

Zakat practices around the world

Maya Hammad, International Policy Centre for Inclusive Growth (IPC-IG)

Zakat, an obligatory donation, is the third of the five main pillars of Islam and originates from the Arabic word meaning 'to purify', as it is a mechanism to 'purify' the wealth of the rich and redistribute it to achieve social justice. Wealth that is liable for *Zakat* includes gold and silver, agricultural products and livestock, business assets, bank accounts, financial assets, and rentable buildings. *Zakat* is set at 2.5 per cent of all productive wealth and is meant to be distributed to eight categories (*Asnaf*) of people listed in the *Quran* as having the right to receive it: the poor, the needy, new converts to Islam, slaves and captives, the debt ridden, stranded travellers, *Zakat* administrators, and 'for the sake of God' (*Quran* 9:60).

The implementation of *Zakat* and its use in social protection differ extensively from one country context to the next. This One Pager summarises a Research Report produced by the IPC-IG in collaboration with UNICEF Afghanistan under the IPCIG-UNICEF ROSA (Regional Office for South Asia) project, which aims to represent the different modalities of how *Zakat* collection and distribution systems operate in the world.

The report looks at *Zakat* practices in 29 countries, highlighting: (i) the management and institutional arrangements of *Zakat* systems—i.e., whether they are State- or charity-led, centralised or decentralised; (ii) the financing of *Zakat* systems—i.e., whether they are compulsory and if there are any tax incentives for payers; (iii) eligibility criteria and interpretation of the *Asnaf* categories; (iv) the *Zakat* benefits provided; and (v) the transparency, accountability and perceptions of *Zakat* systems. It also provides some recommendations regarding *Zakat* practices developed considering the Afghan context prior to the new government of September 2021.

Management and institutional arrangements

- Most countries either have voluntary State-led *Zakat* funds or charity-led *Zakat* collection processes.
- Most State-led *Zakat* collection and distribution processes operate through a hybrid model where the central *Zakat* Fund and local committees work together either through the redistribution of *Zakat* collected (as in Sudan) or through the implementation of unified eligibility criteria (as in Libya).
- Countries with strong state-led *Zakat* Funds have sought to increase linkages to social protection systems by setting coordination mechanisms (Oman), developing complementary eligibility criteria (Jordan) or including *Zakat* in social protection strategies and planning (Sudan).
- A few countries have embedded *Zakat* in the social protection system by using it to finance part or all of the social protection budget, as in Saudi Arabia and Kuwait.

Financing

- Most countries with State-led *Zakat* payment mechanisms have made *Zakat* voluntary.
- The type of wealth liable for *Zakat* is mostly the same across countries, with a few exceptions extending the obligation onto companies, such as in Pakistan, Sudan, Saudi Arabia and Kuwait.
- Tax incentives to pay *Zakat* are provided by countries with voluntary schemes and those with compulsory ones, in the form of a deduction of *Zakat* from tax payable, such as in Malaysia, or mostly as a deduction of *Zakat* paid from taxable earnings, as in Pakistan and Sudan.

Eligibility Criteria

- Most countries interpret the eight *Zakat* beneficiary categories differently.
- Most countries have stipulated additional eligibility criteria, particularly regarding having income below the poverty line.
- Local committees play a major role in eligibility determination.

Type of Benefits

- Most countries use *Zakat* to support both productive and unproductive recipients, with the former receiving microfinancing and the latter receiving social assistance.

Transparency, Accountability & Perceptions

- Only a few countries have clearly indicated grievance redress mechanisms (GRM) or monitoring and evaluation (M&E) processes.
- Most countries do not regularly publish financial data about amount of *Zakat* received and distributed.
- Most countries are working on improving the data available on programmes, especially through the development of apps that provide *Zakat* payers with the ability to track the size of their donations.

The institutionalisation and operation of *Zakat* as part of a social protection system requires careful consideration of the elements of management, financing, eligibility criteria, type of benefits, and transparency. Choosing between State-led or charity-led, or compulsory or voluntary *Zakat* collection schemes must be predicated on government perceptions and preferences, as well as countries' different socio-economic and governance contexts.

Reference:

Maya Hammad. 2022. "Overview of Zakat practices around the world". IPC-IG Research Report No. 69. Brasilia and Kabul: International Policy Centre for Inclusive Growth and UNICEF Afghanistan Country Office.