



# AN ACT OF FAITH

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Humanitarian financing and Zakat

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## EXECUTIVE SUMMARY

All of the world's major religions contain some element of almsgiving, and faith plays a key role in the funding and delivery of humanitarian response across the world. While we cannot say how much religiously motivated giving takes place globally each year, it is clear that faith-based organisations mobilise and channel a significant proportion of global humanitarian assistance, and are actively involved in its delivery. In 2013, faith-based organisations received and delivered between US\$420 million and US\$434 million (15–16%) of all international humanitarian assistance channelled through non-governmental organisations (NGOs).<sup>1</sup>

Islamic countries and those with large Muslim populations are also becoming more significant humanitarian actors, as both donors and recipients. Between 2011 and 2013, international humanitarian assistance from governments within the Organization of Islamic Cooperation (OIC) grew from US\$599 million to over US\$2.2 billion, representing a growth in the share of total international humanitarian assistance from governments from 4% to 14%. At the same time, an estimated 75% of people living in the top ten recipient countries of humanitarian assistance in 2013 were Muslim.<sup>2</sup>

Zakat, the mandatory Muslim practice of giving 2.5% of one's accumulated wealth for charitable purposes every year, is one of the main tools of Islamic social financing. It is explicitly intended to reduce inequality and is widely used in Muslim countries to fund domestic development and poverty-reduction efforts. There are clear parallels to be drawn between the eight individual categories of eligible recipients of Zakat listed in the Qur'an and people in need of humanitarian assistance.

Zakat can be paid in a variety of different ways to a variety of different institutions, either governmental or non-governmental, often depending on the country a Muslim lives in or on their sect of Islam. There is no reliable data currently available to show precisely how much Zakat is paid by Muslims around the

world, or how it is spent globally. Yet data we have collected for Indonesia, Malaysia, Qatar, Saudi Arabia and Yemen, which make up 17% of the world's estimated Muslim population,<sup>2a</sup> indicates that in these countries alone at least US\$5.7 billion is currently collected in Zakat each year.

We estimate that the global volume of Zakat collected each year through formal mechanisms is, at the very least, in the tens of billions of dollars. If we also consider Zakat currently thought to be paid through informal mechanisms, then the actual amount available is likely to be much higher, and could potentially be in the hundreds of billions of dollars. By way of comparison, international humanitarian assistance from government and private donors in 2013 totalled US\$22 billion,<sup>3</sup> while official development assistance (ODA) from member countries of the Organisation for Economic Cooperation and Development (OECD)'s Development Assistance Committee (DAC) was US\$134.8 billion in the same year.<sup>4</sup>

Our research also shows that between 23% and 57% of Zakat currently collected is used for humanitarian assistance, depending on the context in which it is raised and used. It is therefore likely that Zakat is already a significant source of humanitarian financing in many places, and there are indications that it has the potential to provide considerably more humanitarian assistance than is currently the case. For example, evidence suggests that the amount of Zakat potentially available in both Indonesia and Pakistan could meet all current requirements to respond to domestic humanitarian emergencies, with significant amounts remaining to cover other areas of Zakat spending.

However, there are a number of possible barriers that will need to be overcome if Zakat is to fully realise its humanitarian potential. These fall into two main categories:

- **LOGISTICAL** – such as streamlining and formalising how Zakat is collected, by whom, and how it is channelled to the humanitarian response community.

- **IDEOLOGICAL** – such as how best to manage conflicting opinions on whether non-Muslims can benefit from Zakat and where it can be used.

The question of whether non-Muslims can benefit from Zakat is central to discussions concerning the compatibility of Zakat with the humanitarian principles and will have an impact on efforts to increase international humanitarian assistance provided through Zakat.

To begin to address these barriers, and so maximise the potential volume and effectiveness of Zakat for humanitarian assistance, interested parties need to focus efforts in five areas:

- 1) Humanitarian donors and agencies should **engage in discussion** with academics, Islamic scholars, theologians and practitioners, and **share learning** on the use of Zakat for humanitarian assistance.
- 2) An independent and credible global body that has taken part in these discussions needs to **provide guidance** on the parameters of reasonable interpretations of Zakat.
- 3) Actors at all levels – including small, local Zakat-receiving organisations, national and international NGOs, and the UN should work together to **improve channels** between Zakat funds given and the international humanitarian response system.
- 4) Resource-mobilisation efforts should focus on **increasing Zakat revenues** and channelling new funds to humanitarian assistance, rather than redirecting existing funds.
- 5) Efforts to increase the use of Zakat for humanitarian assistance should be combined with those of the wider development community to ensure a **complementary approach**.

## INTRODUCTION

The gap between humanitarian need and humanitarian funding is growing. The total funding requested from international donors within the United Nations (UN)-coordinated humanitarian appeals system trebled in the ten years between 2005 and 2014, more than doubling between 2011 and 2014.<sup>5</sup> While international humanitarian funding has increased to record levels in response, the financing gap appears to be getting bigger: the proportion of appeal requirements met in 2014 was the lowest since 2001 (58%), and the volume of unmet requirements was the highest on record (US\$7.5 billion). According to Valerie Amos, UN Under-Secretary-General for Humanitarian Affairs, “Needs are growing so fast, the funding cannot keep pace.”<sup>6</sup>

The urgent question of how to fill this growing gap is being considered across the humanitarian world, including in the World Humanitarian Summit process and by the recently announced High-Level Panel on Humanitarian Financing. Many are actively seeking innovative solutions, including the Inter Agency Standing Committee (IASC)’s Future Humanitarian Financing initiative, the UN Office for the Coordination of Humanitarian Affairs (OCHA)’s private sector section and Business in the Community (BITC)’s International Disaster Relief programme. It is clear that new funding will need to come from a variety of different sources in order to meet the scale of the challenge. However, much attention is being paid to the role of business and other private donors, such as individuals and private foundations.

Individuals have long been major donors of humanitarian funding, providing an estimated 17% of the total international humanitarian response between 2008 and 2012. There is likely to be further untapped potential in terms of their giving capacity, as is evident with the rise in philanthropy for charitable purposes

witnessed in both the United Kingdom (UK)<sup>7</sup> and the United States (US), where this type of giving is well monitored.<sup>8</sup> One potentially significant area of charitable giving that has received less attention in discussions around the current humanitarian financing crisis is faith-based giving, and Islamic social finance in particular.

Previous estimates suggest that anywhere between US\$200 billion and US\$1 trillion is spent in the form of Zakat across the Muslim world each year,<sup>9</sup> and our evidence suggests a significant proportion of the money collected is directed towards humanitarian assistance. However, Zakat is a resource that is not well understood by many organisations and actors involved in the international humanitarian response.

The aim of this report is to shed some light on the purpose, scale and potential of Zakat for financing humanitarian response. It will provide a basis on which to open up discussions around how that potential might be maximised – both by increasing the overall volume of Zakat collected and improving the mechanisms available to channel Zakat to the humanitarian response. In the absence of reliable or readily available data on Zakat mobilised globally, the report draws on evidence gathered through case studies and existing research to provide an indication of the scale of Zakat’s value and its potential for humanitarian response. It outlines some of the key barriers to increasing humanitarian funding available through Zakat and to improving the way in which it is channelled to support the humanitarian response. It also offers some recommendations for humanitarian donors and agencies, and those responsible for collecting and distributing Zakat, to consider in overcoming these barriers.

## GLOSSARY OF KEY TERMS

**Awqaf or waqf:** A type of endowment and a form of Islamic social finance.

**Islamic:** Of or pertaining to the principles of Islam; following Shari’a law.

**Islamic social financing:** A range of financial mechanisms employed by the Muslim community that are designed to promote social protection of the poor, reduce vulnerability and increase economic equality.

**Muslim:** A person who follows Islam (n.); of or pertaining to the Muslim faith (adj.).

**Mustahiq:** Person receiving Zakat; beneficiary of charitable giving.

**Muzakki:** Person paying Zakat.

**Nisab:** The threshold of wealth or assets beyond which a Muslim is required to pay Zakat.

**Sadaqah:** Voluntary charity, a form of Islamic social financing.

**Zakat:** A form of Islamic social financing through which all Muslims whose wealth falls above a certain threshold are required by the Qur’an to give 2.5% of their assets each year to help people in need. Note that, while the proportion a person is required to pay remains the same, there is some variation between Sunni and Shia Islam concerning the payment and use of Zakat. This report discusses Zakat as practised by Sunni Muslims (around 87–90% of the world’s Muslim population).<sup>10</sup>

**For the purpose of this report:**

**Islamic country** refers to a country that is governed in accordance with Shari’a law or following explicitly Islamic principles.

**Muslim-majority country** refers to a country in which the majority of the population is Muslim, but which is not necessarily governed in accordance with Shari’a law or according to explicitly Islamic principles.

## ALMSGIVING ACROSS THE WORLD’S MAJOR RELIGIONS

Zakat is one of the few examples of mandatory almsgiving to be found in the major world religions. However, all major religions involve some form of voluntary almsgiving.

### Christianity

The Christian church promotes charitable giving as a religious duty, and almsgiving is considered an essential part of Christian stewardship and faithfulness.<sup>11</sup> Christians are not required to donate a certain percentage of their income to the poor, but it is common to donate at some point during a service and for a church to run appeals for specific crises or charities.

### Judaism

Tzedakah is translated literally as ‘charity’,<sup>12</sup> but its true meaning is closer to righteousness and justice,<sup>13</sup> and it is

seen as a form of self-taxation rather than a voluntary donation. Some sources suggest that Jews are required to give tithes (one-tenth of their income) to charity, a practice known as *ma’aser kesafim*.<sup>14</sup> Money is generally given to the poor, healthcare institutions, synagogues or educational institutions.<sup>15</sup>

### Hinduism

In Hinduism, giving is known as *dān* in Hindi<sup>16</sup> and is built into all aspects of life. *Dān* can be given as offerings to deities (*nirmalya*), to individuals, to priests, spiritual guides or teachers and institutions (NGOs).<sup>17</sup> Some scriptures suggest giving 10% of an individual’s earnings to charity, with the caution that a householder should never give gifts beyond their means – they should not make their family and dependents worse off on account of their generosity.<sup>18</sup>

### Buddhism

According to Buddhist teachings almsgiving is the first of the Ten Perfecting Qualities (*Dasa Parami Dhamma*) that helps a *Bodhisathwa* to attain Buddhahood. It is also the first of the ten Meritorious Deeds (*Dasa Punna Kriya*), the first of the Ten Virtues of a Good King (Buddhist Governance) (*Dasa Rajadhamma*)<sup>19</sup> and the first of the Four Bases of Social Harmony (*Sahgha Vatthu*).<sup>20</sup> Almsgiving is also considered the highest blessing in Buddha’s teachings (*Mangala Karunu*). The concept of *dān* also exists in Buddhism.<sup>21</sup>

# 1. FAITH AND HUMANITARIAN ASSISTANCE

Faith plays a key role in international humanitarian response. Between 11% and 16% of NGOs listed in UN OCHA's Financial Tracking Service (FTS) as humanitarian funding recipients in 2013 are explicitly guided by faith-based principles. Seven of the 22 NGOs represented on the board that oversees the Core Humanitarian Standard also have an explicit faith-based ethos,<sup>22</sup> as do five of the 13 NGOs that constitute the UK Disasters Emergency Committee (DEC).<sup>23</sup>

Often whether or not an agency has faith-based principles is irrelevant to the activities it carries out or the people it helps; most humanitarian organisations operate in accordance with the humanitarian principles,<sup>24</sup> meaning that they target assistance to people based on need rather than membership of a religious group. However, there are many

examples to show the active role that faith can play in the delivery of humanitarian response. In the Ebola crisis, for example, engagement with local Muslim and Christian faith leaders in affected countries was vital to ensuring effective and trusted communication with local communities.<sup>25</sup>

Faith-based organisations also mobilise and channel a significant proportion of financing for global humanitarian assistance. Most major religions have an element of charitable giving (see box on page 5), and many faith-based organisations actively fundraise through faith communities, being seen as a trusted and like-minded channel for religiously motivated givers.

If the five largest Christian and Islamic humanitarian agencies were classed

alongside international donors, their combined private humanitarian assistance of US\$396.7 million would have made them the 14th largest provider of humanitarian assistance in 2013. According to FTS data, in 2013 between US\$420 million and US\$434 million (15–16%) of all humanitarian assistance channelled through NGOs went to faith-based organisations.<sup>26</sup> Not all of this was religiously motivated – it includes funding from donor governments, and not all of the privately generated funds were necessarily based on faith-based giving. Figure 1 shows the volume and proportion of funds channelled through faith-based NGOs from 2011 to 2013.

FIGURE 1: HUMANITARIAN ASSISTANCE CHANNELLED THROUGH FAITH-BASED AND NON-FAITH-BASED NGOS, 2011–2013



Source: Development Initiatives based on UN OCHA FTS data.

Note: Values and proportions of funding channelled through NGOs vary within FTS data depending on different reporting headings used by reporters. Data presented here is based on 'agency code' figures.

# 2. ZAKAT

## What is Zakat?

Zakat is a mandatory form of alms for all Muslims who are able to pay it, and is one of the five pillars of Islam.<sup>27</sup> Through Zakat, Muslims are required to give a proportion – traditionally defined as one-fortieth, or 2.5% – of their accumulated wealth after it has been in their possession for a lunar year for the benefit of the poor or needy (and other recipients as highlighted in the verse of the Qur'an, right), in addition to a small annual payment (zakat al-fitr) during Ramadan. Zakat is payable by all Muslims, providing their acquired wealth that year falls above a certain threshold known as the nisab.<sup>28</sup> Muslims whose wealth falls below the nisab are encouraged to give Zakat in kind – this can be

in the form of goods, or by offering a service or providing help to someone in need.

The word Zakat can be translated to mean 'purification' or 'growth'; through giving Zakat, an individual is cleansing or purifying both themselves and their remaining wealth. Rather than being seen purely as a charitable donation, Zakat is in fact the spiritual duty of the Muslim, as a means of redistributing wealth in order to restore social equality and promote a more just society.

Zakat is the only obligatory form of a range of different Islamic social financing mechanisms, all of which are intended to redress the

balance of equality in society. Others include Sadaqah, a form of voluntary giving, and Aqwaq, a type of endowment.

"Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (To Truth); for those in bondage and in debt; in the cause of God; and for the wayfarer." [Qur'an 9:60]<sup>29</sup>

## How is it collected?

The overwhelming majority of Zakat is paid during Ramadan, the holy month of prayer and fasting, which is another of the five pillars of Islam and a time of particular religious significance for Muslims in terms of fulfilling their spiritual obligations. Thus the payment of Zakat during Ramadan is seen as a way of doubling the spiritual reward and benefit for the donor. Ramadan also provides a practical marker or milestone relating to the lunar year (the period over which Zakat should be paid) and Zakat al-fitr is also due at the end of Ramadan.

Zakat can be paid in a variety of different ways to a variety of different institutions, either governmental or non-governmental, often depending on the country a Muslim lives in or on their sect of Islam.<sup>30</sup>

**Government-collected Zakat**  
In Islamic and Muslim-majority countries where Zakat is collected and distributed by the state, it can be taken directly from an individual's bank account or paid to the state or a government agency each year. Six countries have legally enforced payments of the Zakat<sup>31</sup>; for three of these,<sup>32</sup> the responsibility of the state for collecting Zakat

appears in the national constitution.<sup>33</sup> Where taxation levels are relatively low, such as in Kuwait and Qatar, Zakat resembles a form of tax, as it is collected and managed by the state in relation to a person's earnings and used to provide social welfare services or a public safety net for people in need.

**Independent collection and delivery agencies**  
In some Islamic and Muslim-majority countries, the government oversees the collection and distribution of Zakat, but independent agencies are given a license to manage the process. This is the case in Malaysia, for example, where depending on the state (which are run by different sultans), an individual can choose which approved agency they pay their Zakat to.

In countries where Zakat is not managed by the state and there is no governing body overseeing collection and distribution, Muslim citizens can choose how to pay their Zakat and to whom. Many Muslims living in Muslim-minority and/or non-Islamic countries choose to pay their Zakat to charities or other NGOs, which use the money to fund their own programmes.

**Mosques**  
Mosques collect large sums of Zakat, particularly in non-Muslim countries with no centralised or government-managed Zakat collection agency, where the mosque may represent an alternative form of Islamic authority. Zakat collected by mosques may be spent on the mosque itself – such as on upkeep or renovations – or it may be distributed by the mosque to local people in need. Some may also be passed onto a third-party organisation, such as an Islamic charity or international NGO, to be used in support of their work either locally or elsewhere.

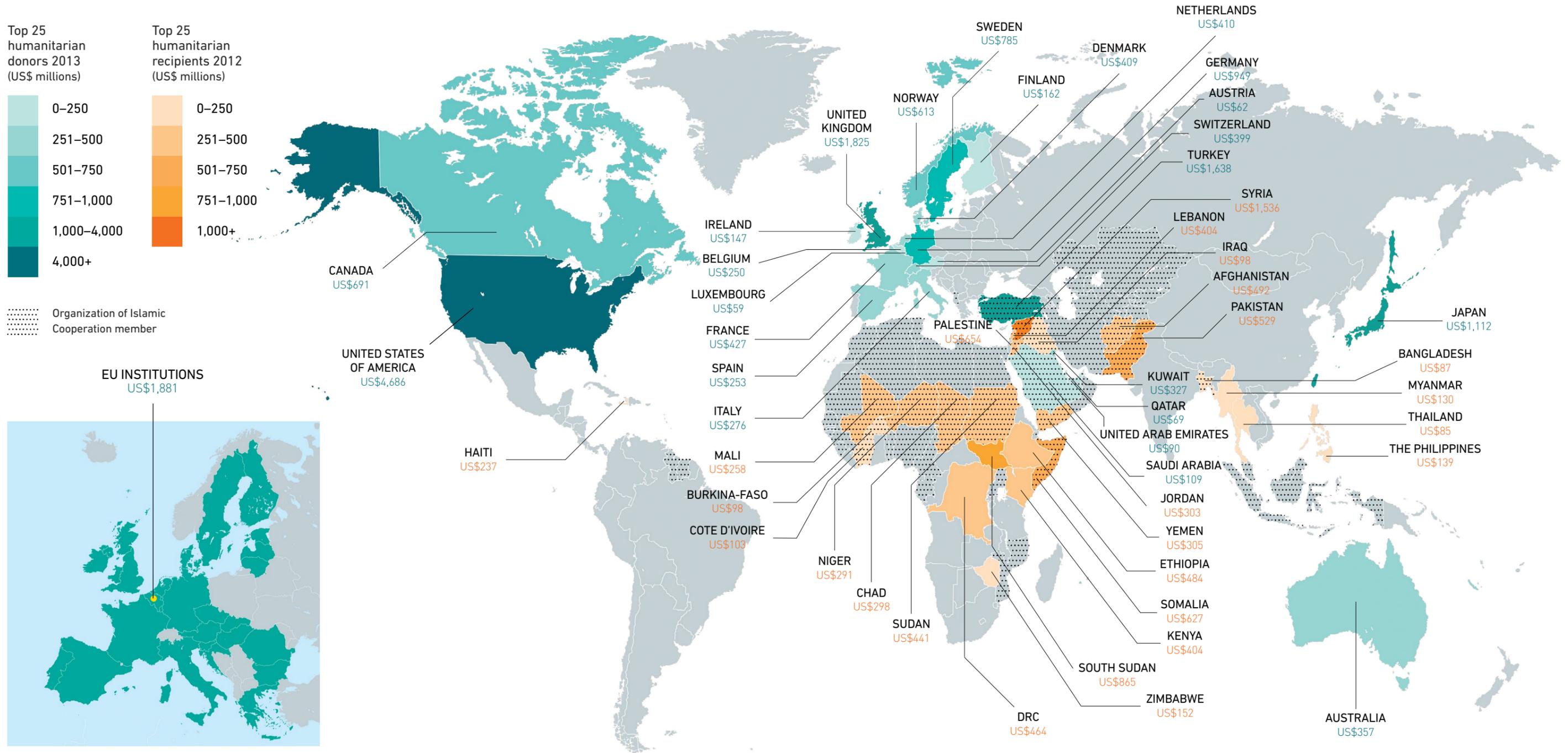
**Individuals**  
Some Muslims believe that Zakat should not be paid via a third party; rather that it should be a direct transaction between the person giving (the muzakki) and the person receiving it (the mustahiq). Many people therefore give their Zakat directly, perhaps to someone in need who lives within their community, or to someone further afield with whom they have connections. In this way, funds given through Zakat may contribute to money sent abroad in the form of remittances.

### 3. RELEVANCE OF ZAKAT TO HUMANITARIAN RESPONSE

Islamic countries or those with large Muslim populations are growing in significance as both humanitarian donors and recipients. Between 2011 and 2013, international humanitarian assistance from governments within the Organization of Islamic Cooperation (OIC) grew from US\$599 million to over US\$2.2

billion, representing a 4% to 14% growth in their share of total international humanitarian assistance from governments. At the same time, an estimated 75% of people living in the top ten recipient countries of humanitarian assistance in 2013 were Muslim.<sup>34</sup>

FIGURE 2: ORGANIZATION OF ISLAMIC COOPERATION COUNTRIES, AND TOP 25 HUMANITARIAN ASSISTANCE DONOR AND RECIPIENT COUNTRIES



Source: Development Initiatives based on OECD DAC and UN OCHA FTS data.

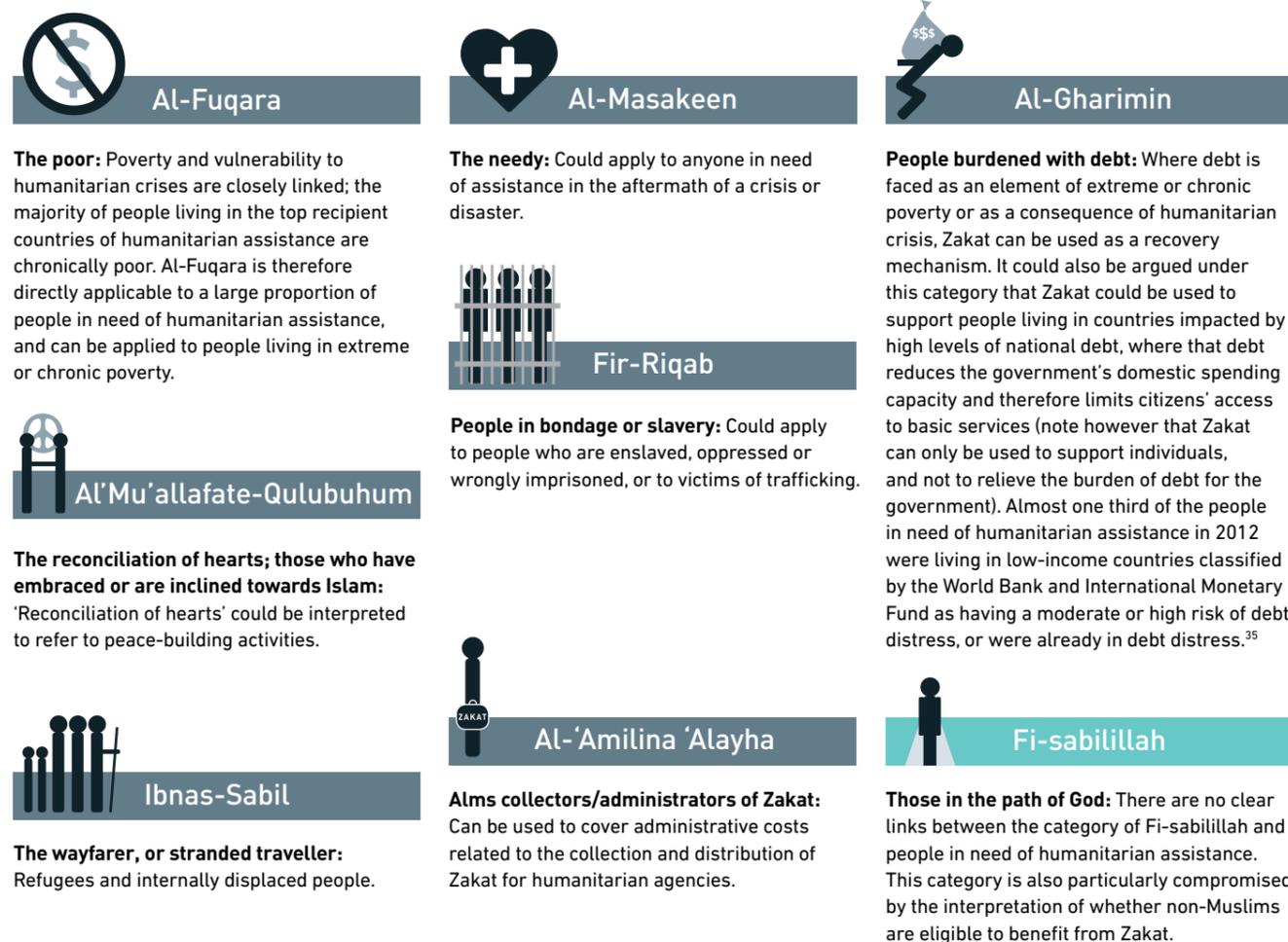
Notes: Recipients data not yet available for 2013. Funding from EU Institutions includes contributions from member states. Funding from individual EU member states also includes an imputed amount of EU institutions' expenditure. DRC, Democratic Republic of Congo.

Zakat is unique in its modality as a form of mandatory alms intended to respond to human suffering, with the specific aim of reducing poverty and inequality. Aside from its geographical relevance to a significant number of today's humanitarian crises, there are also clear links between the theological and

ideological purpose of Zakat, and the moral purpose of providing both humanitarian and development assistance across the world. This is the case both overall and when considering the eight individual categories of eligible recipients of Zakat; there are obvious – and not so obvious – parallels to be drawn with

people in need of humanitarian assistance (see Figure 3). Zakat also has to be used within one lunar year of being given, which in many ways makes it ideal for the timeframes of humanitarian response.

FIGURE 3: ZAKAT BENEFICIARY CATEGORIES AND POTENTIAL LINKS TO AREAS OF HUMANITARIAN NEED



Source: Development Initiatives.

As with many elements of Zakat, such as how much should be paid, the question of where it should be spent and who can benefit from it is open to different interpretations. Most people tend to believe that, first and foremost, Zakat should be spent in the community from which it was paid. However, some interpretation of the Qur'an allows for Zakat to be used elsewhere if a greater need can be demonstrated.

There is also debate among Muslim scholars around whether Zakat is intended only for Muslims, or whether non-Muslims can also benefit from it. This issue is key to discussions concerning the compatibility of Zakat with the

humanitarian principles, which is discussed in more detail in chapter 7 of this report. There is no consensus on whether Zakat is intended to be restricted to Muslims or not, and different interpretations of verse 9:60 of the Qur'an (see page 7), which describes the recipient groups, yield different opinions. For example, the category Al-Mu'allafate-Qulubuhum, above, could either refer to bringing hearts closer to Islam (by supporting non-Muslims who are sympathetic to Islam), or to supporting new Muslims. Many scholars claim that the first two categories (the poor and needy) are not explicitly referred to as Muslims in the Qur'an, thereby opening up an interpretation that non-Muslims can receive Zakat if they fall

into either of those categories. There is also historical evidence to show that non-Muslims living under Islamic rule have previously been entitled to Zakat based on this interpretation.

Most Zakat-collecting and -distributing agencies have their own policies regarding the issue of whether Zakat can be spent on non-Muslims. As there is no definitive answer to the question of interpretation, the policies of different organisations with regards the collection and distribution of Zakat will be more liberal or conservative depending on their own interpretation and ideological stand point. In the UK, the Muslim Charities Forum<sup>36</sup> has been working with its members to formalise policies regarding how Zakat is collected and who can benefit from it.

The international NGO Islamic Relief Worldwide<sup>37</sup> is also currently developing a global policy on its use of Zakat to guide how it is raised and spent by offices around the world. At an international level, the National Board of Zakat of the Republic of Indonesia (BAZNAS) is currently working with the Central Bank of the Republic of Indonesia and the Islamic Research and Training Institute to formulate a set of core principles for Zakat management, as part of an international working group on Zakat core principles.<sup>38</sup>

## 4. WHAT IS ZAKAT WORTH?

To date, there is no precise or reliable figure for the global financial value of Zakat. Previous estimates have varied enormously – from US\$200 billion to US\$1 trillion per year.<sup>39</sup> Given this absence of definitive global data, GHA undertook research into a selection of individual countries and Zakat-raising organisations and institutions in Islamic, Muslim-majority and Muslim-minority countries in order to gain an understanding of the volume of Zakat currently being collected in each.<sup>40</sup>

We were able to collect enough data for Indonesia, Malaysia, Qatar, Saudi Arabia and Yemen<sup>41</sup> – which make up 17% of the world's estimated Muslim population<sup>42</sup> – to give an indication of the total amount of Zakat raised in each of these countries through formal Zakat-management institutions. Our data shows that, in these countries alone, a combined total of at least US\$5.7 billion is known to be currently collected each year.

It is likely, however, that the actual amount of Zakat paid in these countries is significantly higher than US\$5.7 billion, as this figure excludes Zakat given outside of formal institutions. The majority of traceable Zakat is collected by governments and government-managed institutions in these and other Islamic or Muslim-majority countries. However, many people pay their Zakat outside of any traceable system. This is partly, in some places, owing to distrust in the national government-managed institutions formally tasked with collecting and distributing Zakat. Anecdotal evidence also suggests that many Muslims prefer to pay their Zakat directly to the person receiving it or through independent organisations.

The figure for Indonesia, Malaysia, Qatar, Saudi Arabia and Yemen gives us an idea of the scale of formally collected Zakat from those countries but is not a representative basis for projecting the global scale, as incomes in these Asian and Middle Eastern countries differ from those elsewhere. Muslims living in certain African countries, for example, will likely have significantly less giving capacity than those living in the Middle East, where incomes are generally higher.<sup>43</sup> On the other hand, Zakat from Muslims living in developed Western economies will be relatively high.

In Western and Muslim-minority countries it is particularly difficult to trace overall Zakat revenues, as it is not always collected through formal institutions or mechanisms. Many such countries have a Zakat fund or foundation, such as the UK's National Zakat Foundation<sup>44</sup> or the Zakat Foundation of America.<sup>45</sup> However, these institutions represent just one of any number of ways in which an individual may choose to channel their Zakat in these countries – they might just as easily give it to their local mosque, to a charity of their choice, to a next-door neighbour who is in need, or directly to family members or contacts overseas, for example. Perhaps as a result of this, the amount of Zakat these funds collect only appears to cover a small proportion of the total payable. For example, in 2012/13, the Zakat Foundation of America collected US\$9.7 million,<sup>46</sup> which equates to an average of just US\$3.74 for every US-based Muslim.<sup>47</sup> This is much less than the average total Zakat per capita likely to be paid in the US. Although no definitive figure is available for the total Zakat paid or payable in the US, we can compare to the UK (which has a slightly lower gross domestic product (GDP per capita),<sup>48</sup> where the average total Zakat

payment per eligible Muslim is thought to be US\$1,050 (UK£700) per year.<sup>49</sup>

Given the limitations to extrapolating global estimates from the data from national institutions in five countries, we can only estimate that the global volume of Zakat collected each year through formal mechanisms is, at the very least, in the tens of billions of dollars. This is based on a straight-forward scaling up of the data we have collected according to global Muslim population figures. However, if we also take into consideration Zakat currently thought to be paid through informal mechanisms, then the actual amount available is likely to be much higher, and could potentially be in the hundreds of billions of dollars. By way of comparison, international humanitarian assistance from government and private donors in 2013 totalled US\$22 billion,<sup>49</sup> while official development assistance (ODA) from member countries of the Organisation for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC) was US\$134.8 billion in the same year.<sup>4</sup>

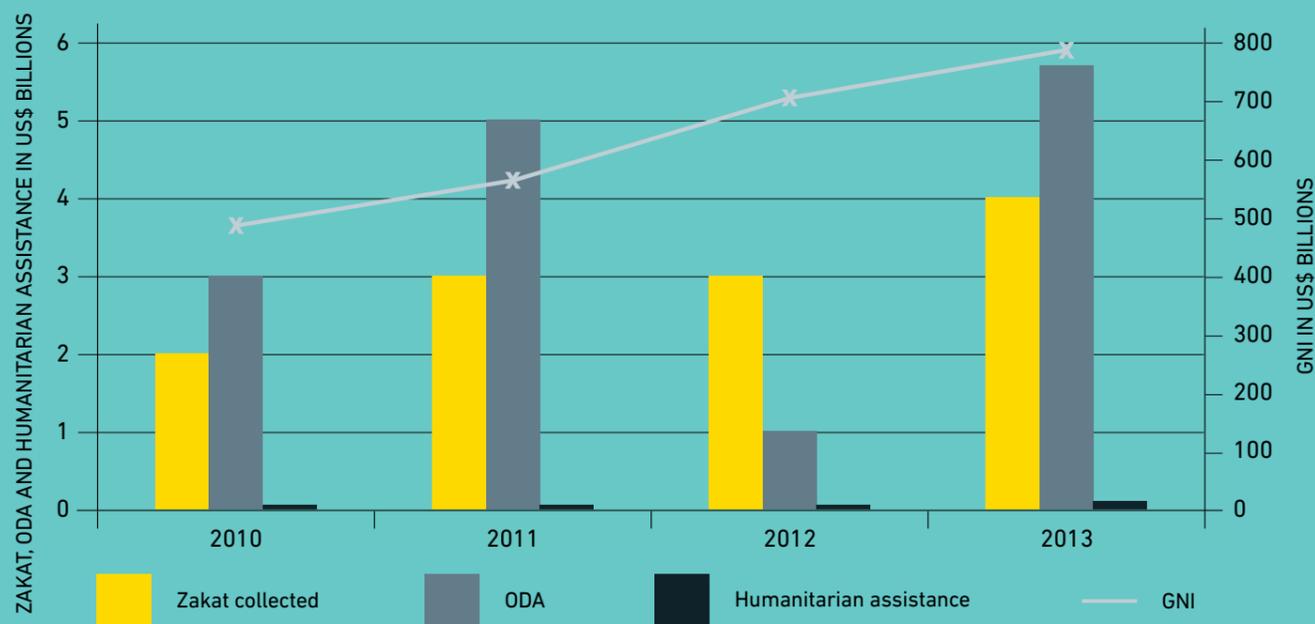
As detailed in chapter 6, below, without a clearer understanding of the total volume of Zakat available or who is collecting it, it is impossible to reliably identify how it can be maximised, better targeted, and used more efficiently for addressing humanitarian needs. Better quality data is essential to achieving this. More formal channels to link Zakat up with the international humanitarian system may help, as well as increased dialogue between all the many different types of institutions involved in the collection and distribution of Zakat. See chapter 8 for more detailed recommendations.

## Case study: Saudi Arabia

In Saudi Arabia, Zakat is regulated and collected by the Department of Zakat and Income Taxation (DZIT). Total Zakat collected has increased every year since 2010 and reached a high of US\$3.7 billion by midway through 2013.

As a comparison, Saudi Arabia gave US\$5.7 billion in ODA in 2013, of which US\$109 million was in the form of international humanitarian assistance.

FIGURE 4: ZAKAT COLLECTED BY SAUDI ARABIA'S DEPARTMENT OF ZAKAT AND INCOME TAXATION, ODA AND HUMANITARIAN ASSISTANCE FROM SAUDI ARABIA, 2010–2013



Source: Development Initiatives based on data from Saudi Arabia's Department of Zakat and Income Taxation, OECD DAC, UN OCHA FTS and World Bank.  
Notes: ODA, Official development assistance; GNI, gross national income.

## Case study: Islamic Relief Worldwide

Islamic Relief Worldwide (IRW), an international humanitarian and development NGO whose charitable objects are "the relief of poverty in any part of the world", currently fundraises in 16 countries. In 2013/14 IRW conducted research focusing on 11 of its global fundraising markets, plus the international fundraising department based in their global headquarters,<sup>51</sup> and found that these offices raised between US\$30 million and US\$32 million in Zakat in 2013. The top three donor countries were the US (US\$15 million, 49% of total), the UK (US\$8.2 million, 27%) and Canada (US\$2.7 million, 9%). The majority of total Zakat raised globally by IRW is collected during Ramadan through general fundraising campaigns including email alerts to supporters, sponsored events, television appeals on Muslim channels and mosque collections.

While many Zakat donors restrict their donations according to sector, project or country, the majority of the Zakat IRW receives is un-restricted, and is thus earmarked as "General Zakat" funds. Partner offices allocate this General Zakat to projects in accordance with the general principles of Zakat outlined in the Qur'an, and different offices have their own mechanisms and criteria for making these decisions. The organisation is currently developing a global policy on its use of Zakat, which will guide how it is raised and spent by offices around the world in a more coordinated and collective way.

The UK's National Zakat Foundation estimates that the average annual Zakat payment of UK-based Muslims is US\$1,050 (UK£700) per person per year.<sup>52</sup> If 10% of Muslims in each of the 11 countries included in their

research paid just US\$150 (UK£100) of their Zakat to the organisation, this would amount to over US\$200 million per year. Over the coming years, IRW expects to invest in new Zakat-based fundraising campaigns, as well as learning from and building the capacity of its global fundraising offices on increasing the volume of Zakat they collect. However, the ability to raise significant funds through Zakat is to some extent limited in some countries in which IRW operates. For example, the political context in certain environments can make it difficult to fundraise through Zakat, and in countries where Zakat has traditionally been collected by government institutions it can take time to build up a reputation as a legitimate Zakat-collecting authority with the general public.

## Untapped and growing potential scale of Zakat

Experts have estimated that the total potential volume of Zakat payable across the world is significantly higher than the total amount that is currently being paid.<sup>53</sup> Reasons for this may include:

- The complex nature of calculating the correct nisab, which could mean that people aren't aware that they are eligible to pay Zakat.
- The complex nature of calculating how much Zakat is owed, which could mean that many Muslims are unintentionally under-paying their Zakat.

- A lack of clarity regarding how to pay Zakat in contexts where it is not collected through a formal process.

Growing economies in Islamic and Muslim-majority countries across the world also offer further potential for the collection of Zakat funds to increase over the coming decades. This is particularly the case in emerging economies of Africa and Asia with high Muslim populations, such as Nigeria, Malaysia and Turkey. The collective economy of Islamic and Muslim-majority countries is currently one of the fastest growing in the world,<sup>54</sup> and among the MINT countries (Mexico, Indonesia, Nigeria

and Turkey) – predicted by some economists to be the world's next economic giants<sup>55</sup> – Muslims make up 61% of their combined populations. The global Muslim population is also increasing at a faster rate than the overall population, and as a consequence that proportion is predicted to increase slightly, to 62%, by 2030.<sup>56</sup>

## 5. HOW IS ZAKAT SPENT?

Given the close links between Zakat beneficiary groups and people in need of humanitarian assistance identified in the previous chapter, as well as the fact that many of today's crises are concentrated in Muslim areas of the world, it is likely that Zakat is already a significant source of humanitarian financing in many places.

According to our research, the proportion of Zakat used for humanitarian activities, either domestic or international, varies notably across different institutions. For example, data for the Indonesian Institute Amil Zakat (Institute of Zakat, LAZ), an independent Zakat-collection and -distribution agency in Indonesia, suggests that 23% (US\$16.8 million) of all Zakat raised by the institution in 2011 was used for humanitarian assistance,<sup>57</sup> while 57% (US\$4.5 million) of Zakat raised by the Zakat Foundation of America was used for

emergency relief in 2013. Although data is not available to show where the LAZ funds were spent, it appears likely that most if not all were used within Indonesia. The vast majority of emergency relief distributed by the Zakat Foundation of America, however, was spent internationally (see case study on p.15).

Where Zakat is collected and distributed by a formal agency, there is usually some level of public reporting to indicate where and how it is spent. However, Zakat given by Muslims living in countries where no formal institution oversees its collection and distribution is much more difficult to trace.

Where expenditure data was available for the national Zakat funds or foundations we have looked at in Muslim-minority countries, anywhere between 1% and 57% was used

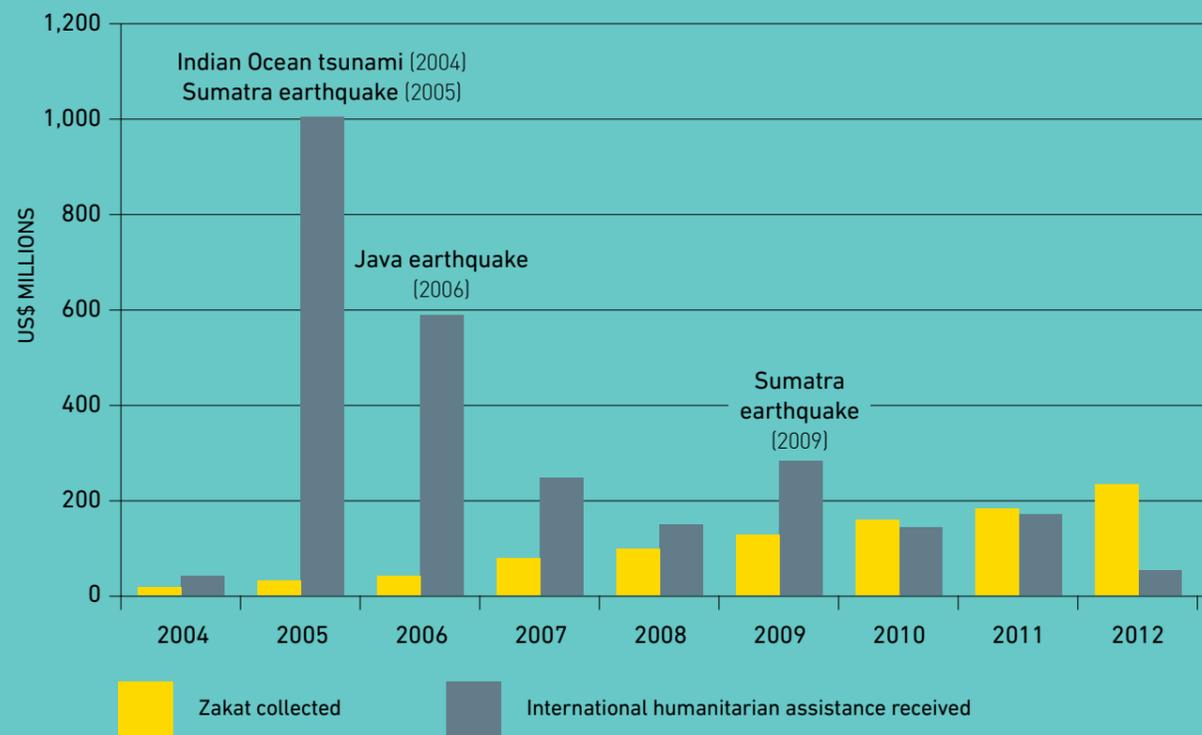
for international humanitarian assistance. However, the lower a country's GDP, the more likely it appears that Zakat is spent domestically, so in low-income countries where a small proportion of the Zakat raised is spent on international humanitarian assistance, it is likely that a greater proportion is used to respond to domestic emergencies. Anecdotal evidence would appear to support this, for example the Zakat Foundation of India,<sup>58</sup> which had an income of US\$410,000 in 2013 (25.4 million Indian Rupees), has a disaster relief programme to respond to domestic emergencies. Following severe floods in Kashmir in 2014, the programme provided 25 search-and-rescue boats and daily provisions including water, medicine, food and blankets for thousands of people.

## Case study: Indonesia

At an estimated 205 million, Indonesia is home to the largest Muslim population in the world. While Zakat can be collected by private institutions, the National Board of Zakat (BAZNAS) assumed the role of national collection agency in 2011 and is now thought to manage around 62% of all Zakat raised in Indonesia.<sup>59</sup>

Zakat collection has increased over 30-fold during the past ten years, reaching an estimated US\$231.6 million in 2012. In the same period, international humanitarian assistance to Indonesia has decreased from a record US\$1 billion in 2005 following the Indian ocean earthquake and tsunami, to just US\$51 million in 2012 (see Figure 5).

FIGURE 5: TOTAL ESTIMATED ZAKAT COLLECTED AND INTERNATIONAL HUMANITARIAN ASSISTANCE RECEIVED, INDONESIA, 2004–2012



Source: Development Initiatives based on OECD DAC and UN OCHA FTS data, and 2014 Islamic Social Financing Report.

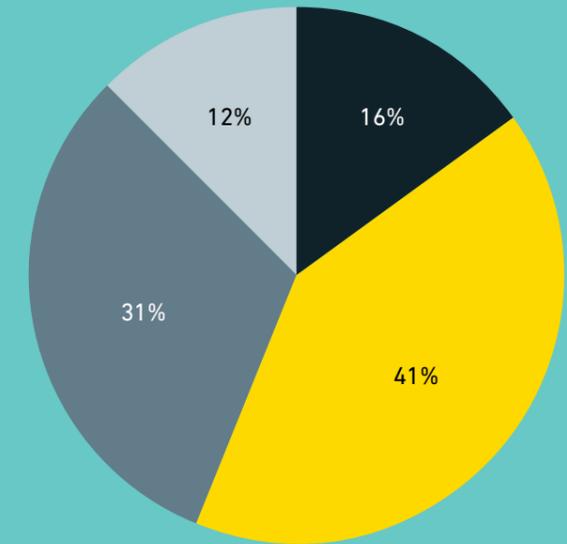
BAZNAS allocates Zakat to four different categories. In 2012, humanitarian assistance was the largest sector on which Zakat funds raised by BAZNAS were spent. The BAZNAS

humanitarian aid programme consists of two major elements: Mustahiq (people receiving Zakat) Services Counter, and Disaster Emergency Aid.

FIGURE 6: BAZNAS EXPENDITURE BY CATEGORY, 2012

BAZNAS categories of Zakat expenditure

- 1 **The education programme:** designed to provide educational assistance.
- 2 **Humanitarian aid:** created to provide humanitarian assistance.
- 3 **Health programme:** intended to provide medical assistance, including a cost-free hospital and mobile clinic serving remote areas.
- 4 **Economic programme:** developed to empower mustahiq economically through Zakat-based community development programmes.



Source: Development Initiatives based on the 2014 Islamic Social Financing Report.

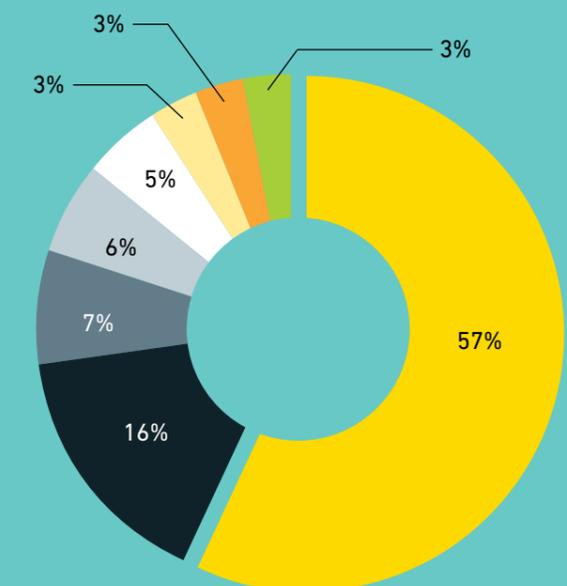
## Case study: The Zakat Foundation of America

The Zakat Foundation of America is an international charitable foundation that aims to address the immediate needs and ensure self-reliance of the poorest people around the world using money collected through Zakat and Sadaqah in the US.

In 2013, the foundation received US\$7.6 million in contributions and US\$2.1 million in in-kind donations. Of the total expenditure, 57% (US\$4.5 million) was spent on emergency relief in the same year. This included projects in the Philippines, Pakistan, Bangladesh, Syria (and surrounding affected countries), Mali and within the US.

- Emergency aid
- Seasonal programs
- Orphan sponsorship
- Education
- Management and general
- Development
- Other program support
- Fundraising

FIGURE 7: ZAKAT AND SADAQAH EXPENDITURE BY PROGRAMME AREA, ZAKAT FOUNDATION OF AMERICA, 2013



Development Initiatives based on the Zakat Foundation of America 2013 Annual Report.

## 6. THE HUMANITARIAN POTENTIAL OF ZAKAT

Estimates suggest that the world's Muslim population is set to grow by 35% between 2010 and 2030,<sup>60</sup> as noted in chapter 4, with the most significant growth occurring across sub-Saharan Africa, followed by the Middle East and North Africa. In growing economies with large Muslim populations, such as Ethiopia, Tanzania and Turkey, giving capacity through

### Domestic response

Our research indicates that Zakat has the potential to provide a significant amount of humanitarian assistance in some Muslim countries. However, given that its volume is linked to the income of the muzakki (the person paying Zakat), its potential is limited in

Zakat is likely to increase due to a combination of an increasing Muslim population and increasing wealth. This will affect the resources available for domestic humanitarian response, and ultimately international humanitarian assistance in the surrounding region, through Zakat.

chronically poor countries where international resources will play a more important role. The domestic potential of Zakat is therefore less in countries with low GDP per capita and a large number of poor people.

### International response

There are an estimated 47 million Muslims living across Europe and North America.<sup>61</sup> In the UK, home to 2.9 million Muslims,<sup>62</sup> around two-thirds are thought to pay Zakat with an average annual payment of US\$1,050 (UK£700).<sup>63</sup> This suggests that Zakat revenue from the UK alone could be over US\$2 billion per year. Based on the average proportion of Zakat used for humanitarian assistance by Western-based Zakat foundations and Zakat-collecting organisations, as found in our research, it is estimated that UK Zakat revenue could provide US\$1 billion of international humanitarian assistance per year.

There is a growing awareness of the potential role of Zakat in international humanitarian response, and of its potential to help fill the growing humanitarian financing gap. As well as offering significant financial potential in

terms of volume, Zakat also offers the benefit of a relative lack of earmarking compared to government and institutional funding.

While Zakat has long been a traditional source of funding for Islamic humanitarian agencies, renewed efforts are now being made to maximise its fundraising potential by these and a wider group of international humanitarian agencies.<sup>64</sup> Outside of the traditional Islamic agencies, Zakat is beginning to feature as a potential new source of income for international humanitarian agencies. We have identified two separate UN agencies that are beginning to develop specific fundraising strategies and tools for accessing increased funding through Zakat. However, initiatives are fragmented and lack a coordinated or systematic approach.

## Case study: Indonesia

(see also earlier case study on Zakat expenditure in Indonesia)

Zakat is estimated to have the potential to provide the equivalent of between 1.59% and 3.82% of GDP in Indonesia,<sup>65</sup> amounting to between US\$13.8 billion and US\$33.2 billion annually. Indonesia's two main Zakat-collecting institutions spend on average 34% of their collective income on humanitarian assistance, and though we cannot confirm it due to a lack of available data, it seems likely that all or most of this is spent domestically.<sup>66</sup> Using the same proportional breakdown, Zakat could therefore have the potential to provide between US\$4.7 billion and US\$11.3 billion for

humanitarian assistance in Indonesia each year.

Indonesia is highly disaster-prone and has faced over 100 disasters and emergencies since 1990, including the devastating 2004 Indian Ocean earthquake-tsunami. In the last eighteen months Indonesia has been affected by flooding, landslides, a volcanic eruption and an earthquake,<sup>67</sup> and the UN has predicted that climate change will contribute to an increase in frequency and severity of future disasters.<sup>68</sup>

The Indonesian government spent an estimated US\$1,053 million on its domestic humanitarian response in 2012 and received US\$51 million in international humanitarian assistance the same year. The total cost of its humanitarian response therefore amounted to just over US\$1.1 billion in 2012. It appears that Zakat collected in Indonesia could easily meet all current requirements to respond to domestic humanitarian emergencies, with significant amounts remaining to cover other areas of Zakat expenditure.

## Case study: Pakistan

Zakat is estimated to have the potential to provide the equivalent of between 1.74% and 4.18% of GDP in Pakistan.<sup>69</sup> In 2010/2011, 40–50% of Zakat distributed in Pakistan was allocated for response to natural disasters.<sup>70</sup> This amounts to potential domestic revenue from Zakat for humanitarian assistance in Pakistan of between US\$1.6 billion and US\$4.8 billion per year, at the current GDP. In 2013, Pakistan received US\$529 million in international humanitarian assistance in response to conflict- and displacement-related emergencies as well as natural

disasters. Figures for expenditure on humanitarian assistance by the Government of Pakistan are not available, but even at a cautious estimate it appears likely that Zakat collected in Pakistan could meet all current requirements to respond to domestic humanitarian emergencies, both natural and man-made, with significant resources remaining for other areas of Zakat expenditure.

## 7. BARRIERS TO REALISING THE HUMANITARIAN FINANCING POTENTIAL OF ZAKAT

While Zakat clearly offers opportunities in terms of mobilising and channelling additional financial resources to support international humanitarian response, there are a number of potential barriers that will need to be overcome if it is to fully realise its humanitarian potential. These fall broadly under two main categories:

- 1) **LOGISTICAL** – such as streamlining and formalising how Zakat is collected, by whom, and how it is channelled to the humanitarian response community.
- 2) **IDEOLOGICAL** – such as how best to manage conflicting opinions on whether non-Muslims can benefit from Zakat and where it can be used.

### Logistical barriers

#### Reporting, transparency and traceability

Transparency in development and humanitarian financial flows is an essential enabler of effective response. It helps to build trust between donor and recipient communities and is one of the necessary conditions for accountability to stakeholders. Understanding what resources are being channelled to whom also enables donors and agencies to target their resources in an appropriate, complementary and coordinated manner. Development and humanitarian actors are therefore under increasing pressure to operate transparently when it comes to their finances. However, due to the myriad ways in which Zakat may be collected and distributed – both at a global and at national level – it is not subject to any systematic form of financial reporting. Zakat is also intended to be given and received privately, so as to preserve the dignity of the person paying it. This limits its transparency as a financial resource flow and its traceability, in terms of understanding who benefits and how it is spent.

#### Counter-terrorism

Recent legislative changes resulting from counter-terrorism measures put in place by some governments have put further pressure on aid agencies to account for their funding sources and demonstrate how their funding has been spent. This has limited the ability of a number of organisations to operate internationally and Islamic organisations have

been particularly affected, due in part to the collection and distribution of funds through Zakat, which represents a significant source of their income. Reputable international organisations are falling foul of complex legal and procedural requirements, as a result of which they may be prohibited from channelling funds to certain partner organisations in specific countries, or from carrying out humanitarian activities in certain places.

The incompatibility between some counter-terrorism laws and humanitarian principles of providing assistance according to need has been well documented.<sup>71</sup> In the specific case of Zakat, if Islamic NGOs are prohibited from providing response directly or indirectly through local or national partners in certain contexts as a result of counter-terrorism measures, then an important means of mobilising and using Zakat for international humanitarian response is significantly reduced.

#### Systematised collection and coordination

Many countries have invested in strengthening their humanitarian emergency prevention and response coordination in recent years, approving national policies and establishing National Disaster Management Ministries. There has also been renewed effort on the part of the international humanitarian community to improve coordination over the past decade, including through the UN-coordinated appeals process and

humanitarian pooled funds. A wide variety of different financing flows support the response to people affected by crises; some of these, such as Zakat, may operate outside of the internationally coordinated system. These flows can play a key role in directly meeting the needs of individuals and households; indeed in many ways they may be able to operate more efficiently as they have fewer associated transaction costs, often reach the intended beneficiary more quickly, and can be used more flexibly according to immediate need. However, there is clearly also value in coordination, and this requires a sound understanding of the resources operating in a given context. Mechanisms for systematisation and coordination will be required to improve links between Zakat given through formal institutions and the international humanitarian system, so that the use of resources can be better aligned to meet the most pressing needs and priorities of those affected.

#### How Zakat should be collected

Some Muslims believe that Zakat should not be gathered by a third party, but that it should be passed directly from provider to recipient. This way of giving makes it difficult to align its use with broader humanitarian efforts, as well as limiting its transparency and accountability, as highlighted above. There are also potential concerns regarding the permissibility of non-Muslim or secular humanitarian agencies collecting and distributing Zakat, and their legitimacy to do so.

### Ideological barriers

There are a number of key issues surrounding the compatibility of the principles and purposes of Zakat with those of humanitarian action. In particular, there are potential incompatibilities around the following issues.

#### Who can receive Zakat

The issue of whether non-Muslims can benefit from Zakat is much debated among Islamic scholars. However, if Zakat is limited to be used only for Muslims, this would be in direct contradiction to the humanitarian principle of impartiality, namely that “humanitarian action must be carried out on the basis of need alone, giving priority to the most urgent cases of distress and making no distinctions on the basis of nationality, race, gender, religious belief, class or political opinions”.<sup>72</sup>

Challenges in the delivery of assistance funded through Zakat also arise as a result of contradicting views concerning this issue. Opinions vary among individual Muslims about who can benefit from Zakat, and any money given by an individual must be spent in accordance with their own beliefs and requirements.

### Other barriers

#### Lack of understanding

There is a widespread lack of understanding outside of the Muslim community (and to some extent within it) regarding the role and use of Zakat. Until this is better understood, international humanitarian agencies will face significant challenges in their efforts to mobilise more funding through Zakat.

The international humanitarian system and the UN in particular have historically been perceived with a certain degree of scepticism and in some cases distrust by some governments, institutions and communities in Islamic and Muslim-majority countries. This distrust is to some extent a result of misconceptions. For example, while researching this report we came across anecdotal evidence to suggest that, in the past, some Middle Eastern governments had limited the amount of funding they channelled through the UN system due to a mistaken belief that 75% of UN expenditure is used for administration costs.<sup>73</sup> This misconception further serves to highlight the importance of transparency by all humanitarian actors. In recent years, UN agencies have worked hard to build greater trust and collaboration with new and non-traditional UN donors, and many have improved their own transparency by, for

#### Where Zakat can be spent

The question of whether Zakat can be spent in a country outside of that in which it is raised may also limit its humanitarian potential. As our research has shown, large volumes of Zakat are used for international response – but some scholars and institutions maintain that it should be limited to, or primarily for, domestic use. The concern that Muslims may be neglecting their local obligations by making international financing a priority can be seen as particularly relevant in light of recent austerity measures put in place in a number of developed countries following the international recession in 2008/2009. This presented a context in which Zakat could be put to use to provide social welfare services domestically, supporting the notion that Zakat was traditionally – and according to many people, should still be – given locally, not internationally.

However, as seen in chapter 6 of this report, the domestic potential of Zakat is lowest in countries with low GDP per capita and a large number of poor people. Yet these countries are also often the ones with the most significant humanitarian needs, which cannot be met by domestic resources alone and require international assistance.

example, reporting to the International Aid Transparency Initiative (IATI). These efforts seem to be yielding results – as can be seen in the increase in humanitarian funds for UN-coordinated appeals coming from Gulf donors, for example<sup>74</sup> – but a greater degree of trust still needs to be built.

Distrust of national Zakat-collecting institutions is also thought to be limiting the overall volume of Zakat collected.<sup>75</sup> It will be challenging to significantly increase the amount of Zakat collected through formal mechanisms while the people who pay it do not feel able to invest a greater level of confidence in the institutions responsible for managing it.

#### Competition and opportunity costs

The purpose of Zakat is to redistribute wealth as a means of reducing poverty and inequality. It is therefore closely aligned with the objectives of official development assistance (ODA) and wider global efforts to end poverty.<sup>76</sup> Humanitarian agencies are by no means the first to recognise its potential as a source of funding; Zakat has widely been discussed within the context of financing development goals already and will almost certainly be

This is a question of political will as much as religious interpretation. The governments and institutions that already oversee the collection and distribution of Zakat are currently the main bodies responsible for deciding how it is used. If they do not recognise it as a viable instrument for providing humanitarian assistance, then it will not be widely used as one. Many of these institutions use Zakat primarily as a resource to respond to domestic social and economic issues. For Zakat to be successfully used to support international humanitarian response, these bodies would need to support and enable its distribution internationally.

#### When should Zakat be spent

Zakat has to be used within one lunar year of it being given. In many ways this makes it ideal for the timeframes of humanitarian response. However, any coordinated means of collecting and distributing Zakat for humanitarian response will need to take this into account, ensuring that funds are distributed and used within the required timeframe.

considered and employed as a future source of funding for the post-2015 Sustainable Development Goals.<sup>77</sup>

There are clearly also links between Zakat recipients and people in need of humanitarian assistance, and therefore potential for more Zakat to be raised and used for this purpose. However, this should not be at the cost of other activities relating to poverty alleviation which could also be, and to some extent already are, funded through Zakat.

Instead of running the risk of separate and competing efforts from both humanitarian and development agencies to mobilise significant international financing through Zakat and other forms of Islamic social financing, a complementary approach could be pursued to mobilising Zakat for response and resilience. As seen in the case studies above for Pakistan and Indonesia, a significant proportion of Zakat collected in disaster-prone countries is already used to fund domestic disaster response. Greater investment in disaster resilience through Zakat would help maximise the impact of the donors’ money, as well as providing longer term benefits for the recipients.

## 8. CONCLUSIONS AND RECOMMENDATIONS

It is clear that Zakat is already providing significant funds for humanitarian assistance and could be a source of further alternative financing to help respond to growing humanitarian needs. However, there are significant obstacles to overcome if its full

potential is to be realised. In the course of this research, five key areas for action have emerged to maximise the potential volume and effectiveness of Zakat for humanitarian assistance, as shown in Figure 8.

**FIGURE 8: KEY AREAS FOR ACTION TO MAXIMISE THE VOLUME AND EFFECTIVENESS OF ZAKAT FOR HUMANITARIAN ASSISTANCE**



Source: Development Initiatives.

## Engage and share learning

Humanitarian organisations and institutions interested in increasing the volume and use of Zakat for humanitarian assistance will need to engage with Islamic academics, scholars, theologians, regulators, finance experts, fund/foundation managers, practitioners and agencies to ensure understanding across all actors. This will include debating issues around Zakat and the humanitarian principles, as well as addressing logistical barriers and how they might be overcome.

Existing networks and initiatives (such as the World Humanitarian Summit, the Muslim Charities Forum’s work with its members to improve policies around Zakat collection and distribution, and Indonesia’s work to establish a set of core principles for Zakat as part of an international working group on Zakat management) may all have a role to play by creating links and networks, and by expanding their outreach to involve other actors in discussions. Domestic institutions currently responsible for collecting and distributing Zakat will also need to be involved in discussions, and in some cases may be required to approve supporting regulation (including tax laws where Zakat is collected by the government) to enable Zakat to be effectively collected and distributed not only nationally but also internationally. Substantive partnerships will be required based on who is best placed to collect Zakat and to implement Zakat-funded humanitarian activities, rather

than discussions based purely on the question of resource mobilisation.

Ultimately, mutually understood accommodation of the multiple approaches needs to be reached regarding how best to link up resources generated through Zakat with humanitarian need. This will help to ensure a coordinated approach and will limit opportunities for contradicting views to prohibit the effectiveness of efforts to increase and improve the use of Zakat for humanitarian assistance.

Humanitarian agencies that already raise and use funds through Zakat also need to share their experience and learning with the wider community. If the humanitarian community collectively starts to test Zakat as a source of income for humanitarian assistance, there can be greater evidence about its channels, functions and potential. In this respect, learning around the use of Zakat for humanitarian assistance needs to be mutual.

There are a number of valuable lessons that can be taken from Zakat regarding its purpose and the manner in which it is intended to be used, which could be applied to international humanitarian practice. For example, the notion of ‘donors’ and ‘recipients’ is a divide strongly engrained in the current international aid architecture. Zakat and Islamic social financing, on the other hand, demonstrate

an approach that empowers recipients and promotes a sense of solidarity and compassion. The approach of empowerment and ownership resonates with recent shifts towards cash transfer programming in humanitarian and development response, which have also proven highly effective in allowing the recipient choice and control over how the money is spent.

Zakat is not seen by either those giving or receiving as charity; rather, it is a means of sharing and redistributing wealth more fairly across all members of society, and is a right due to individuals less able than others to amass wealth. As such, there is strong evidence of the capacity of Zakat to reduce inequality.<sup>78</sup>

The mandatory nature of Zakat could also provide an example for both government and private donors to follow. If all international donors were required to give a minimum proportion of their funding to support the provision of basic, life-saving humanitarian assistance, or indeed to disaster risk reduction, preparedness and resilience building, this could provide a guaranteed regular source of funding that could go some way towards addressing the ongoing humanitarian financing short-fall.

## Provide guidance

Anecdotal evidence from both Muslim and non-Muslim aid agencies suggests that some are cautious about using Zakat for humanitarian response due to a lack of clear guidance on how it can be used. Recommended policies, rooted in Islamic religious scholarship, would help address these concerns. Opening up discussion and sharing learning are the first steps to developing such guidance. This should focus initially on identifying the challenges charities face in managing and implementing Zakat in the modern context, and then begin to develop a set of shared solutions.

Guidance need not be absolute; it may recognise the fact that interpretation of Zakat is not only dependent on sect but is also to some extent defined by the personal nature of an individual’s beliefs. Instead it should focus on setting out the parameters of a reasonable interpretation of Zakat, clearly laying out the arguments for different understandings regarding who can benefit and where it can be spent.

## Improve channels between Zakat and the international humanitarian system

Due to the inherent nature of Zakat as a transfer of resources between individuals, as well as the myriad ways in which it can be paid, it is unlikely that it can ever be fully reported or accountable. However, in order to maximise its efficiency and effectiveness in humanitarian settings, and to ensure complementarity between different funding sources, better communication and coordination channels need to be established to improve links between the collection of Zakat and its disbursement in crisis situations.

Just as IATI and OCHA's FTS are developing standards, outreach and support for government and private donors to report humanitarian assistance, so could this be offered to Zakat donors or institutions. New technologies offer new opportunities for this – as one interviewee for this paper noted: “online tools provide the perfect mechanism to help people calculate and pay their Zakat, and the future of fundraising through an ever-more global community of stakeholders in humanitarian assistance is also online.”

Encouraging the use of more traceable, transparent and formal channels for Zakat could also help to address some of the potential negative impacts of counter-terrorism measures on humanitarian operations. Clearer systems and avenues for Zakat to be absorbed into the international humanitarian system on a more formal basis would provide opportunities to report on resources generated through Zakat in a more transparent way. This would help to improve its accountability as well as provide evidence of safe provenance and use of funds channelled through such mechanisms for counter-terrorism actors. Meanwhile, aid

agencies using Zakat need to ensure that appropriate risk-management measures are in place, while the international donor community and governments need to ensure that concerns about security and fiduciary risks do not restrict the delivery of humanitarian assistance where and when it is needed.

### A Zakat fund?

One way to improve the channelling of Zakat to humanitarian assistance, which has been suggested in consultations around the World Humanitarian Summit, could be to explore launching a dedicated fund that both collects and distributes Zakat at a regional and sub-regional level. This approach may go against the belief, outlined earlier, among some Muslims that Zakat should not be gathered by a third party but should be passed directly from provider to recipient. It may also raise questions around who benefits from the fund, taking into account differing opinions within the Muslim community as well as international counter-terrorism measures. Despite the pooled nature of the fund, one solution to this could be to enable an individual's contributions to be earmarked according to the beliefs and distribution priorities of the muzakki (donor), such as whether the money should be spent locally or internationally.

There would be further challenges to overcome in terms of agreeing who should set up and manage such a fund. As mentioned previously, distrust of national Zakat-collecting institutions is thought to be limiting the overall volumes of Zakat collected, and there is limited trust in the UN system among sections of the Muslim community.<sup>79</sup> In order to avoid similar issues it may be appropriate for such

a fund to be managed outside of the current global political architecture, for example by the Islamic Development Bank or a similar, politically independent institution. According to Shari'a rules it is widely believed that the state is the most appropriate body for collecting and distributing Zakat,<sup>80</sup> therefore any institution responsible for this on an international scale would need to be invested with a similar level of legitimacy as a collector and distributor of Zakat. A corresponding monitoring and evaluation unit would also be required to assess effectiveness and ensure accountability in the use of funds.

Once given, Zakat is intended to be immediate in its capacity to empower the individual receiving it. Local councils and actors have been shown to be more effective in the distribution of Zakat in this respect than larger organisations, which tend to be restricted in their ability to distribute funds quickly, often due to higher levels of institutional bureaucracy. There is evidence to suggest that once larger institutions become involved, including the state and international NGOs, the effectiveness of Zakat in terms of its capacity to empower the person receiving it is reduced.<sup>81</sup> Due to this need for Zakat to be quickly distributed, it would be important to ensure that established local actors are involved in its distribution where possible.

While such a pooled fund would take time and consideration to establish, the short-term priority should be to link existing funds available through Zakat with immediate humanitarian need, while working towards a longer term goal of building an infrastructure that is able to fully support the use of Zakat for humanitarian assistance.

## Combine efforts with the wider development community

A joint approach to mobilising funding through Zakat and Islamic social financing could help to ensure complementarity and appropriate allocation of resources across humanitarian and development programming, and could provide new opportunities for humanitarian and development actors to work more closely together. There are close links between poverty and vulnerability to humanitarian crises, and poverty alleviation efforts and humanitarian assistance need to work better

together to address these. The flexibility of Zakat as a source of funding and in relation to the range of people who can benefit from it makes it well suited to supporting such a resilience approach. If the aforementioned fund were to be established, making it a joint international Zakat fund to address poverty, vulnerability and crisis could help to ensure a collective, rather than competitive, approach to raising and allocating funds.

## Increase Zakat revenues and channel new funds to humanitarian assistance

Scholars and researchers have repeatedly shown that there is more Zakat available than is currently being collected.<sup>82</sup> International efforts should therefore focus on mobilising new resources to meet growing need rather than redirecting existing resources away from their current objectives. Growing economies in Islamic and Muslim-majority countries will further enable this. However, as noted above, efforts to mobilise greater international financing through Zakat should be joined up and collective with broader development activities, rather than operating in competition with each other. Increased humanitarian resources from Zakat should not come at the cost of resources for wider efforts to reduce poverty.

Zakat has the potential to offer significant and much-needed resources to support the response to growing humanitarian needs across the world. To make the most of this potential and effectively mobilise and use Zakat for the provision of humanitarian assistance, collective efforts need to be carefully considered, coordinated and targeted. Better coordination will help to ensure greater complementarity of response efforts, making the most of all available resources to help the people who are most in need.

## METHODOLOGY

Much of the Zakat paid globally is channelled through informal mechanisms, such as between individuals. Where Zakat is collected by a national institution, the mechanisms for its management and reporting practices can vary considerably. There is therefore no reliable or readily available data on Zakat mobilised globally, and as such this report has drawn on evidence gathered through case studies and existing research to provide an indication of the scale of Zakat's value, trends around its existing use, and its potential for humanitarian response.

In order to collect the data for these case studies we used three main sources, in the following order of priority:

### 1) Figures published by Zakat collection and management institutions including annual reports and accounts, or data provided directly to GHA by the agency or by an umbrella body

- Zakat Foundation of America<sup>83</sup>
- South African National Zakah Fund<sup>84</sup>
- Government of Saudi Arabia, Department of Zakat and income taxation<sup>85</sup>
- Islamic Relief Worldwide (data provided directly)
- Muslim Charities Forum (data provided for seven Islamic NGOs)

### 2) Reports and press releases detailing Zakat collection and expenditure in specific contexts

- Malaysia<sup>86</sup>
- Qatar<sup>87</sup>
- Yemen<sup>88</sup>
- United Kingdom<sup>89</sup>
- India<sup>90</sup>

### 3) The Islamic Social Finance Report 2014<sup>91</sup>

- Indonesia
- Pakistan

Data gathered through these case studies included, where available:

- Total Zakat collected in the most recent year for which data is available.
- Sector breakdown on Zakat expenditure and the amount used to provide domestic and/or international humanitarian assistance.

Our estimate of the total global value of Zakat collected through formal institutions is based on data for countries where Zakat collection is overseen by a single institution, and figures are available to show the total amount collected in a single year. We have applied Pew Research Center's data on global Muslim population figures disaggregated by country to the countries for which we have data on the total amount of Zakat collected by formal institutions, to gain an understanding of the proportion of the world's Muslims represented by those countries. This has guided our estimate of the total global value of Zakat.

Due to the considerations outlined in chapter 4 of the report (the wealth of Muslims in our case study countries is not representative of the wealth of Muslims globally; Zakat given by Muslims living in non-Muslim countries that are generally comparatively more wealthy is difficult to trace; and evidence suggests that Muslims give a significant amount of Zakat outside of formal and therefore traceable channels), we are unable to provide a firm estimate for the total global volume of Zakat.

Our figures on the proportion of total Zakat collected that is used for humanitarian assistance are based on the average percentage used for humanitarian assistance by the Zakat-collection and distribution institutions and organisations included in our research, where data on expenditure by sector is available.

Data presented in the Islamic Social Finance Report 2014, based on Kahf's 1998 research estimating the potential of Zakat in eight different Muslim-majority countries with updated calculations relevant to the current situation, was used to calculate the potential value of Zakat in Indonesia and Pakistan (case studies in chapter 6).

Data on Muslim populations by country and expected Muslim population growth has been taken from the Pew Center for Research's 2011 research on "The future of the global Muslim population".<sup>92</sup>

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## NOTES

- <sup>1</sup> Development Initiatives analysis based on UN OCHA FTS data.
- <sup>2</sup> Figure compiled using Pew Research Center data on Muslim demographics, [www.pewforum.org/2011/01/27/table-muslim-population-by-country/](http://www.pewforum.org/2011/01/27/table-muslim-population-by-country/), and GHA Report 2014 data.
- <sup>2a</sup> Pew Research Center, [www.pewforum.org/2011/01/27/table-muslim-population-by-country/](http://www.pewforum.org/2011/01/27/table-muslim-population-by-country/).
- <sup>3</sup> Development Initiatives, 'Global Humanitarian Assistance Report 2014', Development Initiatives, Bristol, 2014.
- <sup>4</sup> <http://www.oecd.org/newsroom/aid-to-developing-countries-rebounds-in-2013-to-reach-an-all-time-high.htm>
- <sup>5</sup> UN OCHA Financial Tracking Service.
- <sup>6</sup> Amos, Valerie, UN Under-Secretary-General for Humanitarian Affairs, July 2014, <http://news.yahoo.com/un-humanitarian-chief-calls-aid-revamp-041157102.html>.
- <sup>7</sup> Charitable giving in the UK increased from UK£9.6 billion in 2011/12 to UK£10.4 billion in 2012/13, according to the Charities Aid Foundation, [www.cafonline.org/pdf/UK%20Giving%202012-13.pdf/](http://www.cafonline.org/pdf/UK%20Giving%202012-13.pdf/).
- <sup>8</sup> Charitable giving in the US rose for the fourth year running in 2013 reaching over US\$335 billion, according to the Indiana University Lilly Family School of Philanthropy, [www.philanthropy.iupui.edu/news/article/giving-usa-2014](http://www.philanthropy.iupui.edu/news/article/giving-usa-2014).
- <sup>9</sup> [www.irinnews.org/report/95564/analysis-a-faith-based-aid-revolution-in-the-muslim-world](http://www.irinnews.org/report/95564/analysis-a-faith-based-aid-revolution-in-the-muslim-world).
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- <sup>24</sup> UN Office for the Coordination of Humanitarian Affairs, 'OCHA on Message: Humanitarian principles', June 2012, [https://docs.unocha.org/sites/dms/Documents/OOM-humanitarianprinciples\\_eng\\_June12.pdf](https://docs.unocha.org/sites/dms/Documents/OOM-humanitarianprinciples_eng_June12.pdf).
- <sup>25</sup> The pivotal role of faith leaders in the Ebola virus disease outbreak in West Africa, CAFOD, November 2014.
- <sup>26</sup> Actual figure likely to be significantly higher as this excludes much of the funding to smaller local faith-based NGOs and civil society organisations that is not reported to FTS.
- <sup>27</sup> The five pillars of Islam are Shahadah (declaration of Faith), Salah (prayer), Zakat, Sawm (fasting in the month of Ramadan) and Hajj (pilgrimage to Mecca).
- <sup>28</sup> There are two measures of the nisab: gold and silver. The gold measure requires that Zakat be paid on all acquired wealth over 3oz of gold, or its equivalent in cash. The silver measure requires that Zakat be paid on all acquired wealth over 21oz of silver, or its equivalent in cash. The silver measure is significantly lower than the gold due to the decreased value of silver since the time of the Prophet.
- <sup>29</sup> Taken from *The Holy Qur'an: Translation and Commentary* by Abdullah Yusuf Ali, first published in 1934.
- <sup>30</sup> In Pakistan, for example, Zakat from Sunni Muslims is collected by the state, however Shia Muslims are exempt from state collection and pay their Zakat independently, to an agency of their choice.
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- <sup>33</sup> Abd al-Rahman al-Salimi (2015), 'Zakāt, citizenship and the state: the evolution of Islamic religious and political authority', *Journal of the Royal Asiatic Society (Third Series)*, 25, pp57–69, doi:10.1017/S1356186314000376.
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- <sup>35</sup> High: Afghanistan, Chad, Mali, Haiti. Moderate: Democratic Republic of Congo, Niger, Yemen. In debt distress: Zimbabwe, Sudan. Data was not available for six countries (Somalia, Syria, South Sudan, West Bank and Gaza Strip, Pakistan and the Philippines), three were at low risk (Ethiopia, Kenya, Myanmar), and the remaining two (Lebanon and Jordan) are upper-middle-income countries and have therefore been not classified according to their risk of debt distress.
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- <sup>40</sup> See methodology section for details and accompanying spreadsheet for a full breakdown of the data collected.
- <sup>41</sup> See accompanying data, available to download from GHA website, [www.globalhumanitarianassistance.org](http://www.globalhumanitarianassistance.org).
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- <sup>43</sup> World Bank DataBank, GDP per capita data.
- <sup>44</sup> [www.nzf.org.uk](http://www.nzf.org.uk).
- <sup>45</sup> [www.zakat.org](http://www.zakat.org).
- <sup>46</sup> Zakat Foundation of America 2013 Annual Report.
- <sup>47</sup> According to the Pew Research Center there are an estimated 2.6 million Muslims living in the US, [www.pewforum.org/2011/01/27/table-muslim-population-by-country/](http://www.pewforum.org/2011/01/27/table-muslim-population-by-country/).
- <sup>48</sup> US\$41,788 compared with US\$53,042 in the US, World Bank, [data.worldbank.org/indicator/NY.GDP.PCAP.CD](http://data.worldbank.org/indicator/NY.GDP.PCAP.CD).
- <sup>49</sup> National Zakat Foundation, 'UK's needy Muslims missing out as 81% of charity donations sent overseas', [www.nzf.org.uk/News/ViewArticle/47](http://www.nzf.org.uk/News/ViewArticle/47).
- <sup>50</sup> Development Initiatives, 'Global Humanitarian Assistance Report 2014', Development Initiatives, Bristol, 2014.
- <sup>51</sup> International Fundraising for 2013 included income from individual donors, donations to the IRW website, income from the Middle East & Emerging Market fundraising unit and Islamic Relief Ireland.
- <sup>52</sup> National Zakat Foundation, 'UK's needy Muslims missing out as 81% of charity donations sent overseas', [www.nzf.org.uk/News/ViewArticle/47](http://www.nzf.org.uk/News/ViewArticle/47).
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- <sup>55</sup> Investopedia, [www.investopedia.com/terms/m/mints-mexico-indonesia-nigeria-turkey.asp](http://www.investopedia.com/terms/m/mints-mexico-indonesia-nigeria-turkey.asp); 'The MINT countries: next economic giants?', BBC News, 6 January 2014, [www.bbc.co.uk/news/magazine-25548060](http://www.bbc.co.uk/news/magazine-25548060).
- <sup>56</sup> Pew Research Center, [www.pewforum.org/2011/01/27/the-future-of-the-global-muslim-population/](http://www.pewforum.org/2011/01/27/the-future-of-the-global-muslim-population/).
- <sup>57</sup> *Islamic Research and Training Institute, Islamic Social Finance Report 2014*.
- <sup>58</sup> [www.zakatindia.org](http://www.zakatindia.org).
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- <sup>62</sup> Ibid.
- <sup>63</sup> Pew Research Center, [www.pewforum.org/2012/12/18/global-religious-landscape-muslim/](http://www.pewforum.org/2012/12/18/global-religious-landscape-muslim/).
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- <sup>65</sup> *Islamic Research and Training Institute, Islamic Social Finance Report 2014*.
- <sup>66</sup> Ibid. Note proportions are weighted according to the volume of Zakat collected by each institution.
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- <sup>71</sup> Mackintosh, Kate and Duplat, Patrick, Study of the Impact of Donor Counter-terrorism Measures on Principled Humanitarian Action, UN OCHA and Norwegian Refugee Council, July 2013.
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- <sup>73</sup> While actual administration costs of the UN as a whole are not available, individual UN agencies report their administration costs as being much lower than this. For example, 11% of UNHCR's total expenditure is currently used to cover administration (<http://www.unrwa.org/donate/questions-about-donations>, 'Using your donation'). The UN regular budget 2012-2013 shows jointly financed administrative activities and special expenses at 2.5% of total budget (<http://www.un.org/en/hq/dm/pdfs/oppba/Regular%20Budget.pdf>).
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HUMANITARIAN FINANCING AND ZAKAT



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