Social Role of Alms (zakāt) in Islamic Economies

Abstract

Islam as both religion and socioeconomic system is based on five main pillars, that is – five basic acts considered mandatory by Muslims, summarized in the hadith of Gabriel. One of them is zakāt (almsgiving), i.e. giving 2.5% of one’s wealth to the poor and needy.

In contrary to Christian religion, where question of charity is rather of a voluntary matter, the role of zakāt in Islam is much more rigidly described. Almsgiving is considered as a duty of a pious Muslim towards the poor. Thus in Islamic economy, strongly based on Islam principles given by Allah to Muhammad, zakāt is imposed by law and is not considered a charity but duty rather. The notion of zakāt is mentioned in Qur-an over a 100 times, solely or in conjunction with other commandments. On a basis that zakāt is to be paid as a part of total wealth exceeding given minimum wealth (nisab) it is then justifiable to say that zakāt is principally a tax.

A role of this essay is to shed some light on a utilisation and role of zakāt in Islamic economies in socioeconomic context, with an example of Islamic Republic of Pakistan, where in 1980 the Zakāt Ordinance was imposed. The concept of zakāt is present in many Islamic countries, but its nature varies, being dependent from the interpretation of religious law in a given country. Everywhere though, its social role as an important tool maintaining social justice is strongly expressed.

Of course zakāt system also has its drawbacks and is subjected to much criticism. The article aims to present both advantages and negative aspects of zakāt.

Keywords: Islamic banking, Islamic economics, interest-free economics, zakāt, alms, social justice

JEL Classification: P46, Z12
1. Introduction

Islam as both religion and socioeconomic system is based on five main pillars, that is – five basic acts considered mandatory by Muslims, summarized in the hadith of Gabriel. One of them is zakāt (almsgiving), i.e. giving a certain per cent of one’s savings to the poor and needy.

In contrast to Christianity, where the question of charity is rather of a voluntary matter, the role of zakāt in Islam is much more rigidly described. Almsgiving is considered to be the duty of a pious Muslim towards the poor. Thus in some Islamic economies strongly based on Islamic principles given by Allah to Muhammad, with the prime example of Pakistan, zakāt is imposed by law and is not considered a charity but more of a duty. ‘The commandment to establish zakāt is mentioned [in the Qur’an] more than 100 times, usually in conjunction with salah (prayer), as two means of purification’, writes Marghoob A. Qurais1. On the basis that zakāt is to be paid as a part of total wealth exceeding a given minimum wealth (nisab), and due to its being obligatory it is then justifiable to say that zakāt is principally a tax.

A role of this essay is to shed some light on the utilisation and role of zakāt in Islamic economies in a socioeconomic context, with an example of the Islamic Republic of Pakistan, where the Zakat Ordinance was imposed in 1980. The concept of zakāt is present in many Islamic countries2, but its nature varies, being dependent on the interpretation of religious law in a given country. Everywhere, though, its social role as an important tool maintaining social justice is strongly expressed.

2. Zakāt as the answer to the burning issue of economic justice

Zakāt purifies the heart of the recipient from envy and hatred of the rich, and fosters in his heart good feelings towards his brother Muslims3, but it is not the only thing that matters. Economic justice is a matter of great concern in Islam. Zakāt is considered mainly as a way to improve the difficult situation of the poor and as such fulfils an important role of a tool serving to redistribute income and eliminate poverty. The objective of the system of zakāt is to assist the needy, the indigent

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and the poor, preferably giving financial assistance to widows and orphans. A full list of recipients consists of following eight categories:

- **Al-Fuqara** (the poor): those having neither any assets nor means to earn their living. Though the Hanafi jurists suggest the poor are simply those who have less than the amount of assets on which zakāt is payable;
- **Al-Masakin** (the needy): those having insufficient means of livelihood to cover their basic needs. In fact this category is just an expanded version of the previous one;
- **Al-‘Amilina ‘Alayha** (administrators of zakāt): workers responsible for the collection and distribution of zakāt;
- **Al-Mu’alla’afe-Qulubuhum** (converts): those who converts to Islam. Literally those whose hearts are softened. Some scholars claim this also applies to poor non-Muslims;
- **Fir-Riqab** (people who are not free): those who want to free themselves from bondage or slavery;
- **Al-Gharimin** (debtors): those who are in debt (but this refers only to money borrowed to meet basic, halal expenditures);
- **Fi-Sabilillah** (in the cause of Allah): most Muslim jurists agree that this category can be used both for defense and promoting Islamic values;
- **Ibnas-Sabil** (wayfarers and travelers): those stranded on their journey with no means to return home, even though they might be otherwise considered rich.

Nonetheless there are many others who, even being in trouble, are not supposed to get any financial help. The list of whom zakāt cannot be given is quite precise:

- a **Sahib-i-Nisab** (a man who owns a certain amount of property), with one exception for him being on a journey during which he has lost his fare and so cannot reach his destination unless given financial assistance;
- some relatives of a **Sahib-i-Nisab** (parents and grandparents, and great grandparents, etc. as well as children, grandchildren etc. mother, father, paternal and maternal grandparents, great grand-parents, etc.; zakāt also cannot be given to a wife or husband), but it is possible for other relatives (such as brothers, sisters, uncles, aunts, cousins, nieces, nephews, etc.) to get zakāt, as they are not considered participants of Sahib-i-Nisab’s wealth;
- the descendants of the Prophet (Hashemites). Even a **Sahib-i-Nisab** Hashmi is forbidden to give zakāt to another Hashmi, even though he, being poor, might fulfil all requirements deserving financial help;

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• a hale and healthy person able to earn for his requirements of life but not willing to work or already working as a teacher, domestic servant, etc. Also, zakāt cannot be given as a wage for work, nor for public welfare works such as the construction of bridges, roads, canals, wells, etc.;
• a non-Muslim.

Additionally, the zakāt fund is forbidden to be spent on the construction of a mosque (which as a place of worship is not owned by anyone), as a coverage of funeral expenses or to discharge the debts of a deceased.

Zakāt is considered to serve not only the donee but also the donor, as it purifies his heart from selfishness and greed for wealth, developing in him sympathy for the poor and needy.

Generally speaking, zakāt is paid by people whose wealth exceeds a certain minimum, called nisab. Though the zakāt rate varies according to a complex set of criteria: gold and silver, for example, are subject to 2.5 per cent, like horses; but mules and elephants are exempt from the tax – the former as they ‘do not breed’, the latter as they ‘seldom breed’. In mining, the rate of zakāt is 20 per cent, in agriculture it depends on the type of irrigation: 5 per cent of the product of the land irrigated by the owner and 10 per cent when otherwise.

A different issue is the definition of nisab itself which also differs according to some complex criteria. Interestingly, due to the fact the price relationship between gold and silver have changed since the times of the Prophet, the modern definition of wealth varies. For gold and silver the nisabs are, respectively, 7.5 tolas (3 ounces) and 52.5 tolas (21 ounces), as such levels were stipulated precisely by Prophet Muhammad. In 1984’s prices it meant that each member of an Islamic economy can hold roughly U.S. $1,100 worth of gold and $200 worth of silver without paying zakāt. Obviously it cannot be considered justifiable.

3. Social role of zakāt in Pakistan

From the very beginning in Pakistan, zakāt was collected and distributed under state patronage. Formal enforcing of zakāt by promulgation of the Zakāt & Ushr Ordinance 1980 (No. XVIII of 1980) made the country an interesting case study for anyone willing to consider the practical dimension of zakāt as a tool meant to cope with inequality and injustice among people.

The first schedule detailed 11 types of assets subjected to zakāt. Deduction of zakāt is conducted once a year at the rate of 2.5 per cent on the value of certain financial assets. One should note, however, that it is just a minimum amount, as there is no upper limit of zakāt, which can be given at one’s discretion, though

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7 Ibidem.
8 Ibidem.
one cannot deprive himself of all his means. Beyond these minimum obligations, the more one gives, the greater the moral benefit on both the donor and the donee. In Pakistan zakāt applies by law only to Sunni Muslims and others can choose not to be included in the scheme and make their donation privately. Interestingly, Shia leaders have vociferously criticized the system built around only Sunni jurisprudence, ultimately championing the right to collect zakāt payments from members of their community with the proviso that it will be intended only for their needs.

The assets that are subject to zakāt in Pakistan are:
- Saving Bank Accounts,
- Notice Deposit Received (an investment account, but for access to the money one must notify first),
- Fixed Deposit Received,
- Saving Deposit Certificates (time deposits),
- Units of National Investment,
- Investment Corporation of Pakistan and its mutual fund certificates,
- Government securities,
- Security, including shares and debentures of corporation companies,
- Annuities,
- Life insurance policies,
- Provident funds (pensions).

The assets mentioned above include those of international banks that operate in Pakistan, which are bound by the same laws as local banks. The amount of zakāt so deducted is credited in the State Bank of Pakistan, located in Karachi. The Ministry of Religious Affairs oversees the Zakāt Council responsible for collecting and distributing zakāt and ushr (a kind of land tax). All the funds collected are then transferred according to the percentage of the population of each province to the Provincial Zakāt Council, which in turn transfers it to District Zakāt Committees (DZCs) and further to Local Committees level (LZCs) and other institutions, where the actual disbursement is made. There are 35 DZCs and approximately 25,267 LZCs engaged in the distribution of zakāt money amongst mustahiq (beneficiaries).

Sixty per cent of the total budget allocated to a DZC is fixed for Guzara (living) Allowance. From this fund an allowance of Rs. 500 is given monthly to persons identified by the local zakāt committee as being the neediest in the locality. The poverty line that allows an adult Muslim to get an allowance is determined as Rs. 675, with preference to widows and the disabled (in 2014 this equals about 21 zl, or 5 euros a month). All the beneficiaries of the allowance are required to

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fill in a declaration that they do not receive any financial assistance from any other poverty alleviation government program\textsuperscript{12}.

Other forms of financial help sourcing from zakāt fund include educational stipends to mustahiq students (18 per cent of the total budget allocated do DZC; see Table 1 for details); educational stipends to the students of deeni madaris (religious schools); health care and social welfare; and the marriage assistance fund from which the dowry of mustahiq girls is paid (see Illustration 1)\textsuperscript{13}.

Table 1. Educational stipends

<table>
<thead>
<tr>
<th>No.</th>
<th>Level of Education</th>
<th>Rs. per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>From Primary to Middle</td>
<td>75</td>
</tr>
<tr>
<td>2.</td>
<td>High School</td>
<td>112</td>
</tr>
<tr>
<td>3.</td>
<td>Intermediate and Graduate Level</td>
<td>375</td>
</tr>
<tr>
<td>4.</td>
<td>Post Graduate</td>
<td>750</td>
</tr>
<tr>
<td>5.</td>
<td>Engineering / Medical Colleges and Engineering University</td>
<td>874</td>
</tr>
<tr>
<td>6.</td>
<td>Computer Sciences</td>
<td>874</td>
</tr>
</tbody>
</table>

\textit{Source:} Zakat & Ushr Department, Government of the Punjab.

\textit{Zakāt} fund intended for poor students is shared according to the following proportion\textsuperscript{14}:

(1) Primary to Middle – 50 per cent;
(2) Science, the Arts & Professional Education – 25 per cent;
(3) Higher Education – 25 per cent.

There are also stipends intended to support technical students. The stipends might take one of two forms. A certain amount of Rs. 2200 is paid monthly to the student of a VTI (Vocational Training Institute), and a one-time grant of Rs. 5000 is available for the purchase of tools or equipment after the successful completion of a training course. There is also an offer for the students to TEVTAs (Technical Education and Vocational Training Institution) that includes Rs. 500 per month and Rs. 5000 as a tool grant\textsuperscript{15}.

A poor patient who qualifies for the health care part of the zakāt distribution system can get help with the cost of an operation or necessary medication. Six per cent of the total allocated budget of DZC is spent on free treatments of such patients, with the spending limits of Rs. 2000 for inpatient health care and Rs. 1000 for outpatient health care\textsuperscript{16}.

The basis of the social welfare and rehabilitation system constitutes grants given to social welfare institutions, largely those run by provincial welfare and labor departments. Their primary task is to cover the fees of mustahiqs getting

\textsuperscript{12} Ibidem.
\textsuperscript{13} Ibidem; Organización Internacional del Trabajo, www.ilo.org (accessed 8\textsuperscript{th} November, 2014).
\textsuperscript{14} Zakat & Ushr Department, op. cit.
\textsuperscript{15} Ibidem.
\textsuperscript{16} Ibidem; Organización Internacional del Trabajo, op. cit.
vocational training. For these tasks, 4 per cent of the total budget allocated to a DZC is fixed. A mustahiq can stand to receive a one-time grant up to Rs. 5000 that might account for their rehabilitation and subsequent removal of their name from the list of the poor\textsuperscript{17}.

Marriage Assistance for Un-Married Women provides funds to pay the dowry of mustahiq girls, and constitutes 4 per cent of the total budget allocated to a DZC. The maximum assistance for marriage of a mustahiq is no higher than Rs. 10,000\textsuperscript{18}.

Illustration 1. Shares in total zakāt budget

\begin{figure}
\centering
\includegraphics[width=\textwidth]{zakat_budget_shares.png}
\caption{Shares in total zakāt budget}
\end{figure}

\textit{Source:} Zakat & Ushr Department, Government of the Punjab; Organización Internacional del Trabajo.

4. Summary

During the first 9 months of 2012 alone, Rs 7.8 billion was allocated for the zakāt fund. Unfortunately, as 43 per cent of population of Pakistan (80 million people) lives below what is considered the poverty line ($2 daily wage)\textsuperscript{19} it gives only about Rs. 100 per capita on average. It is not enough to actually improve the lives of the poor. Not to mention that not all of them are considered eligible for the allowance.

The whole system of distribution of zakāt is widely criticized on the basis of its ineffectiveness and inaccuracy. The compulsory nature of zakāt makes it a new

\textsuperscript{17} Zakat & Ushr Department, op. cit.; Organización Internacional del Trabajo, op. cit.
\textsuperscript{18} Ibidem.
tax, leading to the problem of double taxation on income. But the main problem is corruption and mismanagement troubling the distribution system, further limiting already scarce funds, so the program is too underfunded to achieve its goals. In 2011 the Central Zakat Administration was accused of severely mismanaging the country’s zakāt funds. That might be one of the reasons that, around the same time, the government of Pakistan allowed for an exemption. It is now possible to opt out of the program by submitting a special form to the bank\(^20\).

Additionally, many critics raise questions about the problem of tax avoidance as holders having Rs. 51,086 or more, who would face a 2.5 per cent cut from their accounts, withdraw funds from banks before the zakāt cut as this is seen completely legal\(^21\), eager to save their money from deduction or to give zakāt at their own discretion. And vice versa: any person who has deposited money on the day before the first day of Ramadan, when the tax is traditionally deducted, would face deduction. As banks often do not inform customers about the deduction of zakāt\(^22\), for some that can be a deterrent.

Still, without accurate data of payers and beneficiaries, we cannot say if there is a real improvement, though it is highly possible that with so many people in poverty such a slight gain per capita as the Guzara Allowance makes for a very little change.

There is also another interesting aspect of a problem with the tax-like nature of zakāt, which is its compulsiveness. As one of the readers of The Express Tribune wrote in a comment, ‘The state does not need to tell people how to be good Muslims in a country like Pakistan’. In fact there are only a few countries including Pakistan, Malaysia, Singapore, Indonesia and Brunei, where zakāt is collected as a compulsory obligation by the state\(^23\).

Some, like professor Timur Kuran, suggest that in modern economies zakāt as a form of redistribution tax is no longer necessary, because all modern taxes redistribute wealth. What is more, it is too restrictive and obsolete, as the original zakāt is primarily levied almost exclusively on agricultural goods and in its Pakistani modified version has been levied on the financial aspect of one’s wealth, without taking account of tangible assets. Also, zakāt is unspecified in the reality of the free market – a man with gold could be 5.5 times richer than a man whose wealth is in silver, though the former pays less than the latter\(^24\). This criticism seems, therefore, to justify the abandonment of zakāt in the form sanctioned by tradition to modern tax solutions, leaving the decision of almsgiving to the heart of every pious Muslim himself.


\(^{21}\) Zakat System’s Failure..., op. cit.


\(^{23}\) Zakat System’s Failure..., op. cit.

\(^{24}\) T. Kuran, op. cit.
References


