



# ZAKAT *IN THE* 'STANS': *a review of the Kazakh and Uzbek Zakat Model*

## INTRODUCTION

Central Asian nations have been independent for almost three decades since the collapse of the Soviet Union in 1991. Colloquially known as the 'stans', these Muslim-majority nations (more than 85% Muslim) include Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan with a collective population of approximately 72 million<sup>1</sup>. Religious practices are slowly emerging after decades of religious censorship, with at least a generation having lived under Soviet socialism. Economically, these Central Asian countries have suffered setbacks from the COVID-19 shock, emanating from an over-reliance on commodities



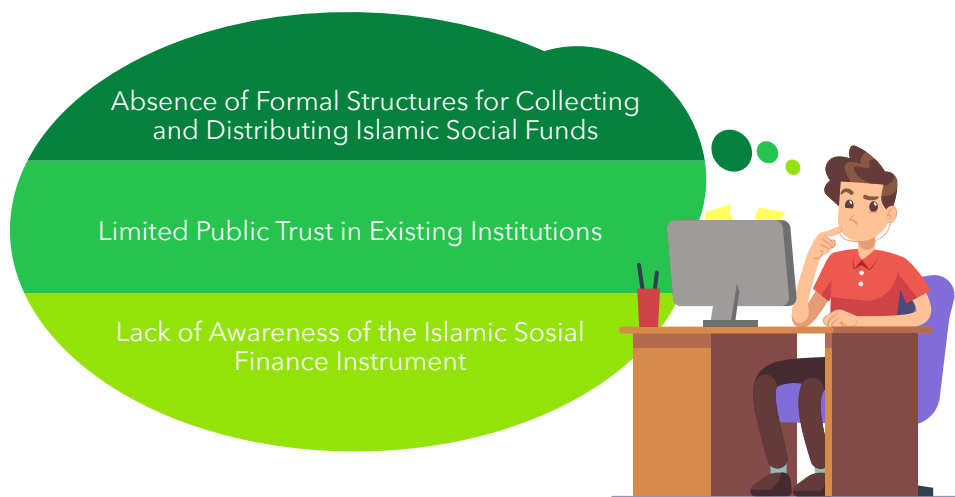
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<sup>1</sup> "Демографическая ситуация" (PDF). *Statistika qo'mitasi*, Retrieved 01 March 2021.

such as oil revenue, migrant labour, low levels of diversification and inefficient social protection (UNDP, 2020). Existing Islamic social finance solutions such as zakat, waqf and sadaqah have been largely ineffective in supporting those economically impacted. This is due to several reasons, including the absence of formal structures for collection

and distribution of Islamic social funds, limited public trust in existing institutions that manage it and a lack of awareness of the instruments available. This brief article explores the situational analysis of zakat as an instrument of Islamic social finance in two Central Asian countries - Kazakhstan and Uzbekistan - and recommends strategies

**Figure 1: Challenges for Islamic Social Finance in Central Asia**



Source: Owner's Illustration

for fund mobilisation to enhance socio-economic support and social protection, especially during times of crisis.

It was expected that the macroeconomic impact of the pandemic would be relatively short-lived (ESCAP, 2020). Unfortunately, second and third waves continue to strike in 2021, leaving vulnerable Central Asian nations in economic lurch. Apart from Turkmenistan<sup>2</sup>, ESCAP (2020) reports that at least half of the declines in growth were caused by lockdowns in these nations and were not due to prevailing social conditions. This indicates that the pandemic has caused significant situational poverty and has as a result, entered a vicious circle of slower consumption, leading to lower growth, closing of businesses, loss of jobs and then further reduced consumption and

so on. With wealthier nations struggling to control the pandemic, humanitarian aid and economic support has also contracted as major donor countries focus on supporting their own internal crises.

In Kazakhstan for example, energy revenues account for almost half of its GDP. The colossal decline in oil prices in March 2020 (below zero for the first time in history) caused a severe impact on GDP, causing the government to increase interest rates by 2.75% to 12%, and spending significantly to stabilize the local currency, the Tenge. The Kyrgyz, Tajik and Uzbek markets were better off due to their reliance on gold exports rather than oil. However, all these undiversified economies have more seriously exposed themselves to potentially large declines in growth if struck by 'angled' shocks.

<sup>2</sup> The country has not recorded Covid-19 cases.

### Background

The Republic of Kazakhstan holds the title for being the largest landlocked country in the world. The Kazakh population was almost 19 million in 2019 (World Bank Development Indicators, 2020), with more than 70% of the population identifying themselves with Islam. Like former Soviet countries, Kazakhstan has been experiencing a cultural revival since independence. Between 2002 and 2017, more than one thousand mosques were built in the country (IRTI, 2017). In 2005, the country's largest mosque was opened in the new capital, Nur-Sultan (formerly called Astana), with a capacity of 7000 worshippers. However, often more than double this amount attend Friday prayer weekly.

Kazakh law separates the state from religion. The organization called the 'Spiritual Administration of Muslims of Kazakhstan' (SAMK), manages religious affairs in the country and is supported by the state. IRTI's Islamic Social Finance Report (2017) notes that no Central Asian countries have zakat regulation, though they may have internal systems that manage zakat. For example, they note that Kazakhstan introduced the Kazakh Muftiate in 2011 as part of the SAMK. The SAMK's Charter indicates that it is guided by the Constitution of the Republic Kazakhstan, the Civil Code, the Law on Non-Commercial Organisations, the Law on Religious Activity and Religious Association and other legislative acts. Zakat is also managed through the organization.

The 'Zeket Fund' was established by the SAMK in 2011, and has prioritized zakat beneficiaries based on low-income categories, payment to religious leaders, education, training, and publications. SAMK disclosure indicates that funds were used mostly for salaries of religious leaders and mosque repairs (IsDB, 2017). A brief analysis indicates that not much zakat is collected (US\$152,000 over the first two years) and any effective distribution is limited to the funds received. As part of their mission, the organization is aware of the lack of understanding of zakat in the country and have therefore included the need for propagation of zakat awareness, its significance, and its importance as the third pillar of Islam. The fund is one of the few in Central Asia that has an organizational structure of support, documented principles of the fund, good governance and an audit committee that reviews the accounts periodically. This also means that the organization discloses the collection and distribution of the funds from each of the 19 regions within the country.

The Zeket Fund was also instrumental in providing support during pandemic under a campaign called 'Give Hope to Life'<sup>3</sup>. Through the campaign, the fund sponsored 255 artificial lung ventilation devices that were delivered to local hospitals. In addition, more than 200,000 families received food kits and medical

3 [https://www.kazinform.asia/en/spiritual-directorate-of-muslims-donates-255-ventilators-to-hospitals\\_a3676446](https://www.kazinform.asia/en/spiritual-directorate-of-muslims-donates-255-ventilators-to-hospitals_a3676446) . Retrieved 01 March 2021.

face masks through the SAMK. This coordinated effort emphasizes the need for organizationally managed philanthropy with strong governance systems in order to maximize socio economic impact during crisis.

### 5-Year Islamic Finance Masterplan

The Astana International Financial Centre (AIFC) in Kazakhstan launched a five-year Islamic Finance Masterplan in 2020, outlining the development of a national zakat management centre, with branches in

major regions (AIFC Islamic Finance Masterplan, 2020). The objectives include promotion and awareness of zakat rules, developing zakat regulation, developing zakat fintech solutions, improved competency for zakat administrators and a more effective governance mechanism to ensure accurate and reliable reporting. This Masterplan can serve as a model for other countries in the region in the development of their own zakat management systems.

**Figure 2: Challenges for Islamic Social Finance in Central Asia**



Sources: Islamic Finance Masterplan for the Republic of Kazakhstan 2020-2025

## ZAKAT MANAGEMENT IN UZBEKISTAN

### Background

Uzbekistan is the most populous Muslim-majority country in Central Asia (96.3% of 32.5 million are Muslim (Pew Research, 2019)), with a long history of traditional Islamic practice (Oybekovich, Shah, Ayaz, 2017). The country boasts a strong history of contributing to Islamic culture and scholarship from the most respected Hadith Masters, Imam Muhammad bin Ismail Al Bukhari and Imam Al

Tirmidhi, astronomers, Ulughbek and Al Bairuni, Qutham ibn Abbas (the cousin of the Prophet Muhammad (pbuh)), ibn Sina and countless others. It revels in a 1,400-year history of Islamic culture and knowledge, restricted only occasionally due to presiding powers. Since 1992, it once again regained its independence and may be said to be on the path of Islamic cultural revival. It came as little surprise that the capital city, Tashkent, was named 'the cultural capital of the Islamic world' in 2007 (Moscow News, 2007).





### Historical Zakat Management in Uzbekistan

The zakat system in Central Asia dates to the arrival of Islam in the 7th century, lasting to before the Russian conquest in the mid-19th century (Oybekovich, Shah, Ayaz, 2017). Becker (2004) documents that the Islamic governate known as the Bukhara Khanate (16th to 18th century) and then the Bukhara Emirate (1785 to 1920) based in Uzbekistan, was a strong Muslim state in Central Asia that had a well-managed zakat system. Becker (2004) notes that the Government officials, such as Kush-begi and his

ministers, the divan-beg (finance minister and treasurer) and his subordinate the zakatchi-kalan (in Bukhara Emirate) or zakatchi (in Kokand khanate) administered the Zakat system. Two main zakatchi were given specific areas to manage zakat collection and distribution. The zakatchi were responsible for administering the western and eastern part of the Bukhara Emirate, with more than 30 subordinates in the districts.

The importance of the zakat collectors' location was along the Great Silk Road trade routes which connected Russia, India and Afghanistan that



passed through Central Asia, making zakat on movable property common. Zakat collected on trade articles, livestock and land produce were among the most popular in Central Asia (Oybekovich, et al, 2017).

Oybekovich, et al. (2017) documents the method of zakat on trade in the Khanate and Emirate period of Uzbekistan and note that zakat on trade was the most common type of zakat collected. Since the Great Silk Road routes crossed the cities of Bukhara, Samarkand, and Tashkent, these became strategic points connecting East and West for centuries. Zakat on trade was

imposed on the goods for export to various parts of the world and traded in Central Asia (Oybekovich, et al., 2017). Each caravan was required to visit the Zakatchi, giving an exact amount and destination of the goods. The owner of the caravan dealt with the Zakatchi who calculated zakat based on 2.5% of the whole amount of the goods to be exported. Famously, the Zakatchi provided a receipt to the owner of the caravan for him to use as proof payment in case he encountered other collectors on the way.

### *The Status of Zakat in Uzbekistan*

Uzbekistan gained independence on 31st August 1991 and like Kazakhstan, began to return to its roots by reviving Islamic practice (Yovkoshev, 2018). Yovkoshev (2018) notes that in the late 1980s, during the weakening of the Soviet Union, Uzbekistan began experiencing a revival of Islamic practices, spurred by national identity, the traditionally spiritual Uzbek culture and Islamic-civilizational history of over 1,400 years. With the collapse of the Soviet Union, religious freedoms allowed for Muslims to pray in public and continue their ritual worship without hinderance. It may be deduced that unfortunately, Soviet rule (1922 to 1991) had severely impacted traditional zakat management amongst other religious practices for an entire generation of Uzbeks. Our assessment indicates that zakat collection and distribution has been confined to informal practices due to the absence of zakat institutions or state intervention since Soviet rule.

## Zakat Potential

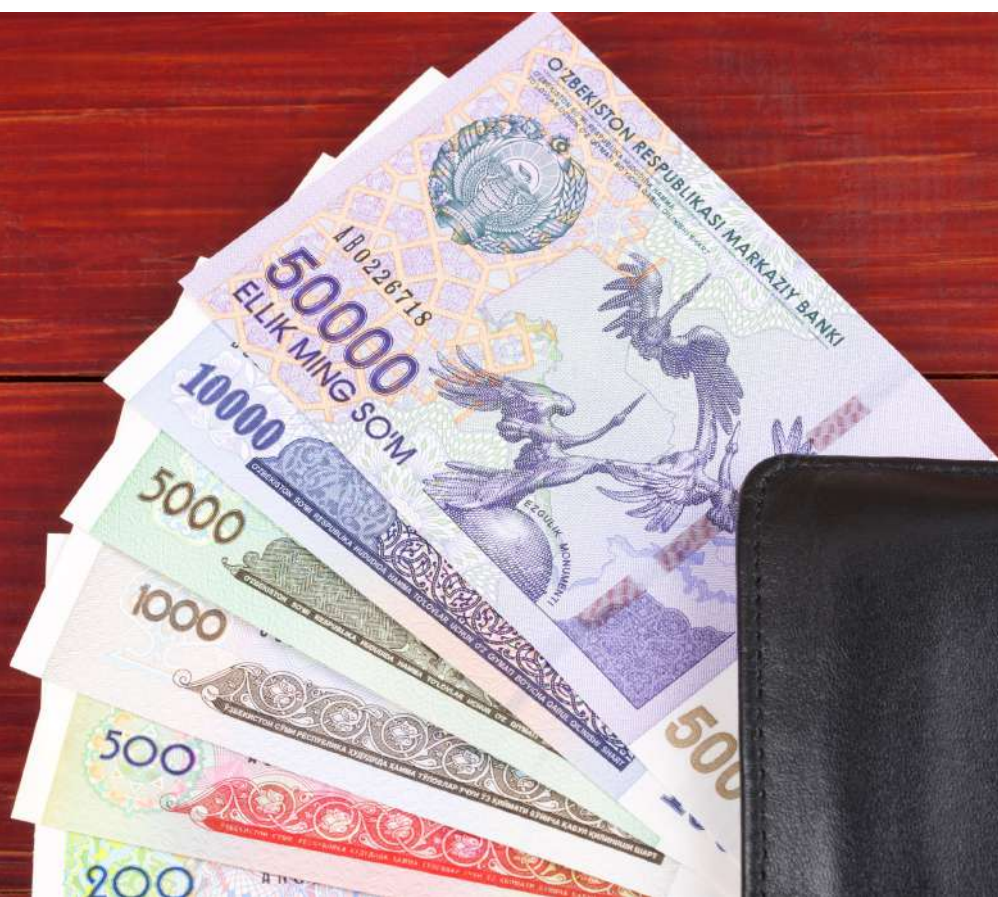
A survey of the literature indicates that there is little to no evidence on the potential of zakat in Uzbekistan. The annual Islamic Social Finance Report published by the Islamic Development Bank in 2017, focused on zakat and waqf in Central Asia. The report covered Kazakhstan and Kyrgyzstan amongst four others, based on the availability of data. Uzbekistan was not covered in the report due to the unavailability of data. This is concerning as Uzbekistan is the most populous Muslim country in the region and the second largest economy after Kazakhstan (World Bank Development Indicators, 2020).

The potential for zakat in Muslim-majority countries has been estimated to be up to US\$1 trillion per year, based on a percentage of GDP (World Bank and IsDB, 2016). Applying this same estimate for Uzbekistan, a potential amount of US\$1 billion may be available annually. With this estimate, the

country is expected to reduce its poverty burden which was 14% before the pandemic (World Bank, 2020), and impact its inequality gap. Therefore, the lack of documented zakat and the unavailability of data presents a risk of significant social finance leakage in the country. It becomes imperative for an organized zakat management system to be implemented, especially for the recording of data and then, the measurement of zakat impact to social welfare.

## Opportunity for Zakat-led socio-economic support

Economic uncertainties caused by Covid-19 have been significant for Uzbekistan. A UNDP-led study in 2020 reports that 85% of small businesses were forced to close in March 2020, with income for the self-employed falling 67% (UNDP, 2020). Although Uzbekistan has effective social programs in place, the funding



of social security programs has been insufficient due to the magnitude of the economic downturn. Islamic social finance instruments would therefore be crucial in providing additional social funding to support existing shortfalls. Zakat, for example, can provide this support through effective wealth redistribution. In the absence of zakat management structures for collection, distribution, and disclosure, this social finance tool has largely been ineffective in Uzbekistan.

The opportunity for reviving zakat to a formal management structure would require a strong awareness of zakat concepts, what it applies to, trustworthy collection and transparent disclosure of its use. Social trust of government organisations has been low. This can be attested to for example, by the corruption perception index. In 2020, Uzbekistan was ranked 146 of 180 countries in the corruption perception index according to Transparency International (Transparency.org, 2020), grouping it amongst countries perceived to be the least transparent in the world. Professional zakat management by specialized institutions may extend the benefits of collection through a transparent management system, thereby reducing overspending, double payments and controlling corruption (Migdad, 2019).

For social trust to be improved, an effective, transparent zakat model is required, without direct government involvement, that

integrates international governance and disclosure benchmarks. Zakat is public money and its role as the third of five fundamental pillars of Islam further emphasizes the need for transparency and credibility.

Recent developments in the collection of zakat through digital platforms have been encouraging. The CLICK and the Wakf Charitable Public Foundation project was launched in 2018 under the auspices of the Muslim Board of Uzbekistan to facilitate online zakat payment (Uz Daily, 2018). Through fintech solutions, the zakat management may benefit from speed of processes and extended coverage over the short term. However, without an ecosystem for Islamic social finance to be more effective, independent initiatives may be in vain. Establishing a zakat management system through institutions may be considered more effective for collection and distribution of zakat in the country.

## **1. Zakat Modelling Considerations for Central Asia**

Documented studies indicate that the key areas for zakat management include capacity-building, transparency, and strong governance (Zainal, Basaruddin, Yusuf, & Omar, 2016; Mustafa, Mohamad, & Adnan, 2013).

### **i. Capacity-building:**

Mustafa et al. (2013) document that educating people about zakat



is necessary for effective zakat management as many Muslims lack even the basic knowledge of zakat. Zakat knowledge in Central Asia may be limited to the Islamic scholars. Although the Scholars may have the theoretical knowledge learned through academia, the lengthy disconnect with the rest of the Muslim world may have created a gap in the knowledge of contemporary rulings addressing, for example, productive zakat and zakat for investments. Zakat institutions that implement learning and development strategies would need to ensure that both the scholars and the public are constantly increasing their knowledge on zakat, for its effective management.

### *ii. Transparency:*

To gain public confidence in the management of zakat funds, zakat agencies must ensure transparency by disclosing all their activities and distribution methods. Ibrahim (2015) documents that zakat in Indonesia and found that many zakat payers preferred to pay to local communities. This is probably due to social ties, transparency, ease of use, and the identification of the poor by zakat payers. A study by UNDP in 2017 found that Indonesians have increasingly preferred the national zakat institution, even though many continue to distribute privately. This preference may be attributed to the high levels of transparency and disclosure offered by BAZNAS, thereby enhancing social trust and public confidence. This is therefore an essential element of a successful zakat management system.

### *iii. Oversight*

Other literature has documented that Muslim charitable organizations have been accused of supporting terrorism, especially in the aftermath of 9/11 (Freedman, 2010). Aal Marayati (2004) warns that it is unfair to condemn Muslim charities as supporters of terror globally because many donations from Muslim countries have played vital roles in poverty alleviation throughout the world. Further, strong oversight and governance can ensure that this does not occur and provide transparent reporting as evidence of the same. Therefore, a clear governance mechanism will be essential for zakat management in Central Asia.

## **CONCLUSION**

Documented research on effective zakat management in Central Asia is scarce and even non-existent for some (e.g. Uzbekistan). The economic shocks resulting from the pandemic have forced many in the region into situational poverty. If left unchecked, this may easily regress into chronic poverty, undoing the significant growth that these countries have experienced over the last decade. Existing social programs have limited the impact of economic loss. Unfortunately, the situation is dire in many parts of the region, and additional support is required. Central Asians enjoyed some of the longest histories of effective zakat management, through trade along the Great Silk Route. Since the collapse of the Soviet Union, they have an opportunity to revive this history and once again empower their nations with Islamic social finance instruments.

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