

Zakah – A Comprehensive and Effective Redistribution Strategy for an Economy Ensuring Poverty Alleviation and Distributive Justice

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Abstract: *Zakah (الزكاة) which is the third of the five basic pillars of Islam is considered as an integral part of an Islamic social welfare system since it ensures the rights of poor and needy in the wealth of the rich and as such acts as a tool for distribution of wealth in eradicating poverty in society. This study discusses the potentials of zakah in distributing economic justice and alleviation of poverty. Keeping this objective in view, the study attempts to discuss: a) the concept of redistributive justice from conventional as well as Islamic economics point of view, b) the well-known schools of thought in political philosophy of redistributing income, and c) the salient features of the Islamic strategy for the realisation of the desired pattern of distribution. Zakah is designed to eliminate poverty - both in the short- and long-term basis. Besides, being a collection of redistributive measures it has great scope to play an important role in distributing justice in an economy.*

Keywords: *Zakah, distributive justice, social welfare, poverty alleviation, maximin criterion, strategy*

1.0 Introduction

The Qur'an states that Allah enjoins Muslims to achieve the highest virtues of `adl (justice, equity, or balance) and `ihsan (excellence, **righteousness**, decency, or beautiful conduct); it is the collective duty of Muslims to strive for the establishment of a society where justice and fairness to all members of the society prevails so that even a single section would not be discriminated and unfairly treated by the rest of the society. There is nothing

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more righteous than helping those in need and that is why the Qur'an (2:261) not only emphasises on encouraging people to pay charity but also it warns against those who have apathy towards the needy. We find in the Qur'an (74:44) about those who do not provide food for the poor would be in a miserable situation on the Day of Judgement. A threat is repeated against those in Qur'an (69:34). These are just a few as there are many more examples in the Qur'an on this issue. In order for Muslims to achieve the virtues of righteousness, distributive justice and equal opportunity should be established. This is why a Muslim whose wealth exceeds the prescribed threshold (*nisab*) is ordained to pay *zakah* annually at the rate of 2.5%-10% subject to the type of *nisab* upon his/her total income or wealth to among eight categories of people for the welfare of the poor and the needy.

Zakah literally means 'purification', 'growth', 'blessing' and 'appreciation' the act of paying *zakah* stipulates purifying one's wealth to attain Allah's blessings to make it grow in righteousness. Technically, *zakah* is defined in the Shari`ah as fixed portion of wealth that an owner of *nisab* has to pay annually to poor and needy Muslims - as prescribed in the Qur'an and the Sunnah.

Islam looks at the distribution of commodities and income so as to make sure that justice is maintained in the society. Although there are some other redistribution elements that guarantee distributive justice, such as additional taxes, voluntary charity and inheritance, we will only deal with the *zakah* being a fundamental and obligatory act of worship which is enforceable by the Shari`ah. Furthermore, the *zakah* cannot simply be seen from the **spiritual** point of view because it has social, political as well as economic implications as well.

Given the above backdrop, in this paper we intend to achieve the following three objectives: first, we conceptualise "distributive justice"; second, we ground this concept through highlighting Islamic viewpoint towards redistribution followed by a short discussion on prominent schools of thought in political philosophy of redistributing income. Third, we trace salient features of the ideal Islamic distribution pattern. Attempts have been made to establish one of the pertinent conclusions of this study as to what

extent *zakah* being a collection of redistributive measures can play its effective role in the society in poverty alleviation.

The paper proceeds as follows: Following an introduction section 2 discusses about the concept of distributive justice, while Islamic objectives of such distribution has been delineated in section 3, and section 4 deals with Islamic strategy for distribution. Section 5 highlights on *zakah* as a method to achieve distributive justice. Section 6 demonstrates empirical estimation of yield of *zakah*, and section 7 summarises and concludes the study.

2.0 Distributive Justice - Conceptual Analysis

Distributive Justice has always been extremely important in all societies and a lot of conflicts have taken place throughout history because of the lack of distributive justice. At one extreme, some economists view that our primary problem is production. The common man or average family, has a far greater stake in the size of our aggregate income than any possible distribution of income.ⁱ

At the other extreme, some others assert that determining “the laws which regulate distribution, is the principal problem in Political Economy.”ⁱⁱ However, the Islamic approach towards this issue is quite different. Islam provides certain goals and means to deal with this controversial issue of distributive justice. Islamic economics having been essentially value based is not shy of making value judgments. The discussion of distribution is closely related to the rights of individuals in a society. It is these rights in person and property that provide the ground rules for economic behaviour, which in turn, determines the distribution of income and wealth among individuals. The Islamic concept of ownership rights is fundamental to the determination and achievement of the ideal model of distribution. Therefore, it is necessary to highlight the Islamic concept of ownership before delving into the main discussion.

3.0 Islamic Objectives of Distribution

Distribution though can be viewed from a number of angles, – personal, functional, temporal, regional, etc. – the main concern of

the present discussion is with the functional and the personal distributions.ⁱⁱⁱ The functional distribution is meant to be a distribution of income according to the productive agents who receive the income. In the personal distribution, one is looking how income is distributed among individuals in a society, regardless of how any individual receives his or her share of income. In discussing personal income, one is referring directly to the welfare of individuals. The Islamic approach to distributional equity almost exclusively centres on the personal distribution of income.

According to philosophers J. Bentham (1748-1832) and J. S. Mill (1806-1873) - the founders of utilitarianism^{iv}, utility is a measure of well being as well as the ultimate objective of all public and private actions. The real goal of the government, they claim, is to maximise the sum of utility of everyone in the society. According to the Utilitarian school of thought, redistribution of income should be based on the assumption of 'diminishing marginal utility'.^v It seems reasonable that an extra dollar of income to a poor person provides with more additional utility than does an extra dollar to a rich person. This plausible assumption, together with utilitarian goal of maximising total utility, implies that the government should try to achieve a more equitable distribution of income. This thought has been criticised because this might seem to imply that the government should continue to redistribute income to everyone in society until everyone will have exactly the same income. But, in fact, it cannot do so; hence it is rather idealistic than being practical.

A second way of thinking about redistribution of income is called the 'maximin criterion', which has been developed by philosopher J. Rawls in his book *A Theory of Justice* (1971). Rawls begins with the premise that a society's institutions, laws and policies should be just. Since every person's point of view in society is inevitably based on his or her particular circumstances and one can never objectively determine what a just society would be, he proposes to choose a just set of rules based on fair agreement or bargain in order to consider how those rules will affect every person. Rawls then considers, in particular, what income distribution a person would consider just if that person did not

know whether he or she would end up at the top, bottom or middle of the distribution. He argues that a person in the original position would be especially concerned about the possibility of being at the bottom of the income distribution. In designing public policies, therefore, one should aim to raise the welfare of the worst-off person in the society that includes the people of limited financial ability. That is, rather than maximising the sum of everyone's utility, a utilitarian would maximise the minimum utility.^{vi} This thought, however, has been criticised by the opponents saying that it would not lead to a society that practices equality of people. Because, if the government promised to equalise incomes completely, people would have no incentive to work hard. Consequently, total income of the society would fall substantially, and the least fortunate person would be worse off.

A third view of redistributing income is called 'libertarianism'. Unlike utilitarians and supporters of Rawls, libertarians argue that society itself earns no income - only individual members of society earn income, and as such, the government should not take from some individuals and give to others in order to achieve any particular distribution of income. For instance, philosopher R. Nozick says in his famous book *Anarchy, State and Utopia*: "There is no central distribution, no person or group entitled to control all the resources, jointly deciding how they are to be doled out. What each person gets, he gets from others who give to him in exchange for something, or as a gift".^{vii}

The libertarian alternative to evaluating economic outcomes is to evaluate the process by which these outcomes arise. When the distribution of income is achieved unfairly, the government, as they believe, should interfere to solve the problem. But, as long as the process determining the distribution of income is just, the resulting distribution is fair, no matter how unequal it is, and the government has no reason to alter the resulting distribution of income. According to them, equality of opportunities is more important than equality of incomes, and as such, the government should enforce individual rights to ensure that everyone has the same opportunity to use his or her talents and achieve success.

Among the ways of thinking about inequality and redistribution of income discussed above, Rawls's 'maximin criterion' to some extent seems to be nearer to the Islamic approach to redistributing income since he advocates for the need of a set of principles of 'justice' and 'fairness' that is required 'for assigning basic rights and duties and for determining the proper distribution of the benefits and burdens of social cooperation'. Islam allows freedom of enterprise and accommodates inter-personal economic differences as a part of the Divine Scheme.^{viii} Islam believes in striking at the roots of inequality rather than merely alleviating some of the symptoms. It has incorporated into the faith itself a number of measures which would not allow an unjust distribution to take place. Above all, Islam aims at preventing the emergence of malady rather than treating it after its emergence. It has a built-in program to reduce the remaining inequalities even further through *zakah*, and numerous other methods to bring about a distribution of income which is benevolent and in conformity with its concept of human brotherhood.^{ix}

The major objectives of Islam in distribution may be described as follows:

1. fulfilment of basic needs for all;
2. Equity but not equality in personal incomes; and
3. Elimination of extreme inequalities in personal income and wealth.

The fulfilment of basic needs of all people in society is a fundamental Islamic objective of distribution and redistribution.^x It is supported by overwhelming rules explicitly stated in the texts in the Qur'an^{xi} and the *Sunnah*. There is total agreement among Islamic jurists and economists that this is the most important objective of the Islamic distributive scheme. But then questions may arise such as what are those basic needs? How they can be fulfilled? Muslim scholars provided a long list of needs giving precedents from the early history of the Islamic State to support their view, which includes food, clothing, shelter, medical care and education.^{xii} Depending on social circumstances and the availability of financial resources other needs may also be

included. It is suggested that the resources for need fulfilment programs may come out of *zakah* revenue and other State revenue and taxes levied especially for this purpose. The scholars provided very strong theoretical basis for the fulfilment of basic needs. They point out that it does not mean that a basket full of life's necessities would be doled out to every individual in all circumstances. Individuals are normally expected to fulfil their needs through their own efforts. If owing to some reason that is not possible then the responsibility rests with one's near relatives, neighborhood and society in general. The State may not have to resort to heavy taxation.

Having ensured the fulfilment of basic needs of all, Islam permits interpersonal differences in income. Since natural talent and abilities in humans are not uniform, and contribute differently in the production process, it would be unjust to equate all people in terms of their earnings. It might damage individual incentive and productive efficiency.

Distributive justice in Islam does not mean perfect equalities of income. Then one may question: what is the most favourable level of inequality? In order to establish justice and fairness, Islam discourages extreme inequalities among people.^{xiii} Thus, all inequalities that can create abhorrence, meanness and ill feeling among individuals should be abolished.

In the Islamic system, by eradicating all kinds of exploitative practices, the possibility of excessive inequalities is reduced to a minimum level at first. Then, to further reduce inequalities and encourage social solidarity, Islam advises a person not to be discontent against someone who has more than others.^{xiv} On the other hand, it stipulates a number of measures to redistribute wealth among the poor through minimizing the negative effect on individual incentives. The giver obtains positive utility and takes pleasure in rather than showing antipathy towards sharing his income and wealth with others.

4.0 The Islamic Strategy for Distribution

The most important features of the Islamic strategy for the realisation of the desired pattern of distribution may be described as follows:

a) Islam favours an ‘institutional approach’ in its distributive scheme. These institutions include *'awqaf* or endowments i.e., property voluntarily and permanently transferred to a charity or trust so that its usufruct may accrue to other people; *takaful* or scheme of mutual support which provides insurance to individuals against hazards of falling into unexpected and dire need; *manihah* or donation of usufruct i.e., a productive asset granted to a needy person for a specific period to freely utilise it and enjoy its usufruct; inheritance laws, etc.

b) Islam prefers a decentralised structure of redistributive scheme. It requires one to look after the needs of his or her near relatives, neighbours, locality and then society at large. From an economic point of view, this minimises the disincentive effects on both the donor and the recipient. When a person spends his or her money on near relatives and neighbours and observes its effects to reduce their grief, he or she does not feel the disincentive effects that a person feels when he or she is subjected to high rate of progressive tax on his or her income even though that money is spent somewhere to relieve similar miseries. Similarly, the recipient cannot become a dependant or living on public funds because in a localized arrangement his or her real circumstances and attitudes are known to the donor who can create social pressure to get him or her involved in work and provide the necessary means for him or her to do so.

c) Islam uses a multiplicity of redistributive measures with each one having target participants. Each one of them, if taken alone, may appear to be small but their combined effect implies a substantial transfer. This again has a number of economic advantages. On the one hand, it broadens the base on which transfer applies and, on the other hand, it reaches every category of deserving recipient. Again the minimal incidence of each one of them reduces the negative effects. Many of them do not involve any cost to the donor but increase the marginal utility of the recipient substantially.

d) Islam uses a hierarchy of compulsory, voluntary, permanent and temporary measures, which lend flexibility to the system. Shari`ah has declared some of the schemes, such as *zakah*, participation in the ownership of some natural resources and the system of inheritance, as permanent and compulsory. There are additional measures, which are brought into use if and when necessary. The permanent measures normally ensure that the distribution does not deviate too much from the desired pattern, while temporary measures are there to take care of exceptional circumstances.

e) Redistributive measures are important in the Islamic strategy for achieving the desirable pattern of distribution, on the one hand. Other measures such as prohibition of *riba*, the promotion of profit sharing, discouraging monopolies, correcting ownership partners, the equality of opportunities, the emphasis on employment and work, just wages, the prohibition of certain trade practices, etc. have direct implications for the distribution of income, and are no less important in realising the Islamic distributive ideals than redistributive measures.^{xv}

f) The Islamic approach is much broader than the approach of conventional economics in the sense that the former does not restrict itself to the elimination of poverty as commonly understood. It attempts to relieve all kinds of hardships. For example, it tries to provide help to travellers in distress even if they are otherwise rich, to debtors even if they have some property but the property is needed by them to earn their living, to farmers i.e., producers whose produce has been destroyed due to some natural calamity, to persons who incur financial liabilities as a result of some accident, and so on.

5.0 *Zakah* and Distributive Justice

As has been discussed earlier in this study, *zakah* is one of the five pillars of Islam and is a way of expressing one's appreciation to Allah for seeking Allah's blessings, which reflects in the growth of wealth and the real well-being of all.^{xvi} Technically, *zakah* implies the financial obligation of Muslims to pay a specified

portion from their cash property, trade merchandise, grains and herds of farm animals as an indispensable part of their religious duties if these are equalled or become higher than the *nisab* (an amount of wealth to allow an individual to maintain an acceptable standard of living)^{xvii}.

The emphasis placed on *zakah* is clear from the fact that the Qur'an mentions *zakah* in 29 verses out of which 25 have been mentioned in association with *salah*, i.e. establishing regular prayers. After the declaration of faith these two pillars are considered to be the most important fundamentals of Islam. The repeated mention of *zakah* indicates that worship of Allah is not complete if not accompanied by paying *zakah*. It is the primary redistributive measure in Islam to achieve the desired pattern of distribution with economy.

Although the Qur'an did not specifically identify the *zakatable* items of wealth, it sometimes made classified references to certain wealth such as gold, silver, fruits, agricultural products, mineral resources, etc., which apparently are the subject of *zakah*.^{xviii} Besides, some oblique references of the Qur'an also suggest that *zakah* is to be applied on all types of *'amwal* or wealth.^{xix} However, although the Qur'an refers to applying *zakah* on wealth in general, it is the Prophetic *Sunnah* that came with the bound of *nisab* below which it may not be applied. At the time the Prophet gave the rules for *zakah*, the possessions Muslims had were gold and silver as currency and/or in stocks, merchandise of trade, flocks of animals and the annual firm produce. The Prophet levied *zakah* on all of these items. Nevertheless it is evident in the traditions that the Prophet exempted from *zakah* articles considered necessities of life, and the means of production and transportation.^{xx}

The Qur'an neither gives the rates of *zakah*, nor does it provide the types or level of income or wealth on which it is to be paid, except mentioning the payment of dues on agricultural produces in general terms.^{xxi} The details of all these were given in Prophetic Traditions. Later, the Rightly Guided Caliphs^{xxii} added numerous other categories of wealth and produce to *zakah* using *qiyas* or analogy. However, the *zakah* rates were not changed as part of the moral-legal binding of

Prophetic *Sunnah*. Since then, a general consensus (i.e., '*ijma'*') has been held that the rates should be taken as fixed. According to the rules explained in the *Sunnah*, the ratio of *zakah* is fixed at 2.5% of total net worth of most physical and financial assets including gold, silver, stocks, merchandise of trade, etc. But in agricultural produces, the ratio is determined by the means and expenses involved in production. It is described that the applicable rate of *zakah* on the agricultural produce from artificially irrigated land is '*ushr*' or one tenth, and on the naturally irrigated land is half of '*ushr*' or one twentieth.^{xxiii}

The Prophet (pbuh) gave the lower limits of zakatable assets according to the then commonly held assets or properties. He specified that when any one's net worth equalled or exceeded the below mentioned *nisab*, *zakah* would be levied on the total value of incomes or assets:

Nisab: five '*uqiyah*' of silver (i.e., 796 grams or 26 troy ounces) or 200 Dirhams in currency, both equal in value at that time; five '*wasq*' of grains e.g. wheat, rice, corn, barley, dates, etc. (i.e., 1600 liters or 45.4 bushels), 40 sheep, five camels, etc., all approximately equal in value to 200 Dirhams according to the price estimates available.^{xxiv}

Given the perspective, what becomes evident is that there was a value equivalence of 200 Dirhams among the different *nisab* fixed by the Prophet whether specified by volume, value, currency produce or cattle. The *nisab* of 200 Dirhams or its equivalent represented such levels of income or assets, which could enable a person to meet his or her essential food and clothing requirements and leave some funds for other expenses at that time. As this *nisab* value will differ from country to country and change over time with changes in prices of basic need items it will always represent *zakatability* of assets when they exceed the basic need requirement of an individual. This was perhaps the motivation of the Prophet when he fixed the *nisab* on various forms of wealth.

So far the disbursement of *zakah* funds is concerned it has not been left to the whims of any authority, but rather its proceeds

have been fixed for eight largely need-based categories, as specified by the Qur'an. The Qur'an says:

“Most surely, the *zakah* is only for the poor, the needy, for those employed to administer it, for those whose hearts are to be won over, the ransoming of slaves, for the relief of those overwhelmed by debts, in the cause of Allah, and for the wayfarer: [this is] an obligation from Allah, and Allah is All-Knowing, All-Wise” (9:60). In this verse, the *zakah*-entitled categories have been consolidated and clearly demarcated so as to remove all sources of vagueness on the issue.

The payment of *zakah* by the rich is not merely a moral obligation toward Allah; it is also a legal right of certain categories of disadvantaged individuals in the society without the rendering of which, one's justification and vindication as a Muslim is both doubtful and questionable.^{xxv} Furthermore, *zakah* is not a favour by the rich to the poor. No one except Allah is the real owner of the wealth. Human beings as the possessors of wealth are merely the trustees as Allah has described in the Qur'an.^{xxvi} Therefore, they must spend it in accordance with the terms of the trust, i.e., fulfilling the needs of the poor. The poor should also not treat the receipt of *zakah* as a personal disgrace because what they are receiving is only their right ordained by Allah on the wealth of the rich.^{xxvii} The poor and destitute are the primary recipients of *zakah* with priority for those who are Muslims. They are free to choose how to spend their receipts of *zakah* on their own priorities **within the realm of the boundaries of the Shari`ah.**

The Qur'an denounces *riba* and immediately proposes *zakah* as the antidote. While the former brings the lender an increase through an exploitative practice, the latter brings the *zakah* payer an increase in a beneficial way. In terms of distributive effects also the two are opposites. While *Riba* transfers wealth away from society to the rich, *zakah* redistributes wealth from the well to do to the poor. Besides, the multiplier effect of *zakah* through increased consumption, output, employment and income cannot be denied. However, *zakah* is largely a temporary relief measure. Its purpose is twofold: a) to meet the immediate needs, and to help people stand on their own feet so as to move out of poverty, and b)

to be socially and economically productive. Furthermore, it can place funds at the disposal of the government, which are to be used to create employment and thereby permanently eliminate a major source of poverty - unemployment. *zakah* funds can also be used for the unemployed poor, the sick, disabled, destitute and young who are unable to help themselves, and are in need of continuous assistance, so as to eliminate misery and poverty from the society.^{xxviii} However, if the proceeds of *zakah* are not sufficient, it is the responsibility of society to find other ways and means of attaining the desired goals.^{xxix}

The most important feature of *zakah* as a compulsory religious financial duty is that it transfers some of the income and wealth from the rich to the poor as we mentioned in preceding paragraphs, whereas the duties resembling it in other religions are basically meant for financing the functions of religious intermediaries or for the living expenses of clergymen or for the construction and maintenance of places of worship.^{xxx} Another distinguishing feature of *zakah* is the role of the State in its collection and distribution. It is to be noted here that Shari`ah has made obligatory the complete separation of the *zakah* budget from the general budget of the State so that the rights of the poor and other beneficiaries of *zakah* can be protected.^{xxxi}

6.0 Empirical Estimation of Yield of *Zakah*

It was mentioned in the beginning of this paper that one of the key objectives of this study is to show how much would be the yield of *zakah* in modern economy towards the alleviation of poverty. Therefore, in this section attempts have been made through the **following** empirical study conducted in Bangladesh in order estimate the collectable amount of *zakah* in the country.

Shirazi and Amin (2009) conducted an extensive empirical study on poverty alleviation through *zakah* in all the OIC member countries. The various data, used by the study, range from 2005 to 2009. The study considers the World Bank's definition of poverty. According to that definition, any person's earning USD 1.25 or below per day is considered as extremely poor; while any person earning USD 1.26–2 per day is deemed as generally poor on the

basis of per capita income. The authors utilise the poverty gap index, which is defined as the mean shortfall below the poverty line, expressed as a percentage of the poverty line, in order to gauge the total income shortfall. For the purpose of calculating the percentage shortfall of the gross domestic product (GDP), GDP per capita is used. GDP per capita is further adjusted according to the Muslim population within the countries, so that the total amount of *zakah* available can be estimated for disbursement to the specified categories. The study reports that most of the OIC member countries have more than 50% extremely poor population. It finds that for all OIC member countries' population, the total average gap of the extreme poverty criterion (USD 1.25) is USD 49106.43 million; which is 1.53% of the total average GDP of all the OIC member countries of the same year. Moreover, the resource shortfall for the criterion of average poverty (USD 2) is USD 166782.55 million, which is 5.2% of the total GDP of all the OIC countries of the same year. If the *zakah* is properly collected through efficient channels then it is estimated that the maximum *zakah* fund can be USD 138365.46 million, which is 4.31% of the average total GDP of all the OIC member countries of the same year. It is estimated that the *zakah* fund is not only sufficient for eradicating extreme poverty but also may provide a source of surpluses; which may be used along with other sources of charities to alleviate general poverty. It is worth mentioning here that *zakah* is collected only from Muslims but it can be distributable to both Muslims and non-Muslims in a society.

Taking the case of Bangladesh, we may apply the same methodology to examine the potential redistributive impact of *zakah*. This approach may answer the question that how much would be the yield of *zakah* in modern economy if it was paid on all kinds of assets liable to it. All the data used in this case study were extracted from the official website of the World Bank. The World Bank's poverty headcount ratio, as of 2013, is still USD 1.25 a day for extreme poverty and USD 2 a day for general poverty. The poverty gap index (PPP adjusted) for Bangladesh, as of 2010, at USD 1.25 a day is 11.2%; while at USD 2 a day, it is 30.4%. The total population of Bangladesh, as estimated at July 2013, is 163,654,860, standing as the eighth largest country of the

world according to the population; out of which 89.5% are Muslims. So, total Muslim population is 146,471,100. The total GDP per Muslim population (calculated as: GDP per capita * Muslim Population) is USD 109,413,911,700 (almost USD 109 billion). The current national income of Bangladesh is USD 319,938,507,853 (PPP adjusted), as of 2012. The calculated *zakah* on the national income is USD 7,998,462,696 (almost USD 8 billion), which almost 7.31% of the total GDP per Muslim population, which is a huge source of fund for poverty alleviation. Although, in case of Bangladesh, *zakah* yield of 7.31% may not be sufficient alone to eradicate the extreme poverty gap of 11.2%; however it will definitely cover/alleviate 65.27% portion of extreme poverty; which could be, indeed, remarkable achievement towards the redistributive justice.

This case study may crudely simulate the expenditure that would be needed to eliminate poverty in Bangladesh at a point in time. For future, more precise, sophisticated and structured research can be conducted along the similar lines in various countries to prove the validity of the potential of *zakah* in redistributing economic justice. The end result is that the potential of *zakah* would be reflected by a marked improvement in the quality of life of the poor and of the whole society, and simultaneously releasing funds for the Government which can be used for other purposes.

7.0 Summary and Conclusion

The role and implications of the Islamic system of *zakah* for the economy in distributive justice and poverty alleviation can be summarised as follows:

First, since *zakah* has to be paid on net worth, regardless of whether the capital is utilised or not, it forces the capital owner to invest in productive activities - both to be able to pay *zakah* from profits, as well as to prevent the consumption of capital by *zakah*.

Second, the *zakah* levy contributes to economic growth. The exclusion and exemption of the means of production from *zakah* provides an incentive for increased investment in plant and equipment, and leads to a high level of capital utilisation, which in

turn, promote employment, output and income and consequently, economic growth. Similarly, the exemption of physical capital from *zakah* encourages economically productive activities vis-à-vis speculative activities.

Third, *zakah* directly contributes to increased consumption through financing the poorest groups in society. In this way effective aggregate demand goes up significantly. This leads to increased employment, output and standard of living, and consequently, the economy moves toward higher output levels.

Fourth, the very institution of *zakah* contributes to economic development and growth of the country. The expenditures of *zakah* for provision of essential public goods and services to those who would not have sufficient access to them increase the income levels of the target beneficiaries as well as the growth potential of the economy, especially when employment is provided for the unemployed.

Finally, *zakah* has an economic stabilising influence in a sense that in a situation where the economy operates much below its full-employment potential, *zakah* expenditures increase aggregate demand, thereby reducing the output gap; and where the economy reaches full employment; the expenditures of *zakah* are reduced in proportion. On the other hand, where there is *zakah* collection surpluses, it can be used for development purposes and/or transferred to the needier regions of the world.

In conclusion, it is evident from the study that *zakah* tends to eliminate poverty - both short-term and long-term. Being a comprehensive and effective redistributive measure, it plays an important role for an Islamic economy with distributive justice. That is why *zakah* has been given so high importance in the Islamic value framework - as a religious duty, as a moral obligation, as a legal right and duty, and as an economic policy instrument.

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ⁱ Simons, H.C., *Economic Policy for a Free Society*, Chicago, 1948, p.5.

- ⁱⁱ Ricardo, David, “Principles of Political Economy”, in Piero Sraffa (ed.), *Works and Correspondence of David Ricardo*, Cambridge, 1951, vol.1, p.5.
- ⁱⁱⁱ See, Munawar Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, Leicester, 1988, also, M. Anas Zarqa, “Distributive Justice in Islam”, in Ausaf Ahmad and Kazim Raza Awan (eds.) *Lectures on Islamic Economics*, Jeddah, 1992.
- ^{iv} The political philosophy according to which the government should choose policies to maximise the total utility of everyone in society.
- ^v Gans, Joshua, *Principles of Microeconomics*, London, 2000, p.439.
- ^{vi} Ibid, pp.440-441
- ^{vii} Ibid., pp.441-442.
- ^{viii} *Al-Qur’an*, 3:37; 6:165; 13:26; 16:71; 17:21; 28:32; 29:62; 30:37; 42:13; 43:32 and 63:9.
- ^{ix} See M. Anas Zarqa, “Nahwa Nazriyyah Islamiyyah Mi’yariyyah li al-Tawzi”, paper presented to the 2nd International Islamic Economics Conference, Islamabad, 1983.
- ^x The allocation of income that takes place through mutually agreed transactions among individuals in the market is referred to as distribution while when society uses extra market or other non-market processes to modify that particular distribution is called redistribution.
- ^{xi} There are 60 verses that stipulate, mandate, encourage charity; discuss its virtues and rewards; warn of punishment to those who eschew charity and also warn against hoarding. See for example, 9:34, 2:261, 2:265, 2:276, 2:280, 30:39, 34:39, 35:29, 57:11, 57:18, 64:17, 2:271, 2:245, 5:12, 57:11, 57:18.
- ^{xii} Iqbal, Munawar (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, op. cit., p.81.
- ^{xiii} *Al-Qur’an*, 2:273; 25:67; 51:57.
- ^{xiv} See, for example, a *hadith* related by both Bukhari and Muslim on the authority of Abu Hurairah - which says, “Look at the person who is inferior to you, and do not look at one who is superior to you, so that you would not become ungrateful to Allah for the favour He bestowed upon you”. (Bukhari, Abu ‘Abdullah Muhammad Ibn Isma’il, *Sahih al-Bukhari*, 11/276; also Muslim, Ibn al-Hajjaj Ibn Muslim al-Qushairi, *al-Jami` al-Sahih*, 2963.)
- ^{xv} For an elaboration, see Zarqa, M. Anas, “Islamic Distribution Schemes”, in Iqbal, Munawar (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, Leicester, 1988. pp.163-203.
- ^{xvi} Chapra, M. Umer, *Islam and the Economic Challenge*, Leicester, 1992, p.271.
- ^{xvii} Threshold of wealth owned by an individual, a level or excess over which is subject to pay *zakah*. So, anyone above the *nisab* is a *zakah*-payer, while one

below is a *zakah*-recipient. The *nisab* is set to allow an individual an acceptable standard of living.

^{xviii} Al-*Qur'an*, 9:34; 6:141; 2:267.

^{xix} See, for example, 9:103; also 51:19.

^{xx} See *Sahih al-Bukhari*, 2:271-338, *Sahih Muslim*, 2:466-521.

^{xxi} Al-*Qur'an*, 6:141.

^{xxii} They are: Abu Bakr Al-Siddiq, 'Umar Al-Faruq, 'Uthman Ibn 'Affan and 'Ali Ibn Abi Talib.

^{xxiii} See *Sahih al-Bukhari*, 2:327.

^{xxiv} See for a detailed discussion, S. M. Hasanuz Zaman, *The Economic Functions of the Early Islamic State*, Karachi, 1981, p.343-6.

^{xxv} Al-*Qur'an*, 41: 6-7.

^{xxvi} Al-*Qur'an*, 57: 7.

^{xxvii} Al-*Qur'an*, 51:91; also 70:25.

^{xxviii} Haq, Irfan ul, *Economic Doctrines of Islam: A Study in the Doctrines of Islam and Their Implications for Poverty, Employment and Economic Growth*, Herndon, 1995, pp.181-182.

^{xxix} Chapra, M. Umer, *Islam and The Economic Challenge*, op.cit., p.274.

^{xxx} Al-Qaradawi, Yusuf, *Fiqh al-Zakah*, Beirut, 1997, vol.1, p.644.

^{xxxi} Zarqa, M. Anas, "Islamic Distributive Schemes", in Munawar Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, op. cit., p.181.