
- C. The Division of al-Fitr, Non-Apparent Property, and Trading Items
- D. The Division of *zakah* Edification

The decree designates the responsibilities of each division.

#### **3.3.2 The Department of Inspection**

Composed of:

- A. The Division of Inspection
- B. The Division of Monitoring

The decree designates the responsibilities of each division.

#### **3.3.3 The Department of Financial Affairs**

Composed of:

- A. The Division of Financial Affairs
- B. The Division of Administrative Affairs

### **3.4 The Branches of the Administration Offices**

The decree designated the branches subordinate to the Administration offices in the districts (*al-nawahi*). The branch that achieves a yearly revenue of no less than one million Riyals is to be considered a department in terms of its organizational level.

3.4.1 The 75 countries (*nahia*) that are not included in Article 2 of the resolution are considered departments in terms of their present organizational levels.

If any of these countries achieves a revenue of no less than one million riyals, its organizational level will be changed into a department.

The branch in the country is composed of the following divisions:

- A. The Division of Assessment
- B. The Division of *Zakah* Collection

The resolution designates the responsibilities of these divisions and define the collection of *zakah* in cash and kind.

## **4. PROCEDURES OF ZAKAH ASSESSMENT AND COLLECTION**

In Yemen all types of *zakah* are assessed and collected by the State through its organ, the Administration of Duties according to the following procedures:

1. The duties of the Administration branch offices are supervised and monitored by the Presidency of the Administration.
2. Geographical supervision at the level of *Lewa* is executed by the office of the Department in *Lewa*.
3. Supervision at the level of *Nahiyah* is executed by the branch office of *Zakah* Duties in the *Nahiya*.

4. The department of *Zakah* Duties plays a field executive role in the *Azlah*.

5. The Department representative and his assistants, namely, the village elders and sages, play a direct executive role in the village.

We shall explain the administrative affairs of each of the headquarters and branches of the Department of *Zakah* Duties as follows:

#### **4.1 Administration Headquarters**

The Headquarters of Administration of Duties implements the State's policy by directly supervising the *zakah* organization and collection procedures of the Department of *Zakah* Affairs in all provinces of the Republic through their respective offices, to achieve the following objectives:

1. To inform all the provincial offices of the *Zakah* Department throughout the state, of the procedures to be followed in the *zakah* assessment and collection. It instructs them to deliver the *zakah* revenues in kind to the government treasury and its cash revenues to the Central Bank.
2. To issue its directions as to the preparation of statements for agricultural, industrial and commercial activities and services, in order to identify those required to pay *zakah* so that the amount of *zakah* dues on each of them can be correctly assessed.
3. To make sure that in each province the offices of the Department and their branches are established in districts, sub-districts and villages.
4. To receive, examine and evaluate periodical statements and reports from provincial offices of the Department of *Zakah* Duties, to review their accounts and enter them formally in registers.

5. To monitor the listing of persons - natural and legal - liable for *zakah*.
6. To monitor the collection of the arrears of *zakah* revenues for each year.
7. To issue the directives necessary for the standardization of assessment and collection procedures in all the provinces of the Republic.
8. To ensure that offices of the Department of *Zakah* Distribution in districts and villages consistently collect *zakah*.
9. To receive detailed collection lists at district and sub-district levels and to audit, examine and register them.
10. To ensure that *zakah* is collected and turned over to the public treasury.
11. To inform the General Department of Financial and Administrative Affairs at the Headquarters of the Administration, of collected *zakah* revenues and to record them, as per financial regulations.

#### **4.2 The . Administration Office in the Governorate**

The Office of the Administration of Duties implements the instructions and directives issued by the Administration Headquarters. The office, aside its direct supervision of *zakah* assessment and collection, plays an executive role within its locality.

#### **4.3 Procedures for Assessment of *Zakah* Dues**

Supervisory and administrative steps at the governorate level are taken in the following ways :

**I. Supervisory role of the Administration in the Governorate over provincial offices throughout the *Lewa* :**

1. To implement the instructions issued by the Administration Headquarters concerning assessment and collection.
2. To receive, examine, compare and evaluate the periodical statements and reports on the assessment and collection of *zakah*.
3. In case of a reasonable increase, reports are accepted and approved. In case of baseless decrease, the reports are meticulously re-examined.
4. To transcribe the contents of reports into the locally-based registers.
5. To prepare statements is to be forwarded to the Headquarters of the Administration of Duties.
6. To direct branch offices to register and collect *zakah* from those required to pay it, both in cash and kind and according to the particular season for each *zakah* type.
7. To prepare general statements on each *zakah* type and to forward them to the Headquarters.

**II. Executive Role Played by the Office of the Assessment of *Zakah* Dues:**

In the capital city of each governorate, a committee is formed to undertake the listing of individuals and commercial and industrial establishments required to pay *zakah*. In case of bigger cities, they are divided into sections so as to facilitate the listing and, consequently, the assessment of *zakah*. In this connection, the Headquarters issues explanatory instructions in every season when *zakah* duties are to be assessed and collected. These *zakah* types include *zakah* on non-apparent property and *zakah al-fitr*.

**A. Annual Periodical instructions concerning *zakat al-fitr*.**

After the receipt of the Minister of Finance's directions concerning *zakah* assessment, the Headquarters issued its directions in the form of an official letter whose specimen is given as below:

Brother/Governor of the Province of.....  
Brother/Director General of Office of Duties..

On the occasion of the approaching month of Ramadan (1410H), which is the season for the collection of *zakah*, the Administration wishes to convey the following instructions:

1. Review of the inventory of ministries and government offices as well as public and mixed establishments and companies on the basis of last year's statements; and the number of employees in each office, as well as the number of the members of their families, adding any new establishments and new employees.
2. Establish inventory of all financial enterprises in both public and private sectors and insurance companies, as well as important individual businessmen, in addition to the number of employees. This inventory may be established in cooperation with the offices of the Taxation Department and of Social Affairs and Labor.

Both 1. and 2. of the above should be completed during the month of Rajab:

3. Starting in Sha'baan the forms for *zakah al-fitr* should be sent to all offices listed under 1. and 2. of the above. These forms should be filled in and returned to this office within 25 days with a copy of a schedule of salaries.
4. Inform all offices to deduct *zakah al-fitr* on the basis of lists thus established on the basis of May 1985 salaries without exception, and transfer the amounts thus deducted to the Office of Duties.

5. Form No. 1 relative to *zakah al-fitr* declaration is in triplicate. Send the original and a duplicate to the office. The payer keeps the second copy as evidence that he has paid *zakah al-fitr* to show the *shaykh* in his village or in the locality of his residence.

Before the end of Sha'baan, we shall communicate to you the amount of *zakah al-fitr* due on every person.

All these instructions should be fully complied with, by the fixed deadlines.

(Sign.)  
Director, Office of Duties.

cc. Minister for Finance  
Deputy Director  
Resource Sector

In the light of these instructions, the Duties Office in the Governorate sends a circular to its branches. The contents of this circular normally include the following:

- i. A call for the convocation of village elders to communicate instructions
- ii. A reminder of the need to count all persons subject to the payment of *zakah*
- iii. An instruction to publicize this information on the traditional weekly market day
- iv. A call to imams to urge citizens to pay *zakah* as a duty on all Muslims

**B. Annual Instructions in Respect of Non Apparent Property.**

The Administration of *Zakah* Duties receives detailed instructions from the Minister of Finance every year concerning *zakah* on non-apparent property. In Rajab, the Administration issues its annual

instructions under the title: "Instruments to Provisional Committee for the Assessment of *zakah* on non-apparent property.

The Committee normally consists of a representative of the Administration (in Sana'a only), the Director of the Office of Duties, the Director of the Finance Office in the Province, and a representative of the Governor.

The Mandate: To determine and list the names of those who should pay the *zakah*, taking the following into consideration:

1. The list established in the previous year
2. The lists of *zakah* payers in A and B categories obtained from the Taxation Department
3. The lists of the names of leading businessmen and traders obtained from the office of the Ministry of Economics
4. The information collected by an Administration representative in respect of companies, institutions and important *zakah*-payers.
5. The names taken out from these lists are collected in the forms approved by the Administration.
6. The information contained in declarations in Form No.4 is forwarded to the Administration as received by the Office.
7. The village elders and sages are informed of the commencement of the process of *zakah al fitr* collection at the prescribed time.
8. The provincial and sub-district offices check the lists to complete them as appropriate.
9. One month after assessment, verification of reports should be sent to the Administration, in conjunction with declaration data.

10. For registration in the Provincial Office, registers are opened for State employees and employees of the public, mixed and private sectors. The particulars of registers include the name of the office, number of employees, number of family members, amount of *zakah al-fitr*, serial number of the declaration and the bank notification of transfer.

11. A follow-up register includes the following particulars:

- i. The name of the office to which forms are sent as indicated in 1 and 2
- ii. The date of sending declarations and lists
- iii. The date on which declarations and lists were returned and duly filled
- iv. The date of payment and the social number of bank notifications

12. An officer may be entrusted to monitor the operations of all offices if the province is large enough.

13. The information received from government offices and from the public, mixed and private sectors in respect of names of employees, the number of their families, as of the end of May 1985, should be forwarded to the offices after verification in order to transfer due amounts in the first half of June 1985.

#### **4.4 Assessment of *Zakah* on non-visible Property**

After inventory the provisional committee assesses *zakah* on non-apparent property in the light of the following principles:

1. For those in class 4 of persons subject to the payment of *zakah*, whose capital is determined on the basis of legal balance sheets obtainable from the Taxation Department, their capital and *zakah* are fixed on the basis of these balance sheets.
2. For those who have no such balance sheets but have trade registers, their capital is determined on the basis of these registers kept in the

Ministry of Economy, Supply and Trade, or kept by the Committee to encourage national and foreign Investment. *Zakah* is fixed accordingly.

3. For those who have no balance sheets or records or those whose records show figures that do not correspond to their actual commercial, industrial or service-sector activities, the *zakah* may be fixed on the basis of the scale of work or activity.

4. *Zakah* for those mentioned in 1. and 3. of the above shall not be less in any year than in previous years, unless completely justified.

5. Cases not covered by 1. 2. and 3. of the above, when *zakah* figures in the previous year(s) show an irrational decline, not born out by economic activities of *zakah-payers*, *zakah* levies may be raised.

6. In all cases, assessed *zakah* shall not be less than indicated in the declaration.

7. This form of assessment applies to the head office and branches of the enterprise in the province and in other premises, but does not apply to branches of enterprises whose head offices are situated outside the province.

These branches are listed and communicated to the duties office in the province where the head office is situated, provided they all fall under the same *zakah-payers* name in the head offices.

8. As exclusion from 6. of the above, the *zakah* is imposed individually on financial establishments, limited liability companies and insurance companies which have separate financial responsibilities and do not carry the name of the original *zakah-prayer*.

9. For *zakah-prayers* upon whom no *zakah* has been previously imposed, or whose *zakah* amount is not yet settled, the provisions of these instructions apply.

10. Public and mixed enterprises are subject to payment of the *zakah* only in respect of the head office in the jurisdiction of the office, in conformity with Article of Decision 192 of 1984 of the Minister of Finance.
11. *Zakah-payers* who are assessed for the first time *pay zakah* for one Hijra year and their first payment includes assessed *zakah* for the previous year, in the light of documents proving the commencement of activity.
12. No *zakah* is to be imposed on units, establishments or individuals whose actual business or work has been terminated, or on units or establishments under construction. Careful investigation and follow-up should be maintained.
13. *Zakah* on Islamic foreign capital companies or mixed foreign Yemeni Islamic companies are to be assessed.
14. Foreign non-Islamic companies are not to be assessed for the *zakah* and are subject only to an economic activity tax collected by the Taxation Department.
15. Companies and enterprises with mixed capital (Muslim capital and non-Muslim capital) are assessed for *zakah* on the Muslim capital portion only.
16. Upon conclusion of the report and verification of lists, committee members should sign No.7. Subcommittee Chairman and members should also sign.
17. The Duties Office should execute the collection of the *zakah* and record the names of *zakah-payers* in a special register which shall be considered as a reliable record of *zakah* on non-apparent property. Payment should be made to official collection companies in the Payment Office.

18. Collection procedures are to be carried out in accordance with appropriate instructions and a copy is to be forwarded to the Department of Duties.

**44.1 Instructions are also Issued to the Provincial Zakah Sub-Committee for the Assessment of Zakah on Non-Apparent Property for Hijra year.**

**Constitution:** The Subcommittee is composed of the Director of Duties (Chairman) and Representatives of the Chamber of Commerce.

**Mandate:** To assess the *zakah* as fixed by *shari'ah* on non-apparent property of *zakah-payers* in category B and to decide on differences between the *zakah-payer* in category A and the Provisional *Zakah* Committee.

**Responsibilities**

1. The Subcommittee assesses this type of *zakah* on the basis of declarations by *zakah-payers* in Category B.
2. It also receives and decides on appeals by *zakah-payers* in Category A.
3. It verifies declarations by small-scale *zakah-payers* and settles differences between them and the Duties Office.

**Working Hours:** At the beginning of Ramadan, the public are advised of the working hours.

The Subcommittee pursues its mandate by holding regular meetings to settle all matters referred to it. Proceedings are recorded in a special record.. A Secretariat established for this purpose.

The Subcommittee assesses the *zakah* according to points 1, 2, 3, 4, 5 and 6 of the Provisional. Committee instructions which are explained by a memorandum from the Administration.

## 4.5 Procedure for the Collection of *Zakah* Dues

### Supervisory for the Collection of *Zakah* Dues

- The Duties Office in the governorate monitor the work of sub-offices in the governorate in collecting *zakah* duties.
- It establishes a list of those who have not paid their *zakah* in every village and locality. Follow-up and collection are then carried out by the sub-offices in various administrative subdivisions.
- It collects *zakah* arrears dues and remits all collected funds to the Central Bank.<sup>3</sup>
- It receives statements of collection from districts and checks and verifies them against remittances to the Central Bank.
- It informs the Department of Financial and Administrative Affairs of the amounts collected<sup>4</sup> and the Department.
- It distributes the monthly *zakah* collection to beneficiary accounts in the prescribed amounts.<sup>5</sup>
- It keeps the *zakah* collected in kind, supervising silos and ensuring proper storage before disbursement in accordance with prescribed rules.
- It submits monthly and quarterly reports to the Head Office of the Administration of *Zakah* Collection as to the execution of its duties according to planning directives.

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<sup>3</sup>According to the decision of the Minister of Finance No.207 of 1984, Article 1, para 7.

<sup>4</sup>*Ibid* Article 1, para B, Clause 2, Sect. b.

<sup>5</sup>*Ibid*, Art 1, para 8.

Here, we note that there are no impartial internal committees between the Assessment Committees and the Collection Committees.

#### **Duties of Branches**

- To implement instructions issued by the governorate office.
- To inform secretaries at the harvest time of assessed *zakah*.
- To follow-up the work of secretaries by submitting statements and lists of *zakah* assessment.

#### **4.6 Assessment Procedures**

- On the level of the village or town, the Secretary of the locality informs all persons who are required to pay *zakah* on crops and fruits through an announcement in the traditional market place and sets a date for the submission of their *zakah* declarations.
- The Secretary meets with the farmers immediately after the harvest to ascertain the amount of the crop per farmer and to inform them of the amount of *zakah* due (5 to 10 per cent).
- The Secretary of the locality or the village drafts lists of farmers and the amounts of their *zakah* dues and forwards the lists together with *zakah* declarations to the district Director of Duties among each agricultural season.
- The district Director of Duties checks the lists and declarations against receipts, and endorses valid data and declarations.
- The district Director of Duties drafts a report containing the following information:
  - a. The amount of *zakah* per village, per person and per season
  - b. The amount of *zakah* for an *azla* (group of villages)
  - c. The amount of *zakah* per district (group of azlas)

- This report is submitted to the Director of Duties in the governorate.
- After verification in the Governorate Office, a decision is made to enter correct and valid information in records which are returned to the Office of the District for registration and for collection.

**Collection Procedures**

- The District Office of Duties carries out instructions issued by the Governorate Office. On the basis of records, it authorizes the Secretary of the village to proceed immediately to collect *zakah* due on agricultural produce. The Secretary prepares the statement of collection in quadruplicate, 3 copies, to be forwarded to the District Office.

In some parts of the country, collection may only be on a person-by-person basis.

- Statements of *zakah* collection for current and previous years are prepared for easy reference and comparison.

**Part Four**

**RECOMMENDATIONS OF THE CONFERENCE**

**RECOMMENDATIONS OF THE THIRD  
INTERNATIONAL ZAKAH CONFERENCE HELD IN  
KUALA LUMPUR, MALAYSIA 19-22 SHAWWAL  
1410H (14 TO 17 MAY 1990)**

The following are the recommendations adopted by the Conference at its final plenary session:

1. The Conference calls upon the Muslim countries that have not yet worked out and enforced a *zakah* system to do so in such a way that would cover all types of wealth, visible and invisible, which by Shari'ah are assessable for *zakah*, and to disburse the proceeds in the manner specified in the Holy Qur'an; maintaining separate accounts for *zakah* proceeds, and instituting the organizational structure and system suitable to the conditions of each country.

2. The Conference commends the effective measures taken by some Muslim countries in enforcing tax-exemption systems based on deduction of the paid amount of *zakah* from the total amount of income tax and not from the total income only.

The Conference calls upon other Muslim countries to take appropriate legal measures in order to deduct the total paid amount of *zakah* from the total amount of income tax, noting that it is not sufficient to deduct the total paid amount of *Zakah* from taxable funds only but rather from the total amount of the tax itself.

3. The Conference calls for the continuous convening of *zakah* conferences, in view of their considerable benefits in the exchange of experiences and information among *zakah* institutions, and the promotion of research and studies on *zakah*, and monitoring and evaluating the steps taken and the progress achieved in this connection throughout the Muslim World.

The Conference entrusts the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank to monitor the preparations for the fourth international *zakah* conference, which should be convened within three years from now, with a view to attaining the following objectives:

- A. Highlighting and emphasizing the importance of the *zakah* and its benefits for Muslims all over the world.
- B. Exchanging experiences and information about the *zakah* institutions and their achievements.
- C. Studying and addressing newly emerging issues in connection with *zakah*.
- D. Upgrading the performance of *zakah* institutions through the promotion of appropriate applied and statistical researches.

In order to realize those objectives, all Muslim countries, Muslim communities in non-Muslim countries, *zakah* institutions and concerned experts should be invited to participate in the fourth *zakah* conference.

The Islamic Research and Training Institute shall also undertake negotiations necessary to confirm which Islamic country will host the Conference.

4. The Conference calls upon the International Islamic Organizations to assist Muslim communities in non-Muslim countries to organize their *zakah* affairs by setting up the appropriate institutions and endeavouring to obtain their rights to deduct their *zakah* payments from income tax levies.

5. The Conference calls upon *zakah* institutions throughout the Muslim World to promote cooperation and coordination among themselves and to exchange experiences in connection with the development of legislation, accounting systems, computerization, etc. through visits, training courses, publications and all possible means.

The Conference also calls upon Muslim countries and communities, which have various provinces and regions using different systems of *zakah*, to take appropriate steps towards achieving a single unified system for the whole of the country.

6. The Conference calls for paying due attention to the continued training of personnel with administrative and *Shari'ah* qualifications to improve the performance of *zakah* institutions. The Conference calls upon the Islamic Development Bank and the Islamic Research and Training Institute to assist in the field of training and other programs through the utilization of the IDB Technical Assistance Program.

7. The Conference requests the Islamic Research and Training Institute to develop an information system for information on *zakah* with a view to compiling all information and data related to *zakah* and relevant institutions, laws, statistics, etc.

8. The Conference calls upon *zakah* institutions to:

A. ensure that their performance of the collection and distribution of *zakah* must be compatible with the provisions of *Shari'ah*, bearing always in mind that *zakah* is an act of financial worship. In addition, this will help to promote the confidence and trust of the *zakah*-payers and increase the efficiency of *zakah* institutions

B. to implement sufficient administrative and financial controls in order that their operations will function according to an enhanced institutional framework

C. to rationalize their administrative expenditure and seek alternative resources to cover such expenses, so as to channel the greater part of the *zakah* proceeds to other categories of beneficiaries

In this connection, the Conference hails with appreciation the steps , taken by some Muslim countries to cover the administrative expenses of *zakah* institutions by providing funds from other sources such as the public expenditure of the nation itself

D. to promote jurisprudential, economic and social research on the activities of those institutions, whether with regard to *zakah* collection or distribution, as well as research on the upgrading of their administrative and accounting systems, with particular emphasis on social research and surveys aimed at identifying the deserving beneficiaries of *zakah*

E. to publish annual reports comprising . all important and relevant information, accounts and statistics covering their activities and achievements

F. to undertake integrated studies on potential *zakah* proceeds and the implications of such proceeds, if duly collected from all kinds of wealth on which *zakah* is due in accordance with Shari'ah requirements, to solve the problems of poverty and backwardness in the Muslim World

G. to emphasize the need for cooperation at theoretical and operational levels with the International *Shari'ah* Board for *Zakah*, which was established in Kuwait upon the recommendations of the First and Second *Zakah* Conferences, for the purpose of coordination between legislation and *Shari 'ah*-derived regulations of *zakah* institutions, and for cooperation among these institutions dealing with the contemporary issues of *zakah*

H. to initiate well-prepared plans and programs for the alleviation or elimination of poverty in their countries, and to cooperate with similar institutions of other Muslim countries in order to achieve this objective throughout the Muslim world and among Muslim communities in non-Muslim countries

I. to work towards achieving social cohesion (*Takaful Ijtima'*) among all Muslims of various countries and communities, bearing in mind that the *zakah* is a public Islamic obligation which should be of benefit to deserving Muslims anywhere in the world.

9. The Conference calls upon the mass-media, universities, and research centers throughout the Muslim world to focus their attentions upon highlighting the *zakah*, its implications, benefits and the *Shari'ah*

provisions related to it, and to promote public awareness among Muslims as to the importance of paying the *zakah*.

10. The Conference requests the Islamic Research and Training Institute to translate the papers and recommendations of the Third International *Zakah* Conference into Arabic, English and French languages and to publish and disseminate them to the widest readership.

**Part Five**

**OPENING AND CLOSING STATEMENTS**

**(I)**  
**ADDRESS BY :**  
**H.E.THE PRIME MINISTER OF MALAYSIA**  
**DR. MAHATHIR BIN MUHAMMAD**

**Assalamu `Alaikum Wa Rahmatullahi Wa Barakatuh.**

On behalf of the Government of Malaysia I welcome the delegates who are participating in this Third *Zakah* Conference.

It is vital that the efficiency of *zakah* management be upgraded. With a more efficient and systematic administration, welfare effort for the Islamic Ummah in general can be better achieved.

I hope this seminar is able to innovate ways to amend *a zakah* administration that can provide better gains to the Islamic society as a whole.

**Wassalam.**

**(II)**  
**OPENING SPEECH BY :**  
**H.E.THE DEPUTY PRIME MINISTER OF MALAYSIA**  
**DATO' ABDUL GHAFAR BIN BABA**

Assalamu `Alaikum Wa Rahmatullahi Wa Barakatuh

On behalf of the Government of Malaysia I am proud that this nation has been chosen to organize the Third *Zakah* Conference. It is a great encouragement for Malaysia from other Islamic countries where *zakah* systems are introduced to a greater extent.

However, as *zakah* collection and distribution have not been systematized, the Islamic Ummah, especially entrepreneurs, businessmen and Islamic millionaires have never been given guidelines and

interpretations as to *zakah* payment and its vast potential role in the national development.

It is hoped that this seminar will successfully formulate useful suggestions to implement the *zakah* principle so that Islamic *Ummah* can enjoy its fruits.

**Wassalamualaikum Warahamtullahi Wabarakatuh.**

**(III)**  
**OPENING SPEECH BY :**  
**THE MINISTER IN THE PRIME**  
**MINISTER'S DEPARTMENT AND CONFERENCE CHAIRMAN,**  
**DATO' DR. MOHD. YOUSOF NOOR**

**Bismillahir-Rahmanir-Rahim**

This *Zakah* Conference is a significant event in the history of Malaysia. It is aimed at improving all aspects of the administration of *zakah*, a vital institution of Islam.

As this conference is the first of its kind ever held in a non-Arab nation, I would like to register my great appreciation and thanks to those involved in *zakah* operation in Kuwait and Saudi Arabia and also to the Islamic Research and Training Institute and the Islamic Development Bank in Jeddah for selecting Malaysia to host this conference. I truly believe this conference will not only be able to help upgrade *zakah* management but also to further strengthen the relationship between Malaysia and the other Islamic nations.

As the chairman of this conference, I like to convey my gratitude and thanks to all those involved in organizing this significant seminar. May Allah reward their every effort with goodness.

**(IV)**  
**WELCOMING SPEECH BY :**  
**H.E. FOUAD ABDULLAH AL-OMAR,**  
**VICE PRESIDENT**  
**OF THE ISLAMIC DEVELOPMENT BANK, JEDDAH**

Praise be to the Lord of the World, and  
Peace and blessings be upon His Prophet,  
his household, companions and followers.

H.E. Br. Abdulghaffar bin Baba  
Deputy Prime Minister of Malaysia

Dear Brothers and Sisters,

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

In the name of the Islamic Development Bank and on behalf of the institutions organizing this Conference, I have the pleasure of expressing my sincere thanks and deep appreciation to the Government and the people of Malaysia for the warm reception and hospitality accorded to the delegations attending this Conference.

I also have the pleasure of thanking and appreciating the Department of Islamic Affairs of the Office of the Prime Minister, for hosting this Conference.

The warm welcome accorded by Malaysia to this Conference and the generous reception and care extended by the officials of this country to its participants are a clear evidence of the interest the Government and people of Malaysia have shown in contemporary Islamic affairs, especially those related to the requirements of the socio-economic development of the Muslim Ummah.

Islam presents an integrated economic system in keeping with human nature. This economic system needs continuous efforts and

cooperation to be evolved in various economic sectors in view of modern challenges facing the Islamic *Ummah*.

This Conference has been convened at a time marked by a growing interest in *zakah* which can play an important economic and social role in contemporary Muslim countries and communities. Hence, this course of research works and academic meetings to study and analyze the problems and issues related to *zakah* and its application. This Conference, in which a number of specialists from Muslim countries are going to participate, is part of a series of studies and academic gatherings meant to exchange views on practical models for *zakah* application that suit the conditions of various Muslim societies.

The Islamic Development Bank has, since the inception of its operations in 1396(1976), sought to realize its main objective as laid down in its Articles of Agreement: to foster the economic development and social progress of member countries and Muslim communities in accordance with the principles of *shari'ah*.

Article 2 of the Articles of Agreement of the Bank provides for "organizing and coordinating basic and applied research with a view to developing models and methods for enabling the economic, financial and banking activities in Muslim countries to conform to *shari'ah*," and for "extending training facilities for personnel engaged in development activities in the Bank's member countries.

In order to achieve these two objectives, a resolution was made by the Bank's Board of Governors in 1399H (1979) establishing the Islamic Research and Training Institute (IRTI) in 1401H (1981). The Institute became operational in 1402H (1982) and since then it has been playing a positive role in research into the field of Islamic economics and training, and in the organization of seminars.

In terms of research, IRTI has been able to publish 13 researches and seminar proceedings in theoretical and applied areas of Islamic economics, banking and finance and on economic cooperation among

Muslim countries. Six more books covering these same areas are in the process of publication.

In terms of training, IRTI has organized many seminars dealing with various topics on *zakah*, investment of *Awqaf* property, the financial resources of a Muslim state, Islamic modes of financing and Islamic financial instruments, etc. Some of these seminars were aimed at exploring a suitable method for teaching Islamic economics at the university level, and overcoming problems facing research activities in various fields of Islamic economics.

Two other seminars on *zakah* were held previously, one in Kuwait in 1404H (1984) at the invitation of the Kuwait *Zakah* House; the other in Riyadh, Saudi Arabia, in 1406H (1986) at the invitation of the Saudi *Zakah* and Income Tax Department. One of the recommendations of the 2nd International *Zakah* Conference held in Riyadh was to hold the 3rd *Zakah* Conference in Malaysia.

The present conference has been co-sponsored by following institutions:

- The Department of Islamic Affairs, Kuala Lumpur, Malaysia (the Islamic Centre).
- The Ministry of Finance and National Economy of Kingdom of Saudi Arabia as represented by the *Zakah* and Income Tax Department.
- The Kuwait *Zakah* House.
- The International *Shari'ah Council* for *Zakah*.
- The Islamic Research and Training Institute of the Islamic Development Bank.

Allah willing, this meeting will be a successful step toward achieving the desired objectives. In the Conference nine specialized research papers will be presented by researchers dealing with various practical models of *zakah* collection. Five case studies will also focus on the experiences of some Islamic countries that are considered pioneers in this field.

I sincerely hope that this Conference will achieve its desired objective through the constructive dialogue among those Attending it. By the grace of Allah, this will be an invaluable addition to our academic and practical knowledge that helps establish an integrated system for *zakah* collection, administration and distribution within the framework of *Shari'ah*.

The Islamic Research and Training Institute of the Islamic Development Bank, as well as other co-partners of the Conference are whole-heartedly willing to cooperate and provide all their available resources in achieving the objectives for which this Conference has been organized.

In conclusion, I would like, once more, to express on behalf of the Islamic Development Bank my profound thanks to H.E. the Prime Minister of Malaysia, as well as to the Government and gracious people of Malaysia, and all the officials and staff members in the Department of *Zakah* Affairs for hosting this Conference and for the excellent preparations made to ensure its success. I would like also to thank them all for the hospitality and warm reception accorded to us. I pray to Allah to shower his blessings on Malaysia and its generous people and to grant them ever-lasting prosperity and progress.

**THE SPEECH OF THE SAUDI DELEGATION  
DELIVERED BY  
ABDUL AZIZ MOHD. JAMJOUR  
DIRECTOR GENERAL  
DEPARTMENT OF ZAKAH AND INCOME TAX  
MINISTRY OF FINANCE AND NATIONAL ECONOMY  
KINGDOM OF SAUDI ARABIA**

Honourable Chairman,  
Honourable Guests and Participants

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

Praise be to Allah who has bestowed upon His Prophet Muhammad (Pbuh) a higher position among all human beings. Allah taught him essential sciences to guide mankind. He granted him a grace which was never given to anybody. It is Allah who bestowed upon him the revelation and with him sealed the chain of Prophecy, making him the Prophet for all human beings to come until Doome's Day. What the Prophet was allowed is binding upon all and what he was prohibited from is a taboo for all. This phenomenon will continue to prevail until the Day of Judgement. Muslims are all one *Ummah* who have accepted the Prophet Muhammad (Pbuh) as the only model for their life.

Muslims, in general, 'are well aware that the laws of heaven govern the life here and hereafter. It is, therefore, the Divine regulations that control human life on earth in all their aspects. These regulations offer a civilization for all peoples, regardless of race, colour, language, time and place. It is a great favour from Him that He made the goal of human beings clear and protected them from hovering around about the guidance for their life. It is also a great blessing directly from Him that we have the Quran and the Traditions of His Prophet in their prestine purity, as a living model to follow. Allah left the door open for individual judgement within the framework of this model. Imam Tabrani in his book "The Small and Middle Version" quoted a hadith on the authority of Imam Ali that the Prophet (Pbuh) said "Allah imposes on rich Muslims a levy sufficient for poor Muslims. The suffering of poor people, when they have no food or clothes, results from the behaviour of rich people. Surely Allah will punish and torment these rich people severely".

On this occasion, I would like to extend my thanks and appreciation to the government of Malaysia who have graciously hosted this conference in serving Islam and in the pursuit of knowledge. I would also take the opportunity to thank the Kuwait *Zakah* House that had hosted the first *Zakah* Conference which was held in Kuwait on 29.7.1404H to 1.8.1404H and proposed to organize the 3rd conference. The Kingdom of Saudi Arabia organized the second conference on *zakah* in Riyadh during the period of 12 to 14.11.1406H. In this conference a

number of researches on *zakah* were presented and several important recommendations were taken.

In spite of the fact that our jurists had long studied the subject of *zakah* elaborately, we are required to understand the modern complexities that stand in the way of implementing *zakah* in the modern context. It is from this consideration that the conference on *zakah* is being repeated so that all impediments in the way of its application can be easily overcome. In view of this, many *Shari'ah* aspects concerning *zakah* regulations are needed to be investigated and unfolded to pave the way for implementing *zakah* with all its aspects.

In the conference a case study will be presented on the *zakah* application in the Kingdom of Saudi Arabia. It is worth noting that Saudi Arabia has been equipped with a long experience in applying *zakah*. In its real perspective *zakah*-beneficiaries should not feel embarrassed when they receive *zakah*. In Saudi Arabia this is ensured. Following the application of *zakah*, here the poor is the most to benefit from it as the government of Saudi Arabia feel it a responsibility to implement it in its proper perspective.

The application of *zakah* and its accounting still need to be improved. I hope you are all well convinced that all Muslim states should apply the principle of *zakah* in the very interest of their social integrity and progress. Any such country interested in *zakah* application can benefit from the experience of Saudi Arabia where *zakah* is collected by the Department of *Zakah* and Income Tax and distributed by the Social Insurance Department.

At the end I like to thank again the honourable participants and guests and I hope that we all will benefit much from this conference.

**(VI)**  
**FINAL COMMUNIQUE OF THE CONFERENCE**

Praise be to Allah, the Lord of the Worlds. May Allah bestow His Peace and Blessings upon the most honored Messenger, our Prophet

Muhammad and his kinsfolk and companions and followers till the Day of Judgement.

By the grace and help of Allah, the Almighty, the Third International *Zakah* Conference was convened at the Conference Hall of the Islamic Centre of Malaysia in the city of Kuala Lumpur, Malaysia, during the period 19 to 22 Shawwal, 1410H (14 to 17 May, 1990), at the invitation of the Islamic Centre of Malaysia, the *Zakah* and Income Tax Department, the Ministry of Finance of Saudi Arabia, the Kuwait *Zakah* House, the International *Shariah* Board of *Zakah* in Kuwait and the Islamic Development Bank, Jeddah, in order to pursue the work already started at the First and Second International Conferences on *Zakah*, with a view to working out the best possible models for collecting and distributing *zakah* throughout the Muslim world.

A number of scholars, experts and researchers in the field of *zakah* participated in the conference in addition to representatives of various *zakah* agencies and institutions, as well as other Islamic organizations from Muslim countries and communities.

The Conference held twelve working sessions in addition to the opening and closing sessions. During the working sessions one or more papers were presented and discussed.

In the official inaugural session, His Excellency Fuad Abdullah Al-Omar, Vice President of the Islamic Development Bank, delivered a speech in which he welcomed the participants on behalf of the Conference Organizers.

The inaugural address was given by His Excellency Abdul Ghafar Baba, Deputy Prime Minister of Malaysia, who emphasized the importance of *zakah* in contributing to the development of Muslims and ensuring a dignified life for them.

His Excellency Dr. Hamid Al-Gabid, Secretary General of the Organization of the Islamic Conference, in his address, highlighted a

number of important aspects related to the *zakah* and its effective role in solving many of the problems faced by Muslim society.

The Conference constituted a committee for drafting the recommendations which were then discussed and adopted.

The following vote of thanks was unanimously adopted by the Conference :

"The Third International *Zakah* Conference would like to place on record its profound gratitude and highest appreciation to H.M. the King of Malaysia, the Rt. Honorable Prime Minister of Malaysia, The Rt. Honorable Deputy Prime Minister of Malaysia and the Honorable Minister in the Prime Minister's Department."

The Conference requested the Director General of Islamic Affairs Division of the Prime Minister Department, Dato Abdul Hamid Othman to convey the above vote of thanks on behalf of the Conference.

The Conference also expressed its deep gratitude and appreciation to all officials of the Islamic Center of Malaysia as well as all institutions, agencies and individuals who have kindly helped to make the Conference a success.

May Allah, the Glorious and Exalted grant them all the best reward, and we pray to Allah, to guide us all to the straight path.

## **APPENDICES**

**APPENDIX I  
PROGRAM OF THE CONFERENCE**

**Opening Ceremony  
Third International Seminar  
on *Zakah***

**Monday**

**14th May, 1990/19th Shawwal, 1410**

- |            |  |
|------------|--|
| 8.30 a.m.  | Departure for Islamic Centre.  |
| 9.00 a.m.  | Arrival of participants and guests.  |
| 9.25 a.m.  | Arrival of Y.A.B. Encik Abdul Ghafar bin Baba, Deputy Prime Minister of Malaysia.  |
| 9.30 a.m.  | Recitation from the Holy Qur'an.   |
| 9.40 a.m.  | Welcoming speech by :<br><br>H.E. Fuad Abdullah Al Omar on behalf of H.E. the President of the Islamic Development Bank, Jeddah. |
| 10.00 a.m. | Opening speech by Y.A.B. Encik Abdul Ghafar bin Baba, Deputy Prime Minister of Malaysia.   |
| 10.30 a.m. | Refreshments.  |

## **PROGRAMME**

### **Sunday**

**13th May, 1990/18th Shawwal, 1410**

8.00 a.m. - 6.00 p.m.

Arrival and registration of participants at Islamic Centre.

### **Day 1 : Monday**

14th May, 1990/19th Shawwal, 1410H

8.30 a.m. - 10.30 a.m.

Opening Ceremony.

10.30 a.m. - 11.00 a.m.

Coffee Break.

11.00 a.m. - 11.30 a.m.

#### **Session I**

Chairman: Dr. Mohamad Al Habib bin Al Khojah, OIC Fiqh Academy, Jeddah.

11.30 - 1.30 p.m.

#### **Session II**

Chairman: Dr. Abdul Hamid Abu Sulaiman, Rector, International Islamic University, Kuala Lumpur, Malaysia.

Paper 1: "General, Administrative and Organizational Dimensions"

**Presentation by:**

H.E. Fuad Abdullah Al Omar, Vice  
President of the Islamic Development  
Bank, Jeddah.

1.30 p.m. - 3.00 p.m.

Break for prayer and lunch at the  
Islamic Centre.

3.00 p.m. - 5.00 p.m.

Session III

Chairman :  
Prof. Dr. Mohd. Omar Zubair

Paper 2: "Legal, Administrative and  
Financial Control"  
Presentation by:

1. Mr. Muhammad Akram Khan
2. Mr. Ahmad Ali Muhammad Al-  
Sawori

5.00 p.m. - 5.30 p.m.

Coffee Break.

5.30 p.m. - 7.30 p.m.

**Session IV**

Chairman:  
Dato Dr. Abdul Hamid Othman

"Case Study of Saudi Arabia"

Presentation by:

1. Mr. Abdul Aziz Mohd. Rashid  
Jamjoom
2. Mr. Jamal Tawfiq Jamal Al-Din

**DAY 2 : TUESDAY**

8.30 a.m.  
9.00 a.m. - 11.00 a.m.

Departure for Islamic Centre  
Session V

Chairman: Dr. Abd Al-Sattar Abu  
Goddah

Paper 3 : "Zakatable Funds of the  
State and Modes of their Collection"

Presentation by:

Dr. Ahmad Ali Abdullah

11.00 a.m. - 11.30 a.m.  
11.30 a.m. - 1.30 p.m.

Coffee break.  
Session VI

Chairman : Dr. Abd Al-Salam Al  
Abbadi

Paper 4 : "Empirical Economic Effects of  
Obligatory and Non-obligatory Payment *of  
Zakah* to the State"

Presentation by:

Dr. Abdin Ahmad Salama

1.30 p.m. - 3.00 p.m.

Break for prayer and lunch  
at the Centre

3.00 p.m. - 5.00 p.m.

**Session VII**

Chairman: Dr. Kamal Hasan  
"Case Study of Malaysia"

Presentation by:

1. Dr. Jamil Othman
2. Dr. Aidit Ghazali

5.00 p.m. - 8.00 p.m.

Dinner to be hosted by Kuwait  
Ambassador.

**Day 3 : Wednesday**

**16th May, 1990/21st Shawwal, 1410**

8.30 a.m.

Departure for Islamic Centre.

9.00 a.m. - 11.00 a.m.

Session VIII

Chairman: Dr. Fazlur Rahman Faridi,  
India.

Paper 6: "Relationship Between Obligatory  
Official *Zakah* Collection and Voluntary  
*Zakah* Collection by Charitable  
Organizations".

Presentation by :

Dr. Faiz Mohamad, Pakistan.

11.00 a.m. - 11.30 a.m.

Coffee break.

11.30 a.m. - 1.30 p.m.

Session IX

Chairman: Dr. Monzer Kahf, Jeddah.  
Paper 7 : "Case Study of India"

Presentation by:

Dr. Fazlur Rahman Faridi, India

1.30 p.m. - 3.00 p.m.

Break for prayer and lunch at the  
Islamic Centre.

3.00 p.m. - 5.00 p.m.

Session X

Chairman: Mr. Abdul Qadir Al  
Ujail, Kuwait.

Paper 8: "Comparative Study of the Efforts of  
*Zakah* Organizations with Regard To  
Information Awareness".

Presentation by:

Dr. Abdul Rahman Al Sumait,  
Kuwait.

5.00 p.m. - 5.30 p.m.

Tea break.

5.30 p.m. - 7.30 p.m.

Session XI

Chairman: Dr. Mohammad Ali Al  
Qari, Saudi Arabia.

**"Case Study of Pakistan".**

Presentation by :

Mr. Parvez Ahmad Butt, Pakistan.

Day 4: Thursday  
17th May, 1990/22nd Shawwal, 1410

8.30 a.m.

Departure from Islamic Centre.

9.00 a.m. - 11.00 a.m.

Session XII

Chairman: H.E. Al Sheikh Yusof Al  
Hajji, Kuwait.

Paper 9: "Applied Institutional Models for  
*Zakah* Collection and Distribution in Islamic  
Countries and Communities"

Presentation by:

Dr. Monzer Kahf,  
Islamic Research and Training

Institute, IDB, Jeddah.

11.00 a.m. - 11.30 a.m.

Coffee break

11.30 - 1.30 p.m.

Session XIII

Chairman: Dr. Hassan Abdullah Al  
Amin

**"Case Studies of the Sudan  
and Yemen".**

Presentation by:

1. Mr. Mohamad Ibrahim Mohamad,  
Sudan
2. Dr. Mohamad Yahya Al-A'di,  
Yemen

1.30 p.m. - 3.00 p.m.

Break for prayer and lunch at the  
Islamic Centre.

3.00 p.m. - 5.00 p.m.

Session XIV (Plenary Session)..

Chairman: Dr. Abdul Hamid  
Othman.

5.00 p.m. - 5.30 p.m.

Tea break.

5.30 p.m. - 6.30 p.m.

Closing Ceremony

Chairman: Dr. Abdul Hamid  
Othman.

**Closing Ceremony  
Third International Seminar  
on *Zakah***

**Thursday**

**17th May, 1990/22nd Shawwal 1410**

- |           |   |
|-----------|---|
| 5.30 p.m. | Arrival of participants and guests.   |
| 5.35 p.m. | Arrival of Dato' Dr. Mohd. Yusof Noor, Minister in the Prime Minister's Department.   |
| 5.40 p.m. | Recital of the Holy Qur'an.   |
| 5.45 p.m. | Presentation of resolution/report.  |
| 6.00 p.m. | Address by:<br><br>i. Mr. Abdul Aziz Muhammad Rashid Jomjourn.<br><br>ii) Dato' Dr. Mohd. Yusof Noor,.<br>Minister in the Prime Minister's<br>Department. |
| 6.30 p.m. | Doa.<br><br>Refreshments.   |

APPENDIX II

LIST OF PARTICIPANTS

Country	Name	Designation/Address
Algeria	Mohammad Al Mandi Al-Qasimi Al-Husni	Ministry of Religious Affairs 4 Sharia Timfad, Haidarah,
Arab Republic of Yeman	Adu Ali Salih Al-Qawasi	Director, Zakah Awareness Administration San'aa,
Brunei	- H.E. Mohd. Zain Bin Haji Seruddin  - Haji Abdul Aziz Juned  - Haji Abdullah Metassan - Haji Abu Bakar bin Hj. Abdul Hamid - Awang Haji Kamis bin Ali	- Minister of Religious Affairs Bandar Seri Begawan, Brunei  - Deputy Mufti of Brunei Ministry of Religious Affairs Bandar Seri Begawan, Brunei  - Acting Secretary Islamic Religious Council of Brunei, Ministry of Religious Affairs
Egypt	Mohamed Ali Fuad Ridhwan	Bank Naser Al Ijtimai 12 Sharia Al-Saraban, Al-Abbasiyah Cairo, Egypt
India	Dr. Fazlur Rahman Faridi	Sir Syed Nagar Aligarh, India
Indonesia	Dr. Satria Affendi	Indonesia
Iraq	Ahmad Khudayer Mahmood Al-Nassery	Director of <i>Zakah</i> Fund Ministry of Awqaf and Religious Affairs Baghdad, Iraq
Islamic Development	- WE. Fouad Abdullah Al Omar Bank, Jeddah  - Dr. Monzer Kahf - Dr. Hassan Abdallah Al Amin - Dr. Ridha Saadallah - Mr. Muslihuddin Ahmad - Mahmoud Said Al Mansour - Mazin El Taher	- Vice President (Finance)  - Economic Researcher - Sharia 'h Expert  - Economic Researcher - Interpreter - Interpreter - Interpreter

<b>Jordan</b>	<b>Dr. AM Al Salam Dawd Al Abbadi</b>	<b>General Manager Orphans' Property Development Organization, P.O. Box 6985 Amman</b>	
<b>Kuwait</b>	<b>- Sheikh Khalid Mazkur Abdullah Al-Mazkur</b>	<b>- Faculty of <i>shari'ah</i> and Islamic Studies University of Kuwait, Kuwait, and Secretary General, International <i>shari'ah</i> Board for <i>Zakah</i>, Kuwait</b>	
	<b>- Dr. Abdullah Al Fallah</b>	<b>- International Islamic Charitable Organization, Kuwait</b>	
	<b>-H.E.' Yusof Jasim Al Hajji</b>	<b>- Head of International Charitable Organization, Kuwait</b>	
<b>Lebanon</b>	<b>Dr. Marwan Kabbani</b>	<b>Director General of Awqaf Head of <i>Zakah</i> Fund Darul Fatwa,, Beirut</b>	
<b>Libya</b>	<b>- Ismail Abdallah Burwais</b>	<b>- Head of <i>Zakah</i> Section Social Security Fund, Bengazi Branch P.O. Box 1730</b>	
	<b>-Ali Al-Mubarak Al-Isti</b>	<b>- Director, <i>Zakah</i> Financial Affairs, Social Security Fund P.O. Box 888, Tripoli</b>	
<b>Mali</b>	<b>Mohamed Salla Sokona</b>	<b>Directeur Territoriale Et Developpement A Labase (Interieur), Bt. 215 Bamako</b>	
<b>Mauritania</b>	<b>Mohamed Ali Ould Zin</b>	<b>Director General of <i>Zakah</i> Bureau P.O. Box 1205 Nouakchott</b>	
<b>Malaysia</b>	<b>- Dr. M. 'Ata Al-Sid - Dr. Muhammad Ariff - Dr. Jamil Osman - Dr. Aidit Ghazali</b>		

<b>Morocco</b>	<ul style="list-style-type: none"> <li>- Abdel Hadi Butalib</li> <li>- Ali Munir Al-Alawi</li> </ul>	<ul style="list-style-type: none"> <li>- Director General of ISESCO</li> <li>- Head of Director General's Office of ISESCO 16, Mukarrim <i>shari'ah</i> Omar Al Khattab, Rabat.</li> </ul>
	<ul style="list-style-type: none"> <li>- Mohamad Sahrawi</li> </ul>	
<b>Organization of the Islamic Conference (OIC)</b>	<ul style="list-style-type: none"> <li>- H.E. Dr. Hamid Al Gabid</li> <li>- Ahmad Ismail Al Basir</li> <li>- Naser bin Abdullah</li> </ul>	<ul style="list-style-type: none"> <li>- Secretary General</li> </ul>
<b>Pakistan</b>	<ul style="list-style-type: none"> <li>- Dr. Faiz Mohammad</li> </ul>	<ul style="list-style-type: none"> <li>- International Institute of Islamic Economics International University Islamabad</li> </ul>
	<ul style="list-style-type: none"> <li>- Muhammad Akram Khan</li> </ul>	<ul style="list-style-type: none"> <li>- B-4 Audit Officers' Residence Gulberg III, Lahore</li> </ul>
	<ul style="list-style-type: none"> <li>- Parvez Ahmad Butt</li> </ul>	<ul style="list-style-type: none"> <li>- Deputy Administrator General, <i>Zakah</i> Admn.</li> </ul>
<b>Saudi Arabia</b>	<ul style="list-style-type: none"> <li>- Abdul Aziz Mohamad Rashid Jamjoom</li> </ul>	<ul style="list-style-type: none"> <li>- Director General <i>Zakah</i> and Income Tax Department P.O. Box 3709, Riyadh 11481</li> </ul>
	<ul style="list-style-type: none"> <li>- Jamal Tawfik Jamaluddin</li> </ul>	<ul style="list-style-type: none"> <li>- Director of <i>Zakah</i> Riyadh Branch P.O. Box 6897, Riyadh</li> </ul>
	<ul style="list-style-type: none"> <li>- Dr. Mohamad Ali Al Qari bin Eid</li> </ul>	<ul style="list-style-type: none"> <li>- Centre for Research in Islamic Economics King Abdul Aziz University Jeddah</li> </ul>
<b>Senegal</b>	<ul style="list-style-type: none"> <li>Dr. Khadim Mbacke</li> </ul>	<ul style="list-style-type: none"> <li>President, Senegalese Fund of Islamic Solidarity P.O. Box 5496, Dakar-Fann</li> </ul>
<b>Singapore</b>	<ul style="list-style-type: none"> <li>Syed Isa bin Mohamed bin Semait</li> </ul>	<ul style="list-style-type: none"> <li>Mufti of Singapore Islamic Religious Council of Singapore Islamic Center 273 Braddell Road Singapore 2057</li> </ul>

<b>Sudan</b>	- Dr. Ahmed Ali Abdullah	- Assistant General Manager Tadamon Islamic Bank P.O. Box 3154, Khartoum
	- Mohamed Ibrahim Mohamed	- Secretary General Sudan Zakah Organization 49 shari'ah Al Imarat Khartoum
	- Dr. Abdin Ahmad Salamah	- Managing Director Sudanese Estate Bank P.O. Box309 Khartoum
	- Ahmad All Hasan Ahmad Al Saowri	- Director General Sudan Zakah Organization Khartoum
<b>Sultanate of Oman</b>	- Hamed bin Ahmad bin Hamed Al Yahya	- Chairman, Zakah Office Ministry of Justice, Awqaf and Islamic Affairs Muscat
	- Salleh bin Hamed bin Salem Al Rashidi	- Judge (Kadhi), shari'ah Court Ministry of Justice, Awqaf and Islamic Affairs Muscat
<b>Tunisia</b>	- Tuhami Nekrah	

**Legal Deposit No. 1427/16**  
**ISBN, 9960 – 627-55-1**

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# ISLAMIC DEVELOPMENT BANK (IDB)

## **Establishment of the Bank**

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent by a Conference of Finance Ministers of Muslim countries held in Jeddah in Dhul Qa'da 1393H (December 1973). The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the Bank formally opened on 15 Shawwal 1 395H (20 October 1975).

## **Purpose**

The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of *Shari'ah*.

## **Functions**

The functions of the Bank are to participate in equity capital and grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms of 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 raise funds in any other manner. 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, extending training facilities for personnel engaged in development activities and undertaking research for enabling the economic, financial and banking activities in Muslim countries to conform to the *Shari'ah*.

## **Membership**

The present membership of the Bank consists of 48 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference and be willing to accept such terms and conditions as may be decided upon by the Board of Governors.

## **Capital**

The authorized capital of the Bank is six billion Islamic Dinars. The value of the Islamic Dinar, which is a unit of account in the Bank, is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund. The subscribed Capital of the Bank is 3,654.78 million Islamic Dinars payable in freely convertible currency acceptable to the Bank.

## **Head Office**

The Bank's head office is located in Jeddah in the Kingdom of Saudi Arabia and the Bank is authorized to establish agencies or branch offices elsewhere.

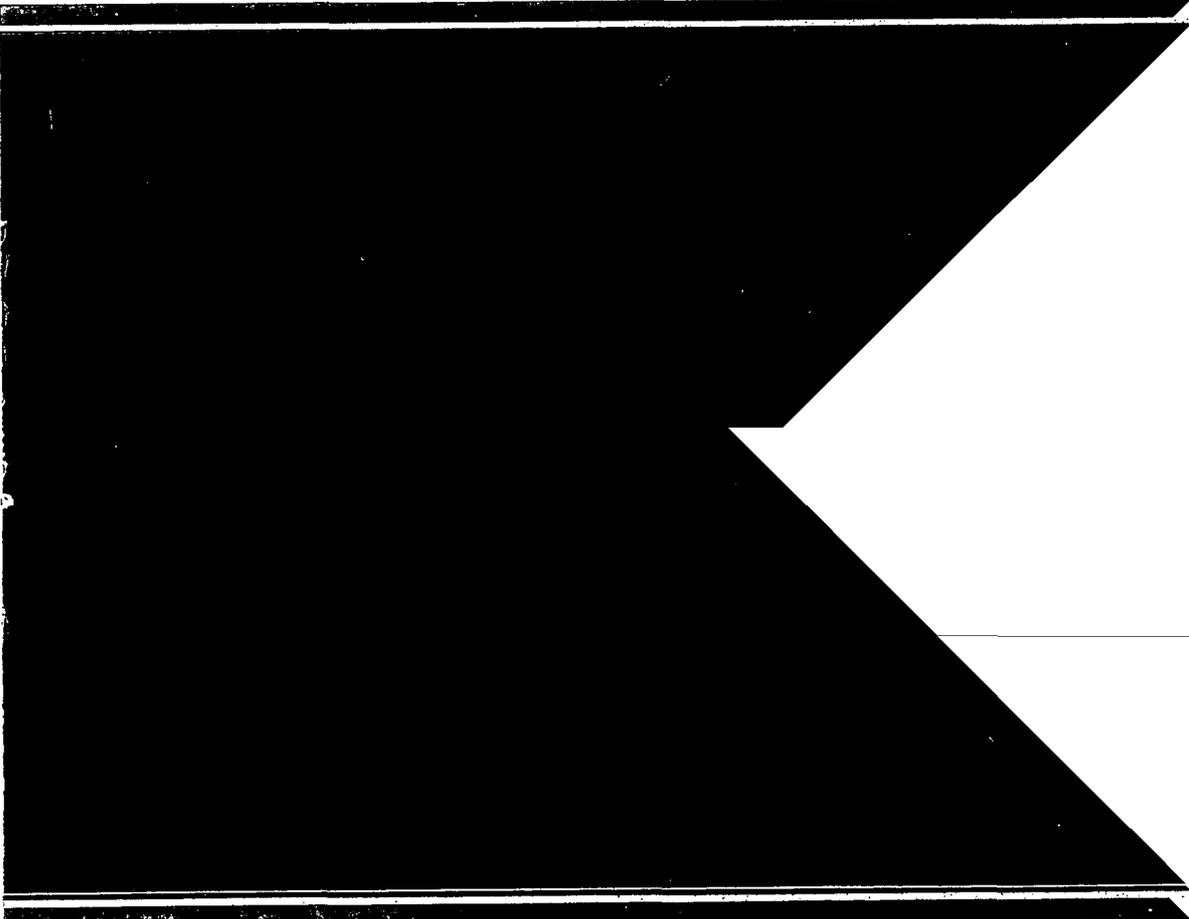
## **Financial Year**

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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