

## **Zakat and Ushr: Links with Poverty Alleviation**

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### **Abstract**

*This article reviews the implementation process of Islamic policies for income transfer and the redistribution of wealth i.e. Zakat, Ushr and Bait-ul-Maal. This follows two broad questions. First, the output issue: what has Zakat and Ushr administration delivered in terms of its structure? Second, the outcome issue: to what extent have Zakat and Bait-ul-Maal reduced income inequity and alleviated poverty? It particularly delineates problems in implementation. This also focuses on the 'politics of Zakat' by raising issues of power, authority and patron-client relationships.*

### **Introduction**

Zakat is a distinctive feature of Islam for being the only pillar with a tangible material outcome, while the others are spiritual in nature<sup>2</sup>. Due to both its divine and financial importance, early Muslim rulers waged war on the newly converted Muslim tribes, who refused to pay Zakat. Payment of Zakat was equated with political allegiance and failure to do so provoked the rage of the state. With the exception of the first half century of Islamic history, however, when Zakat collection and disbursement was in the ambit of the state, it has become a community-based charity institution in the

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<sup>1</sup> Author wrote this as a part of his MA thesis at Institute of Social Studies, The Hague in 2001. He has made slight revisions in the article for this publication.

<sup>2</sup> Five pillars of Islam are Faith in oneness of God, Obligatory Prayer five-times daily, Annual Fasting for one month, Annual *Zakat*, and One-time Pilgrimage for those who can afford it.

larger Muslim society and is run solely on voluntary basis without any coercive measures.

Islamic Economics lays great stress on imposition of Zakat (literally to purify) to reduce poverty and economic inequity. Ushr is the tithe imposed on agricultural produce and livestock but, as Zakat includes Ushr, Zakat can serve for both. However, differences exist on heads and rates of Zakat. It is levied annually after exclusion of a specific amount or quantity called *nisaab* that on wealth, for example, is equivalent to 612 grams silver. Means of production (e.g. tools, machinery etc.), personal items of daily use (e.g. house, car) and the *nisaab* are exempted from deduction of Zakat. Most scholars would agree that it is levied on these rates: wealth (2.5%), produce (5-10%), livestock (number varies for different animals), minerals and precious metals (20%) (Saleem 1995:16). Heads of Zakat disbursement include: the poor and needy, employees of government, on those whose hearts are to be reconciled, to free slaves, on those who have inflicted losses, in the way of Allah (defence and public works), and for the wayfarer (including highways and lodgings) (ibid: 19). Traditionally, Zakat has been primarily used for helping the destitute, orphans and widows in Muslim society.

### **Historical Background**

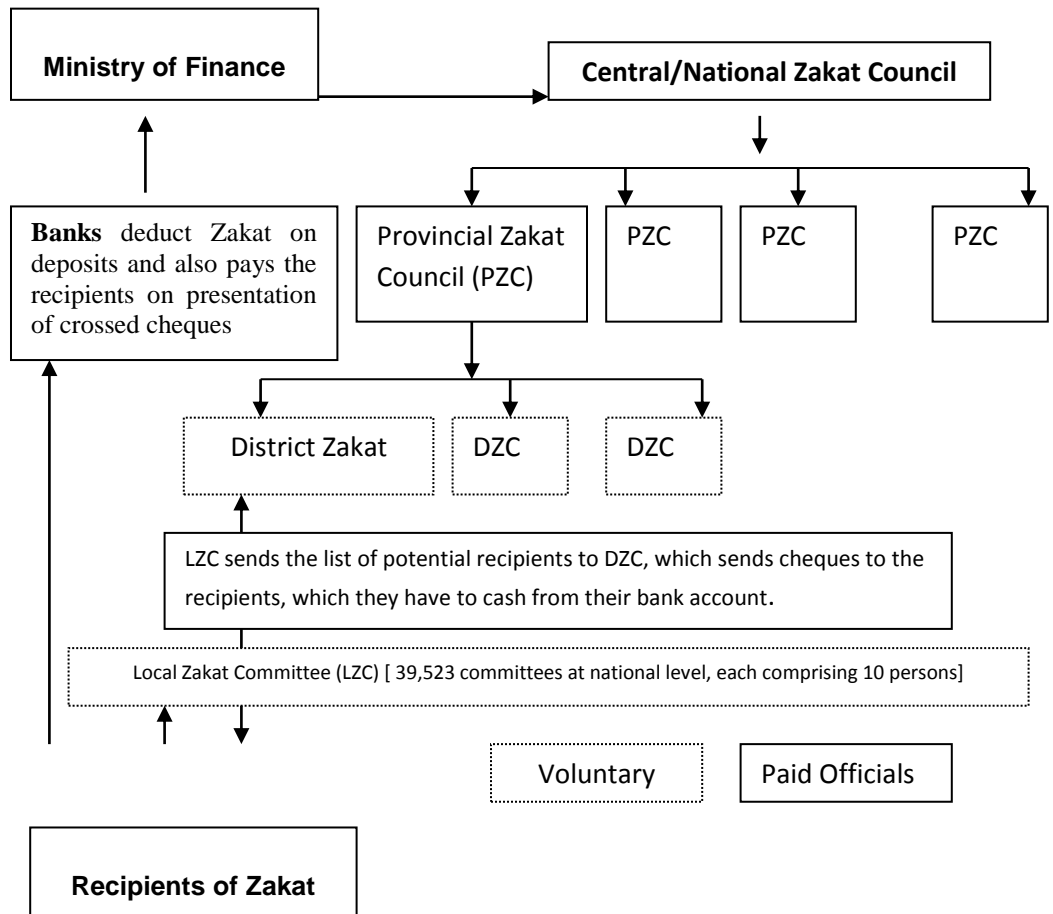
When General Zia promulgated the Zakat and Ushr Ordinance of 1980, he called it an ‘essential pillar of Islam’s welfare system.’ It stems from the central rationale of Islamization of Pakistan’s Economy (IPE) i.e. social justice. The primary objective of Zakat policy is to assist the needy, the indigent and the poor (Clark 2000:199). Other important objectives were (1) economic rehabilitation of those who cannot work (2) elimination of

beggary and (3) redistribution of wealth in society. Broadly speaking, Zakat would not only serve as a measure to reduce income inequity but also as an additional source of state revenue. It is my contention that an unstated but important objective behind the imposition of Zakat was to enhance the legitimacy of the military government, which it sought on the promise of establishing an “Islamic system”. This policy appealed especially to the conservative, lower-middle and religious-minded segments of Pakistani society on which the military government relied for popular support.

### **Output: Administration and Distribution of Zakat**

Traditionally and historically, with the exception of first four decades of Islamic history, Zakat had been an individual responsibility while the role of the state was almost eliminated. Thus the Zakat and Ushr Ordinance of 1980 was seen as a radical reversal in order to identify the system with its original Islamic spirit. The state increased its political penetration by taking the collection and disbursement of Zakat funds into its hands. Traditionally every financially capable Muslim would pay his share of Zakat at a fixed time each year on a self-assessment basis. Shari'ah emphasized spending on needy people in the family and in the neighbourhood. Thus Zakat money remained confined to either extended families or communities, which strengthened the mutual ties of society. The centralization of Zakat reversed this centuries-old, community-centred procedure. The state argued that this system would facilitate actual transfer of wealth from richer to poorer communities as well as standardization and expansion of the revenue base (Kuran 1993:322). Practically, however, even under the state's control, Zakat remained community-centred and decentralized because it was disbursed through local voluntary committees set up for this purpose. The process of collection and disbursement is shown in the figure 1.0.





**Figure 1.0: Procedure of collection and disbursement of Zakat**

This elaborate system of distribution follows the principle of decentralization and community empowerment but brings its own costs. The minimum number of total personnel working in this combination of voluntary and paid jobs i.e. 400,000 is roughly the same as the number of Zakat cash recipients nation-wide. After the redesign of the Zakat system in 2001 that seeks to give a grant of Rs 50,000 (US\$ 814<sup>3</sup>) per person as one-time cash assistance to start up a business, the number of recipients would

<sup>3</sup> US\$1=Pak Rs 61.45

be reduced to 100,000 (Dawn 2001b). That would bring the ratio of Zakat personnel to Zakat recipient from 1:1 to 4:1, which would lead to a possible reduction in the number of Zakat committees to match the decrease in the number of recipients or worse, it would increase the cost of human efforts involved in the process. A research published by Social Policy and Development Centre (SPDC 2003) however portrays Zakat cash recipients at around half a million, a figure closer to the scheme before the above mentioned change.

The administration of Zakat and Ushr follows a long yet simple chain of command and does not involve the complex calculations entailed by normal tax systems. Zakat is deducted from bank accounts each year on a fixed date (First Ramadan – the month of fasting) at a pre-determined rate (2.5%) and sent to the Federal Ministry of Finance. The Ministry sends the money to the Zakat Administration that distributes it through district and provincial bodies according to the demands received from the local committees. Zakat includes a flat rate of 5% as tax on all agricultural produce, which is collected at the local level. This simplicity should help to achieve the desired outcomes.

Over the years this system has seen a number of changes. Payment through cross cheques was adopted in 1991, which caused complications for the rural poor who rarely had access to a bank and also suffer from the minimum deposit requirements of the banks, which varies from Rs. 1000 to Rs. 5000. Such an amount is not substantially less than the actual quarterly payment, i.e. Rs 900 that an average recipient receives. Although the system reduced the chances of corruption by issuing the cross cheques directly to the recipients, it shifted a significant portion of the cost back to the recipient due to the minimum deposit requirement and transportation

costs. Previously, the recipients used to receive the money in cash in their own communities through LZCs. Thus over the years the net financial gain for a recipient was not substantial despite an increase in the disbursement amount.

An institutional change was Bait-ul-Maal (public treasury) established by the Nawaz government in 1992 as a separate institution for giving payments to the poor. This institution was funded directly from the federal budget and enjoyed strong political and bureaucratic support for being a part of the regime's agenda for the welfare of the poor. As it did not depend on Zakat receipts, the government exhibited relative flexibility in its spending, which now included even the non-Muslim poor (Clark 2000:208).

### **Location and Intensity of Reaction**

In 1994, the Central Zakat Council was brought under the Ministry of Finance from the Ministry of Religious Affairs and the requisite external audit of the Zakat fund was dropped. Later, in 1995, the Benazir government dissolved all the local Zakat committees and restricted the disbursement function to the federal government. It led to an egregious suspension of the disbursement of the Zakat fund for three continuous years until 1998, which was a gross misconduct both morally and legally. This suspension of the grant, however, did not lead to any unrest or even protest (ibid:210), which suggests that the recipients of these grants were not desperate for them. It also indicates the possibility that many Zakat recipients were not actually poor but were enlisted due to political reasons. If poor people were getting significant benefit from Zakat, they should have reacted strongly upon losing it.

Zakat and Ushr administration has been funded by the Federal Consolidated Fund reserved for the administrative expenses of civil servants. It does not depend on the amounts received as Zakat although, according to Islamic law, not only the Zakat and Ushr Administration but also the whole state can spend Zakat funds to run its machinery. Concentration of costs within the bureaucracy reduces the possibility of any intense reaction from the public. But when the imposition of Ushr affects influential stakeholders such as landlords, they sternly react and practically refuse to pay their dues. That is why the amount collected through Ushr is nowhere mentioned in the official balance sheets whereas the amount collected as Zakat always remains significant. If the Zakat deduction is also made voluntary and collected through local communities like Ushr instead of through bank deposits, one wonders what will be the result in terms of collection. It is my contention that, for one reason or another, people would react more readily as the deduction would be considered immediate and obvious. Zakat policy has faced a more explicit and severe resistance, and was ultimately altered for the influential Shi'ite minority when it challenged their religious beliefs. Thus the contents of the policy process do affect the nature and location of reaction.



## Outcome: Zakat and Poverty Alleviation

Table 1.0 shows the heads and percentage of allocation along with Zakat funds collected in 1999-2000.

<b>Disbursement Heads</b>	<b>Percentage 1999-2000</b>	<b>Amount Allocated (billions of rupees) 1999-2000</b>
<b>Total</b>	<b>100</b>	<b>2.18</b>
Subsistence	60	1.31
Educational scholarships	18	0.39
Scholarships for religious training schools	8	0.17
Health institutions	6	0.13
Social welfare rehabilitation	4	0.09
Dowries for orphan girls	4	0.09

### **Table 1.0: Zakat: Relative and Absolute Allocation**

Source: *Economic Survey of Pakistan 1999-2000*

Total Zakat Fund: US\$ 35.48 millions

The SPDC research reports collection of Rs. 5 billion on average each year (SPDC 2003). The report maintains that distribution of funds by the provincial *Zakat* council is formula driven, with 60 percent going to the local *Zakat* committees and 40 percent to institutions (e.g. public hospitals, schools, vocational training institutions etc.). Those who are eligible to receive *Zakat*, receive such payments through the banks.

According to the main findings of SPDC report, based on a national survey of the poorest households receiving or not receiving *Zakat* grant, most of *Zakat* recipients report no earner in the family, are heavily indebted, generally own their house, spent most of *Zakat* grant on food items, mostly illiterate and have large families. Perhaps the most significant finding of SPDC research is that it did not find any significant differences between the consumption pattern and income profile of recipients and non-recipients of *Zakat*. This conforms to the finding of this study as well.

Official and semi-official evaluations of *Zakat* policy suggest that the system has helped to decrease the poverty gap by two to three percent and to raise the living standards of the lower income group (Clark 2000:214). It has at least helped to enlarge the choices for the poorest of the poor – the main recipients of *Zakat* (ibid). Taking the most widely used caloric-based poverty (headcount ratio), and depending upon the modest official documents, the incidence of poverty declined sharply from 46.5 percent in 1969-70 to 17.3 percent in 1987-88. Afterwards, the incidence began to grow again and in 1998-99, it stands at 32.6 percent. If someone were to pick the poverty rate in 1980 when the *Zakat* and *Ushr* Ordinance was promulgated, it would be easy to conclude that the poverty has declined.

However, that would be an attribution error as Pollitt (1955:137) would warn. First, it is the same period in which Pakistan enjoyed generous aid from the United States and Saudi Arabia during the Afghan war, and also heavy remittances from Pakistanis working abroad (Husain 1999:7). Second, the declining trend in the poverty ratio started immediately after the industrial revolution under Ayub Khan in 1969 (GoP 2000:50) and hence cannot be exclusively associated with the Zia era. Third, if Zakat were to have a positive correlation with decline in the poverty rate, then the sudden rise in poverty after 1988 cannot be adequately explained because Zakat collection continued to grow after a decline of three years (Ibid:appendix 49). In fact one of the main reasons for the rising rate of poverty in the 1990s can be attributed to the gradual decline in development expenditure, which fell from 6.4 percent of GDP in 1990 to 3.2 percent in 1999 (Ali and Bari 2000:49). Therefore, the claims of a *significant* positive correlation between growth in Zakat funds and a decline in absolute or relative poverty become questionable when subject to academic scrutiny.

The poverty line in Pakistan, i.e. the minimum income needed to meet basic needs, was estimated to be between Rs 800 and Rs 1000 per month per person in 1999 (Clark 2000:215). Zakat receipts in the same year per person averaged Rs 6250 per annum or Rs 520 per month. It means that, on average, Zakat does not help the recipients to cross the poverty line. Moreover, Zakat recipients (400,000 in total) are a meagre 0.93 percent of the total number of poor in the country, who have reached the alarming figure of 42.5 million. The Musharraf government has decided to reduce the number of recipients to 100,000 to encourage a meaningful amount for the short-listed. This is a positive step as far as economic rehabilitation is

concerned, but that would also imply that 300,000 poor people would probably go below the poverty line again.

The government of Pakistan acknowledges that the reduction in the poverty rate over last decades is largely due to “inherited values” and “unintended and intended beneficial policies” (GoP 1999:5). An independent study confirms this claim by arguing that the “private transfers are currently the main means of protecting the economically disadvantaged” (Husain 1999:197). One can deduce that the Islamic spirit of sacrifice and brotherhood inspires while the extended family system facilitates these private income transfers.

### *Unintended consequences*

Zakat policy has resulted into many unintended social, economic and political consequences. The committee-based system of Zakat distribution brought to the fore the problem of patron-client relationships. Thus people who could access the local Zakat committee chairperson by ‘the right connection’ would be declared as more needy than others (Kuran 1993:323). Political parties in power use the respectable position of Zakat committee chairpersons to favour their allies and supporters. Dailies often report how a chair exploits his position to extend benefits to some of his own relatives (Jang 2001). Other doors of corruption in the disbursement, which started to grow after the death of President Zia in 1988, included appropriation of the funds for personal use by LZC members, shoddy record-keeping, and favouritism (Clark 2000:207). An important unintended beneficiary, especially from the changes in 1991, is the banking system itself, which benefits from the money deposited in anticipation of later being giving away to recipients. Since every beneficiary had to open and maintain a minimum

account deposit of Rs 500, the total figure comes out to around Rs 200 million.

As the case of Zakat policy reveals, unintended consequences are not necessarily negative. After the imposition of Zakat at the state level, it has become a social issue and its collection and disbursement have become a moot point among Islamic scholars and social development actors. Thus it has not only generated healthy debate on the possible expansion of Zakat heads but has also attracted private and non-governmental social welfare organizations to claim their share from Zakat. Many of the leading organizations such as the Shaukat Khanum Memorial Hospital and the Qarshi Foundation now depend heavily upon Zakat receipts to meet their expenditure, which they use in various projects of social importance. It is my contention that if Zakat were not brought into the limelight by the state, its use would have been limited to meeting consumption needs of the needy in the family and the community and its social and institutional significance could not have brought to the fore. Thus Zakat policy has diversified the resource base for social development organizations. Another positive consequence of the Zakat system is the creation of more jobs at federal and provincial levels because it is now administered by an independent ministry. Besides formal employment, its distribution system has also created avenues of social service for local volunteers.

### **Problems in Implementation**

Implementation of a policy could face any or all of three possible types of problems: dispositional, capacity and communication. The Zakat system in place depends on extensive and honest participation by the public and this would not allow implementation as desired. Many depositors withdraw

heavy amounts from banks just before the Zakat deduction date in order to lower their deposits below the minimum amount. Many others take advantage of the jurisprudential exemption of Shi'ites from payment of Zakat and declare themselves Shi'ite on bank papers, which bars the bank from collecting Zakat from them (Husain 1999:198). This practice results from a dispositional difference of people who do not consider the state as a legitimate institution to use a sacred trust. However, the rather simpler and common phenomenon of tax evasion due to corruption cannot be gainsaid in the case of Zakat deduction. Furthermore the capacity of local committees to collect Ushr from powerful landlords has undermined the success of Ushr policy. Landowners in Pakistan are simply too powerful to be persuaded by voluntary obligations such as Ushr.

We generally believe that a public policy, if introduced as Islamic, would attract larger public support in a country like Pakistan. However, Ushr, the land-tax component of Zakat, has dismal results as a policy: the total revenue collected under this head in 1993-94 was a paltry sum of Rs 200,000 (US\$ 3255) (Husain 1999:198), a figure so negligible and embarrassing that it is nowhere mentioned in the official balance sheets. Thus it creates doubts about our hypothesis that an Islamic public policy has a greater chance of being implemented.

### **Revamping Zakat System**

Restructuring the Zakat system has been routinized. Every new government, whether military or democratic, has come up with new proposals for collection and disbursement methods. Thus the Zakat system has been dynamically changing. It has the potential to become an efficient means of income transfer for poverty alleviation. Over the years, it has become more

complicated, especially after adding the banks as channels. This channel has also reduced the net amount that recipients get. Thus it is important to revert to a cash-based system by increasing the component of local community. It is understandable that a cash-based system would invite more chances for corruption than a crossed-cheque system, but it can be countered by more monitoring at the local level. The military government has instituted a new local government structure throughout the country. It should effectively employ local bodies to monitor and participate in the Zakat collection and disbursement procedures.

### **Conclusion and Recommendations**

The Zakat and Ushr system combined with Bait-ul-Maal collectively constitute the only formal channels for income transfers in Pakistan (ibid). Hence their importance cannot be gainsaid. Though the government has started to depend heavily on foreign-assistance based Social Action Programmes (SAPs) for human development, the Zakat and Ushr administration remains a potentially indigenous yet unexplored source of human development through direct income transfer. If the collection and disbursement heads of Zakat could be expanded – a possibility that many modern scholars have worked out (Saleem 1995) – this indigenous resource could play a key role in income transfer and, subsequently, in the redistribution of wealth.

Zakat does not significantly alleviate the poverty of its recipients. But the output of Zakat as a public policy is much more noteworthy than its outcomes. It has created a large implementation machinery whose contribution to poverty alleviation is negligible, but which nevertheless has created more jobs. This can be said of the overall Islamization project as

well. It has created momentous legal and institutional infrastructure with a lot to cover on ground. It remains dependent on the choices made by any incumbent regime in terms of budgetary resources and political support.



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