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The role of zakat in supporting the Sustainable Development Goals

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Children cleaning up themselves using water from the facility built by UNDP project on Strategic Planning and Action to Strengthen Climate Resilience of Rural Communities (SPARC) in Compang Ndehes village, Flores, Eastern Nusa Tenggara, Indonesia (Photo: Fauzan Ijazah)



Margareta Mais and Rofinus Gundur, Gapong Village, Flores, Eastern Nusa Tenggara, Indonesia (Photo: Fauzan Ijazah)

Introduction

Ending poverty and inequality are some of today's greatest challenges that the Sustainable Development Goals (SDGs) aim to overcome. Giving by different religions plays an important contribution to those Goals. Zakat, as an obligatory payment for all Muslims earning above a certain threshold, is one

of the largest forms of wealth transfer to the poor and needy in existence. It is also perhaps the most overlooked by development organisations despite its tremendous potential for contributing to the achievement of the SDGs.

Adoption of the SDGs: a historic moment for people-centred sustainable development

The SDGs are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Countries signed up to the 17 Goals on 25 September 2015 and they came into effect in January 2016. The SDGs provide clear guidelines and targets to be achieved over the next 15 years.

The SDGs build on the successes of their predecessor, the Millennium Development Goals (MDGs), while including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities. The goals are interconnected – often the key to success on one will involve tackling issues more commonly associated with another.

The SDGs differ from the MDGs in a number of important ways: Agenda 2030 is much wider in scope, going beyond the predominantly social goals of the MDGs and more fully incorporating environmental and economic sustainability, along with the aspiration of peaceful and inclusive societies. The agenda is more ambitious, seeking to eliminate rather than reduce poverty. It also is a universal agenda, applying to all countries and all people.

Achievement of the SDGs can be one of the biggest achievements of humanity in the next decade. SDGs are global goals but they are also nationally-owned. There is huge momentum and energy surrounding the SDGs, with strong ownership and a will to work with partners across the Government, private sector and civil society. Goal 17 is dedicated to revitalizing partnerships between governments, the private sector and civil society to achieve the Goals and includes targets related to financing, technology and trade.

Between \$3-4.5 trillion is needed in the developing world to deliver the SDGs. Current investment in healthcare, education, sanitation, access to energy and all the sectors covered in the SDGs is around \$1.4 trillion, creating an average investment gap of

about \$2.5 trillion, according to a UN World Investment Report.¹ Working together is the only way to fill the financing shortfall.

In the growing number of middle-income countries, international development partners cannot be relied upon to provide funds. The gap must be filled through domestic financing sources but governments cannot do it alone. The private sector, including through new forms of social finance, such as impact investing, and individuals through philanthropic giving, play a role.



Sumila, a widower and mother of three children, manages her own oil palm plantation, with the help of her 20-year-old daughter when she is not attending university classes. "I am able to tend to the plantation on my own. The only time I hire help is when I need to harvest the fruit from the tops of the trees, you need to be very strong to do this." (Photo: Nicholas Hurt/UNDP Indonesia)

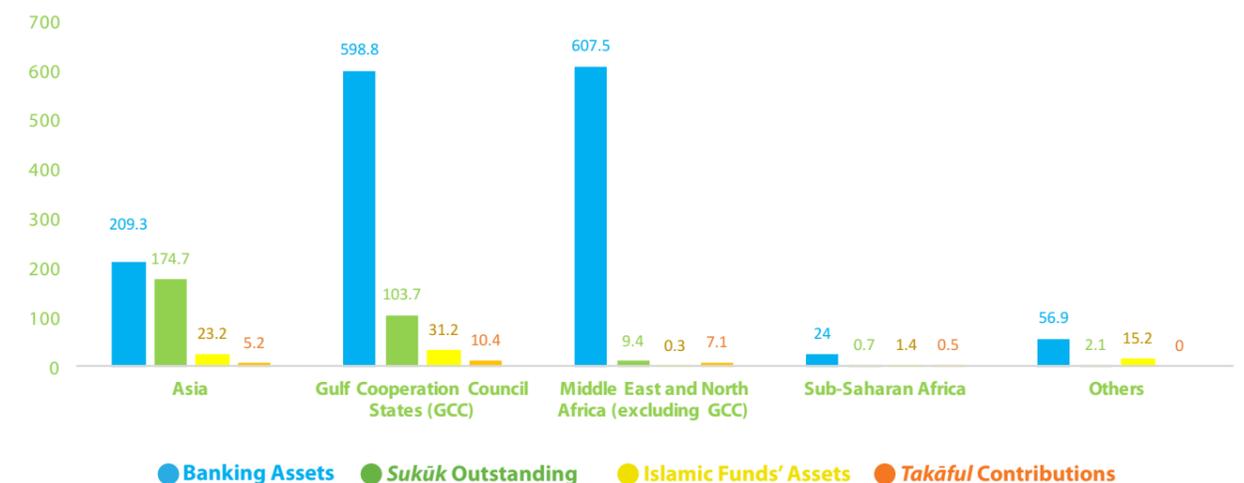
Zakat: A powerful force for good with untapped potential for contributing to the SDGs

Religion is a force of change in the world. Engaging with religious organisations is crucial for peace and development, and promoting tolerance. An estimated 22 percent of the world's population is Muslim and Islamic finance is estimated at a value of around \$2 trillion in 2015.² The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12 percent annually. Experts expect these assets to exceed \$3 trillion by 2020. The value of zakat alone is potentially \$200 billion to \$1 trillion annually.³



Ina (right) recently returned to her village after studying and living in Pontianak for the past 10 years. Despite being the youngest of 10 children who all work in oil palm plantations, Ina plans to breakaway from the family business and instead initiate community projects focused on youth empowerment. (Photo: Nicholas Hurt)

Figure 1: Breakdown of Islamic Finance Segments by Region (\$billion, 2015)



Source: Islamic Financial Stability Report 2016.

Note: Banking Assets: Islamic compliant bank assets. Islamic Fund: Funds which comply with Islamic sharia. Sukuk is asset-based or asset-backed financial certificate(s) that complies with Islamic sharia. Takāful (Solidarity, mutual support) is a co-operative system of reimbursement or repayment in case of loss, organized as an Islamic or sharia compliant alternative to conventional insurance.

Zakat is Islamic mandatory giving and one of the five pillars of Islam, the others being testimony of faith (*shahada*), prayer (*salah*), fasting (*saum*) and pilgrimage (*hajj*). It is an obligation within Islam for all Muslims who are eligible to pay it to donate at least 2.5 percent of their accumulated wealth or income for the benefit of the poor, the needy and other beneficiaries classified as *mustahik*. Zakat aims to provide services, benefits and improve welfare for those *mustahik*. The relevant Qur'anic verse states:

"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 verse Surrah At Taubah verse 60).

Zakat is distributed to eight asnaf (types of recipients), the three highlighted being most relevant for the SDGs:

 <p>Al Fuqara The poor, those living without means of livelihood</p>	 <p>Al Masakin The needy, those who cannot meet their basic needs</p>	 <p>Al Amiliyn 'Aliha The Zakat Administrators whose duties are to collect, manage and distribute zakat to the other <i>asnaf</i></p>	 <p>Al Mu'allafatu Qulubuhum Recent converts to Islam and potential allies in the cause of Islam</p>
 <p>Fir Riqab Originally defined as those in bondage or slavery; however, Shaikh Yusuf al-Qaradawi is of the view that people or countries that are under foreign occupation may be categorized as slave in modern times and hence, eligible to receive zakat under this <i>asnaf</i></p>	 <p>Al Gharimin Those burdened by debts because of personal needs or social necessity with condition that these debts are permitted by the sharia</p>	 <p>Fi Sabilillah In the path of Allah pertains to anyone struggling for a righteous cause, including expenditure towards the promotion of Islam and for all charitable purposes; <i>Asnaf fi sabilillah</i> can also be related with the provision of basic needs such as health, clean water and sanitation programmes.</p>	 <p>Ibnu Al-Sabil Travellers whose traveling is lawful according to sharia but who cannot reach their destination without financial assistance</p>

Zakat: Potential for greater development impact

Zakat has an important role to play in addressing the generally-higher poverty and hunger levels witnessed in countries with large Muslim populations, for the most part located in Africa and Asia.⁴ In some Muslim-majority countries state organisations have been established to collect, channel and spend

zakat funds. Six Muslim-majority countries have a mandatory system in place, where it is compulsory for citizens to pay zakat. In a further nine countries, zakat contributions through formal organisations are voluntary while in 25 countries, there is no Government system in place.⁵

Figure 2: Approach to Zakat by Country



Source: Russell Powell (2009), *Zakat: Drawing Insights for Legal Theory and Economic Policy from Islamic Jurisprudence*, University of Pittsburgh Tax Review, Vol. 7, No. 43, 2009.

Typically though, zakat is given individually from person to person. Many Muslims give zakat to individuals — to an acquaintance in need, for example — because the impact of the giving is tangible and immediate. They prefer individual giving compared with making contributions through a large organisation because they may not be confident that delivering funds through an organisation will reach those in need.

For this reason, informal giving is much bigger than contributions made through formal Islamic organisations. An estimated one quarter of total zakat contributions are channeled through formal certified organisations.

Zakat, which means purity in Arabic, is understood as the act of purification and growth through giving. The focus in practice tends to be on the act of giving rather than development impact of zakat funds or the rights of recipients to those funds. It has been argued that a paradigm shift is needed so that zakat is not seen as charity but a programme that requires professional management.⁶

It is also argued that in Islam, wealth should not be seen as that owned by the giver but the right of the poor and needy to its redistribution.⁷ Zakat is a targeted wealth transfer from the payer of zakat who

is a non-poor person with a wealth above the minimum amount that a Muslim must have before being obliged to zakat (*nisab*) and the recipient who is a poor person with no surplus wealth above *nisab*.

There is also a growing recognition that giving to higher-level issues or causes, such as poverty, rather than individuals may achieve greater impact. While financial contributions to an acquaintance may provide immediate relief, it is a temporary solution only.

Longer-term impact on poverty alleviation requires equipping people with the right skills to open the door to opportunities. Making zakat contributions through formal institutions can reach more people, targeting the people in greatest need and providing a more sustainable solution to their development challenges.

Overlap between zakat and SDGs

There are some differences between zakat and SDGs, the main one being that zakat is fundamentally Islamic in origin while the SDGs have no link with religion. Nevertheless, the consensus at the World Zakat Forum held in Jakarta in February 2017 was that there is considerable overlap and interest among zakat organisations to pursue the SDGs further.

There are some striking commonalities between the SDGs and zakat. Much of what is in the SDGs reflects Islamic values. The SDGs are about alleviating poverty and hunger and reducing inequality by redistributing wealth. These goals are in line with the Islamic principles of zakat. In the Islamic faith, there are five foundational goals also known as *Maqasid al Sharia*. These include: protection of faith, life, progeny, intellect and wealth.⁸

Figure 3: Five Foundational Goals of Zakat and SDGs



Faith (hifdh-ul-iman): In a supplication, the Prophet Muhammad sought refuge from disbelief and poverty together. Poverty and destitution can make a person vulnerable in faith and may engender the perception that his / her way out of poverty is dependent on others. A person facing poverty may be less able to exercise free will. Reducing people's vulnerability can help strengthen their faith.

This is aligned with Goals 1, 2, 3, 6 and 10 on poverty, health, water, hunger and inequality. The SDGs are fundamentally about reducing vulnerability and equipping people with the capacities and resources they need and ensuring that institutions are accountable for providing services to which people are entitled so that people are empowered to make choices in their best interests.

Life (hifdh-ul-nafs): Poverty can result in loss of life from lack of essential nutrition, clean water and sanitation, life-saving medication and ill health. If zakat helps a person purchase essential foods and life-saving medicines and access clean water and health, then it can help to save lives.

This is aligned with Goals 2, 3, 6, 8 and 11. Ensuring healthy lives and promoting well-being is essential to sustainable development. Goal 2 is about eradicating hunger and food insecurity and developing sustainable agricultural systems. Goal 3 seeks to fully eradicate a wide range of diseases and address many different persistent and emerging health issues. By tackling water scarcity, poor water quality and inadequate sanitation, SDG 6 sets out to save lives and livelihoods of the poor. SDG 8 ensures decent work and income growth for all including the poor, while SDG 11 is about making cities safe and sustainable and upgrading slum settlements.

Progeny (hifdh-ul-nasl): War and conflict, climate change, environmental disasters and infectious diseases can cause epidemic or large-scale loss of life that endangers the survival of entire communities and other species affected by their environment. Similarly, fear of poverty can result in desperation, vicious spirals deeper into poverty affecting future generations and terminally destroying the environment. Zakat that helps people escape the

poverty trap, promoting peace and protecting the environment is consistent with human progeny.

This is aligned with SDGs 3, 5, 7, 11, 12, 13, 14, 15 and 16. There are disturbing trends in the way humans destroy the environment, exploit natural resources and are irreversibly changing the climate for future generations. Conflicts within and between societies and economic and financial crises also threaten communities. The SDGs promote sustainable production and consumption and protection of the environment while also look for ways to promote peace and stability through inclusive and transparent governance.

Intellect (hifdh-ul-aqal): Poverty, poor health and food insecurity can cause stunting, poor schooling and affect intellectual capabilities. Zakat can facilitate access to healthy nourishment, quality education and make them more productive in the future.

This is aligned with SDG 1, 2 and 9. Children need to have access to education and nutritious food to build their human capital. People can be supported through enhancement of skills and capacities to increase their income earning potential and productivity. Economic and financial institutions can support people's economic enterprise and local economic development.

Wealth (hifdh-ul-maal): When a person fulfils the obligation to pay zakat, s/he is able to purify her/ his wealth. While it may seem that the wealth decreases by payment of zakat, at a societal level it helps wealth circulation which benefits everyone by generating economic activity and a social safety net.

This is aligned with Goals 1, 3, 8 and 10. Zakat has in-built wealth transfer, which is reflected in Goal 10 of the SDGs focused on reducing inequality. It focuses on persistent inequalities within societies in access to health, education and other assets. Goal 8 focuses on creating job opportunities and decent work conditions that support economic growth and are good for the environment.



Case study: Indonesia

Indonesia is the fourth most populous country in the world, and as a country with 85 percent Muslims, it is also the largest Muslim-majority country. A large percentage of Indonesians regularly contribute zakat.

Zakat has the potential to contribute \$32 billion (421 trillion rupiah) per year, which is equivalent to 3.4 percent of the Indonesia's GDP in 2016.⁹ Today the contribution channeled formally through BAZNAS, the state zakat authority, is less than 1 percent of that potential, and most zakat is channeled informally.

Data from BAZNAS shows that zakat collected amounts to approximately \$270 million annually.¹⁰ The volume has increased by approximately 20 percent each year with larger increases in the years following a humanitarian crisis, such as the tsunami, when the volume jumped by up to 100 percent in the following year.

Around half of this amount was collected by BAZNAS, while the other half was collected by other zakat receiving institutions (*Lembaga Amil Zakat*, or LAZ). A total of 61 percent of the funds collected was actually spent through various programmes, two-thirds of which targeted poverty eradication.

BAZNAS and zakat institutions have programmes that vary in scope but always address five main areas: social sector, education, economic, health and *da'wah*.¹¹ BAZNAS was established in 2011 and has zakat programmes in community development, humanitarian, as well as supporting hospitals and schools.



Figure 4: Baznas Programmes

Indonesia has approximately 28 million people living in poverty (11 percent of the population) and an estimated 40 percent of the population vulnerable to falling into poverty, according to the World Bank. In a report published earlier this year, Oxfam noted high inequality in Indonesia with the four richest people in Indonesia having wealth equivalent to that of the bottom 100 million people.¹² The maternal mortality rate is still high with 126 maternal deaths per 100,000 live births. One in three children under the age of five years suffer from stunting and the quality of health care and schools is uneven.

The Indonesian Government is committed to being a pioneer and role model on how to achieve the SDGs.¹³ With the adoption of the SDGs in 2015, Bappenas, with UNDP support, established an SDG Secretariat and analysed the convergence that exists between the SDGs and national development strategies, in particular the Nawacita and the National Medium-Term Development Plan. The Presidential regulation to be issued shortly lays out the Government's strategy for the achievement of the SDGs.

Provincial and district level Government has also begun working with partners to plan and prioritise how the SDGs will be achieved. The sub-national level work is particularly important in the Indonesian context because the high level of decentralization means that decisions about the way money is spent on public services like health, education, infrastructure development and poverty eradication are made at the local level.

Increasing the amount of zakat channeled through the formal channels - like BAZNAS - can strengthen Indonesia's ability to reduce poverty and inequality, and support other SDGs. BAZNAS has chosen to prioritise Goals 1, 2, 3, 4, 6, 8 and 11.

UNDP in Indonesia has been engaging with a wide variety of stakeholders involved in achieving the SDGs at the national and local levels, such as the Government, civil society, youth organisations, private sector and philanthropists. UNDP has piloted a tool that helps the government in the province of Riau to implement the SDGs.

While there are 169 targets and 230 indicators under the SDGs, local governments have to prioritize based on their needs and capacity. The tool allows them to collect and analyze key data, prioritize, plan and implement the goals, in partnership with stakeholders.

UNDP also works to increase awareness of the SDGs. For example, on SDG 6, the provision of clean water and proper sanitation, UNDP partnered with conscientious public figures and charitable Indonesians, who contributed a total of 350 million rupiah to build a solar powered water pump in a dry village in Sumba. Actor Reza Rahadian was influential as a UNDP SDG Mover—spreading the word about the crowdfunding campaign.

In the coming decade, the largest cohort of young people in Indonesia's history will start working.

UNDP's role in supporting zakat organisations

UNDP is uniquely placed to help implement the SDGs through its work in some 170 countries and territories. UNDP's Strategic Plan focuses on key areas including poverty alleviation, democratic governance and peacebuilding, climate change and disaster risk, and reducing inequalities. UNDP provides support to governments to integrate the SDGs into their national development plans and policies.

UNDP's track record working across multiple goals provides valuable experience and proven policy expertise to ensure the targets set out in the SDGs by 2030 are reached. Achieving the SDGs requires the partnership of governments, private sector, civil society and citizens.

UNDP offers partners an international network of development experts who can help address challenges faced by countries. UNDP can facilitate access to resources, technology, knowledge and experience to help countries engage in the development discourse on both the regional and global stage.

UNDP Indonesia is also engaging in the move from funding to financing for development and has developed in-depth knowledge and experience in

Investing in youth, particularly girls and young women, is critical. UNDP in Indonesia is collaborating with youth groups—to get young people involved in achieving the goals. There are around 2,000 youth organizations in Indonesia—and many of them are already doing work with a mission that is aligned with one or more of the SDGs.

Innovation is also important for the SDGs. UNDP is also supporting innovations to tackle development challenges. The Big Ideas Competition for Sustainable Cities was a contest for technology-based solutions to urban challenges like waste management or accessible facilities for the disabled in support of Goal 11. UNDP in Indonesia supported the best innovators by connecting them with a network of angel investors that were able to train and give them seed funding to develop their ideas.

testing and prototyping new financing models and instruments as well as documenting and sharing learning from these experiences. As part of this shift to financing for development, UNDP has helped promote social finance in Indonesia, such as impact investing, crowdfunding and blended finance, supporting investment in development initiatives that are good for business but also help the environment and society.

UNDP is ready to support Islamic organisations in playing a bigger role in achieving Indonesia's SDGs. UNDP has a wealth of experience in strengthening institutions that are responsible for delivering services, and reducing poverty through livelihood programs. UNDP can help zakat organizations target the communities and households in greatest need, identifying their key vulnerabilities and how to overcome them.

Transparent reporting, monitoring and evaluation is just as important for Islamic organisations as it is for SDG implementation. UNDP can help Islamic organisations align with the SDGs, monitor, report communicate development impact, and show how zakat spending is contributing to the SDGs.

Through promotion of transparency, communication and development effectiveness, trust in zakat organisations can grow, leading to a higher volume

of contributions being made through formal channels and greater development impact.

SDGs and zakat inclusion

Mass collection and distribution of zakat are critical in aiding the reduction of poverty, especially in countries such as Indonesia. This can only be achieved with the assistance of the formal banking sector.

However, around 2 billion of the world's population do not use formal financial services and 64 percent of adults in Indonesia do not have a bank account.¹⁴

The introduction of zakat into the next generation of financial inclusion programmes offers the breakthrough required. Zakat inclusion will provide a branchless banking system that will improve the process of collection and distribution of zakat without the need for a branch office representative. Technological advances through online banking

and mobile money make it easier for people to make zakat contributions and also increase the volume of zakat contributions through formal channels. This in turn can support the role of zakat organisations in poverty alleviation.

UNDP and BAZNAS signed a memorandum of understanding in April 2017 to collaborate in support of the achievement of the SDGs. BAZNAS, Indonesian Financial Services Authority (OJK) and UNDP are currently working together in the development of programmes on Zakat Inclusion and Zakat for SDGs. The role of zakat in supporting SDGs and zakat inclusion will be proposed as topics for discussions at the UN General Assembly fora at the end of 2017.



Mengkang Village in Bolaang Mongondow District, North Sulawesi, Indonesia. The village is one of buffer zone for Bogani Nani Wartabone National Park. (Photo: Fauzan Ijazah)

Issues and challenges in aligning zakat and the SDGs

One important issue is to ensure a two-way exchange between zakat and development organisations. Zakat organisations have much to learn about the SDGs but equally, development organisations, including the UN, have much to learn from Islamic finance principles. Zakat should not be seen solely as additional funds for SDGs. Islamic organisations bring rich experience, networks and learning.

The principles behind Islamic finance reflect a concern for financial stability, financial inclusion, shared prosperity and checks against too much risk taking.¹⁵ Islamic finance instruments like *sukuk* (Islamic bonds) are well suited to making investments in sustainable agriculture while insurance concepts like *takaful* (Islamic insurance) can promote social solidarity and financial inclusion.

At a time when Islam is under fire in some quarters due to its association with violent extremism (which is not condoned by the vast majority of Muslims), it is important to look at what the Islamic faith means to believers and how it contributes to a better society. Islamic organisations are important partners for development, particularly strong at the grassroots level.

A second issue is the perception that the recipients of zakat must be Muslim. In reality, many zakat organisations do not discriminate between people based upon their religion as long as they are poor and needy. Others ensure that if zakat funds are given to Muslims, alternative sources of funds are given to non-Muslims who are also poor or needy.

A third issue is the need to increase understanding among zakat organisations on the SDGs. A partnership on SDGs requires getting buy-in from clerics and Islamic groups. This needs extensive consultation and awareness-raising. More research is needed on the overlap between the institution of zakat and SDGs to provide the necessary evidence for zakat organisations to move forward with the implementation of the SDGs.

As with all partnerships for the SDGs, coordination with other actors, including the Government, private sector, philanthropic and civil society organisations will be important.

Finally, there is a perception that issues related to gender cannot be addressed through Islamic or zakat organisations. In practice, zakat is neutral to gender regarding its payment and receipt. Zakat funds can be paid to women and the institutions which are responsible for the well-being of women, such as maternity hospitals and schools. Zakat organisations often have development programmes that target women although they do not explicitly address gender inequality.

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⁹The 3.4 percent rate is based on a Study by Firdaus, Beik, Irawan and Juanda (2012), "Economic Estimation and Determinations of Zakat potential in Indonesia", Islamic Research and Training Institute, Islamic Development Bank.

¹⁰Baznas (2017), Indonesia Zakat Outlook, BAZNAS, Jakarta, Indonesia.

¹¹Da'wah here can be seen as the act of spreading the messages of Islam to individuals as well as societies including character building, empowerment, and advocacy to create awareness of fulfilling zakat obligation

¹²Oxfam (2017), "Towards A More Equal Indonesia: How the Government Can Take Action to Close the Gap Between the Richest and the Rest, February 2017"

¹³Keynote speech provided by Minister of Planning at workshop on strengthening the role of parliamentarians in the achievement of the SDGs, Jakarta, August 2016.

¹⁴The government of Indonesia has developed a Financial Inclusion National Strategy which enacted as Presidential Regulation Number 82 Year 2016 (Peraturan Presiden 82/2016). The target of the National Strategy is to increase the percentage of adults with access to formal financial services from 36 percent in 2014 to 50 percent by the end of 2019.

¹⁵The following key principles guide Islamic Finance: Prohibition of interest on transactions (*riba*); Financing must be linked to real assets (*materiality*); Engagement in immoral or ethically problematic businesses not allowed (e.g., arms manufacturing or alcohol production); Returns must be linked to risks.

The role of zakat in supporting the Sustainable Development Goals



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