

A CRITIQUE OF ZAKAT PRACTICES IN INDIA

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Abstract: This paper attempts to identify and evaluate the current situation of *zakat* collection, distribution and management in India. This paper identifies the inherent objectives of *zakat* to understand the real potential of *zakat* institutions and how *zakat* is important to Indian Muslims and how the society can innovate and modernise the *zakat* system. This paper suggests a few recommendations that religious leaders and government authorities in India may consider adopting. It suggests the introduction of a mosque card as an innovative way of distributing *zakat* by integrating mosques and their local community.

Keywords: India, *zakat* administration, fintech, mosque card.

INTRODUCTION

Zakat is one of the pillars of Islam and is an act of worship. It is mandatory for every qualified Muslim to pay *zakat*. *Zakat* is mentioned several times in the Quran, such as in Surah al-Baqarah, verse 110, "And perform *as-salat*, and give *zakat*, and whatever of good you send forth for yourselves before you, you shall find it with Allah. Certainly, Allah is All-Seer of what you do." In Surah An-Nur, verse 56, "And establish prayer and give *zakat* and obey the Messenger-that you may receive mercy."

Allah has entitled for the poor a fixed part of the wealth of people who are well-off. The sole purpose of *zakat* is to reduce poverty and remove the sense of powerlessness amongst the poor. In some narrations, the Prophet (peace be upon him – p.b.u.h) stated that the sole purpose of *zakat* is to spend it on those suffering from hunger and left feeling helpless. For instance, when he sent one of his companions Muaaz Bin Jabal to Yemen, the Prophet p.b.u.h ordered *zakat* to be collected from the rich and distributed amongst the poor there.

Zakat is an act of *ibadah* (worship) for the *muzakki* (*zakat* payer). Hence, it is a matter of great concern for the *muzakki* to ensure that his/her *zakat* is not only paid but also distributed in line with the *Shariah*. *Zakat* institutions are formed to ensure proper management and distribution of *zakat* funds. A *zakat* institution essentially acts as an agent of the *muzakki*. As the principal, the *muzakki* would like his/her agent to ensure that the *zakat* funds flow to eligible beneficiaries according to the *Shariah*. Therefore, the fulfilment of the conditions relating to collection and distribution of *zakat* is the most fundamental requirement for a *zakat* institution to earn the trust of *zakat* payers and enhance its credibility.

In the case of India, *zakat* is not wisely practised by its Muslim population and the management is elementary. The payment of *zakat* largely involves giving of cloths, food for short durations and small amounts of cash. Whereas, it should be used in the reintegration of the poor and helpless back into society. According to Imam Abu Hanifa: “The poor and helpless should be given as much *zakat* as is sufficient to take him out of penury and need to help him establish his livelihood on his own”. It means that the needy should be given whatever they need to take care of their needs. It can be any kind of support in creating a long-term and durable source of income and helping them to re-establish their livelihood. Thus, despite largely being adherent of the Hanafi School (*madhab*), the Indian Muslims are not fully adhering to the teachings of Imam Abu Hanifa in the case of *zakat*.

Despite Muslims being the minority in India, its Muslim population is among the largest in the world. Today, a great number of Indian Muslims are suffering various deprivations without even access to the basic facilities of life. There is a crucial need to increase their living standards above the present inhumane level. Hence, the objective of this research is to explore the current practices of *zakat* management in India and propose alternatives that can be adopted in India for better management of *zakat*.

Given the above, this paper attempts to identify and evaluate the current situation of *zakat* collection, distribution and management in India. This paper identifies the inherent objectives of *zakat* to understand the real potential of *zakat* institutions and how *zakat* is important to Indian Muslims and how the society can innovate and modernise the *zakat* system. This paper puts forward recommendations that religious leaders and government authorities may consider adopting.

This is a desktop research relying on published documents. The limitation of the research is that the recommendations are not being validated with relevant authorities to assess their appropriateness in India and possible challenges these may face while implementing.

APPROACHES TO ZAKAT ADMINISTRATION

In the Quranic verse specifying the heads of expenditure of *zakat*, the administrator of *zakat* is mentioned just after the poor and the needy. This is an indication that Islam prefers an organised system of *zakat* for social justice. In Surah At-Tawbah, verse 60, Allah commands: “*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 traveller - an obligation imposed by Allah. And Allah is Knowing and Wise.”

In Islam, the poor and needy must not be left floundering and be provided with appropriate social security arrangements. Ali, Ali, Ahmad, and Zain (2017) stated that the collection and distribution of *zakat* is the state’s responsibility. Muslim society must have an institutionalised system of *zakat*. During the Ottoman Empire, *zakat* evolved together with philanthropic activities, such as the waqf system (Lessy, 2013).

Traditional *zakat* collection involves either the *aamil* (*zakat* administrator) visiting the *muzakki* or the *muzakki* may visit the *aamil*. This traditional way for collecting *zakat* is impractical at present due to time constraints in reaching every *muzakki* physically, for various reasons like long distances, transportation difficulties, costs and so on.

The *zakat* system had been tremendously weakened due to the decline of early Islamic states. After the colonial era, several Muslim countries have introduced mandatory *zakat* management, such as Saudi Arabia, Yemen, Libya, Malaysia, Sudan and Pakistan. Some other countries have specialized state institutions, although payment of *zakat* remains voluntary, such as Egypt, Jordan, Kuwait, Iran, Bangladesh, Bahrain, and Iraq (Hassan, 2010).

Public and private agencies can coexist as *zakat* collectors as competition brings efficiency and this level playing field provides more choice to the *muzakki*. Thus, a *muzakki* is allowed to select between public and private *zakat* collectors. If the public agency acts as a regulator of the *zakat* sector, it may restrict itself to regulation only, leaving *zakat* collection to private agencies. *Zakat* institutions may also benefit through active collaboration with private entities and NGO's to eliminate poverty and enhance social and philanthropic initiatives. Similar to savings mobilisation, *zakat* mobilisation is institution elastic. This means that the level of *zakat* collection greatly depends on the strategies and approaches of *zakat* collection entities.

Anwar (2017) emphasised that *zakat* empowerment should have a positive impact on the *mustahiq* (*zakat* beneficiary), both economically and socially. From the economic side, a *mustahiq* is deserving of an independent and worthy life. Socially, *mustahiqs* should have equal standing with other members of society. It means *zakat* is not for mere consumption, but helps with productivity and education. *Zakat* should prepare the *mustahiqs* to be productive and empowers them over the long-term. *Zakat* used for consumption may assist in the short-term; however, empowerment should be the priority one. Empowerment creates independent *mustahiqs* who do not always have to depend on the *aamil*.

However, *zakat* may still be a redistributive measure due to poverty and lack of production. Even the revenues from *zakat* depend on the level of economic development of a country. Higher income and employment imply higher *zakat* proceeds for poverty eradication. This was evidenced by the first Islamic society in Madinah, which prospered through various economic activities alongside voluntary contributions like *sadaqat* (charity), *infaq fi sabilillah* (spending in the cause of Allah) and *awqaf* (endowment) instead of being dependent on the obligatory *zakat* alone.

MUSLIM POPULATION IN INDIA

The Council on Foreign Relations (2007) stated that Muslims in India totalled approximately 150 million (200 million by some estimation). It means that the Muslim population make up 15 to 20 per cent of the total population. It is estimated that by 2030, based on the present growth rate of population and experience, the Muslim population in India will make up about 30 per cent of the population and will start having an impact on Indian society. India's Muslim population is predicted to rise to 310 million by 2050, and the country could become the largest Muslim populated country in the world.

According to the National Sample Survey Office's (NSSO) report published in September 2011, Muslims in India are the second biggest group comprising 13.4 per cent of the population. A large chunk of Muslims in India lives in poverty. According to the 55th round of National Sample Survey (NSS) report and according to the India Social Development Report 2006, approximately 35 per cent of urban Muslims and 31 per cent of rural Muslims are living below the poverty line. This is contrasted to 10.1 per cent of Hindus in urban and 11.7 per cent

in rural areas. At the country level, 26.5 per cent of rural and 24 per cent of the population in urban areas in India are living below the poverty line. Besides, most Muslims are self-employed and are currently under banked.

According to the Economic Survey of India 2004-05, 26 per cent of the Indian population are living below the poverty line. 55.48 per cent of the Muslim population in India live in the States of Uttar Pradesh, Bihar, Jharkhand, West Bengal and Assam, where the poverty level is stated to be higher than the national average of around 40 per cent. It is estimated that 60 per cent of Muslim families are living in these five states and 40 per cent in all other states are poor and not *sahib-e-nisab* (i.e. do not meet the minimum wealth criteria to pay *zakat*). Every person above the poverty line may also not be obliged to pay *zakat*. It is, however, assumed that persons above the poverty line are *sahib-e-nisab*. This may not be an exaggeration, keeping in view that a higher percentage of population has been assumed to be below the poverty line.

ZAKAT PRACTICE IN INDIA

Even though there is no denying of the untapped potential of *zakat* for the long-term development of the community, there is no official data on the total amount of *zakat* being collected in India. Experts disagree vastly over the exact figures.

According to IRTI Islamic Social Finance Report (2017), there is no reliable data available from official sources of India regarding *zakat* collection or distribution, because the process is largely controlled by the *ulama*, religious seminaries and informal organisations that often operate in a regulatory vacuum and lack transparency in financial reporting regarding *zakat* collection. Individuals may also pay a small percentage of *zakat* directly to their friends, neighbours, and relatives in need without any formal method of reporting.

There is no recent study to calculate the money that is collected as *zakat* across the country. Dr Rahmatullah of All India Council of Muslim Economic Upliftment (AICMEU) tried to estimate the amount several years ago using government and independent statistics on per capita income and charity. He estimated a total of INR 100,000 million. However, keeping in view the increase in per capita income since then the contributions must have increased significantly. It is an estimation, but the amount could be three to four times than the earlier estimation. In comparison, this is enough to cover the annual budget of the country's richest Brihan Mumbai Municipal Corporation, which is about INR 370,000 million (Rahman, 2017).

Zakat in India is generally calculated and given out in the month of Ramadan before Eid. There are several ways to give *zakat*. Some people distribute it direct to the deprived, the disabled, sick widows, and to help poor parents to marry off their daughters. Some may give it to charitable organisations like madrasahs, orphanages to use it to educate poor children.

India does not have a formal official or regulatory structure for *zakat* management. *Zakat* is mainly seen as an act of worship, and the government does not interfere in *zakat* management. Payment of *zakat* is voluntary and unaccounted for. Private *zakat* collected from individuals are channelled to religious schools and institutions. In recent times, a few institutions have been established with the express objective of mobilizing *zakat* and routing the same into the hands of the poor through relief, educational, and health-related initiatives (IRTI, 2017).

Zaman (2011) stated that there are many fictitious organisations who collect *zakat* and end up misusing the funds. Many madrasahs have deviated from the old tradition of sending

out salaried representatives or *saffers* to collect the *zakat*. These days it is common to hire people on a commission basis, which reportedly may be as high as 60-80 per cent of the collected amount. Some madrasahs even sell their receipt book for a certain amount, and whatever excess the representative collects goes in their pocket. Thus, *zakat* is not being collected, paid and utilised properly. The donors ought to keep a tab on how their *zakat* is utilised, but this is seldom done.

The fact is that barely 10-15 per cent of Indian Muslims who should be paying *zakat* is paying it. The current practices like giving a few kilos of flour, some length of cloth and a few hundred rupees to deserving recipients are insufficient as it leaves them helpless and in need for future relief. This is like giving out painkillers to the sick without dispensing the cure for the illness.

In brief, the institutions of *zakat* are in a poor state, and large portions of *zakat* are not reaching the right recipients.

ORGANISED EFFORTS FOR ADMINISTRATION OF ZAKAT IN INDIA

Kahf (n.d.) stated that in addition to individual, private, direct distribution of *zakat* by payers in India, there are three other methods of collectively managing *zakat* in the community. Firstly, *zakat* is collected and distributed through religious schools (*dini madaris*). This source of revenue represents around 40-50 per cent of their total revenues. The *dini madaris* mostly survive and depend on donations and contributions given by members of the community and by individuals. They use their revenues to pay for their various expenditures, for their students, teachers and staffs.

The second method is via Islamic organisations such as Jamaat-e-Islami who collect and distribute *zakat* with activities throughout India.

The third method is via organisations who specialises in *zakat* collection and distribution in certain regions of India. Some of these organisations have tried to increase their geographical reach in the country. Examples of these specialized organisations are Baituz Zakah of Bombay and Crescent Charitable Trust of Aligarh. Both of these organisations accept *zakat* given to them by individual Muslims and distributes it to the poor and needy (Kahf, n.d.).

Rahmani (2019) stated that in India, there are many reputable organisations, which collect *zakat* like AICMEU, Jamat-e-Islami Hind and the Zakat Foundation of India, etc. The likes of Association of Muslim Professionals (AMP) and Baithuzzakah Kerala were setup for the specific purpose of collecting *zakat* and distributing it among the poor. The AMP is among the handful of organisations in India that support Muslims primarily for education and self-employment (Rahman, 2017).

The people of Aligarh launched an organised collection and disbursement of *zakat* fund in 1990. It helped over 1,500 people with approximately INR 8,000,000. The Delhi-based Zakat Foundation of India (ZFI) is another organization that is trying to start up *zakat* management in a modern and systematic way. ZFI puts *zakat* funds into several welfare schemes and run over two dozen institutions, including orphanages, widow homes, and charitable hospitals. ZFI also famously funds the coaching of bright Muslim graduates for the civil services and was in the news headlines when a good number of its students cleared the widely desired Indian Administrative Service (IAS) exams. The number was 15 and 16 in two consecutive years (Zakat Foundation of India, 2019).

Jamaat-e-Islami Hind is another big organisation that collects *zakat*. Its sister organization, Baitul Maal operates at various district and state levels. The members and supporters of Jamaat run these Baitul Maals voluntarily. They collect *zakat*, *fitra*, sacrificial animals' hides as well as donations and play a part in the distribution of the funds.

The Modern Educational Social and Cultural Organization (MESCO) is a trust setup in 1968 and registered with the Charity Commissioner of Mumbai. It has been using *zakat* funds to fund modern educational, social and cultural activities over the last four decades.

The Jamiat Ulema-e-Hind is one of the largest organisations that have been collecting donations and *zakat* and putting it to charitable use. *Zakat* collected from individuals may be small but once pooled together can be large enough to provide relief to victims of natural calamities, riots, for medical aid, legal help and educational assistance.

Baithuzzakah Kerala is also one of the largest *zakat* management institutions in Kerala. It was established in 2000 at Calicut with the support of prominent Islamic scholars and the mainstream Islamic movement, Jamaat-e-Islami Hind, Kerala. It is an NGO registered under the Public Religious Trust Act. The organisation emphasises on developing a sustainable society, developing individual self-reliance and spreading Islamic financial and social ethics (Nair, 2016).

There are also other organisations like the Hyderabad Zakat and Charitable Trust (HZCT) who have taken the initiative of collecting and distributing *zakat* funds. The organization sponsors primary and higher education for students, provides pensions, medical aid, housing and marriages for orphans, among other works. The man behind HZCT uses skilled toppers from the newly set up Hyderabad Institute of Excellence. A small charity to some may still be highly valued by others, and if operated properly it may have a tremendous impact (Nair, 2016).

EXISTING IMPEDIMENTS IN ZAKAT ADMINISTRATION IN INDIA

India does not have a regulatory organization or infrastructure for *zakat* management. Payment of *zakat* is voluntary as it is widely seen as an act of worship. The government does not intervene in *zakat* management in any way. Most personal *zakat* collections go to religious schools and institutions. Poverty is rampant in all developing countries, but the plight of the Muslims in India is among the worse. The collection and distribution of *zakat* funds in majority of the Muslim countries are the responsibility of religious authorities, and in India, a huge portion of *zakat* is appropriated by *madrasas* scattered all over the country. Especially in the month of Ramadan, they send their employees all over India to collect *zakat* and voluntary donations.

In most cases, there is no transparency in the utilisation of *zakat* funds. People still distribute *zakat* at their discretion. There is practically no institution for the organised and systematic collection and distribution of *zakat* in India. Recently some efforts have been made towards this end but without noticeable success. The key issues revolved around inefficiency and the absence of transparency in the whole process. This can be further sub-divided into the following:

1. Lack of participation of *zakat* payers' in the active disbursement of the fund.
2. Lack of professionalism to identify the real issues and needs at both the micro and macro levels.

3. The organisations, which collect *zakat* on behalf of the poor, are irresponsible and prone to financial mismanagement.
4. Lack of reliable data about the poor in the community.

Niyaz and Siddiq (2018) stated that Muslim funds are generally providing interest-free loans against gold/jewellery as security. Since nearly 35 per cent of Indian Muslims live below the poverty line, they cannot be expected to provide gold or any security. They can only be assisted with *zakat* and *sadaqah* grants. There is the need for an organized system of *zakat*, which will alleviate the needs of the poor to borrow money for their basic necessities. Instead they can have access to funds to improve their lives, e.g. education for their children. The funds can also be used to generate employment for the poor. This is in addition to the above initiatives. Essentially, the funds are to be mobilised to tackle the needs of Muslims living below the poverty line.

RECOMMENDATION FOR ZAKAT ADMINISTRATION IN INDIA

Financial technologies can be adopted in India for collecting and distributing *zakat*. Islamic social financing applications (apps) can easily be adopted for *zakat*. The apps can be used in very simple ways. Payers can identify the projects that they are funding. They will be notified when the funds are received and utilised for the project. The apps ensure transparency by ensuring that various notifications are sent out. The use of mobile apps will essentially help to increase transparency, efficiency and traceability of *zakat* funds collected in India.

Other technological breakthrough can assist with facilitating *zakat* management in India like internet banking, credit and debit cards, MyClear FPX, salary reduction scheme, postage, SMS and others. While for the *asnaf*, they can opt to receive *zakat* payments apart from cash or cheque via internet banking where they can save time and minimise costs.

The advent of digital platforms that facilitates online payment for collecting and distributing of *zakat* can also be used in India. Dubai is currently planning to launch a digital *zakat* platform to connect charities with Muslim donors, as interest grows in the Islamic social fintech sector. Human Crescent will allow Muslims to pledge *zakat* directly to a network of non-profits organisations and charities. The aim is to build a one-stop-shop for *zakat* contributions, and to increase funding to projects generating long-term impact, said Finocracy CEO, Raafi Hossain.

The use of digital and online payment applications and online services can reduce operational costs such as marketing costs and salary costs. Various organisations are moving away from manually processing payments and innovating to provide better services to customers. Technological innovations e.g. fast response cash register technology and Self-Service Technologies (SST) such as vending machines and multimedia sales kiosks at a distance (especially online sales), electronic and cellular payment systems enhance end-user relationships. Online technology impacts operations and demands that members, tasks and resources be integrated within the channel system. Proper use of software requires the integration of channel operations in a larger, centralised and standardised manner. Norazlina and Abdul Rahman (2013) stated that online payments may increase the collection of *zakat* and cash waqf contributions since a computerized *zakat* system including payments influences the efficiency of *zakat* institutions (Rijal, 2018).

Mosques can also be integrated into the *zakat* system. A mosque card can be introduced to benefit the needy. Each mosque will identify the eligible beneficiaries within its community and distribute the mosque card to them. This can be operationalised in the following ways:

- a) Using the existing infrastructure: The mosque cardholders will be able to use this card to withdraw money from any ATM to a certain limit within a certain period. The source of money will be different donations (including *zakat*) received by the mosque minus operational expenses of the mosque. The money will be kept in the mosque's bank account. Based on the surplus amount, the withdrawal eligibility may vary from one period to another. This may be a new type of product for financial institutions.
- b) By developing a new infrastructure: The mosque cardholders will be able to collect essential dry food items from vending machines located in mosques. The machine will store essential commodities like rice, wheat and other items commonly used in the community. The cardholder will be able to withdraw up to a certain amount within a certain period of time.

CONCLUSION

The use of digital devices, financial technology and innovation has improved how *zakat* is collected today. Technology can also be used to calculate the amount *zakat* that a person needs to pay, according to the type of *zakat* involved such as *zakat* on business, *zakat* on income, *zakat* on silver and gold and others. There are several ways for a Muslim to pay their *zakat*.

New technology allows the matching of funds within the social financing space. This applies to the collection and utilization of *zakat*, *waqaf*, and *sadaqah*. It has increased efficacy, transparency, suitable for customers and has boosted public trust and confidence in these systems. This is expected to encourage more participation and have more impact on social initiatives, for example, to improve education, broaden access to healthcare and extend benevolent relief.

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