



## Zakah in Non-Islamic Countries: Addressing Economic Struggles and Religious Commitments of Muslims in India

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## **Abstract**

The research aims to examine the economic struggles faced by Muslims residing in non-Islamic countries using the case of Indian Muslims as an example. In these contexts, Muslims encounter difficulties in adhering to both national tax laws and Islamic Sharia principles. These economic conditions not only make it challenging to fulfill their religious obligations but also place the Muslim community at a disadvantage. The study primarily focuses on analyzing the treatment of the third pillar of Islam, "Zakah," and how its significance diminishes due to various factors present in non-Islamic societies. The research deeply probes the reasons why investment in precious metals (especially Gold) is comparatively less beneficial for Muslims than for non-Muslims, owing to Zakah obligations. It further explores the challenges faced by the community in identifying Sharia-compliant investment opportunities amid inflation, as well as their refusal to accept bank interest as compensation for inflation - factors that have a macroeconomic impact on their financial growth. The study also explores the inefficiencies in Zakah fund distribution caused by the absence of a centralized regulatory authority. Without an institutionalized framework for collection and allocation, the fund's potential impact on poverty alleviation remains significantly constrained. The findings advocate for a harmonized mechanism to optimize Zakah deployment, ensuring measurable improvements in socio-economic conditions in non-Islamic countries where similar challenges persist.

**Keywords:** Zakah, Inflation, Interest rate, Taxation, Poverty, Development

**JEL Codes:** D64, E31, E43, H2, I30, O1

## **Gayrimüslim Ülkelerde Zekât: Hindistan'da Yaşayan Müslümanların Ekonomik Sıkıntıları ve Dini Yükümlülükleri**

### **Özet**

Bu araştırma, Gayrimüslim ülkelerde yaşayan Müslümanların karşılaştıkları ekonomik zorlukları Hindistan'daki Müslümanlar örneği üzerinden incelemektedir. Bu bağlamda Müslümanlar, ulusal vergi kanunlarına ve İslami şer'i ilkelere birlikte uymakta zorluklar yaşamaktadır. Ekonomik koşullar, Müslümanların dini yükümlülüklerini yerine getirmelerini zorlaştırmakla kalmayıp aynı zamanda Müslüman toplulukları dezavantajlı duruma sokmaktadır. Çalışma, öncelikle İslam'ın üçüncü şartı olan zekat ibadetinin uygulanışını ve gayrimüslim toplumlarda çeşitli faktörlerin etkisiyle öneminin nasıl azaldığını analiz etmeye odaklanmaktadır. Araştırma, kıymetli madenlere (özellikle altına) yapılan yatırımların zekat yükümlülükleri nedeniyle Müslümanlar için gayrimüslimlere kıyasla daha az avantaj sağladığının nedenini ayrıntılı bir şekilde incelemektedir. Ayrıca, finansal büyümeleri üzerinde makroekonomik etkiye sahip faktörler olan enflasyon ortamında şer'i uyumlu yatırım fırsatlarını belirlemede karşılaşılan zorluklar ve enflasyonun telafisi görülen banka faizini reddetmeleri de incelenmektedir. Çalışma aynı zamanda, merkezi bir düzenleyici otoritenin bulunmaması nedeniyle, zekât fonlarının dağıtımında ortaya çıkan verimsizlikleri de incelemektedir. Zekat toplanması ve tahsisi için kurumsallaşmış bir çerçeve olmadan, zekat fonunun yoksullüğün azaltılması üzerindeki potansiyel etkisi önemli ölçüde sınırlı kalmaktadır. Elde edilen bulgular, zekâtın etkinleştirilmesi için uyumlu kurumsal bir mekanizma kurulmasını ve böylece Müslüman olmayan benzer ülkelerde de sosyo-ekonomik koşullarda ölçülebilir iyileşmeler sağlanabileceğini savunmaktadır.

**Anahtar Kelimeler:** Zekât, Enflasyon, Faiz oranı, Vergilendirme, Yoksulluk, Kalkınma

**JEL Kodları:** D64, E31, E43, H2, I30, O1

## 1. Introduction

This research aims to study the economic struggles faced by Muslims residing in non-Islamic countries, using the Indian Muslim population as an example. India has a strong Muslim population of 200 million yet it is considered a minority due to a total population of more than 1200 million (Muslim Population by Country , 2023).The paper examines the challenging circumstances that Muslims face when abiding by national tax laws in addition to Islamic Sharia principles. These conditions not only make it arduous to adhere to their religious obligations but also put the Muslim community in disadvantageous position.

The study primarily focuses on exploring the treatment of the third pillar of Islam, known as "Zakah," which is mentioned in the Quran (2:43, 110, 177,277;4:162;5:55). The analysis specifically revolves around understanding how Zakah is practiced and regulated within a non-Islamic country, with a particular emphasis on the difficulties in identifying the eligible Muslim population based on the "Nisab" criteria in the absence of authentic data related to Zakah-collection. This raises questions about its effectiveness in eradicating poverty in the community.

The community grapples to find Sharia-approved investment opportunities working against inflation, which has a macroeconomic impact on their economic growth. The paper investigates Islamic economics literature from Muslim countries to deduce whether the same inferences can apply in a non-Muslim country. The major themes taken for discussion include relationship between Zakah and economic welfare in the society, investment in gold against inflationary pressure, and its Zakah obligations.

### 1.1. Introduction to Zakah

According to Islamic Sharia law Zakah is, "The act of worship to Allah Almighty by allotting a compulsory portion of a sum of money that meets certain characteristics for a specific type of beneficiaries." Zakah applies to gold, silver, cash and business inventory above the Nisab level. All goods and household materials are excluded from the calculation, such as house where a person lives and which is not for sale or any business purpose (ZATCA,2022).

'Nisab' is a person's wealth position at the end of every lunar year after deducting all normal expenses for his family and those he is responsible for. If he has above **85 grams** of gold or 595 grams of silver or equivalent cash available, then a person must pay Zakah (ZATCA,2022). Since the rates of gold and silver are different, the criteria for choosing the Zakah should be based on metal of lower value, like silver, in this case, is of less value (1 gm = Rs. 76.80 & 1 gm Gold = Rs 6046), thus silver should be chosen.

The formula for calculating Zakah is simple and divides the income stream into three criteria of percentages (2.5, 5% and 10%). This research article focuses on the 2.5% criteria applied to the physical investment of gold by a person living above the Nisab level and owning more than 85 grams of gold or 595 grams of silver at the time of the Zakah calculation. As inflation increases the price of gold, it affects the 'Nisab' (Thufail, 2013), requiring a person to

recalculate Zakah and rearrange family expenditure in terms of available income, which may or may not rise in real terms.

## 1.2. Literature Review

The foundation of the paper is based on the Quran and Hadith and their explanation of the third pillar of Islam, 'Zakah'. Historical facts, as elucidated by Ahmed H. (2004), illustrate how, in the past, Zakah served its purpose in its truest form, with no recipients due to the prosperity prevailing during those times and all households residing above the Nisab threshold. Later, as mentioned by Allami (2015), cultural and trade practices changed under the influence of conquerors, and the Zakah practices were treated as individual religious practices, with colonizers imposing tax laws on income generated by individuals and businesses.

Rampal (2022), utilizing data from Niti Aayog (Indian Government Policy Establishment), stated that 25% of the Indian population lives under the Multidimensional Poverty Index (MPI). Furthermore, Kurzydlowski (2022) emphasizes that 14% of the Indian population is composed of Muslims, of which 31% fall into the category of poverty, with only 8.5% employed in government positions.

In the context of the mentioned data, the reasons for Muslims to invest in gold have become more prominent. Social pressure and protection against inflation stand out as the two primary motives for investing in gold in a non-Muslim country. Ahmad (2011), through his research, revealed that Zakah is significantly influenced by inflation and the price of gold, aligning with the economic principle that an inflationary increase in prices diminishes purchasing power Mankiw (2007). Norazlina AbdWahab (2012) states that augmenting the GDP will result in an increase in Zakah, and Kuran (1995) establishes that Zakah exhibits an inverse relationship with interest and profit-sharing ratios, indicating that more income should result in more Zakah, whereas an increase in interest rates leads people to save more, which Muslims wish to avoid if they have better investment opportunities in a non-Muslim country.

The primary objective of Zakah is to decrease inequality or eradicate poverty (Susilo Nur Aji Cokro Darsono, 2019), but the initial unequal distribution of skills and education, land and capital endowment in India requires government-focused target-based schemes for poverty eradication (Thorat, 2010). In order to distinguish between individuals who, possess Nisab and those who rely on Zakah, the Indian Government's Below Poverty Line (BPL) criteria should be used instead of the Islamic criteria of Nisab, which is not recognized by any government agency. Consequently, no efforts are made to collect its data.

In his work, Sunderarajan (2011) delineates the characteristics of families residing below the poverty line. These approximate values may serve as the foundation for estimating the total collection of Zakah needed for poverty eradication. Meanwhile, Shaikh (2019) discusses the economic prowess of the Muslim community but underscores the suboptimal utilization of their available resources.

The economic exclusion and poverty experienced by Muslims living as minorities in non-Muslim countries are often blamed on the interest-based banking system, as elucidated by Mullick (2016). Conversely, the absence of motivational factors, as indicated by Adamu Ummulkhayr (2017), contributes to the lack of knowledge among a significant number of Muslims in non-Muslim countries regarding the importance of Zakah. This lack of awareness leads to attitudinal problems, and in the absence of guidance and monitoring institutions, noncompliance becomes prevalent.

### **1.3 The Methodology**

The paper applies a qualitative method in which a descriptive application brings out the key explanations from the available material. The analytical part includes reasoning about the increase in gold prices in India from the year 1964 to 2023 and calculating the compound impact on Zakah payments. The data reveals two key points: firstly, how the purchase of 10 grams of gold in 1964 results in Zakah payments that are many times its purchase value over time, and secondly, it hypothetically portrays the financial impact of Zakah if it is paid only on the incremental value of gold starting from the second year of ownership. The findings are based on these two key points, which explain how a Muslim sacrifices economic and financial gains by following the Zakah obligation compared to a non-Muslim over a long period of time when choosing to invest in gold.

Section two of the research introduces the eight categories mentioned in Islam to whom Zakah should be given and discusses how some of these categories do not exist in their purest forms, especially in a non-Islamic country. It then highlights the historical significance of Islamic governments in implementing the Zakah as a system and how different Caliphs treated the Zakah subject before exploring the reasons behind the applicability of Zakah on individual wealth instead of public institution earnings or funds. The research also discusses how Zakah-collecting agencies can employ Zakah funds and the reasons for permitted delays in the distribution of Zakah by institutions or individuals. In the last part of this section, the research takes the case of Saudi Arabia, where a government institution is responsible for Zakah and its related matters.

Section three begins with a discussion of economic problems related to Zakah in a non-Islamic country. It highlights the reasons for investing in precious metals other than jewelry used for personal or lending purposes. These reasons form the basis for economic inequalities and challenges that a Muslim needs to go through in terms of financial gains and losses in comparison to a non-Muslim person. In the last part of this section, economic problems related to Zakah in a non-Islamic country and how Zakah treatment lacks the safeguards and motivation present in an Islamic country are discussed.

Section four explains how Muslim face financial difficulties by observing Zakah and how they sacrifice their financial and economic gains compared to non-Muslims. It also highlights that in the absence of an Islamic Shariah-based economic system in a non-Islamic or secular country where investment opportunities in Islamic or Shariah based instruments are limited or not

viable enough to surpass the gains derived from investing in gold and other precious metals. The unavailability of profitable opportunities and investment in gold, subject to the payment of Zakah as an individual obligation instead of accounting it under a business model where continuous purchase and sale of gold result in profits to which Zakah is applied, puts limits on an individual's choices.

Section five discusses the various reasons why Zakah is not able to address poverty in Muslims residing in non-Muslim countries and fulfill its basic purpose, even with the estimated Zakah collection fluctuating between Rs. 75 billion to Rs. 400 billion (Shaikh, 2019). While no official data is available regarding the total Zakah collection in India, as quoted by Ahmed S.A. (2020) from the Islamic Social Finance Report (2017), it also criticizes the Muslim population for not wisely practicing the Zakah principle and for allowing Ulema, religious seminaries and informal organizations, lacking much-needed transparency, to control most of the collected funds.

Lastly, section six closes the argument by deriving conclusions from the four sections and provides thought-provoking suggestions that require much academic and religious intellectual discussion. The aim is to give ample opportunities to Muslims living in non-Muslims countries to invest and gain in Shariah-based instruments that provide equal yields without compromising their economic and financial gains.

The exploratory focus of the research remains on discussing the problems faced by Muslims who adhere to Zakah principles while also following the taxation policies of their country. It leads to an argument about how adhering to the Zakah principle, in addition to following tax policies, put Muslims at a disadvantage economically and financially compared to their non-Muslim fellow citizens. This is explained in detail under findings section three of this paper.

## **2. The Eight Categories of People to Whom the Zakah Money Should be Given**

There are eight categories where Zakah money should be spent. Among these categories, one of them- freeing the captives or slaves- no longer exists, while other categories have broad definitions where people use Zakah to promote what they believe in. For example, for the category of miskeen (people in need), suppose a person is above the Nisab level, but needs money for a just reason, such as a health emergency. Or consider a person who is employed by agencies that run on Zakah funds for their existence and are offered a portion of the collection as a benefit for the person who makes the effort to collect it.

Another category involves helping people to create sympathy and inclination towards Islam. In present conditions, this category is also prohibited in non-Muslim countries because it is treated as a means for conversion through monetary benefit, rather than fostering a genuine understanding of Islamic values.

Then there are Muslims who are in debt, and Zakah money can help them overcome it. Additionally, there is a category in which it is mentioned that Zakah should be used for the benefit of Islam. Again, this category has broad applications, but for Muslims living in non-

Muslim countries, it involves promoting educational, health institutions and charitable organizations that help fellow Muslims improve their living conditions.

Finally, Zakah can be utilized to aid travelers. Nevertheless, this specific category has limited relevance since individuals traveling for various purposes seldom seek assistance. Even those on a journey for Tableegh (spreading Islamic knowledge) prefer not to burden others with their financial needs. In their pursuit, people often provide them with food and lodging, but the expenses incurred are negligible compared to the Zakah obligations of those meeting the Nisab threshold. All these categories are defined in the Quran under Surah: At-Tawba:60.

In addition to the categories mentioned above, Quran verses (76:8, 51:19 and 70:24-25) also include the destitute, orphans, and prisoners of war who can also receive assistance from the Zakah fund. While destitute individuals are part of the poor category, it encompasses people who are mentally, physically, or economically unable to take care of themselves. The orphanage category is applied to children who are in a blood relation or in the general society, and Zakah is used for their upbringing and survival. In the present scenario, the category of prisoners of war is redundant and impractical if applied in the same way it was during the time of the Prophet (PBUH).

In Islam, there is no clear definition of 'poor'. Instead of defining poverty, Islam has clearly mentioned the criteria for Nisab in terms of the valuation of gold and silver or equivalent amounts of assets. Thus, any person with assets above the Nisab level must pay Zakah. In general, Zakah should not be paid to the rich, healthy and strong people to promote work habits or to discourage begging, nor should it be given to a person who is not handicapped or destitute. Hence, in a world where every country defines its own poverty line and standard of living, it is reasonable that a poor person should be evaluated according to their country's poverty line criteria.

The distribution principle of Zakah demands that it should be paid to first eligible persons within the blood relation. Afterward, it should go to the person who is near and dear. Finally, it should be distributed among people living in the same area, locality, town or city. The purpose of Zakah is to alleviate poverty, beginning with the nearest individuals and then expanding to a wider area once the nearby poverty is alleviated.

## **2.1. Role of Government in Collecting Zakah**

In an Islamic country, it is the responsibility of the government to implement the Zakah system and manage the funds. In the early days of Islam, the government was responsible for collection. There is the famous Hadith of Hazrat Abu Bakr regarding the collection of Zakah, in which he declared his intention to fight those unwilling to pay Zakah. At the time of the Prophet (PBUH), the collector of Zakah received his income from the Zakah collection.

There was a period in history when Zakah fund could not be used because there were no needier people in the Islamic empire. This was the period of Hazrat Umar bin Al Khattab (13-22 H) and Umar bin Abdul Aziz (99-101 H) (Ahmed H., 2004).

During the Umayyad period, the taxation policy was centralized, and people were treated unequally under it. This was the reason behind the failure of the Zakah system. In contrast to the Umayyad era, the majority of the Abbasid Caliphs established local bureaus in each territory to collect Zakah and taxes. In the Ottoman Empire Zakah enforcement further declined, and it began to be treated as a voluntary act due to trade development and the influence of other cultures that prioritized trade relations.

The compulsion of the government to generate revenue for its functioning makes the Western model appear attractive. Furthermore, it reciprocates the trade conditions faced by Muslim traders in western countries. Also, Zakah doesn't have codes; it applies through a flat rate based on Nisab to Muslims. As the world is rapidly changes with the interaction of civilizations, trade demands the codification of things that European laws have established.

The Muslim rulers felt there was a need to codify the system, and non-Muslim traders should be treated reciprocally in the same way that Muslim traders are treated when they conduct business outside an Islamic country. Islamic jurists and governors found it easier to apply similar trade laws and governing practices that they felt were successfully applied outside their boundaries instead of developing fiqh (Islamic system of creating laws) to counter it. In the process, Zakah became a personal duty for every Muslim, whether they lived in an Islamic country or outside of it (Allami, 2015).

Due to colonization and cultural influences, many laws and social practices adopt dominant practices that are more beneficial to the prevailing conquerors (Allami, 2015). The practice of Zakah collection also undergoes changes, and instead of being a government responsibility, it is handed over to the individual as a personal religious duty. In this scenario, no one else is responsible if you don't pay the Zakah, whereas the state is responsible for the collection of various taxes, which exceed the collection of Zakah.

During the course of Islamic history, the responsibility of Zakah was transferred from the government to individuals as a religious duty, which people must undertake voluntarily. This not only decreases the amount collected but also diverts the fund in a way that reduces its social impact. As a result, Zakah plays a minor role in poverty alleviation, even though it is made mandatory and a required duty for every Muslim who is above the Nisab.

The available data states that the ratio of Islamic countries' GDP to the Zakah fund is 0.3-0.4 % (Ahmed H., 2004). Suprayitno (2020) support this argument by taking the case of Malaysia, where he declares a significant and positive relationship between Zakah and economic growth. Even within the Organization of Islamic Cooperation (OIC), which is a group of Islamic countries, three categories can be found. In the first category, Zakah is treated as a personal duty and is not enforced by the state. In the second category, states have an official institution for the collection of Zakah, as a charitable contribution. In the third category, Zakah is applied and enforced as a tax and is collected by the authorities.

## **2.2. Zakah Does Not Apply to Public Institutions but to Individuals' Wealth**

Although public institutions and bodies own assets, they are not owned by individuals; rather, they are governed by public representatives who work for the benefit of the people. Thus, Zakah is not applicable to publicly owned assets and bodies. However, they are eligible to receive Zakah, such as hospitals, schools, orphanages and other charitable institutions working for the benefit of the population that need funds and provide social engineering and benefits through their work. Hence, the argument is that Zakah is a tax on wealth accumulated by individuals for their personal benefit; thus, it is subject to Zakah. By definition, it is easier to explain the concept for companies, partnership firms and any other form of business where individuals combine their talents to accumulate wealth for personal gains and need to pay Zakah on their earnings.

## **2.3. Investment of Zakah Fund**

In its resolution number 15 (3/3) 1986 Allami (2015), the OIC permitted Zakah authorities to invest in Zakah funds if they comply with three conditions. First, authorities should not invest in risky business; second, profit should be distributed only among the mentioned Zakah categories; and third, there should not be a delay in the pretext of investment in the distribution of Zakah. A delay in the payment of Zakah is only accepted if there is a problem in finding eligible poor individuals; secondly, the Zakah amount calculation is too large, and it takes time to calculate, and lastly a person waits to help the needy relative, neighbor or the neediest one. All three cases are more appropriate for the individual Zakah payments rather than for authorities responsible for the collection or distribution of Zakah, who work for the benefit of mankind.

## **2.4. Working of Government-owned Zakah Fund (Case of Kingdom of Saudi Arabia)**

Zakah is a form of taxation under the Article 20 of the Saudi Basic Law (Allami, 2015). It is the responsibility of the Saudi government to collect and distribute it to the needy. For this purpose, the government has opened an account in its central bank, Saudi Arabian Monetary Agency (SAMA), where it is collected and then dispersed among the population registered with the Social Insurance Agency under the Ministry of Social Affairs. The ministry is responsible for monitoring the status of registered populations entitled under the Zakah fund and how they distribute it to benefit eligible people.

In Saudi Arabia, the financial system covers individuals through a unique registration number, under which each individual's financial transaction can be monitored. Applying a Zakah system in salaried and income firms is easier because everything is under the observation of the government. In such cases, the government can even punish the person for non-payment of Zakah, or deduct the amount at the source of income. However, the situation is not the same in other countries where such system is not developed or is in the process of development.

Even then, there are contradictions when Sharia laws are applied, as explained by Allami (2015). He has taken an IFTA fatwa (the religious ruling equivalent to Sharia law), which describes Zakah as the responsibility of the government, as it has more knowledge and resources to distribute it. However, in another fatwa, it states that it is preferable for an individual to distribute it himself to the poor and needy. Such rulings create different followers who argue among themselves based on rulings by different Imams, interpreters and experts of Fiqh (Religious Law) who gives different rulings in the present context based on their understanding and knowledge.

There are issues in which people follow the advice of a religious leader who interprets that Zakah, paid once on an asset, is purified for life, and it no longer requires a person to pay again for the same asset year after year if a person continues to hold it. For example, suppose a person has 100 gm of Gold on which he pays Zakah this year; then next year, he doesn't need to pay Zakah on it as it was already paid a year before, which is false as per the ruling by religious scholars. Zakah is to be paid regularly if a person is above the criteria of Nisab, even if he owns the same amount of gold on which he paid Zakah last year or a year before it (Based on fatwa number 1797– IFTA).

### **3. Economic Problems Related to Zakah in a Non-Muslim Country**

1. The Zakah is compulsory, but its contribution to eradicating poverty is much less in a Muslim Society due to a lack of motivation in the absence of an Islamic environment (Adamu Ummulkhayr, 2017).
2. The calculation of Zakah is simple, but due to the compounding effect of assets in the Zakah categories, less devout or more money-minded people find it hard to pay large amounts of charity yearly for the same assets. Hence, Zakah collection is lower compared to the actual obligation, and the amount is used in an unorganized way where people pay directly to the poor at their discretion, resulting in economic and welfare indicators remaining unaffected (Elleriz Aisha Khasandy, 2019).
3. In the absence of monitoring authority in non-Islamic countries and the treatment of Zakah as a personal obligation, it is less effective in addressing the goal of eradicating poverty.
4. The four categories (middle-class families, pensioners, widows/divorced individuals with no regular income, and small business owners) investing in gold and silver are unable to produce the desired results and hence cannot achieve the objective of eradicating poverty. In real terms, it's not profitable due to inflation and compulsory payment of Zakah, which results in a double loss. For example, If Rs 100 is invested in gold and after one year its price is Rs 110, but the inflation is 8%, the real rise in value is only Rs. 2, but the amount applicable for Zakah is 2.5% of 110, which is Rs 2.75. Now if you deduct the amount, the real increase will be Rs 99.25, ( $110 - 8 - 2.75 = \text{Rs } 99.25$ ), shows a loss in real terms for Muslims instead of the gain that non-Muslim investors achieve.

5. There is a decrease in term value of an investment in gold and silver due to the payment of Zakah. Each year, there is a change in the value of precious metals. If there is appreciation, then Zakah is payable on the whole amount instead of only the appreciated value, so on the same investment, a person needs to pay Zakah each year. The multiple impacts, where the principal investment remains the same, but Zakah, is paid yearly on the full value subject to appreciation or depreciation, are explained in Table 1.

### **3.1. The Reasons for Muslim Population to Invest in Gold and Problems Associated with It**

The Zakah is compulsory for all Muslims with Nisab, but it put Muslims living in non-Islamic countries into financial challenges differently. The impact is greater on the people living in middle-class category and owning gold for the following reasons:

1. The middle-class family invests in gold from their small savings to create jewelry for their children, to be used as a gift (if a boy, then for his future wife) or (if a girl, then as a part of the dowry custom). According to the ZATCA, (2022), it states that if the jewelry is for personal use or lending, Zakah is not applicable. However, this ruling is challenged by religious scholars, and there is Fatwa (religious ruling, IFTA) that states gold and silver (jewelry) are under possession if more than the nisab; Zakah is applicable.

2. People living on pensions and small earnings invest in gold to avoid bank interest and safeguard themselves from prevailing inflation.

3. Widows or divorced mothers and single persons with no regular income but who have enough assets to fulfil the Nisab criteria invest in gold for any future emergency.

4. Small business owners regularly invest part of their savings in gold to safeguard themselves for any emergency requirement or as an old-age insurance.

Remember, in all of these cases, persons live above the Nisab level, which means they have sufficient savings for present conditions. Still, they are building assets in the form of gold either due to their helplessness or, because of social pressure that exists in the South Asian society due to dowry customs and other marriage expenditures without which marriage is unthinkable and treated in an undignified manner or it may be other reasons such as future insurance for health or any other emergency.

Now, if a person's (Niyat) intention is other than personal use or lending of gold or silver jewelry or if a person has gold or silver in the form of pieces with the sole purpose of accumulating or selling it in the future, it means Zakah is to be paid in all these cases.

Using gold and silver as personal jewelry implies that a person is unwilling to sell them, and thus, they have no potential for growth. They should not be counted for Zakah, even though their value is increasing, as explained in the Saudi Zakah manual (ZATCA,2022) . The middle class prepares for their daughter's marriage since her birth by purchasing gold jewelry whenever they are able to save some money (Sanu, 2018). They aim to convert their savings into gold purchases and prepare themselves for future social compulsions.

It is the process of accumulating gold or silver regularly to prepare oneself for future requirements, and Islam prohibits such accumulation by implying Zakah, which becomes due every year on precious metals. As explained by Ramdani Saadillah (2019), long-term inflation does have a negative impact on Zakah collection. The calculation of Zakah makes gold investment unprofitable or less profitable for any Muslim honestly following Islamic principles.

#### 4. Economic Problem for Practicing Muslims

In continuation of the above example, it is correct that the asset's value decreases by computing the impact of 2.5% every year under Zakah payment on the same quantity. Precious metals, subject to Zakah, need to grow in wealth by more than 2.5% every year, in addition to whatever inflation rate is persisting in the country, to be a profitable investment for a Muslim.

For example, if Rs. 100 is the Zakah asset value, it means Rs. 2.50/- will be paid on it at the end of the lunar year (Year 2). Let us assume there is an inflation of 5% prevailing in the economy.

Zakah paid on Gold	2.5%
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After Year 2

Zakah asset value (Gold)	Rs. 100
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Zakah	Rs. 2.5
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Inflation	5%
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Year 3

Zakah asset value	Rs. 107
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(Increase in gold prices because of inflation and demand and supply situation)

Zakah (on Rs. 107)	Rs. 2.675
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The holder of gold has already paid (2.5 +2.675) Rs. 5.175 into the third two years. Now, as the price of gold is Rs.107 for a Muslim paying Zakah regularly, the real increase in value for his asset is (107-5.175) Rs. 101.825. Meanwhile, a non-Muslim is gaining Rs 7 on the same amount, while a devoted Muslim is gaining only Rs. 1.825, which is a loss-making investment considering the inflation rate (5%) in the economy.

The continuous of payment of Zakah on the same asset each lunar year is creating a gap between profit-making opportunities for Muslims and non-Muslims. This happens because through the payment of Zakah, a Muslim person may receive a sum less than the prevailing inflation rate on the accumulation of gold or silver, depending upon the prevailing rates.

The concept is explained in Table 1. The price of 10 grams of gold from the year 1965 to 2023 is tabulated. If a Muslim person with nisab purchased 10 grams of gold in 1965 at the rate of Rs. 63.25 and has owned it until 2023 when it is priced at Rs. 62,035, the value has appreciated almost 981 times. However, over the years, a Muslim owner has paid Rs 15,905.12 as Zakah.

Now, one can argue that on a purchase price of Rs 63.25, a Muslim has paid Rs. 15,905.12 as Zakah over the years, or 251 times its original value as a Zakah, which looks substantially high in economic terms. However, one has to consider that the same investment has risen to 981 times its original value during the period. Another economic problem attach to the payment of Zakah is that over the years, the currency is losing its value, or due to inflation, there is a continuous price rise. A person who earned Rs. 1000 per annum in 1965 could no longer survive on the same amount in 2023.

Now, just imagine can he purchase the same amount of gold that he purchased in 1965 with his earnings of Rs. 1000 per annum. in the present day, even if his income is Rs 9726<sup>1</sup>. Which is even less than the below poverty line criteria? The answer is a simple no, as the price of gold is many much higher times now, and salary increases are far behind in terms of yearly increases based on average inflation or in government language, dearness allowance, which is insufficient to match the increase in gold price.

We can look the same example and compare it again. By spending Rs. 63.25, a person was able to purchase ten grams of gold in 1965. From his Rs. 1000 p.a. income, the gold investment represented 6.32 % of his annual income. Let's calculate the same with the inflation-adjusted income in the year 2023, which is Rs. 9726 and find out if 6.32% of his income is enough to purchase 10 grams of gold valued at Rs. 62,035. The 6.32% of Rs 9726 is Rs. 615 which is enough to purchase only 0.09913 grams of gold.

It means that even with the same inflation-adjusted income, a person cannot purchase gold, as its value has appreciated many times higher than the inflation rate over the years due to an increase in demand exceeding supply conditions.

Back to our main topic: How Zakah is making the return on gold less attractive for a devoted Muslim. As explained, he will be getting lesser amount in comparison to a non-Muslim, resulting in a loss of almost one-fourth of the value, (62,035-15,905=46,129.88). In order to compensate for the Zakah amount, his income needs to rise by more than 2.5% higher than the inflation-adjusted income.

The religion of Islam demands sacrifice in terms of self-control, financial management and economic growth, so that poor and deprived Muslims receive their dues and have a fair chance at growth (Roy, 2022). Zakah payment helps bridge the gap between the rich and the poor. Otherwise, if economic rules, are applied, they would disproportionately benefit the rich (Bamzai, 2020). Just think about how a person's wealth increases by simply paying 2.5% of Zakah on the appreciated value each year. Column 6 in the (Appendix -Table 1) shows the economic power, assuming that the portion on which Zakah is paid once is not liable for another round; instead, it is paid on the appreciated value of gold for Zakah purposes.

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<sup>1</sup> Assumed Rs 1000 earnings increases yearly by an inflation rate of average 4% for 58 years calculated using compound interest.

In this calculation, the appreciated or depreciated values are used instead of the principal amount on which the Zakah is paid in year 2. If we calculate from 1965 till 2023, only Rs. 1550.875 is to be given as part of this un-Islamic economic adjustment, which is far less than the total amount due for the ten grams of gold purchased in 1965, which is Rs 15,905.

The concept of inflation also exists when the Shariah laws are being framed. This concept is well understood, and Muslims are advised to invest their wealth in business rather than leaving it to be consumed by charity.

“As for the one who is the guardian of an orphan who has wealth, then let him do business with it and not leave it until it becomes consumed by charity. (Hadith-Al Tirmidhi)”

The above Hadith indicates that a person who has been appointed as a guardian of an orphan with wealth should invest it on behalf of the orphan so that it is not consumed; instead, it should grow in a proper economic way and be helpful in the future.

A study by Andi Triyawan (2022), based on BAZNAS (Central Bank of Indonesia), mentioned that Zakah, Infaq, and Sadaqah affect the economy. Kafabih (2019) investigated inflation by modifying the Keynesian consumption model to incorporate Zakah and Israf, finding that moderate consumption negatively affects inflation, but an increase in Israf results in a decrease in Zakah collection.

Applying Kafabih modified model (Appendix Table 2) to the Indian population and utilizing data from the year 2011 census and the Tendulkar report on Indian poverty, has yielded valuable insights (Rao, 2020). The data states that 21.9% of the population lives below the poverty line (BPL), encompassing both Muslim and non-Muslim individuals. It is noteworthy that within the total population, only 15% are Muslim. Furthermore, within the Muslim population, 31% are found to be living below the poverty line (Rakshit, 2023).

The mentioned 21.9% BPL population falls under the category of Mustahiq for Zakah. This category encompasses both Muslim and non-Muslim individuals who are in need. It's worth highlighting that it is not compulsory for non-Muslims to pay Zakah or to do charity. Hence the remaining 77.25% of the non-Muslims population living above the poverty line cannot be factored into Zakah calculations. Nevertheless, it is imperative to emphasize that all impoverished individuals, regardless of their religious background, are eligible to receive Zakah.

The information highlights a striking disparity: 69% of the Indian Muslim population is willing to contribute Zakah to the 21.9% of the total Indian population living in poverty. The irony becomes evident when we consider that this 69% of the Muslim population consists of a substantial 12,53,23,490 individuals, while the total eligible population of the poor is 26,51,77,240. Of notable concern is the distressing fact that within India, there are 2,12,77,749 Muslim individuals living in poverty, a number surpassing the total population of many countries.

The truth of the matter is that the Indian government shares an equal responsibility for the impoverished population, regardless of their religious affiliation. However, the development of poverty clusters is influenced by demographic factors, the concentration of the Muslim population in economically challenged states with populations that exceed available resources, and political dynamics.

The extended application of the Kafabih model is redundant due to the absence of comprehensive data and its relevance with the research objectives. For instance, we are aware that 69% of the Muslim resides above the poverty line, but this does not necessarily imply that they meet the Nisab threshold, which is set at Rs. 42, 592 (equivalent to 595 grams of silver value), while the government-approved poverty line stands at Rs. 27,000. It is plausible that a considerable portion of the population falls above the poverty line but does not qualify under the Nisab criteria. The classification of the Muslim population for Zakah estimation is beyond the scope of this paper, as our primary focus remains on elucidating how Zakah loses its relevance in a non-Muslim society and how investment in precious metals specifically gold is less fruitful for a Muslim than for a non-Muslim due to Zakah obligation

The precious metals gold and silver are known for their store of value and exchangeability. Still, we don't find any specific mention that a person should invest in them for future gain. The investment is left to personal decision, where one has to pay Zakah on it, thus keeping it out of the business model, unless a person is involved in selling jewelry or engaging in the buying and selling of gold and silver.

## **5. Why Zakah is Unable to Address Poverty in Non-Muslim Countries?**

This section discusses the reasons for not being able to address the prevailing poverty among Muslims in a non-Muslim country. The discussion involves Indian data on the Muslim population and their Zakah contribution. According to Tendulkar's Committee report, 21.9% of the Indian population lives below the poverty line. Rampal (2022), in his article uses, Niti Ayog's data for 2021, in which he, states that 25% of the population is poor according to the Multidimensional Poverty Index (MPI). This means that one out of every four Indians is poor. Kurzydlowski (2022), in his article, states that 14% of the Indian population is Muslim, while 31% of them are poor (The Percentage of Indian Muslims living below poverty line, 2015), and only 8.5% among them hold government jobs.

It is an irony that Islam as a religion does not distinguish people by caste, colour or creed in any form and only promotes religious knowledge and devotion as the sole criteria for ranks (Roy, 2022) now faces divisional barriers within the religion in a non-Muslim country (Ruhি Tewari, 2019). In India, Muslims are categorized into Schedule caste (SC), Schedule Tribe (ST) and Other Backward Classes (OBC) according to Thorat (2010) due to their lineage and centuries of economic and social deprivation.

Economically poor Muslims and non-Muslims face the same fate in the sufferings they endure. The difference in the percentage of literacy among different categories of the Muslim population has little relationship with religion; rather, the occupation and literacy level defines

the poverty status. In each religious category, the illiterate population suffers the most, whether they belong to the SC, ST or OBC category (Shroff, 2022). Still, Thorat's findings illustrate that ST individuals in each religious group is poorer than SC individuals, and among them, OBCs and others fare better. He attributes the presence of poverty to the initial unequal distribution of skills and education, land and capital endowments, and limited occupational mobility and, advocates focused and target-based poverty eradication programs to address group-specific problems within the religious identity.

The measures mentioned by Thorat are government focused. However, in a Muslim community, the mechanism of Zakah is ideal for eradicating poverty. The distribution of Zakah among the people living below the poverty line decreases inequality (Susilo Nur Aji Cokro Darsono, 2019). The mechanism fails in its objective because the transfer of money from the rich or, to say, people having Nisab, to people who are entitled to Zakah is far less than required. The reasons can be:

1. Zakah is not paid as per the Islamic Shariah law by a large part of the eligible population spread over Indian economic map (Kishore, 2015). In a non-Muslim country, Zakah is a personal choice, and no monitoring is required in any form. Ironically, 69% of Muslims live above the poverty line, and they are supposed to give Zakah to their impoverished brothers (31%). A regular transfer should be enough to uplift the status of poor people. As reported by Sunderarajan (2011), a family's annual income must be below Rs 27,000 for them to be considered for a BPL card, which helps them in getting subsidized government aid. If 69% of the Muslim population (more than 1950 million people) live above poverty line, then out of every four Muslim families, one live in poverty. If we assume each family comprise five family members, then there would be 3,90,00,000 families living above the poverty line. If we calculate the minimum Zakah value, which is 2.5% of 595 grams of Silver, it is Rs. 1064.81 (Rs71,584 per. kg). Now if all families pay minimum Zakah, then a fund of more than Rs 41520 million should be collected, which should be spent on fifty million families. Each family should get more than Rs 830 each year from the families having Nisab.
2. There is a difference between the government's definition of poverty and the Islamic definition of poverty. According to the government, a family is declared poor if they earn less than Rs. 27000 yearly, while in Islam a person is considered poor if they have less than Rs. 42592.48 (595 grams of silver valued at Rs 71,584 per.kg) at the lunar year's end after deducting all normal expenses of the family, including all persons who depend on him for living expenses.
3. It is imperative that a Zakah fund should be more than Rs. 41.52 billion if all Muslims pay it honestly, for the simple reason that most families have more than nisab and should pay many times the minimum amount. In his article, Shaikh (2019) put the figure between Rs. 75 billion to Rs. 400 billion. It is the subject of a separate study to divide the Muslim population into various income brackets (Kramer, 2021). It is a difficult task as most people don't like to disclose their income for any scrutiny, let alone for the purpose of Zakah.

4. It is a common expression that Zakah is the trust between the payer and his faith; no one has the right to dictate what it should be. The Opposite is the case for income tax, and it is between the payer and the government, where the government has every right to scrutinize every transaction to check the honesty of the income taxpayer. While income tax collection data is publicly available, no official data is available for Zakah in India (Ahmed S. A., 2020), and it is a general perception that Zakah is not practiced in its true sense in a non-Muslim country due to non-monitoring and absence of religious motivation.
5. Unlike in Muslim countries, where most of the population is Muslim, motivation to follow the religion is comparatively easy, person will look odd if he is a Muslim and does not obey Islamic rules. Thus, informal compulsion forces Muslims to follow the majority even if a person is less devoted, and it is also applied in the payment of Zakah. People tend to pay more, or do the right thing if they know they are being observed.
6. The monitoring by either society or an institution is absent in non-Muslim countries, leaving room for greed and moral corruption, where one withholds the true amount of Zakah and either pays little or no money at all.
7. Ultimately, Zakah collection is far less than what it should be. Again, the criteria for receiving Zakah are poverty, not that the recipient should be Muslim poor. The payer distributes it without discrimination, and part of Zakah also reaches poor non-Muslims. Individuals who pay Zakah often prefer to help poor relatives and give Zakah to their servants and other workers for to gain their favour rather than based on merit. During the process, many private institutions posing as Zakah collectors and dispensers of Zakah money engage with payers, which in many cases turn out to be fraud, or have their own ulterior motives. As a result, a large part of Zakah ends up in their pockets. Thus, false collectors, payment to servants and workers without consideration of their merit, difficulties in finding genuinely poor people, payment to non-Muslims in the process, and the non-payment of the full Zakah or partial payment are the reasons for the ineffective application of this noble cause, which should be sufficient to lift mankind out of poverty.
8. Many non-government organizations are collecting Zakah money for purposes other than those mentioned in section one (Parveen Baby, 2018), including the payment of dowry (a South Asian practice of giving money, jewelry, and expensive household items in a daughter's marriage), the establishment of educational institutes, charitable hospitals, and other payments for reforms and in response to social challenges (Abraham, 2018).

## **Conclusion**

Due to the digitalization of government payments, 78% of Indian adults have a bank account; still, 35% of them remain inactive, which is seven times higher than the average calculated among developing countries (Leora Klapper, 2021). In his research, Mullick (2016) states that 50% of Muslims are financially excluded and cites interest-based banking as one of the reasons for their exclusion. This figure highlights the primary reason (Pandya, 2010) for not having authenticated data for such a significant Muslim population.

It is imperative to recognize that Zakah alone is not able to solve problem of poverty in a non-Islamic country facing a large population of poor and destitute individuals as mentioned by Niti Aayog (2021), 25% of India's population is still poor. The noble objective of Zakah, losses its relevance when the decision to calculate and give Zakah is left to an individual's choice without any monitoring authority overseeing it. Morally corrupt individuals burdened with social stigma due to cultural practices, find it easier to manipulate Zakah obligation instead of complying with compulsory and monitored taxation imposed by government authorities. Also, as explained in section four, over a period of time, gold as an investment option only results in an increase in inequality between a practicing Muslim and a non-Muslim.

Even the Zakah collection and distributive channels are inadequate and unable to target the destitute population. The necessity to use Zakah fund in a synchronized manner to make any meaningful impact is absent in a non-Islamic country due to non-existence of monitoring authorities. The lack of motivation in a non-Islamic environment, where indulging in worldly pleasures is common and charity is considered as a luxurious expenditure expected from the rich class, is highlighted by Adamu Ummulkhayr (2017) in his research. He blames it on individual ignorance and an indifferent attitude towards Zakah, as well as the lack of organized efforts in a population dominated by non-Muslims. It is the practicing Muslims who are following the principle, but contributed amount is insufficient to make any significant impact (Bagchi, 2017).

The research findings suggest the need for a single institutional arrangement in non-Islamic countries for Zakah fund management, even at the non-government level. This should be promoted by religious scholars and have an extended network of information to reach destitute people and help them, instead of segregated privately operated institutions seeking charitable funds from individuals for various causes. Additionally, the development of Sharia -implied investment opportunities providing market returns or better than market return will offer individuals alternatives where they can invest their money, instead of investing in gold, because precious metals have a significant negative impact on Zakah under inflation (Afendi, 2018).

It is important for religious scholars to understand the economic and financial burden of Zakah, in addition to the taxation policy of the national government, and suggest means to overcome the limited investment options available to Muslims who are compelled to invest in gold and other precious metals for reasons well discussed in the paper. A progressive and market- related approach, in combination with Sharia- approved investments promoted by authorities under national laws to safeguard the interest of investors and supported by religious scholars and authorities, is needed. This approach not only increases income and diverts funds invested in precious metals but also increases the amount of Zakah and provides a direct means to calculate Zakah income from investments made under such categories.

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## Appendix

### Supplementary Data Tables

**Table 1: Increase in Gold Rates and Zakah Analysis**

Year	Price in Rs. (24 karat per 10 grams)	2.5% Zakah in (Rs.)	Year wise increase in Zakah payment (Year <sub>1</sub> + Year <sub>2</sub> +..+Year <sub>n</sub> ) (Rs.)	Yearly Increment in Gold price (Rs.)	2.5% of Zakah on the appreciated part of Gold only (Rs.)
1964	63.25	1.58125	1.58125	1.58125	1.58125
1965	71.75	1.79375	3.375	8.5	0.2125
1966	83.75	2.09375	5.46875	12	0.3
1967	102.5	2.5625	8.03125	18.75	0.46875
1968	162	4.05	12.08125	59.5	1.4875
1969	176	4.4	16.48125	14	0.35
1970	184	4.6	21.08125	8	0.2
1971	193	4.825	25.90625	9	0.225
1972	202	5.05	30.95625	9	0.225
1973	278.5	6.9625	37.91875	76.5	1.9125
1974	506	12.65	50.56875	227.5	5.6875
1975	540	13.5	64.06875	34	0.85
1976	432	10.8	74.86875	-108	-2.7
1977	486	12.15	87.01875	54	1.35
1978	685	17.125	104.1438	199	4.975
1979	937	23.425	127.5688	252	6.3
1980	1,330.00	33.25	160.8188	393	9.825
1981	1,800.00	45	205.8188	470	11.75
1982	1,645.00	41.125	246.9438	-155	-3.875

1983	1,800.00	45	291.9438	155	3.875
1984	1,970.00	49.25	341.1938	170	4.25
1985	2,130.00	53.25	394.4438	160	4
1986	2,140.00	53.5	447.9438	10	0.25
1987	2,570.00	64.25	512.1938	430	10.75
1988	3,130.00	78.25	590.4438	560	14
1989	3,140.00	78.5	668.9438	10	0.25
1990	3,200.00	80	748.9438	60	1.5
1991	3,466.00	86.65	835.5938	266	6.65
1992	4,334.00	108.35	943.9438	868	21.7
1993	4,140.00	103.5	1047.444	-194	-4.85
1994	4,598.00	114.95	1162.394	458	11.45
1995	4,680.00	117	1279.394	82	2.05
1996	5,160.00	129	1408.394	480	12
1997	4,725.00	118.125	1526.519	-435	-10.875
1998	4,045.00	101.125	1627.644	-680	-17
1999	4,234.00	105.85	1733.494	189	4.725
2000	4,400.00	110	1843.494	166	4.15
2001	4,300.00	107.5	1950.994	-100	-2.5
2002	4,990.00	124.75	2075.744	690	17.25
2003	5,600.00	140	2215.744	610	15.25
2004	5,850.00	146.25	2361.994	250	6.25
2005	7,000.00	175	2536.994	1150	28.75
2007	10,800.00	270	2806.994	3800	95
2008	12,500.00	312.5	3119.494	1700	42.5

2009	14,500.00	362.5	3481.994	2000	50
2010	18,500.00	462.5	3944.494	4000	100
2011	26,400.00	660	4604.494	7900	197.5
2012	31,050.00	776.25	5380.744	4650	116.25
2013	29,600.00	740	6120.744	-1450	-36.25
2014	28,006.50	700.1625	6820.906	-1593.5	-39.8375
2015	26,343.50	658.5875	7479.494	-1663	-41.575
2016	28,623.50	715.5875	8195.081	2280	57
2017	29,667.50	741.6875	8936.769	1044	26.1
2018	31,438.00	785.95	9722.719	1770.5	44.2625
2019	35,220.00	880.5	10603.22	3782	94.55
2020	48,651.00	1216.275	11819.49	13431	335.775
2021	48,720.00	1218	13037.49	69	1.725
2022	52,670.00	1316.75	14354.24	3950	98.75
2023	62,035.00	1550.875	15905.12	9365	234.125
					Total: Rs 1550.085

Table 2: Kafabih Modified Model for Indian Population (Based on 2011 census data)

Year	Total Population (g)	% of Poverty (h)	% of non-poor (1-h)	Total non-poor (I= g x (1-h))
2011	1210854977	0.219	0.781	94567773704
% of Muslim Population (j)	Total Muslim Population (M) = j x g	Total Non-Poor non-Muslim population (Tu) = (M + I) - g	% Muzakki from the non-Muslim population (u') = Tu/g	% of Mustahiq in Non-Muslim Population (1-u')
0.15	181628246.6	93538546973	0.7725	0.2275