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Zakat: changing the framework of giving

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Abstract

Purpose – This paper aims to show that zakat solves the collective action problem by changing the framework of giving. An additional purpose of this paper is an attempt to fill a critical gap in the Islamic economics literature. This gap concerns the nature and role of zakat in effectively delivering aid to those in need while mitigating the potential for free riding. There is also a general gap in the current literature on Islamic economics that the issues of zakat and charity have not received the same attention as the focus remained mostly on money, banking and the issues of interest and usury. The paper is also an attempt to provide a refocus.

Design/methodology/approach – This paper attempts to build an argument to show how zakat can function as a unique solution to the free-rider problem in voluntary charity. The author's argument is based on a precise theoretical framework, namely the "free-rider problem," and how zakat can function as a unique solution to this problem. The author also uses game theory to show how reputation can lead to cooperation in a repeated game. The author uses an example from Pakistan to show how reputation can be a disciplinarian of zakat collection organizations.

Findings – Zakat solves both the free-rider problem in ordinary charity and the coordination problem between members in a large group. The free-rider problem is solved by changing the very framework of giving and the coordination problem between Muslims around the globe disappears because the rates and details of levying zakat are centrally created based on divine revelation.

Originality/value – This paper presents an important topic as it addresses one of the most popular giving practices in Muslim societies, called zakat. It also provides a framework in examining the meaning and function of zakat in Muslim societies.

Keywords Zakat, Free riding, Collective action problems, Charity, Religion

Paper type Research paper

1. Introduction

Collective action problems in economic and social life arise when individuals who will be better off cooperating fail to do so due to conflicting private interests which inhibit effective joint action (Allison *et al.*, 1996; Brown *et al.*, 2018; Friedberg, 2012). These problems can involve very large groups that cut across national boundaries, or relatively small ones such as families (Cronk *et al.*, 2002; Sethi, 2010).

In the context of the provision of public goods, Bergstrom *et al.* (1986) argued that voluntary contributions that are socially beneficial but privately costly will not normally be observed. Nevertheless, there are numerous examples of groups that have overcome the collective action problem on a small scale, such as the management of local fisheries, forests

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and renewable resources (Bromley, 1992; Ostrom, 1990), and on a larger scale, such as the Organization of the Petroleum Exporting Countries (OPEC) which has succeeded in constraining production to maintain price levels. In some instances, restraints are enforced by formal or informal sanctions (Ostrom, 1990) and in others they're enforced by a mutually beneficial agreement among members like the OPEC. However, there also exist examples of collective action in the absence of the standard economic hypothesis of rationality and self-interested responses to material incentives, and the absence of any sanctioning mechanisms, such as private donations to charity (Sethi, 2010).

2. The free-rider problem

The theoretical free-rider problem is a type of market failure that arises when those who benefit from resources, services of communal nature, or public goods do not pay for them or under-pay (Baumol, 1952). It is a problem because free riders may continue to access or use the good while not paying for it either indirectly through taxes or directly through tolls or fees. Consequently, the good may be under-produced, degraded or overused (Rittenberg, 2008). Moreover, it has been shown that despite evidence that individuals tend to cooperate by nature, the presence of free riders causes this prosocial behavior to deteriorate, perpetuating the free-rider problem (Choi and Robertson, 2019). Buchanan (1968, p. 87) presents the conventional description of the free-riding problem in the context of public goods:

It may prove almost impossible. . . to secure agreement among a large number of persons, and to enforce such agreements as are made. The reason for this lies in the "free rider" position in which each individual finds himself. While he may recognize that similar independent behavior on the part of everyone produces undesirable results, it is not to his own interest to enter voluntarily into an agreement since, for him, optimal results can be attained by allowing others to supply the public good to the maximum extent while he enjoys a "free ride"; that is, secures the benefits without contributing to the costs. Even if an individual should enter into such a cost-sharing agreement, he will have a strong incentive to break his own contract, to chisel on the agreed terms.

In the context of charity, it is said that some donors might have an incentive to hold down on their own contributions and free ride on the redistribution from other individuals (Pasour, 1981).

Today, many economists accept the premise that government should take action to alleviate extreme poverty. One of the primary justifications for government action is that relying on private philanthropy leads to under provision of charitable activities because of the free-rider problem (Friedman, 1962, pp. 190–191) [1]. The free-rider problem has been used to justify many kinds of intervention including the subsidization or public provision of healthcare (Arrow, 1963; Culyer, 1976; Lindsay, 1969), public policy to stimulate saving and investment (Marglin, 1963; Sen, 1967), and compulsory transfers of income through the tax system (Hochman and Rodgers, 1969).

A growing literature examines the ability of informal institutions to solve the collective action problem when it comes to charity (Boettke and Smith, 2010; Chamlee-Wright and Storr, 2009; Goodman and Herzberg, 2020; Skarbek, 2014; Smith and Sutter, 2013). There is also a literature finding that governmental solutions to charity are fraught with knowledge and incentive problems (Coyne, 2020; Lupton and Lawlor, 2011).

This paper builds on a large and wide-ranging literature on the topic of philanthropy. Some have studied the history of philanthropy (Bremner, 1994; Fauzia, 2013; McCarthy, 2005), the moral issues associated with charity and philanthropy (Latief, 2016; Smith, 2005), and the factors that motivate volunteering and giving (Al-Qaradawi, 2000; Benthall, 1999; Brooks, 2005; Dekker and Halman, 2003; Kaag, 2007; Latief, 2016; Muhammad, 2019). While others have studied the political economy of the philanthropic enterprise (Aspinall,

2011; Aspinall and Van Klinken, 2011; Boettke and Coyne, 2008; Boettke and Prychitko, 2004; Boettke and Rathbone, 2002; Holcombe, 2000; Latief, 2014).

This paper aims to show that zakat solves the collective action problem by changing the framework of giving. An additional purpose of this paper is an attempt to fill a critical gap in the Islamic economics literature. This gap concerns the nature and role of zakat in effectively delivering aid to those in need while mitigating the potential for free riding. The theoretical structure and substance of this solution can be extracted from (1) the Qur'an [2], (2) the sunnah [3] of Prophet Muhammad (ﷺ) [4] and (3) the views of Islamic theologians and exegetes.

There is also a general gap in the current literature on Islamic economics that the issues of zakat and charity have not received the same attention as the focus remained mostly on money, banking and the issues of interest and usury. The paper is also an attempt to provide a refocus.

Finally, this paper contributes to the literature on the economics of religion which is still nascent compared to other fields of economic research. While most early research in the economics of religion explores the incentives that individuals might have to hold religious beliefs (Ekelund *et al.*, 2002), recent research focuses quite heavily on the socioeconomic consequences of religion. Economic studies of religion show the role that "spiritual capital" may play in influencing human behaviors by affecting their beliefs and actions (Iyer, 2016).

The remainder of the paper proceeds as follows. Section 3 introduces zakat. Section 4 compares voluntary charity with zakat. Section 5 sheds the light on the coordination problem of collective action. Section 6 concludes the paper.

3. An introduction to Zakat

Zakat is one of the five pillars of Islam [5]. In Arabic, zakat means *growth* and *purification*. In a religious context, zakat refers to the spending of wealth for the sake of Allah [6] (ﷻ) [7] to purify a believer's heart of the love of material wealth. According to the Qur'an (100:8), Man is an avid lover of wealth, therefore, giving zakat is an affirmation that a believer is fully prepared to sacrifice everything for Allah's sake and that nothing is dearer to him or her in life than the love of the Almighty.

Although zakat has a social and economic significance, the primary motive of zakat is religious and spiritual (Imam Muslim 875, Book 5). From a social point of view, zakat awakens in Man the sense of brotherhood with less fortunate members of society and stirs his moral conscience to make sacrifice for their sake (Imam Muslim 875, Book 5). However, from the economic point of view, zakat plays a key role in discouraging the hoarding of wealth and its concentration in the hands of the rich in a society. Zakat thus helps the steady and constant flow of wealth from the rich to the poor to ameliorate their hard lot and enable them to stand on their own legs by providing purchasing power. In this way, zakat helps the poor become a part of their economy and gradually transforms their status from zakat recipients to zakat givers.

Zakat is often mistaken for a *tax* on wealth for three main reasons (Hossain, 2012, pp. 6–7). First, zakat can be collected by force if a zakat giver does not give it willingly. Second, zakat is to be kept in a separate account in the state treasury if it is collected in an Islamic state. Third, similar to tax, there may be no direct and equivalent economic benefit from the state in return for zakat.

Hossain (2012, pp. 6–7) also explains four important conceptual differences between zakat and tax. First, while tax is primarily a matter between citizens and their state authorities, zakat is an act of worship which has been decreed compulsory on Muslims to obtain the Almighty's nearness and express gratitude to Him. Second, unlike many taxes in modern times, zakat is based on *nisab* or a threshold which refers to the minimum amount of wealth

and possessions that a Muslim must own before becoming qualified to give zakat. Therefore, any wealth below the nisab is exempted from zakat. This is not true in the case of many taxes in modern times, although tax authorities may decide when and where to apply exemptions. Third, unlike tax systems that can undergo change from time to time and from one country to another, zakat is prescribed and cannot undergo any change. Finally, the objectives of taxes are secular, whereas those of zakat are spiritual and religious. The intent of zakat is to make wealth pure (in a moral sense) and purify the heart of a believer from the love of material wealth, while the economic and social aspects are subservient to it.

Since zakat is an act of worship, it is not permissible to spend the zakat funds on building mosques or repairing roads, or any other public goods and services [8]. Zakat becomes an obligation upon the fulfillment of five conditions: (1) Islam, (2) freedom [9], (3) possession of the nisab, (4) complete ownership of the nisab and (5) a lunar year of uninterrupted possession of the nisab (Al-Karmi, 1624 [2004]) [10]. A Muslim must have a complete ownership of the nisab amount. For example, if Adam lends Jacob some cash, and there is a strong possibility that Adam won't be able to collect his debt back because Jacob has financial hardships or has defaulted, then the debt is not considered part of Adam's wealth any longer. Also, if Adam himself has personal debts, then he first needs to deduct their amounts from his wealth to verify whether he still meets the nisab condition [11].

Muslims have been enjoined to give their zakat with the same sense of earnestness and devotion in which they observe their prayer. Zakat, hence, has been mentioned in many verses in the Qur'an in close connection with salah (the five daily prayers). Accordingly, whoever does not believe that zakat is obligatory is a kafir (infidel) according to the consensus of Muslims [12].

Zakat is obligatory on four kinds of wealth including livestock, (ii) Products from the Earth (Crops and Fruit), Trade Goods (Merchandise) and Al-Athman (Gold, Silver and Paper Currency) [13].

4. Voluntary charity vs Zakat

The free-riding problem in collective action arises when an individual's interest conflicts with society's interest and information is asymmetric. This is especially true in voluntary charity contributions when a group is expected to reach a target amount or when each individual is expected to pay according to his or her capacity. A voluntary charity thus has two features that can lead to free riding. First, some charity givers can shirk from their moral responsibility and give less than they are supposed to. The second feature is the hidden or asymmetric information between charity givers. While a charity giver is fully informed as to how much he or she can afford to donate, the other donors have no information about this fact.

One approach to solving the collective action problem of getting people to contribute voluntarily to charity is modifying incentives. For example, a tax deduction might be a motivating factor for many people to be charitable. According to a 2019 report on philanthropy, "[a]n incentive to give will definitely increase giving, no question about that. For many, it may not be a matter of whether to give, it's how *much* to give" [14]. Although taxes might not be the reason people give, but they do have an impact on the amount, the timing and sometimes the vehicles donors use to make their gifts (Eisenberg, 2019). Another approach is using the force of law, for example, collecting taxes by government to provide financial and social support to people in need. In other cases, social pressures and personal appeals can be used to discourage free riding, for example, raising money for local charities and for endowments of colleges and universities.

Islam, on the other hand, provides a different solution to the collective action problem. Given that Islam is a complete code of life for all mankind, the Shari'ah [15] touches on virtually every aspect of life and society, laying down the governing principles that must be

followed by Muslims. The real owner of all wealth in Islam is the Creator; Man only owns wealth by proxy as a guardian and shall give an accounting for it on the Day of Judgement. A Muslim thus has a divine obligation to pay zakat upon the fulfillment of certain conditions. As zakat is not only an obligatory charity but also an obligatory act of worship, it requires one's self-intention to give [16]. In other words, zakat privatizes giving. Therefore, the conflict of interest between the individual and society does not arise [17]. At the same time, there is no asymmetric or hidden information to Allah (ﷻ) about the intention and the act of the zakat giver, which eliminates moral hazard for true Muslims. As previously mentioned, one solution to the free-rider problem in voluntary charity contributions is making an amount obligatory to pay through taxation. Zakat is, in this sense, already a tax and an act of worship together. Although there can be a zakat evasion problem similar to that of tax, but that is taken care of by the "worship element" in zakat. Zakat thus solves the collective action problem by changing the very framework of giving.

However, since giving zakat is an act of worship while receiving it is not, free riding can arise on the zakat recipients' side then spill over to zakat givers' side by creating distrust if the distribution methods are weak. This occurs during distribution when some Muslims whose faith is weak masquerade as deserving of assistance and line up to receive zakat. This not only leads to free riding on the rights of the deserving poor people, but also leads to a change in the behavior of zakat givers who consequently reduce their contributions because they fear a misallocation. So instead of handing all their zakat to the zakat collection organization to distribute it on their behalf, zakat givers might choose to discharge their obligations in their societies through personal and informal channels.

The spillover effect can be eliminated by different means. The first is by addressing the root cause of the problem, or weak faith. This can be curtailed by inculcating abhorrence to deception in Islam and inculcating values of self-esteem. Second, giving zakat to one's poor relatives instead of complete strangers can assure givers of the needs of the recipients [18]. Third, effects can be eliminated by finding ways to overcome the trust issue, since weak distribution methods can be related to the credibility of the zakat collection organization. Due diligence is an important part of the collection organization's duty and is essential in safeguarding the zakat funds; these duties entail carrying out proper evaluations on those individuals who receive the zakat.

Unlike voluntary charity, the monetary contributions of other zakat givers don't matter in the decision of a zakat giver. In voluntary charity, the monetary contributions of other donors can matter because the provision or nonprovision of goods to the poor will depend on reaching a critical donation amount that is required to meet their needs. Therefore, a donor's utility is maximized if the good is provided to the poor. On the other hand, a zakat giver's payoff in the hereafter is dependent on discharging his obligations by delivering the funds to eligible recipients. A zakat giver thus has the incentive to monitor the performance of the zakat collection organization since his payoff is dependent on whether it provides low or high efforts in finding eligible recipients and delivering the funds to them. If the targeting of beneficiaries is lax, then people will make lower payments to the zakat collection organization.

Reputation is a disciplinarian of zakat collection organizations because it has a significant effect on giving behavior. Reputation can be viewed as a signal embodying certain attributes of an organization that differentiates it from others (Fombrun and Riel, 1997; Rindova and Martins, 2012). Since people outside of an organization are less informed of its performance and operations than its managers (Fombrun and Riel, 1997), reputation works as a proxy to buttress zakat givers' decision to interact with the zakat collection organization. Not only does reputation include information about past performance, but it also serves as a signal that has the potential to strengthen (or weaken) public confidence in the organization's future performance. A positive reputation can help an organization attract zakat funds, enhance

zakat givers' compliance and public trust. A tarnished reputation, on the other hand, can have a damaging impact, leading to possible losses in zakat funds and public trust.

To model the situation, I will use game theory. In this game, we have two players – the zakat collection organization (column player) and the zakat giver (row player). The column player will choose whether to make low or high efforts in finding eligible zakat recipients and delivering the funds to them on behalf of the row player. The row player, on the other hand, will choose whether to make a lower or full payment to the zakat collection organization.

Figure 1 describes the possible outcomes for the game. The cells of the matrix show the net payoffs accruing to each player contingent on the choices they both make. The number on the left is the net payoff to the row player, and the number on the right is the payoff to the column player. For example, if the zakat collection organization chooses to make low efforts in finding eligible recipients, and the zakat giver chooses to make a lower payment to the organization, they end up in the top left cell A, and each earns a payoff of two. However, if the organization makes high efforts in delivering the zakat funds to the right recipients, and the zakat giver makes a full payment, they end up in cell D earning three and four, respectively.

The preference order of the zakat giver is $D > B > A > C$, whereas that of the zakat collection organization is $C > D > A > B$. Taken as a whole, the choices yield the classic Prisoner's Dilemma when playing a one-shot game because making low efforts is a dominant strategy for the column player. The temptation arises because, regardless of whether the zakat giver chooses a lower or full payment, the zakat collection organization maximizes its payoff by choosing low efforts. Hence, the zakat giver tends toward lower payment when the distribution methods are weak. In other words, the players are likely to gravitate toward the top left cell A, with low efforts and lower payment, and low levels of reward, all around.

The situation is different when playing a repeated game. Namely, when there is a future, there may be the possibility of using reward-and-punishment strategies to sustain behavior that is better than the short-run self-interested behavior. The same payoff matrix, depicted in Figure 1, does not lead to a Prisoner's Dilemma in this case because low efforts in finding the eligible zakat recipient is no longer the dominant strategy. Rather, as long as the zakat organization maintains a good reputation, the zakat giver does best by making a full payment. Players, therefore, are likely to end up in the bottom right cell D because the possibility of retaliation opens the door for cooperation.

		Zakat Collection Organization	
		low efforts	high efforts
Zakat Giver	lower payment	A <div>2 2</div>	B <div>3 1</div>
	full payment	C <div>1 4</div>	D <div>4 3</div>

Figure 1.
Compliance
through trust

In an example of the consequences of a lack of trust, a growing population in Pakistan has been finding ways to avoid the state's deduction of zakat as citizens do not fully trust the zakat committees who have often politicized the use of zakat funds (Latief, 2014). This resentment and resistance can be expressed by mass withdrawals from private savings accounts immediately before the announced date of zakat calculation and transfer on the first day of Ramadan (Candland, 2001; Powell, 2010, p. 68). This trust issue in an environment in which religion has been highly politicized has led to the formation of few development organizations that have succeeded in generating cooperation or trust within the community (Candland, 2001, p. 137).

This trust issue has been captured in Islamic Research and Training Institute's (IRTI's) report [19], "[i]t is interesting to note that while the amount distributed by the Ministry for the whole of Pakistan stood at US\$ 105 million in 2011, one private foundation alone, SKMCH&RC [20] collected US\$ 13.7 million in zakah and another US\$ 9.24 million in donations. One is inclined to conclude that the above is due to a high degree of trust and credibility enjoyed by the hospital in the face of the lack of the same for the government, notwithstanding the fact that the law in Pakistan has made it mandatory on the part of the muzakki [zakat giver] to pay zakah to the government on certain specific forms of wealth" (Islamic Social Finance Report, 2014, p. 65) [21].

The trustworthiness of a zakat institution is crucial to encourage Muslims to pay their zakat [22]. Contemporary studies show that absolute poverty would be significantly reduced, or even eradicated if everyone were to pay their zakat in particular Muslim countries (Islamic Social Finance Report, 2014). In their study, Lawal and Ajayi (2019, p. 545) recommend spreading public awareness and using crowd funding approach to realize zakat potentials in Nigeria which is estimated to be between United States dollar (USD) 8,776.5-USD 21,160.99 million. Zakat thus is alone adequate to fill the humanitarian funding gap in the country (see also IRTI's Islamic Social Finance Report, 2015).

Finally, collective action problems become more frequent and difficult to solve as group size increases (Boyd and Richerson, 1988; Olson, 1965). The costs of monitoring for free riding increase in larger, dense communities and conflicts between group members tend to become more frequent (Alberti, 2014; Johnson, 1982). The following section shows why coordination is not a problem in the zakat system when all collections are decentralized.

5. The coordination problem of collective action

It has been argued that many instances of successful collective action arise in small and stable groups whose members interact with each other repeatedly which is consistent with the standard economic hypothesis of rationality and self-interest, especially if threats of punishments in future periods are credible (Sethi, 2010). The larger the groups, however, the more difficult it is to coordinate expectations and effective communication (Buchanan, 1981 [2001], 1983; Dixit, 2004; Greif, 1993, 2002; Zerbe and Anderson, 2001). Therefore, non-market activities such as philanthropic enterprises are most effective when limited to local action where the services can be directly monitored and the reputational collateral of the recipients of aid is clearly on the line (Boettke and Coyne, 2008, p. 85).

Research has also addressed internal moral constraints. Many scholars argue that the role of culture should be evaluated more deeply when explaining countries' economic growth (Landes, 1998; Norris and Inglehart, 2004), and that economists ought to be vitally concerned about the moral consequences of economic growth (Friedman, 2005). Others argue that the evolution of markets and that of morals, culture and institutions – including religion – need to be studied together (Bowles, 1998; Friedman, 2008). According to Iyer (2016, p. 397), an individual's economic environment is likely to influence his beliefs, morals and religious

choices. Furthermore, religion and culture inform economic systems, institutions and markets. The economic approach thus links the study of markets with the study of religion and culture.

Today, the zakat system helps coordinate expectations and effective communication between approximately 1.9 billion [23] Muslims around the globe when the collection of zakat is decentralized [24]. In spite of a large population, the coordination problem between Muslims disappears because the rates and details of levying zakat are centrally created based on divine revelation. In other words, the Qur'an and hadith provide Muslims with all the needed information on "*who, what, when, and how much?*" – meaning: who pays the zakat, who receives it, what types of wealth are zakatable, when is it due and how much is to be paid [25]. This collective knowledge serves as a coordination device between Muslims around the globe. Furthermore, zakat rate is fixed and does not change from year to year and from country to country, this further eliminates the role of updated information or announcements as a coordination device.

6. Conclusion

Conflicting interests can inhibit effective joint action and consequently lead to collective action problems like free riding. The free-rider problem has been used to justify many kinds of government intervention including the subsidization or public provision of healthcare, public policy to stimulate saving and investment, and compulsory transfers of income through the tax system.

Voluntary charity has two features that can lead to free riding: the possibility of private gain and asymmetric information between charity givers. Free riding becomes progressively more likely as the size of the group, and hence the difficulty of monitoring the others, increases. Moreover, the larger the group, the more difficult it is to coordinate expectations and effective communication between individuals.

There are different approaches to addressing the free-rider problem in charity, such as modifying incentives; using social pressure and personal appeals; and imposing taxes. Islam, on the other hand, solves the matter by changing the very framework of giving. In Islam, the real owner of wealth is the Creator; Man only owns it by proxy as a guardian and shall give an account for it on the Day of Judgement. Therefore, Muslims have a divine obligation to pay zakat upon the fulfillment of certain conditions. Zakat is both an obligatory charity and an obligatory act of worship, this means that self-intention to give is a requirement for zakat to be valid. In this sense, zakat not only privatizes charity but also requires a conscious effort to make sure the funds are given to the entitled groups. Therefore, the conflict of interest between the individual and society does not arise. Moreover, there is no asymmetric or hidden information to the Creator about the intention and the act of the zakat giver.

Historical evidence shows that poverty was effectively eliminated, through the zakat system, during the eras of Caliphates Omar bin Al-Khattab (13-22 AH/634-642 AD) [26] and Omar bin Abdul-Aziz (99-101 AH/717-719 AD) [27]. When Omar bin Al-Khattab (R.A.) [28] became the second caliph after Abu Baker (R.A.), he appointed Mu'adh ibn Jabal (R.A.) as a governor of Yemen and instructed him to collect the zakat from the rich and render it to the poor in Yemen. In the first year, Mu'adh sent one third of the zakat to Omar, but Omar rejected the zakat funds and instructed him in a letter to deliver it to the poor and needy in Yemen. Mu'adh replied that he will not send any zakat to Omar if he finds the one who has the right to take it away in Yemen. The following year, Mu'adh sent half of the collected zakat to Omar, and a similar correspondence took place. In the third year, however, Mu'adh sent all the collected zakat to Omar and said, "[t]his year I did not find a single person who needs from me anything of the zakat" (Nadzri *et al.*, 2012, p. 66; see also Ahmed, 2004; Aisyah and Ismail,

2019; Ayuba, 2016). Consequently, zakat was amassed in Baytul-Mal (Public Treasury) and no one of the Muslims living at that time came to demand for it (Aisyah and Ismail, 2019; Ayuba, 2016).

Similar scenario occurred during the rule of Omar bin Abdul-Aziz when the governor of Egypt wrote to him asking what to do with the zakat funds as no poor or needy was found in Egypt. Omar instructed him to “[b]uy slaves and let them free, build rest areas on the highways and help young men and women to get married” (Ahmed, 2004, p. 31; see also Al-Qaradawi, 2000; Hudayati and Tohirin, 2010; Md Isa, 2011; Nadzri *et al.*, 2012).

Notes

1. There are, of course, scholars who take exception.
2. Considered by Muslims to be the infallible word of God. There is only one version of the Qur'an in Arabic, and that was the version revealed to Prophet Muhammad, and that is still read and studied around the Muslim world today. Hence, this research only provides the English interpretation of the Qur'anic verses.
3. *Sunnah* is what has been established from the final prophet of Islam Muhammad of his sayings, actions or tacit approvals. *Sunnah* is sometimes referred to as *Hadith* which means the words, actions, approvals or attributes that have been narrated from Prophet Muhammad.
4. An Arabic phrase used by Muslims after mentioning the name of a prophet to show respect and honor. The Arabic pronunciation is “sallā llahu 'alayhi wa sallam” which translates to “may blessings of Allah and peace be upon him.”
5. In a religious context, the Arabic word *Islam* means *submission, surrender and obedience to the Creator alone*. For more details about the five pillars of Islam, see <https://www.islam-guide.com/>.
6. “Al-Ilāh (The God); [Allah] is the proper name of the only **Supreme Being Who** exists necessarily by **Himself**. This word comprises all the attributes of perfection. This word is neither feminine nor plural and has never been applied to any other being. This word has no corresponding word in English or in any other language of the world” (Malik, 1997, p. 95). The name Allah, therefore, refers to the *One Who is adored and worshipped* (<https://islamqa.info/en/answers/2594/some-of-the-names-of-allaah-and-their-meanings>). The Qur'an refers to Allah using the masculine pronoun He (*huwa*) because the word “Allah” is *grammatically* masculine, not because Allah is *naturally* masculine.
7. An honorific often said or written alongside Allah. The Arabic pronunciation is “jalla jalāluhu” which translates to “may **His** glory be exalted.”
8. For details about eligible and ineligible zakat recipients, see [Appendix 1](#).
9. Slaves and nonMuslims do not pay zakat.
10. The majority of scholars are of the view that it is obligatory to pay zakat on the wealth of minors and the insane by the wakeel (trustee) who is guarding their wealth. When the prophet (ﷺ) sent Mu'adh ibn Jabal to Yemen, he told him, “..If they obey you in that, then tell them that Allah, the Mighty and Sublime, has enjoined on them a charity (zakat) to be taken from their rich and given to their poor. . .” (Sunan an-Nasa'i online, hadith 2435).
11. If a Muslim has a large debt that is being paid off in installments, such as a mortgage, then one should only deduct the payment that is currently due from one's assets (<https://www.islamic-relief.org/zakat/loans-and-debts/>).
12. Ibn Qudamah discusses this matter in further detail in al-Mughni (Ibn Qudamah, 1968, part 2, p. 228).
13. For further details, see [Appendix 2](#).
14. <https://www.nextavenue.org/charitable-giving-tax-reform/>
15. In terminology, Shari'ah refers to the entire religion (Islam), which the Creator has chosen for **His** servants to bring them forth thereby from the depths of darkness into the light. It is what **He** has

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- prescribed for them as halal (permitted) and haram (prohibited), because He is the law-giver, and there is no law-giver besides Him (Al-Munajjid, 2021).
16. Like all other acts of worship in Islam, zakat is not valid without intention. The prophet (ﷺ) said, “The rewards (of deeds) are according to the intention, and everybody will get the reward for what he has intended” (Sahih Al-Bukhari online, hadith 5070). Therefore, if a Muslim gives money with the intention that it is *charity*, he cannot change his intention afterward to *zakat*. He will still have to give zakat.
 17. A Muslim does not give zakat to fill a social need or as an act of service; it is an act of deep personal worship.
 18. The prophet (ﷺ) said: “Your charity given to a relative is both charity and upholding the ties of kinship” (Sunan an-Nasa’i online, hadith 2582).
 19. The Islamic Research and Training Institute (IRTI) was established in 1981 then renamed in 2021 as the Islamic Development Bank Institute (IsDBI). It promotes the development of innovative knowledge-based solutions to support the sustainable economic advancement of the 57 IsDB Member Countries and various Muslim communities worldwide.
 20. Shaukat Khanum Memorial Cancer Hospital and Research Centre was established in 1994 in Lahore, Pakistan and has come to be recognized as one of the most credible and resilient charities in the country. Zakat has been successfully used as a sustainable source of funding, starting at 46 million Pakistani Rupee (PKR) in 1994 and increasing to 1,343 million PKR in 2011. The growth in zakat has kept pace with the growth of other donations and income from hospital services (Islamic Social Finance Report, 2014).
 21. See also Sawmar and Mohammed (2021, p. 149) who argue that the “perceived legitimacy of zakat institutions is critical for encouraging zakat payers’ compliance through trust.”
 22. Sawmar and Mohammed (2021, p. 137) write, “[h]istory documented that the early caliphs and zakat administrators were men of credibility and were hardworking, creative, just and caring. The trustworthy management of zakat had encouraged an excellent giving and caring behavior from the public, which allowed them to easily comply with the payment of zakat. Therefore, the notable success of zakat during this period was possible, among other things, thanks to good governance and payment compliance of the Muslim public.”
 23. Muslim Population by Country (<https://worldpopulationreview.com/country-rankings/muslim-population-by-country>).
 24. If all collections are centralized, then there is no coordination problem of collective action in the zakat system.
 25. For these details, see appendixes 1, 2, and 3.
 26. “AH” stands for *Anno Hegirae* (Latin for “in the year of the Hijrah”). The first day of Year One (AH 1) of the lunar Islamic calendar (or Hijri calendar) was set as the first day of the Hijrah (migration to Medina). When the persecution of the people of Mecca against the Muslims grew intense, Allah (ﷻ) commanded Prophet Muhammad (ﷺ) and his followers to migrate to Medina in 622 CE (Current Era). While “AD” stands for *Anno Domini*, and it refers specifically to the birth of Jesus Christ (ﷺ).
 27. Ahmed (2004), Hidayati and Tohirin (2010), Md Isa (2011), Nadzri *et al.* (2012), Al-Qaradawi (2000).
 28. An abbreviation for Islamic honorifics. It stands for “Radhiya Allahu ‘anhu” (May Allah be pleased with him). Muslims use this phrase after the name of the companions of Prophet Muhammad (ﷺ).
 29. “Zakat expenditures are only for the poor and for the needy and for those employed to collect [zakat] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler – an obligation [imposed] by Allah, and Allah is Knowing and Wise.”
 30. An exemption is the members of Prophet Muhammad’s (ﷺ) household and their descendants because the zakat is forbidden for them even if they are among the zakat collectors and distributors, or any of the other seven categories.

31. See [Al-Anzi \(2003, p. 548\)](#).
32. Apart from zakat, it is permissible—according to the majority opinion—to give gifts, money, and accommodation to non-Muslims, and sadaqah (voluntary charity) to poor non-Muslims. [Siddiqui and Wasif \(2021\)](#) found that Muslims in the United States gave an estimated \$4.3 billion to charity in 2020. They gave USD 1,810 to faith-based causes compared to USD 1,138 in the general population.
33. In Islam, the husband is obliged to spend upon his family, upon his wife and children, on a reasonable basis, even if the wife is rich.
34. This is meant to honor them because zakat is from the dirt of people. Allah (ﷻ) commands His prophet (ﷺ) in the Qur'an (9:103): "Take sadaqah (zakat) from their wealth in order to purify them and sanctify them with it."
35. For the nisab of the other kinds of livestock, see [Table A1](#) and [A2](#) in [Appendix 3](#).
36. Because Islam is for all times and places, zakatable grains and fruit are nonperishable; to last for one lunar year.
37. The basic principle concerning the Muslim is that he adheres to the Qur'an and sunnah according to the understanding of the companions of the prophet (ﷺ) and those who followed them in guidance. Among the leaders of Ahl al-Sunnah wal-Jama'ah (those who adhere to the sunnah and who unite in following it) are *Abu Hanifa*, *Malik ibn Anas*, *al-Shafi'i* and *Ahmad ibn Hanbal*. Their schools of thought within *Fiqh* (knowledge of the practical, minor Shari'ah rulings that are derived from detailed evidence) are *Hanafi*, *Maliki*, *Shafi'i* and *Hanbali*, named after them, respectively. The differences between them are minor and *not* related to doctrine or creed. Following one of these four schools or any other is not obligatory, and the Muslim does not have to adhere to any one of them in particular. There is nothing wrong with following the four schools if a Muslim does not have sufficient knowledge to enable him to derive rulings from the Qur'an and sunnah himself, but if it becomes clear to him that the correct view is other than that of his school, then he must follow the correct view and not his school ([Al-Munajjid, 2005, 2009](#)).
38. Sahih Muslim online, hadith 979.
39. Counting begins from the time commercial transactions commence.
40. <https://islamqa.info/en/65515>.
41. <https://islamqa.info/en/78607>.
42. It is not permissible for Muslim men to wear anything made of gold.
43. There is a 12-day difference between the lunar and solar calendars.

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Appendix 1

Eligible and ineligible zakat recipients

Zakat is an act of worship; therefore, it must be given to those who are entitled to it as follows:

(1) Eligible Zakat Recipients

Zakat on all kinds of wealth can only be paid to eight categories who were singled out in the Qur'an in verse (9:60) [29]. Since zakat is an obligatory act of worship which every Muslim (male and female) is enjoined upon to perform if they are sincere in their belief in Allah (ﷻ) and the hereafter, there is a sense of gratitude on the part of zakat givers because they have been enabled by the recipients of zakat to discharge their obligation that they owe to Allah (ﷻ) and society (Sahih Muslim 875, Book 5).

The first category of those entitled to zakat and to whom it must be paid is the poor (*faqeer* in Arabic) who is desperately in need. The second category includes the needy (*miskeen* in Arabic) who does not have full sufficiency. Third are those appointed by authorities to administer the zakat in terms of collection, division, recording, distribution and delivery. Those should be given from the zakat according to their efforts, whether they are rich or poor [30]. The fourth category is those whose hearts are to be reconciled, meaning new Muslims who have just entered the fold of Islam, in order to strengthen their faith, regardless of whether they are rich or poor. The fifth category includes slaves who may be bought with the zakat funds and set free; and Muslim captives who may be ransomed. This also applies to ransoming a kidnapped Muslim if it was not possible to force the kidnapper to release him or her.

The sixth category includes those who have fallen in debt either because of need (for reasons that are not sinful) or those who have fallen in debt to bring about reconciliation between Muslims. For example, if there is a dispute, conflict or war between two Muslim clans and a man of good will, standing and honor incurs expenses to reconcile between the two clans, then he should be given from zakat in appreciation of his effort which has put an end to enmity and bloodshed between believers, regardless of whether he is rich or poor. The seventh category is the path of Allah (ﷻ), which means the ones who fight so that the word of Allah (ﷻ) may be supreme and for the defense of Islam. Hence, the ones who fight for tribal or nationalistic reasons do not receive zakat; and the pilgrims who need financial aid to fulfill hajj [pilgrimage to Mecca which is the fifth pillar of Islam] [31]. Finally, the eighth category includes the stranded traveler, to enable him to reach his hometown, regardless of whether he is rich or poor.

(2) *Ineligible Zakat Recipients*

Muslims can give their zakat to one of the above eight categories or divide it between two (or more). Jurists agree that priority should be given where the need is greatest because all categories are entitled to zakat. Usually, the ones who are in greatest need are the poor and needy, and so Allah (ﷻ) started with them first in the Qur'anic verse. However, it is not permissible to give zakat to anyone who belongs to any of these seven groups (to be explained next): (1) non-Muslims, (2) the rich, (3) the able-bodied, (4) a dependent or direct family member, (4) Ahl al-Bayt, (5) slaves and (7) those who do not fall in the eight categories described earlier (Ibn Qudamah, 1994).

Zakat is an act of worship; therefore, it is not permissible to give it to a non-Muslim [32]. Zakat is not to be given either to a rich or to an able-bodied Muslim capable of earning his livelihood. Moreover, a man cannot give his zakat to any of his direct relatives on whom he is obliged to spend such as his parents, grandparents, wife, children and grandchildren no matter how far the line of descendant goes [33]. On the other hand, a Muslim is encouraged to give his zakat to his poor relatives if he is not obliged to spend on them, which is better than giving it to a stranger. It is not permissible to give zakat to Ahl al-Bayt (the members of Prophet Muhammad's household) and their descendants [34]. Finally, zakat is not to be given to a slave because it will automatically be transferred to his master, and he won't be able to benefit from it himself.

Finally, it is the duty of every Muslim to give his zakat to someone who is eligible for receiving it, otherwise he will not be discharged of his obligation and, consequently, must give his zakat again.

Appendix 2

Kinds of zakatable wealth

Zakat is obligatory on four kinds of wealth including:

(1) Livestock

There is a consensus between scholars that zakat is payable on three kinds of livestock: camels, cattle, sheep and goats. It is not payable on other animals like horses, donkeys and mules unless they are part of trade goods (merchandise). In order for this type of zakat to become an obligation, three conditions must be met. First, the animals should not be those intended for work. For example, a camel used for transport, or an ox used for tilling are not zakatable. Second, livestock should be grazing freely on public pastures for most of the year. In other words, its owner does not bear the cost of providing it with grass except rarely. Third, the number of animals must reach the nisab, which differs for each kind of livestock (Al-karmi, 1624 [2004]; Maghniyyah, 1915).

If all three conditions are met, then zakat will be payable after the lapse of one lunar year of the complete ownership of the nisab. For instance, the nisab for sheep is 40 and the zakat for 40 sheep is one sheep; for 121, two; for 201, three. If the number of sheep reaches 301, the zakat is four sheep up to 400; from then on for each extra 100 the zakat is one sheep (Al-karmi, 1624 [2004]; Maghniyyah, 1915) [35].

(2) Products from the Earth (Crops and Fruit)

The rate of zakat on crops and fruit varies according to the method of irrigation. If irrigated without any expense, such as by rain, river or springs, then the rate of zakat is 10%. If irrigation requires mechanical means of lifting up the water, such as artesian wells, then the rate falls to 5%. Zakat must be paid on grains and fruit, on condition that they can be measured and stored [36]. Therefore, the scholars are unanimously agreed that zakat is obligatory on wheat, barley, grapes (raisins) and dates (Ibn Qudamah,

1968) [37]. However, zakat does not become obligatory unless grains and fruit reach the nisab, which is five wasqs [1 wasq = about 425 pounds] [38]. Finally, the passage of one lunar year is not a required condition for paying zakat on agricultural yield; “and pay its due on the day of harvest” (Qur’an 6:141).

(3) Trade Goods (Merchandise)

The basic principle is that whichever is prepared for sale is that which is subject to zakat and that which is used as a tool in one’s work is not subject to zakat (Ibn Bazz, 1999, 183). Therefore, there is no zakat on tools, equipment, machines and other items unless they are meant for sale. For example, if Jenna is a spice merchant, then the glass bottles she uses are considered tools and exempt from zakat, unless she intends to sell the bottles with their contents, in which case zakat must be paid on the bottle and spice.

The value of the trade goods is worked out at the end of the lunar year [39], based on the market price (i.e., the price which the trader would get if he or she sold the owned merchandise without being under great pressure). If the value reaches the nisab, then he or she will give zakat. The nisab for trade goods is the equivalent of 595 grams of silver and the zakat rate is 2.5% [40]. It is necessary here that the ownership be acquired through the owner’s own activity (commercial transactions made for profit); therefore, if acquired through inheritance, there is consensus between scholars that it will not be considered merchandise (Maghniyyah, 1915).

Finally, a Muslim does not have to pay zakat on his or her car, house or shop, even if the value of these things is great. Rather zakat is due on things that are bought and sold for the purpose of trade and profit, which are called “trade goods.” If a person has any property or real estate – land, houses or shops – which he or she has acquired for the purpose of trade, then he or she should work out their value at the time when zakat becomes due and give 2.5%. But if a person has acquired that property to live in, or to farm it, or to buy and sell in it, then no zakat is due on it; sincerity is the key and actions are judged by intentions [41].

(4) Al-Athman (Gold, Silver and Paper Currency)

Zakat al-athman is a payment on the idle wealth. According to Al-Qaradawi (2000, 61), “[i]f money is hoarded and prevented from fulfilling its role in circulation and production, the hoarder is held responsible for leaving it idle. He is not by that action exempt from zakah, but rather, zakah gives him the signal to utilize his money in growth and useful business, otherwise it will perish.”

The nisab of gold is 85 grams and that of silver 595 grams. The nisab of cash is the same as that of gold. The rate of zakat on gold, silver and cash is 2.5%. However, the majority of scholars are of the view that zakat is not payable on gold and silver jewelry that is intended to be worn and used for adornment by women [42].

To explain how zakat al-athman is calculated, let’s assume that Mary had \$10,000 on January 24, 2022. Suppose the market price of 85 grams of 24 carat gold was \$5,000 on that day. This means that the nisab was \$5,000 and Mary had possessed the nisab as of January 24, 2022. After letting one lunar year pass, Mary will check the market price of 85 grams of 24 carat gold again on January 12, 2023 [43]. Suppose the price has slightly increased, but she still possesses the nisab, in that case Mary will give \$250 as zakat ($\$10,000 \times 2.5\% = \250). If she spent part of the money before the end of the lunar year and the amount dropped below the nisab, she is no longer obliged to give zakat that year. Now, let’s assume that her original \$10,000 grew through halal investment returns to \$20,000, in this case she gives \$500 ($\$20,000 \times 2.5\% = \500).

Kind of livestock	Nisab and range of livestock	Zakat deductible
Camels	Up to 4 camels	No zakat is due unless the owner of the camels wants to give
	5–9	1 sheep is due
	10–14	2 sheep are due
	15–19	3 sheep are due
	20–24	4 sheep are due
	25–35	1 bint makhadh (a she-camel in its second year) is due*
	36–45	1 bint laboon (a she-camel in its third year) is due
	46–60	1 hiqqah (a she-camel in its fourth year) is due
	61–75	1 jadha'ah (a she-camel in its fifth year) is due
	76–90	2 bint laboon (she-camels in their third year) are due
	91–120	2 hiqqah (she-camels in their fourth year) are due
	More than 120	For every forty a bint laboon is due and for every fifty a hiqqah

Source(s): [Sahih Al-Bukhari](#) online, hadith 1454. *If the owner does not own one and cannot buy one from elsewhere; he may give its value instead. Therefore, giving equivalent value of zakat is not permissible unless there is a necessity to dictate that

Table A1.
Zakat on camels

Kind of livestock	Nisab and range of livestock	Zakat deductible
Cows*	Less than 30	No zakat is due unless the owner of the cows wants to give
	30	1 tabee' (male) or tabee'ah (female), which is a bovine that is one year old and has entered its second year
	For every 40	1 musinnah (a two-year-old cow)
Sheep**	Less than 40	No zakat is due unless the owner of the sheep wants to give
	40–120	1 sheep is due
	121–200	2 sheep are due
	201–300	3 sheep are due
	More than 300	For every hundred, one sheep is due

Source(s): *Sunan Ibn Majah online, hadith 1804. **[Sahih Al-Bukhari](#) online, hadith 1454

Table A2.
Zakat on cows
and sheep

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