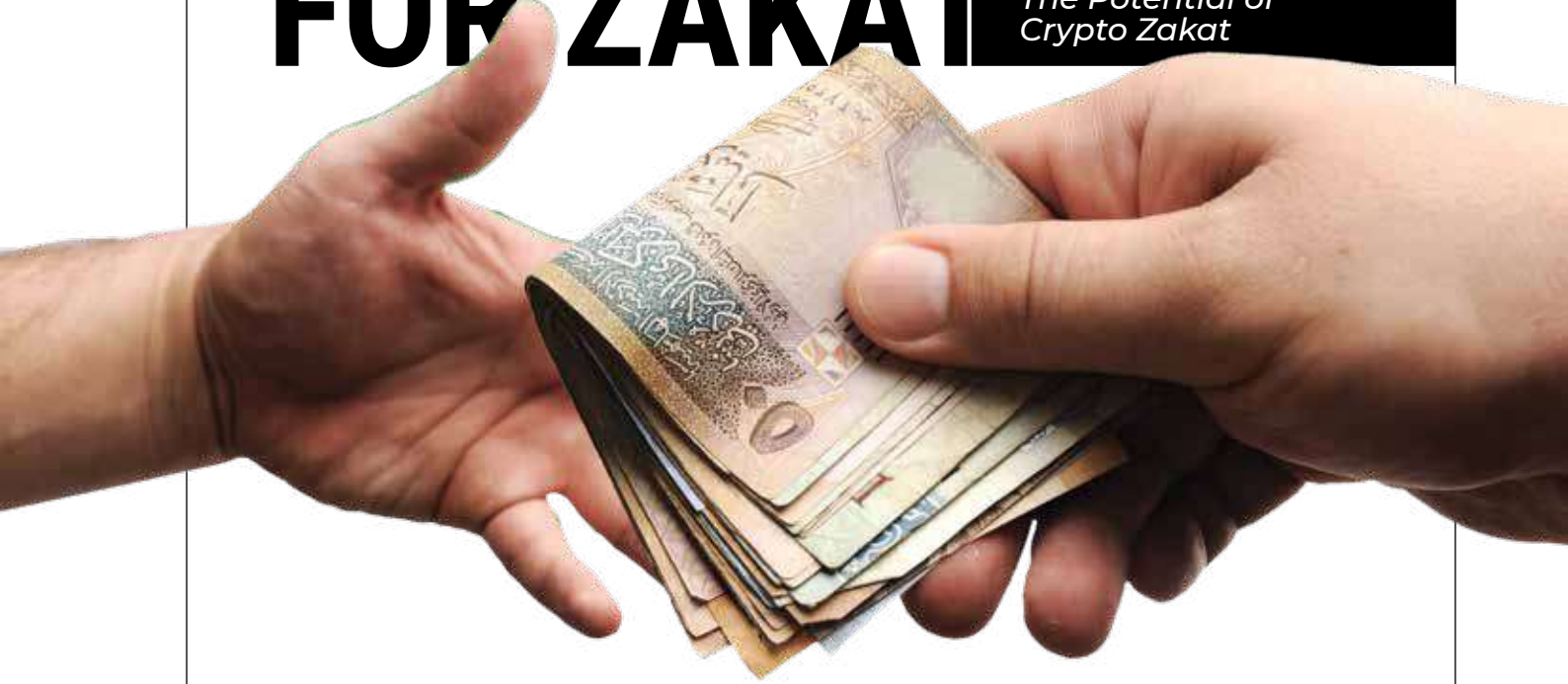


PANDEMIC INNOVATION FOR ZAKAT

*The Potential of
Crypto Zakat*



INTRODUCTION

Technology has no religion. As long as technology is utilized to benefit the humankind, from a Shariah perspective, there is no issue in using it. Zakat is the third pillar of Islam and to enhance the processes and procedures involved in it, technology has been used. The digitization process of zakat has taken place and today we are moving towards digitalization of it. The process of zakat is simple. The Muslim or any person professing the religion of Islam who is eligible to pay zakat could do so to Baitul-mal or directly to any of the categories of *asnaf* stated in the Quran:

“Zakat is for the poor and the needy, and amil (those employed to administer the funds), for the muallaf (those who have embraced Islam), for in bondage and in debt, in the cause of Allah and for the wayfarer: (thus is it) ordained by Allah and Allah is full of knowledge and wisdom”

(Surah At-Taubah: 60)



**By Assoc. Prof. Dr.
Aishath Muneeza**
INCEIF

Rice ATM Machines have also been used to ensure that the Zakat recipients are being able to receive zakat money in a transparent and timely manner

If the zakat money is paid to the baitul mal, it is the responsibility of the baitul mal to distribute the zakat money to the categories of asnaf stated in Quran. The latter process involves collection and disbursement and over the years, a number of challenges have been faced in the process of zakat collection and disbursements resulting in employment of various types of technology to overcome or mitigate these challenges.

Some perceive that since Zakat is the third pillar of Islam, there is no work required to convince the payers to pay it every year as they believe that the process of Zakat payment for the payer's perspective is automatic. Unfortunately, like all the other religious obligations, Zakat has also become complicated and depending on the jurisdiction, there is a need to create awareness among the eligible payers and considering the tax system adopted in the jurisdiction, Zakat collection process has become cumbersome as well. Furthermore, the payment of physical fiat money over the counter to the mosques or other religious offices seems to be outdated and cheques have been used to pay Zakat which has further advanced with the advent of electronic payment systems where online transfer has been adopted. Furthermore, via mobile phones using Unstructured Supplementary Service Data (USSD) code

also zakat payment has been introduced in some countries. With Industrial 4.0, the debate of using cryptocurrencies to pay Zakat has also emerged and in fact, in May 2018, it was announced that Blossom Finance in Indonesia has collected Zakat using cryptocurrency (Blossom, 2018) and in May 2020 it was announced that Global-Sadaqah is going to allow Zakat payment using Bitcoin (FinTech News Malaysia, 2020). Furthermore, even those Muslims holding Bitcoins for a year and who reach nisab of Zakat were also made aware of their obligations to pay Zakat on Bitcoins they hold too (Global Ethical Banking, 2020).

In distribution of Zakat, though the categories of asnaf is known from the Quran, the challenge is to find them in real world and verify that they fall within the category and to ensure that they are the ones who really deserve Zakat. Thought Zakat is supposed to be distributed yearly, if the disbursement process is not efficient, then there will be left over of Zakat money that needs to be carried over to the next year. In this regard, there is also need to collect data on how zakat money is used by the recipients to understand how Zakat money is spent to further improvise the disbursement functions which could not be collected without the use of technology.

The typical manual disbursements of physical money does not allow to capture data on how Zakat money is spent by the recipients and as such, different Zakat programs focusing on different aspects of the recipients are introduced. For instance, Majlis Ugama Islam Singapura (MUIS) have Zakat based monthly cash assistance program, settlement of debt program, emergency assistance program, Burial expenses program, study grants program and Fidyah food vouchers program (MUIS, n.d.). Furthermore, the potential of using digital wallets in zakat payment (Salleh et al., 2019) and disbursement has also been explored and the employment of blockchain technology to ensure that zakat payment and disbursement process is transparent is also being explored (Salleh et al., 2019). Rice ATM Machines have also been used to ensure that the Zakat recipients are being able to receive zakat money in a transparent and timely manner (Muneeza, 2019 and Muneeza and Nadwi, 2019).

ATTRIBUTES OF CRYPTO ZAKAT

CryptoZakat can be defined as an ethereum platform where blockchain technology is used to facilitate Zakat contributions that offers an alternative solution, with decentralized and direct transactions that may assist Zakat organizations to receive Zakat money and disburse it to the specified recipients efficiently. This platform ensures that all processes involved in Zakat will be automated and it would be a one stop platform. There are three functions provided in the platform. They are: Zakat collection, Zakat distribution and registration and verification of Zakat recipients.

The owner of this platform could be a registered information technology firm and the service will be provided in affiliation

with a regulatory authority or organization that deals with zakat management. Below are the functions of the crypto Zakat platform explained.

Zakat Collection

For an individual or an organisation who wishes to pay Zakat, will have to first create a digital wallet in the platform with two currency options: that is either using fiat money or cryptocurrency. E-KYC requirements will be fulfilled in opening the digital wallet. The Zakat money which the individual wishes to pay will be transferred via the digital wallet directly to the recipient's digital wallet. Therefore, the Zakat payer will have to choose the recipient he/she/it desires and will have to pay the Zakat payment in real time to the digital wallet of the recipient itself. There is no intermediary that will handle the disbursement. To ensure that there is no duplication of recipients in receiving Zakat money in a particular year, the moment the Zakat money is given to a recipient, the platform will automatically oust him to be as an eligible person to receive Zakat in that particular year. In case, if there is no recipient left to be given in that particular year, the system will automatically start to show all the recipients registered for that year and the process will start. However, this would be subject to Shariah approval. This will only happen in a very exceptional situation as today, the recipients of Zakat is increasing and COVID-19 pandemic has turned back the poverty clock.

Zakat Distribution

In the crypto Zakat platform, Zakat distribution will be made instantly in real time by the Zakat payer. As such, no time or money will be wasted in giving the money to the recipient.



This will ensure that there is no carry forward Zakat money to the next year and as such, this could be considered as a more shariah compliant way as no back log of Zakat disbursements will be pending. Since all the Zakat recipients who are registered are verified and the transactions are made in the platform, there is no issue of lack of trust or confidence that would arise. Using the digital agreements or smart contracts, the parties ensure that the terms and conditions agreed between the parties are adhered and no time is wasted in execution of the agreements between the parties too.

Registration and Verification of Zakat Recipients

A vigilant process involving human resources will be required for this process of registration and verification of Zakat recipients. Since Zakat collection and disbursement will not involve human resources as those two processes are automated in the platform, more effort could be put by the Zakat management organization to focus on finding the Zakat

recipients by auditing the applicants and verifying them. Once they are verified and confirmed as an eligible Zakat recipient, they will be listed under a designated Zakat assistance program with background information including history of the person using Zakat money in the past. Every year, the Zakat organization will have to update and verify these information and crypto Zakat will change the function of Zakat organisation as agencies who vigilantly look for eligible recipients of Zakat and the rest of the classical functions they used to perform become extinct. Therefore, Zakat organisations can spend more time and money on creating awareness about Zakat and finding the most deserved Zakat recipients.

The impact of crypto Zakat on the responsibilities of Zakat organizations is huge. Classically, the Zakat organizations are expected to deal manually with Zakat collection, disbursement, registration of zakat recipients and verifying them, coming up with programs and creating awareness about Zakat.



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Furthermore, they are also expected to manage the zakat fund where all money paid as Zakat is fund collected in one fund and then from that fund disbursements are made to the Zakat recipients. Depending on the efficiency of the Zakat organization in disbursing the funds, often it is impossible to spend all money collected on that particular year to the recipients. This situation forces Zakat organizations to carry forward the money collected to the subsequent year.

However, when crypto Zakat is implemented, the platform automates the process of Zakat collection and disbursement in real time ensuring that there is no need to create the Zakat fund. Furthermore, crypto Zakat enables Zakat organizations to divert its human resources and three main responsibilities; namely in registration and verification of Zakat recipients, creating awareness to boost zakat payers and on how to use crypto Zakat and finally in formulating the Zakat programs based on the need with proper Shariah consultations. As such, with crypto Zakat, zakat administration becomes more transparent and trusted and there will be no unutilized Zakat funds provided that the system is updated and managed properly. The overall effect of crypto Zakat is illustrated in Figure 1 below.

Classical Responsibilities of Zakat Organizations



Responsibilities of Zakat Organizations after Adoption of Crypto Zakat

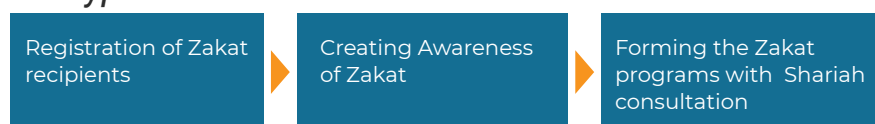


Figure 1: The Effect of Crypto Zakat in a Nutshell

Proper governance and information technology related laws need to be put in place and there is also need to invest on the required technology

OPPORTUNITIES AND CHALLENGES

The opportunities created by Crypto Zakat is enormous as it enables to have Zakat process to be more transparent in a decentralised manner using digital agreements in a cheap way. Since each and every transaction made whether it is a payment or disbursement of Zakat can be traced via blockchain, the confidence in the Zakat administration system for all stakeholders will increase as the level of public accountability and governance is strengthened. The decentralization way of operation does not require a single regulatory authority or the transaction to be within domestic jurisdiction as allowing cross-border Zakat transaction to increase. Involvement of digital agreements or smart contracts in the process ensure that there is no alteration in the initial agreement made between the parties to the transaction giving the assurance that the original form of the contract remains as approved by all members. Since the automation of processes is easy to happen in crypto Zakat, there are less intermediaries involved decreasing transaction cost to collect and disburse Zakat. As such, human resources of the Zakat organizations could be used in creating awareness and finding the most deserved Zakat recipients. Furthermore, this way the time and money could be used to come up with innovative and effective Zakat programs for the recipients with consultation of the Shariah consultation.

With all the opportunities which crypto Zakat creates, there are also some challenges that would be faced in the implementation of it. No technology can create instant magic and in this regard blockchain technology is also no exception. Rules and regulation to operate crypto Zakat is required to ensure that all parties or stakeholders in the transaction is protected.

Proper governance and information technology related laws need to be put in place and there is also need to invest on the required technology. For this, political will is required in those countries who manage Zakat in a centralised manner while in those jurisdictions where non-governmental organizations manages it needs to take care of the investment part. Shariah rules also need to be agreed beforehand so that the system of crypto Zakat will enable those rules to be reflected in the platform to ensure that there is no Shariah breach or shariah non-compliance risk involved in any stage of the transaction.

CONCLUSION

Zakat is the third pillar of Islam. To ensure that Zakat is managed in the most efficient manner, it is important to utilize the available technology to enhance it. As explored in this paper, there is potential to introduce Crypto Zakat in a sustainable manner.

Upon adoption and implementation of crypto Zakat, the classical role of Zakat organisations will be changed as Zakat collection and disbursement would be automated using the platform and the only concern of the Zakat organizations would be to create awareness about zakat and registering, verifying and updating the most deserved Zakat recipients. Furthermore, they will also concentrate on creating Zakat programs where rules

of those programs will be determined to distribute the recipients accordingly. Crypto Zakat will definitely bring a revolutionary change to Zakat collection and payment as no human involvement will be required and the process becomes transparent. It is anticipated that in future Zakat organizations will consider having a crypto Zakat platform building trust and confidence to the administration of Zakat by boosting the integrity of it.

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