

Using Zakat to Eradicate Riba and Reduce Debt

By Liaquat Ali

Zakat, the obligatory contribution of Muslims who can afford it, is considered an Ibadah or an act of pure worship. The importance of giving zakat is repeatedly emphasized in the Quran along with Salah. Generally speaking, if a Muslim owns assets which are more than the market price of 85 grams of gold, then he or she meets the requirement of Nisab (exemption limit for the payment of zakat) and can become a proud Muzakki or zakat giver to specific categories of people.

Countless organizations exist around the world to consume the zakat monies but none exists to deliberately enhance the Muzakki base. The purpose of this article is to share specific ideas to expand the number of Muzakki Muslims in the US by eliminating riba and reducing debt in their lives. There are eight categories of people identified in the Quran as the potential recipients of zakat:

1.	Fuqara	Poor
2.	Masakin	Needy
3.	Aamileen	Those employed to collect and disburse zakat funds
4.	Muallafatul Quloob	Those whose hearts are to be won
5.	Riqaab	Captives
6.	Gharimeen	Those in debt
7.	Fi Sabeelillah	In the way of Allah
8.	Ibnus-Sabeel	Wayfarer. Some people translate it as homeless

Gharimeen are understood to be “those who are overburdened with debts”, “in debt” and “debtors”. They are a segment of the population who may have jobs or businesses but due to debt, their net asset value falls below the Nisab threshold and forces them to become potential zakat recipients instead of zakat givers.

They are also the prime targets of the consumer lending outfits. They have enough income to qualify for consumer loans, but their income is not enough to get them out of those loans in a short period of time. Riba on those loans extends the duration of the loans and devours a significant portion of their hard-earned income.

It is easy to advise someone to just wait until they have the means to purchase the products and services they need. It is just not that practical in many circumstances.

For example, if one needs a car to go to a better paying job instead of walking to a lower paying job, then it makes the economic sense to buy the car and subsidize the monthly payments through the higher income.

However, consumer finance is causing the Muzakki base among Muslims to shrink through the expansion of debt in the community. “Like the devil, debt comes in many disguises and it has never been easier to borrow money via bank loans, overdrafts, credit cards and credit card checks.

It is virtually impossible to stick to a monthly budget on credit card spending or to keep a mental note of the balance,” writes Toby Birch in his book, “The Final Crash: Addictive Debt and the Deformation of

the World Economy,” which he penned under the pseudonym Hugo Bouleau.

The challenge for Muslims is to make sure that the pool of Muzakkis is strong and expanding, instead of over-tapped, weak and contracting. The Quran denounces riba and immediately proposes zakat as the antidote. Therefore, zakat in a society has an inverse relationship with riba. Expansion of one will have negative effect on the other.

Compared to the other zakat recipients, due to the nature of Gharimeen’s distress, they are more likely to become Muzakkis if they are coached and assisted properly. Through this article this author makes an earnest request to esteemed scholars of Islam to guide Muslims in the effective use of zakat to expand the Muzakki base among Muslims. Otherwise, relentless consumer finance – where riba takes many different names – will continue to deplete the Muslim zakat base.

A seemingly valid argument made by the beneficiaries of riba is that capital has its cost. That is true in the non-Muslim context. In the Muslim context, the capital collected as zakat does not have a cost. Creative utilization of a small portion of the zakat funds has the ability to create a virtually unlimited pool of sustainable capital to be lent on riba-free basis to Muslims today and to the future generations.

While the riba-busting weapon zakat is wasted, conventional consumer finance is invading Muslim communities through contract Shariafication, that is, Islamic finance is evolving out of conventional finance through contract modifications instead of the Quranic approach of utilizing zakat against riba.

Since the consumer lending business “rewards” its predictable and profitable clients by increasing their credit limits and manipulative loan offers, consumers continue to incur more monetary liabilities until debt becomes a way of life. A Muslim in such economic condition is not a Muzakki anymore. He is a Gharim.

The consumer lending outfits calculate monthly payments in such a way that their clients consider them “affordable” and many of them continue to pay the minimum amounts which are primarily interest payments and barely make a dent on the principal owed. Many consumers don’t even know that their monthly payments are income streams which have lives of their own and their consumer lending contracts are bought and sold just like commodities.

Americans are paying one-third of their after tax incomes or almost half of their before tax incomes to a variety of masters who buy and sell the fruits of their daily labor by getting hold of them in the hour of their need.

Providing Gharimeen with non-profit loans instead of “give it and forget it” money, along with financial planning guidance, can give them an honorable way to fulfill the third pillar of their faith. The zakat fund keeps growing as new money is donated every year, and as the money is repatriated from the interest-free loans given to Gharimeen in the previous years. Verse 9:60 of the Quran designates part of the zakat

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funds for zakat collectors and distributors. So there are no operating costs which need to be passed on to the borrowers.

According to calculations performed by this author on the US Census Bureau's 2007 American Housing Survey, Muslims would "own" as many as 4.1 million residential houses in 2014. In reality, the majority of those "owners" are debt-ridden tenants of their mortgage companies.

They are Gharimeen. Also, based on the data provided by Automotive News Data Center, Muslims purchased around 160,000 cars in 2008. That number would almost double when the Muslim population goes to 16 million in 2014. Most of those cars would be purchased on riba basis.

The ideas discussed in this article are geared towards those Muslims who commit themselves to create an "interest free living" for themselves and their families, and become debt-free to engage in the Ibadah of zakat which is equally emphasized by the Quran along with Salah.

Based on the above discussion, this author strongly believes that there is need for a non-profit organization, say Interest Free Living Foundation, which can create a brand around empowering Muslims to eliminate riba and reduce debt to live a guilt-free and rich life; monetarily and otherwise.

Such a lifestyle would help them spend more time with their families, stay healthier, pay more zakat and develop more functional communities around them without having to increase their incomes.

The main goal of the organization would be to increase the number of Muzakkis by choosing to only work with Muslims with jobs and business that are either under debt or are debt prone. To develop a sustainable riba-free lending infrastructure which would expand as the Muzakki base increases, the organization will purposely stay away from the "give it and forget it" charity model.

As a non-profit, this organization will seek zakat and Sadaqah monies from the Muslim community, philanthropic funds which are earmarked for sustainable initiatives, and other charitable funds. Since this organization will not cater to the Fuqara and Masakin categories at all, Muslims who believe that their zakat funds should only go to Fuqara and Masakin must not donate to this organization.

It will also solicit in-kind donations, such as used cars, durable goods and equipment, and financial expertise. Those who don't commit to live a riba-free life should be refused services.

The reason is that if they don't make that commitment, they will use Interest Free Living's services as a source of cheap financing and will continue to incur interest-based obligations in their lives and will most likely never be able to join the ranks of Muzakkis.

The main goal of increasing the number of Muzakkis would be achieved through fiscal education, mentoring and riba-free loans. Every client's needs would differ and the organization may not be able to assist a wide variety of clients' situations. Therefore, the organization may have to start from somewhere, for example, fiscal education, mentoring and car loans.

Let's say Ahmed wishes to purchase a \$15,000 car. He is able to pay as much as \$300 per month for car payment, but does not want to buy a car on riba basis. He basically has four choices:

- **Buy a used car with readily available cash:** This may be a workable option if Ahmed has enough money to purchase a decent car to meet his short-term needs or has enough automotive savviness to drive his used car dollars farther.
- **Lease a car:** This option is used by many Muslims and works fine for those who don't mind having a car payment in their monthly bills forever.
- **Buy a car on cost-plus financing:** This option is offered by a few Islamic finance companies and Ahmed may also be able to negotiate such arrangement directly with some dealerships.
- **Wait and accumulate enough cash to buy the car:** This option may or may not work for Ahmed depending on the nature of his needs. If he just wants a car for no specific reason, then this could be a viable option. But if he needs a car to go to work, then this option is pretty much irrelevant.

Here is one potential "full cycle" solution which Interest Free Living may offer to Ahmed: It evaluates his financial needs. He can be assisted from the zakat funds if he meets the criteria of being a Gharim. Alternatively, he can be assisted through non-zakat funds, such as cars donated to Interest Free Living which generate tax breaks for the donors.

Depending on Ahmed's needs, Interest Free Living may either help him buy a used car from the market or sell him one of the donated cars. In either case the organization makes a car available to him through a short-term riba-free loan to meet his immediate transportation needs.

If Ahmed has other small riba-based debt to handle, the organization will help him with that. Otherwise, he will agree to save a certain amount of money to purchase his permanent car by a specific date. Unless sufficient funds are accumulated, the organization will most likely not get involved with home loans and educational loans. It will only help with smaller and short-term loans. If Ahmed purchases the other car he can bring back the car it purchased from Interest Free Living.

The above is a brief description of how riba could be eradicated, debt reduced and the Muzakki pool increased in the Muslim community in a sustainable manner. An evolution of the above ideas could be followed on this author's website. ⁽³⁾



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