



IN PERSON:

CLASSICAL ZAKAT MODELLING FOR THE BLOCKCHAIN AGE

Inspiration from Umar bin Abdul Aziz

Zakat as a Religious Obligation

As the third pillar of Islam, zakat has a 1,400-year-old history in reducing inequality and redistributing wealth to at least, the deserving Qur'anic recipients (Al Qur'an, 9:60). Understood as an obligatory command, zakat appears no less than 58 times in the primary source of Islamic law, 26 times along with prayer, for instance: "... so establish Salat and give Zakat, and hold fast to Allah ..." (Al-Qur'an 22:78). All Muslims who meet a minimum threshold of zakatable assets¹ (nisab) are required to pay zakat annually.

The oft-repeated conundrum however, is if the Zakat institution was so deeply entrenched in the Islamic law, why then do so many continue to suffer from poverty and malnutrition in even Muslim majority nations? According to a report by Pew Research Centre (2011), Muslim-majority countries are amongst the poorest in the world, with a median GDP per capita (after adjusting for purchasing power parity) of just

¹ Zakatable assets include cash money, livestock, business, shares, food and commodities, gold, silver, etc.



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\$1,200 in sub-Saharan Africa, compared to more developed countries at \$33,700 per capita. This is in stark contrast to an era when the Islamic empire had so little poverty that zakat recipients could not be found (A Sallabi, 1999, p574). How can this be achieved once again? Is zakat a corrective method for poverty reduction or is a positive approach to more just wealth distribution? Perhaps the model of Umar bin Abdul Aziz will shed some light on these issues.

The Model of Umar bin Abdul Aziz (Umar II)

Research indicates that the 2-year reign of Caliph Umar bin Abdul Aziz in 99th AH provides valuable lessons for the success of zakat that are still applicable today. Al Sallabi (1999) notes the Caliph's model for zakat collection and disbursement in three prominent areas that include building and maintaining trust, local distribution of zakat and the use of zakat funds for the enhancement of productive capacity.

i *Building and maintaining trust*

The contemporary imperative of governance, structure, transparency and disclosure become significant criteria in achieving and maintaining the trust of zakat payers. The misuse of zakat funds is not new. It preceded the time of Caliph Umar II and is prevalent as much in modern times. Actual and potential zakat funds are often compared, and unscrupulous organisations may even enter the zakat sector with sinister objectives. Zakat (Pew Research Centre, 2011) payers have become ever more vigilant and request proof of distribution to deserving and eligible recipients.

ii *Local distribution of Zakat*

Zakat distribution from payers in specific localities are meant for these areas first. Sending these funds to other regions and areas when poverty exists locally may cause enmity and conflict as inequality is only exacerbated and encouraged. Identification and distribution to locally eligible recipients are further supported by the fact that communities are well-aware of deserving parties within their own areas. This allows for more efficient and better impacting distribution, achieving a primary objective of zakat: improving the socio-economic position of the community, thereby reducing inequality and poverty. Through advanced technology such as smart-contracts on a block-chain however, the world becomes a village, and will sooner or later, make every area local.

iii *Use of Zakat funds for the enhancement of productive capacity*

The use of zakat funds is often a bone of contention, even though the Qur'an explicitly identifies them. Oft-repeated enquiries to Scholars include the validity of use of zakat for investment purposes and its placement in term deposits, its use in construction of hospitals and other community service-oriented institutions, its use in education, its use in infrastructure investment and its distribution to non-Muslims. Using Maslow's theory of human motivation (1943) or a more established psyche of human need, the Maqasid al Shariah (Objectives of the Shariah), basic needs such as food security and safety, zakat distribution becomes more impacting when it is used in productive development. A recent example is the use of zakat funds for the purchase of seeds and farming packs in Kenya, benefitting more than 1.2 million people. The success of the project, managed by the International Federation of the Red Crescent, has

allowed for communities to move beyond the subsistence and needs-based category (daruriyyat) to the next level (hajjiyyat). The net effects create a virtuous cycle of moving groups out of poverty until they themselves become zakat payers and contribute to those less fortunate, until poverty is eradicated. However, this counter-cyclical nature of poverty is only achieved if communities may be developed into having the minimum zakatable wealth. Therefore, this case should be taken with caution as zakat is focused on wealth redistribution from the wealthy to the poor.

Institutionalisation or Individual Obligation?

The debate persists in academic circles on the responsibility of collection of zakat. Whilst governmental zakat institutions are strongly encouraged, most countries do not have organised systems of zakat and rely on non-government organisations (NGOs) to collect and distribute zakat. The management of zakat relies on dedicated institutions established either by government, under the supervision of Shariah scholars, or through NGOs and other informal organisations or both. The global approach of formal collection is different. According to a 2017 report by BAZNAS and the UNDP (2017), only six countries make it compulsory for the governmental collection of zakat whilst most Muslim-majority have no government system for the collection or distribution of zakat.



Source: (UNDP & BAZNAS, 2017)

Current research undertaken in Pakistan in 2018 on zakat collection and disbursement indicates that most zakat payers have little confidence in government collection and distribution. This distrust stems from a perceived lack of disclosure and corruption in the country: Pakistan was ranked as the 117th least corrupt nation out of 175 countries, according to the 2017 Corruption Perceptions Index reported by Transparency International². For those that argue that zakat must be made compulsory by governments, the perceived levels of corruption in Muslim-majority countries makes collection feeble and community trust a mirage.

² <https://tradingeconomics.com/pakistan/corruption-rank>

A brief review of zakat literature since the turn of the millennium have highlighted issues in collection, management and disbursement of zakat (Johari, Ab. Aziz, & Mohd Ali, 2014). In Malaysia, for example, several studies have identified challenges such as excessive usage of staff in some areas (Hamzah & Krishnan, 2016), shortage in human capital in others, low usage of technology, issues in corporate governance, insufficient number of branches and low ratios of zakat payers to total population (according to zakat (Ahmad Razimi, Romle, & Muhamad Erdris, 2016) Selangor report, over two million Muslim in Selangor, only 160,000 people paid the Zakat).

However, as technology plays a more significant role as a disruptor of traditional business norms (aka AirBnB, Uber, Grab, etc.), charitable institutions are also expected to face significant technological disruption. Although convenience of collection may be enhanced through web collection, issues of trust efficient distribution may be impacted only through more transparent means. For example, the use of smart contracts through blockchain technology have already been used in closed collection and distribution systems via smart mobile applications. Notwithstanding, collection and distribution still requires supervision and guidance from auditors and Shariah advisors. Blockchain solutions are not the magic bullet to all the woes of inefficiency and poor perception. Rather, they may be used as a tool to improve the image and enhance partial efficiency of the Zakat system. A more holistic approach is required. One that incorporates willingness from governments and institutions to use multiple channels of collection, sophisticated databases that make use of big data analytics to ensure support for the infirm and elderly, whilst providing guidance, skills training and job placements for those that are capable but have fallen in hard times.

Conclusion

Zakat is an enabler to socio-economic prosperity and equitable distribution of wealth. Through a reduction in wealth concentration, social cohesion will be improved. At a time where income inequality threatens the social fabric of many countries (including Muslim countries) and impedes healthy economic growth, establishing an efficient zakat system becomes more urgent. Embracing most recent developments in technology and the global acceptance of blockchain as a benchmark in maintaining secure, transparent and cost-effective transactions, are expected to create positive disruption in the zakat sector. However, the noise around blockchain may soon fade once it is clear that it is only an effective tool if it operates within a well-structured zakat ecosystem that includes strong governance, Shariah guidance and sincerity. Perhaps adapting the lessons in zakat effectiveness from Caliph Umar bin Abdul Aziz have not been more pertinent and applicable than today.

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