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The economic significance of the zakah system: an exploratory analysis of its fiscal characteristics

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ABSTRACT

The institution of Zakah is considered significant by being one of the five pillars of Islam and especially for its multiple references in the Qur'an immediately after Salah. Upon this, great scholars of Islamic jurisprudence either in the past or present have written extensively to demonstrate its religious importance, philosophy, rules and regulations. However, contemporary Muslim scholars who are grounded in Islamic knowledge and economics are now bringing its economic significance to the limelight. Thus, an attempt has been made in this paper to explore and present the fiscal characteristics and dynamics of the institution of Zakah, which makes it a potent fiscal tool, particularly as a source of public revenue, a determinant of expenditure and as an automatic stabilizer in an Islamic economic framework. Therefore, this paper argues that the institution of Zakah has the fiscal potency to stimulate the economic growth of Muslim countries, if and only if it is properly incorporated into the central public economic plan of Muslim economies and given all the necessary legislations and conducive atmosphere to operate.

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Introduction

Zakah is an obligatory *'Ibadah* and one of the five pillars of Islam ordained in the Qur'an along with *Salah*. It is an important institution in the socio-economic framework of Islam, which served as a source of public finance during the golden era of Islamic history. Maidugu (2002, p. 9) observes: "In the *shariah*, the word *zakah* refers to the determined share of wealth prescribed by Allah to be distributed among the categories of those entitled to receive it". According to Al-Qardawi (2000), *Zakah* means both 'purification' and 'growth'. Our possessions are purified by setting aside a proportion for those in need. In addition, *Zakah* has spiritual implications of purifying the giver from greed and niggardly; and it purifies the beneficiary from jealousy and hatred. The purifying aspect of *Zakah* is clearly stated in Q9:103: "...Of their wealth, take alms, so that you might purify and sanctify them ...". However, the economic role and importance of this institution is now being brought to the limelight. And this gives it the basis for being referred to as the major and central instrument of Islamic fiscal policy by most contemporary Muslim Scholars and Economists like Al-Qardawi (1999), Bashar (1988), Chapra (1992 & 1993), Faridi (1976 & 1983), Gusau (1997 & 2001), Iqbal and Khan (1981), Kahf (1983), Mannan (1980) and Sadeq (1994). In view of this, the institution of Zakah must be seen beyond a religious obligation but as a comprehensive sub-system of Islam. As such all the elements of the sub-system must be well connected so that the desired results could be achieved. These elements are: i. Giver; ii. Receiver; iii. Administrator; iv. Prescribed goals; and v. Rules or order. As a matter of fact, if all these elements are well synthesized, then the overall goal of poverty alleviation can be achieved together with other fiscal measures. According to Faridi (1983), fiscal policy is one of the various tools which work to achieve the goals of the Shari'ah (*Maqasid ash-*

Shari'ah), which as explained by Imam Al-Ghazali include promoting welfare of the people by safeguarding their *Deen* (religion), life, intellect, posterity and property. Whatever safeguards these five things or any of them serve public interest and is desirable. Therefore, the institution of *Zakah* exemplifies Islam's strong concern and commitment towards the realization of socio-economic justice of the masses. Social justice and collective good are very dear to Islam (Mawdudi, 1948). Hence, it ensures and promotes equitable redistribution of wealth and income, which is enforced through religious obligation and fiscal measures of the Islamic state. It is however important to state that fiscal policy is an important and indispensable economic policy, especially in the less developed or developing economies where monetary policy alone is ineffective due to the existence of weak and underdeveloped money and capital markets. In this regard, Chapra (1992) posited that fiscal policy has been the major tool of the welfare state, which includes the use of public expenditure, progressive taxation and borrowing to achieve the desired goals of economic growth, stability, resource allocation etc. Whereas all these functions are effectively perform by the institution of *Zakah* in an Islamic state, as it was documented especially during the reign of *Khalifah Umar Ibn Abdul-Azeez*. Sadeq (1994, p. 21) aptly captures it when he submits: "The institution of Zakah has implications for micro and macro-economic variables. In the former, Zakah is said to result in favourable effects on saving and investment behaviours without affecting work efforts. Favourable macro-economic effects are expected to cover several dimensions including allocative efficiency, economic growth, distribution of income, poverty eradication, social security and stabilization".

Against this backdrop, efforts have been made in this paper to explore and demonstrate that the *Zakah* institution is a viable fiscal tool in view of its inherent fiscal characteristics and

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dynamics. Hence, this paper is divided into four sections and this introductory segment represents section one. The second section presents the literature review, which contains: understanding fiscal policy as an economic concept, its objectives, components and role. Also included are discussions on taxation as a fiscal instrument, the institution of *Zakah* as a fiscal tool and the theoretical framework for both *Zakah* and taxation. The third section explores the fiscal characteristics of the *Zakah* institution and the fourth section concludes the paper.

Literature Review

Understanding Fiscal Policy as an Economic Concept

According to Bashar (1988), the role of the government in the economic life of any society may be short of proper understanding, unless and until the laws and policies which govern the procurement of its revenue, pattern of its expenditure and debt policies (i.e. the fiscal structure and the relationship of the state) are known and appreciated. In this vein, Afolabi (1998) and Jhingan (1995) submitted that fiscal policy means the direct policy of the government like the use of taxation, public debt and public expenditure for the purposes of stabilization or development. In addition, Ado (2001) puts it better when he posits: "fiscal policy simply means the use of taxation, public expenditure and budget by the government to stabilize the economy with the view to achieving some macroeconomic objectives". He added that fiscal policy in the developing economies is very important and indispensable because of the prevalent of ineffective and inefficient monetary policy and the existence of weak and underdeveloped money and capital markets in these economies. However, economists distinguish between two types of fiscal policy i.e. automatic stabilizer and discretionary fiscal policy. Automatic stabilizer means government spending and taxation measures that take place without any deliberate government control and that tend to dampen the business cycle. Whereas discretionary policy implies government spending and taxation actions that have been deliberately taken to achieve specified macroeconomic goals. Thus, the aim of discretionary fiscal policy is to eliminate inflationary and deflationary gaps in the economy.

Importantly therefore, fiscal policy in any economy has the following objectives and functions: i. to counteract inflation; ii. to increase the rate of investment; iii. to achieve economic growth and stability; iv. to increase and equitably redistribute national income; and v. to increase employment opportunities (Ado, 2001; & Iqbal & Khan, 1981). However, Iqbal and Khan (1981) argued that there are some important features of an Islamic economy, which must have implications for the role of fiscal policy and one of such features is that Islamic state is a welfare state, which incorporates both the material and the spiritual aspects of life. This therefore explains why fiscalism in Islamic economic framework is more expansive and inclusive, thereby establishing an ideological background for the conceptualization, formulation and interpretation of fiscal policy and the priorities for government expenditure. In view of this, the components of fiscal policy according to Ado (2001), Faridi (1976 & 1983), Iqbal and Khan (1981), and Jhingan (1995) include: i. Government revenue; ii. Government expenditure; and iii. Public debt. By government revenue, it implies the sources through which government gets its funding for various projects and programs. Therefore, in conventional economy, taxation and borrowing are the two prominent instruments for generating revenue; whereas, in an Islamic economy the sources include: *Zakah* (wealth tax), *Ushr* (agricultural products tax),

Sadaqah (voluntary contribution), *Kharaj* (land tax), *Jizyah* (security tax), *Ghanimah* (war booty), *Mustaghlat* (returns on government investments), *Luqalah* (property lost but found), fees and other taxes etc.

Similarly, government expenditure means the nature and manner by which government spends its generated revenue for the purpose of increasing economic growth, providing employment opportunities, raising the standard of living and reducing income and wealth inequalities through social security programs, economic projects and social overheads. However, Chapra (1993) noted that for government expenditure to positively impact on the society, there is the need to set criteria for establishing priorities. He posited therefore that the following six broad principles of the Muslim Jurists developed over the centuries would provide appropriate guide for government expenditure and the formulation of taxation policies that shall be people and development oriented. They include: i. The principal criterion for all expenditure allocations should be the well-being of the people; ii. The removal of hardship and injury must take precedence over the provisions of comfort; iii. The larger interest of the majority should take precedence over the narrower interest of a minority; iv. A private sacrifice or loss may be inflicted to save a public sacrifice or loss and imposing a smaller sacrifice or loss may avert a greater sacrifice or loss; v. Whoever receives the benefit must bear the cost; and vi. Something without which an obligation cannot be fulfilled is also obligatory. He added that these maxims should have important bearing and impact on taxation and government spending policies and measures, especially in Muslim countries in view of their fiscal excesses and problems, which have almost become permanent features of their economies. This is necessary and important especially if we consider the misplacement of priorities by Muslim leaders, which is fast becoming a common characteristic of most Muslim countries. No wonder therefore that some Muslim countries (like Tunisia, Egypt, Yemen, Libya, Algeria and a host of others) are now witnessing revolts against their rulers as a result of long years of dictatorship and fiscal recklessness.

Furthermore, public debt means national or government debt. It implies the accumulated borrowing of government utilized for deficit financing whenever budget deficits exist. These debts (loans) are mostly given out on interest basis, which later accumulate and become a big national burden, especially for less developed and developing economies. Iqbal and Khan (1981) submitted that in an Islamic economy, the scope of public debt will be very limited because all loans must be interest-free and even in some circumstances, the wealthy ones might be motivated by Islamic spirit and patriotism to voluntarily give loans to the government at no cost.

Taxation as a Fiscal Instrument

According to Jhingan (1995), the various fiscal instruments adopted by governments can be grouped into three i.e. taxation, public expenditure and regulation. All these instruments operate to influence the nature of what goods and services are produced and how the proceeds are distributed among various socio-economic groups. He noted that the most potent and effective of all is taxation, both in its ramification and consequence. Thus, a tax is considered as a compulsory levy on private individuals, groups or institutions to be paid to the government of a country. Afolabi (1998) observed that whenever tax is been referred to, two things are very important to be understood: i. that its payment is compulsory because the government has the

authority to coerce people to pay and thus, its non-payment could carry penalties; and ii. It is only the government that can levy taxes and this is done through various government agencies and parastatals like the Board of Inland Revenue, Customs Department among others. He also added that the most common classification of taxes is broadly into two namely: direct and indirect taxes. In addition, Ado (2001) and Jhingan (1995) identified the following as the objectives of taxation: i. to serve as a source of revenue; ii. to redistribute income and wealth; iii. to allocate resources from private to public needs; iv. to pursue economic growth; and v. to increase incentives to save and invest. However, for taxation to be functional and productive, Al-Qardawi (1999) opined that taxes as obligatory levies enforced by the state must be based on certain principles of common sense, if not they might cause social unrest and tension. Against this background, Afolabi (1998) and Al-Qardawi (1999) identified the following principles as necessary to be adhered to: i. the principle of Justice/Equity; ii. Certainty; iii. Convenience; iv. Economy; and v. Administration. As a matter of fact, it is important to state that *Zakah* is a form of direct tax, which can be regarded as a neutral tax in view of its proportionality to the tax base or constant rate of income regardless of the economic condition of the taxpayer. Therefore, the institution of *Zakah* is considered as the major taxation policy of Islamic economy. And in line with this position, Iqbal and Khan (1981) argued that we can call *Zakah* for convenience a tax-like levy because it does have economic implications similar to taxes. Nevertheless, Al-Qardawi (1999) noted that the most important difference between *Zakah* and taxes is the different theoretical grounds upon which each is imposed.

***Zakah* as an Economic Institution and a Fiscal Tool**

The capacity of *Zakah* to serve as a source of public revenue and a determinant of expenditure as well as serving as an automatic stabilizer in an Islamic economy greatly explains its economic role and significance. Thus, it effectively handles various economic problems like unemployment, income and wealth disparities, unproductive savings, poverty etc. Therefore, *Zakah* as a religious duty transfers some of the income and wealth of the rich to the poor members of the society i.e. from the surplus units to the deficit units (Aliyu, 2002). In view of this function, *Zakah* is regarded as a direct anti-thesis of *riba* (interest), because the former collects from the rich a fixed rate (i.e. 2.5%) of their wealth that reaches the *nisab* (prescribed minimum level), while the latter collects from the poor a fluctuating rate even greater than that of *Zakah* to the rich. According to Gidado (2003) and Khan (1994), *Zakah* is expected to be a major instrument of fiscalism and its impact on the macroeconomic aggregates covers all the known functions of public economy of a modern state, which includes: efficient allocation, curtailing excessive income disparities, stabilization and growth, reducing unemployment and stimulating economic activities through substantial transfer of purchasing power from the haves to the have-nots in the society. Against this background, Aliyu (2002, p. 73) opines:

Economically, *Zakah* is a significant tool for the redistribution of wealth in a society. Through efficient system of its collection and distribution, the bulk of the people that are needy and poor are catered for and or by a way devising a help line for them. The objective for this is to eliminate wide income/wealth disparities in Muslim societies, encourage brotherhood and avoid hatred and rancor.

Therefore, *Zakah* represents the economic mechanism and institution for the realization of the distributive justice of Islam, which makes it possible to have an egalitarian and prosperous society where the well-being of all is given topmost priority. More importantly, the objective of *Zakah* expenditure is to generate both ethical cleansing of wealth through equitable distribution and growth of the society. As a matter of fact, the distributive equity established by the *Zakah* institution strives at stimulating growth, productivity and income distribution and this eventually build up the capital base of the society (Mustafa, 2004). Again, the institution of *Zakah* as a source of public revenue with a determined (specified) expenditure demonstrates the basic components characteristics of fiscal policy. To this end, the expenditure categorizations of *Zakah* are clearly spelt out in Q9:60 which states as follows:

Alms are for the poor and the needy, and those employed to administer the funds; for those whose hearts have been (recently) reconciled to the truth, for those in bondage and in debt: for the cause of Allah and for the wayfarer: Thus is it ordained by Allah, and Allah is full of knowledge and wisdom.

Similarly, Faridi (1976) noted that the description of *Zakah* in the Qur'an, its exposition by the Holy Prophet (PBUH) through his words and its actual implementation and subsequent elaboration by the *Sahaba* (Companions) and Islamic Jurists explains its socio-economic and spiritual significance. This provides students of economic theory substantial insight into the economic and fiscal orientation and theorization of an Islamic economic framework. As a matter of fact, the economic role and significance of *Zakah*, which have been discussed in this section and preceding sections gives it the basis for being referred to as the major and central tool of Islamic fiscal policy by Muslim Economists like Bashir (1988), Chapra (1992 & 1993), Faridi (1976 & 1983), Khan (1994), Mannan (1980), Sadeq (1994) and others.

***Zakah* System in an Islamic State: A Historical Reflection**

According to Nik Hassan (1991, p. 213), in Islam the state has the responsibility of collecting and disbursing *Zakah* and failure to do this will be tantamount to grievous sin because the basic thrust of mutual sharing and caring would have been eroded. As a matter of fact, the role of government with respect to the administration of *Zakah* is very essential and this was the practice of the Prophet (PBUH) and the rightly guided caliphs after him. It must however be emphasized that *Zakah* was first implemented in the second year of Hijrah and since then it has continued to be a function of Muslim governments throughout Islamic history (Kahf, 1997). Therefore, it has been argued that the institution of *Zakah* is the central pillar of an Islamic economy because it is the major mechanism for resource mobilization and transfer, which makes income/wealth redistribution its major function. Furthermore, Abu Bakar and Abdul Rahman (2007, p. 25) notes that the *Zakah* system performs greater role in removing inequalities from the society. They submit that: "Throughout history, whenever Muslims truthfully applied the system of *Zakah*, as ordained by Allah and His messenger, the splendid objectives of *Zakah* were fulfilled and its great efforts appeared within the lives of the individuals and the society". It needs to be noted that the institution of *Zakah* in the Muslim constitution during the Caliphate period was so elaborate and broad-based, as such it did not only promoted socialistic redistribution of wealth but it also created a healthy non-capitalistic mind frame and the spirit of togetherness. No wonder therefore that one of the excellent

examples of *Zakah* success was during the golden reign of *Khaleefah Umar Ibn 'Abdul-Azeez* because after the collection of *Zakah*, it became difficult to get one needy person to receive or benefit from it as a result of self-dependent attitude of poor Muslims prevailing in the society. This situation confirms the Prophetic saying which was reported by Waritha bin Wahb Khuzai which goes thus: "Receive the alms, for a time is to come when a person will have to roam with alms in his hand but there will be none to accept it. Every person will say to the alms-giver: If you had come here yesterday, I would have accepted it. But today, I am not in need" (cited by Oloyede, 2009, p. 16).

It has been argued that *Zakah* is a transfer of resources from the rich to the poor members of the society and there are overwhelming evidences suggesting that Islam is against concentration of wealth/income in fewer hands as emphatically expressed in Q59:7. Therefore, it was not surprising when *Khalifah Abu Bakr* waged war against the defaulters of *Zakah* because it is a religious obligation that must be fulfilled in order to strengthen the socio-economic and spiritual integration and harmony of the society. Al-Qardawi (2000) argues that the legal and economic situations in Muslim countries must be made to comply with the Islamic system; so that the Ummah can be saved from perpetual financial, psychological and social burdens despite the enormous efforts of reforms and awareness being carried out in the various Muslim countries.

Theoretical Framework

Al-Qardawi (2000) observed that there are several theories that can be used to explain the legal justification for the levying of taxes; although, two of them have been identified as more prominent and appropriate in view of the supports they enjoyed from many philosophers and scholars like Adam Smith, Hobbes, Mirabeau among others. These theories are Contractual theory and State Sovereignty theory. For instance, the Contractual theory was founded on the social contract theory of Jean Jacques Rousseau and was later adopted. The theory states that tax levying is based on contractual relationship between the state and the individual; and as a matter of fact, taxes are paid in exchange for the services provided by the state such as security, infrastructural facilities and other public utilities. Similarly, the theory of State Sovereignty implies that the authority of the state as a sovereign body has the right to distribute the burden of governance through the levying of taxes. This act is in line with the principle of solidarity of all members of the society regardless of whether they actually benefit from any service provided by the state or not. Even when individuals are not willing to pay, Afolabi (1998) noted that the State has the force of law to coerce people to pay and non-payment could attract penalties or punishment. This submission also has legal implication for the enforcement of *Zakah* in an Islamic setting and thus, the Battle of apostates fought by *Khalifah Abubakr As-Siddiq* is indeed a case in point on the enforcement of *Zakah* in a classical Muslim society like the Madinah state.

In the same vein, Al-Qardawi (2000) also identified four theories as the theoretical basis for the payment of *Zakah*. These theories include: i. the theory of Obligation; ii. Vicegerency; iii. Mutual Solidarity; and iv. Brotherhood. However, two of these theories are given prominent attention in this paper and they are the theories of Obligation and Brotherhood. As a matter of fact, theory of Obligation states that *Zakah* is similar to other obligations prescribed by Allah, the Creator to His creatures. Therefore, Allah has the absolute right to impose any obligation on His servants either as a test or requirement for the

demonstration of appreciation (See Q23:115, 51:56 & 75:36) and our performance or otherwise of these obligations distinguish us as righteous servants or wrong doers before Him. Consequently, failure to carry out these obligations would attract penalties or punishment. Also, the theory of Brotherhood on the other hand states that brotherhood is more important than solidarity because the former is sacred and deeply rooted in the heart than the latter. This is because brotherhood implies selfless giving and sacrifice while solidarity means mutual exchange. Therefore, brotherhood entails spiritual feeling derived from common humanity of men and women (See Q4:1); and this requires the extending of any help within one's ability to one's brother. Also, one should love for one's brother what one loves for oneself, which is a moral and spiritual message of *Zakah* (i.e. caring and sharing your brother's burden). Against this background, one of the objectives of *Zakah* is to promote the brotherhood of Muslims – the greatest social ideal of Islam (See Q21:92 & 49:10), so that they can always support themselves economically and this has serious positive impact on the social cohesion in the society.

The Fiscal Characteristics of the *Zakah* System

According to Faridi (1976), *Zakah* occupies a central place in Islamic fiscal policy and operations because it provides an element of stability to public revenues, which is especially useful in maintaining budget stability in view of its fixed rate and specified expenditure. Therefore, the economic role and significance of *Zakah* institution largely lies in its fiscal nature, which has remained poorly explored by Muslim countries. Against this backdrop, the following have been identified as the fiscal characteristics of the institution. However, these characteristics are broadly classified into two i.e. the components and the functional fiscal characteristics. The Components Fiscal Characteristics (CFC): These are essentially the features which relate the institution to the component aspects of fiscal policy. These aspects include: a. as a source of public revenue; b. as a form of taxation; and c. determined (specified) expenditure.

a. As a source of public revenue: The economic role of the *Zakah* institution is greatly rooted in its capacity to serve as a source of public revenue and a determinant of expenditure. These are fundamental components and functional attributes of fiscal policy, which are inherent in the institution of *Zakah*. Therefore, as a way of demonstrating the revenue capacity of the *Zakah* institution, we may assume that in a state like Kano (Nigeria) where if 1000 wealthy people decide to pay *Zakah* on their financial assets that worth N300 million each. This implies that each one of them shall pay N7.5 million and therefore, we shall be having the sum of N7.5 billion as the total revenue from *Zakah* for that particular year. There is no doubt that this is a huge amount of money to be collected by the State *Zakah* commission and if disbursed appropriately, it will certainly make a significant positive impact on the socio-economic and spiritual well-being of the people.

As a form of taxation: *Zakah* is regarded as a form of tax but with fixed rates. It is also known as "Social purifying tax". However, it demonstrates the attribute of a proportional or neutral tax i.e. the tax been paid is proportional to the tax base regardless of the economic condition of the taxpayer. Therefore, when the rich pay their religious due in form of *Zakah*, their properties become protected from any unwarranted aggression either through additional tax or charges by the state because the *Shari'ah* recognizes the sanctity of private property. More so,

the well to do have the right and are also encouraged to give voluntary contributions or charity when they so desire and this act is considered altruistic, which goes to the voluntary sector (third sector) of an Islamic economy.

b. Determined expenditure: *Zakah* institution has a determined or specified expenditures, which makes it very unique compared to other forms of fiscal instruments like *Kharaj*, *Mustaghlal* and *Jizyah* among others. These expenditures of *Zakah* are clearly stated in Q9:60, although scholars like Al-Qardawi (2000) have given more expansive and comprehensive interpretation to these specified expenditures, which further demonstrates the dynamic nature of Islam. Notwithstanding, the eight categories stated in the Qur'an still remain the central reference point.

Functional Fiscal Characteristics (FFC): These implies that *Zakah* institution performs certain fiscal policy functions such as economic stability, equitable income and wealth redistribution, creation of employment opportunities, increase in the rate of investment, efficient resource allocation etc.

a. Equitable income and wealth redistribution: The institution promotes socio-economic equity/justice through its just redistributive nature of income and wealth in the society. By extension, poverty is been systematically alleviated, investment is been increased and the volume of employment opportunities are been increased and diversified. This position is held by Aliyu (2002), Dogarawa (2008) and Khan (1994). According to Hasan (2007), there has been a direct correlation between low income inequality and human development potential such as low infant mortality rate and high literacy rate, especially in Muslim countries. Thus, the available data as presented in the table below shows that the Gini index for these countries is on the high side. This implies high level of income inequality in those countries.

Considering the intense and unique commitment of Islam to human brotherhood, social and economic justice, gross inequalities in the distribution of income is certainly repugnant to its spirit. Thus, Islam gives much stress to distributive justice and incorporates within it the system for equitable redistribution of income and wealth, which *Zakah* represents.

Khaleefah Umar ibn Khattab (R.A.) was reported to have laid great emphasis on the equal right individuals have in the wealth of the society (Chapra, 2008). Thus, the institution of *Zakah* creates a source of social security for the poor and the destitute, which assists in reducing social tensions and unrests. The long run implication of this *Zakah* function is that it is possible to eliminate absolute poverty from the society as it happened during the reign of *Khaleefah* Umar Ibn Abdul-Azeez.

b. Efficient resource allocation: As a result of the redistributive nature of *Zakah*, idle and unproductive wealth are been redistributed from the surplus units to the deficit units of the economy. This promotes economic growth and the standard of living is also enhanced. It also assists in reducing social upheavals that are generated as a result of unemployment and income and wealth disparities.

c. Automatic stabilizer: The built-in fiscal policy device of *Zakah* institution is very unique. This is because the rates and purpose from the proceeds have been specified and at the same time the expenditures have equally been determined. And as Faridi (1976) rightly noted that since the rate of *Zakah* is given, it therefore demonstrates an element of stability to public revenues, which is especially useful in maintaining budget stability in any progressive and discipline economy.

Conclusion

In this paper, an attempt has been made to explore the economic role and significance of the institution of *Zakah* in view of its inherent fiscal characteristics and potency to stimulate the economic growth of Muslim countries. Importantly, if we consider its economic role, which is deeply rooted in its capacity to generate public revenues with a determined expenditure and also providing budget stability, all these makes it to be regarded as the central and major fiscal policy of an Islamic economy by Muslim Economists. As a matter of fact, its fiscal potency and dynamism gives it an upper edge above other forms of fiscal instruments in terms of performing fiscal functions like creating employment opportunities, increasing the rate of investment, providing equitable redistribution of income and wealth, which impact positively on poverty alleviation.

And above all, it serves as an automatic stabilizer in the face of economic burst/recession. Therefore, this paper argues that the institution of *Zakah* has the fiscal potency to positively stimulate the economic growth of Muslim countries, if and only if it is properly incorporated into the central public economic plan and policies and given all necessary legislations and provisions to operate.

Thus, a sincere and religious adherence and implementation of this noble institution will certainly improve the socio-economic and spiritual conditions of the Muslim world in no small measure, especially when we consider the glorious precedence of *Khalifah* Umar Ibn Abdul-Azeez, who succeeded in using the proceeds from *Zakah* to wipe out poverty during his reign.

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Table 1: Economic Inequality in some Selected Muslim Countries

Country	GDP (PPS) US\$	Poorest 10%	Richest 10%	Gini Index
Algeria	4753	2.8	26.8	35.3
Burkina Faso	1100	1.8	46.3	48.2
Bangladesh	1610	3.9	26.7	31.8
Egypt	3520	3.7	29.5	34.4
Guinea	2100	2.6	32	40.3
Indonesia	2940	3.6	28.5	30.3
Iran	6000	2	33.7	43
Kazakhstan	6500	3.4	24.2	31.2
Malaysia	8750	1.7	38.4	49.2
Mali	810	1.8	40.4	50.5
Mauritania	1990	2.5	28.4	37.3
Niger	890	0.8	35.4	50.5
Nigeria	850	1.6	40.8	50.6
Pakistan	1890	3.7	28.3	33
Senegal	1500	2.6	33.5	41.3
Turkey	6126	2.3	30.7	40
Uzbekistan	2092	3.6	22	26.8
Yemen	688	3	25.9	33.4

Source: Adapted from Hasan (2007)