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Author: Adam Bukowski

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Adam Bukowski

University of Lodz, Institute of Economics
Department of the History of Economic Thought and Economic History
email: adam-bukowski@o2.pl

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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. Quraishi¹. 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

¹ M.A. Quraishi, *The Institution of Zakat and Its Economic Impact on Society* [in:] Islamic Finance into the 21st Century: Proceedings of the Second Harvard University Forum on Islamic Finance, Center for Middle Eastern Studies, Harvard University, Cambridge, Massachusetts 1999.

² *Zakat System's Failure to Deliver*, "The Express Tribune" 2012, July 23rd, www.tribune.com.pk (accessed 8th November, 2014).

³ *Tackling Destitution, Poverty through Zakkat System*, "This Day Live" 2014, 1st June, <http://www.thisdaylive.com/articles/tackling-destitution-poverty-through-zakkat-system/179902/> (accessed 8th November, 2014).

and the poor, preferably giving financial assistance to widows and orphans. A full list of recipients consists of following eight categories⁴:

- *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‘allafate-Qulubuhum* (converts): those who convert 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 precise⁵:

- 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;

⁴ National Zakat Foundation, www.nzf.org.uk (accessed 8th November, 2014).

⁵ *Facts on Zakat*, "Islamic Voice" 2004, October, <http://www.islamicvoice.com/October2004/FactsOnZakat/> (accessed 8th November, 2014).

- 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*⁶. 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 otherwise⁷.

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*⁸. 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

⁶ T. Kuran, *The Economic System in Contemporary Islamic Thought: Interpretation and Assessment*, “International Journal of Middle East Studies” 1986, vol. 18, No. 2, May, pp. 135-164.

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 privately⁹. 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 needs¹⁰.

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)¹¹.

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 zł, or 5 euros a month). All the beneficiaries of the allowance are required to

⁹ M. Kelly, *Islam. The Religious and Political Life of a World Community*, Greenwood Publishing Group, Westport 1984, p. 23.

¹⁰ *Pakistan. A Country Study*, ed. P.R. Blood, Federal Research Division Library of Congress, April 1994, p. 142.

¹¹ Zakat & Ushr Department, Government of the Punjab, www.zakat.gop.pk (accessed 8th November, 2014).

fill in a declaration that they do not receive any financial assistance from any other poverty alleviation government program¹².

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)¹³.

Table 1. Educational stipends

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

Source: Zakat & Ushr Department, Government of the Punjab.

Zakāt fund intended for poor students is shared according to the following proportion¹⁴:

- (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 grant¹⁵.

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 care¹⁶.

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

¹² Ibidem.

¹³ Ibidem; Organización Internacional del Trabajo, www.ilo.org (accessed 8th November, 2014).

¹⁴ Zakat & Ushr Department, op. cit.

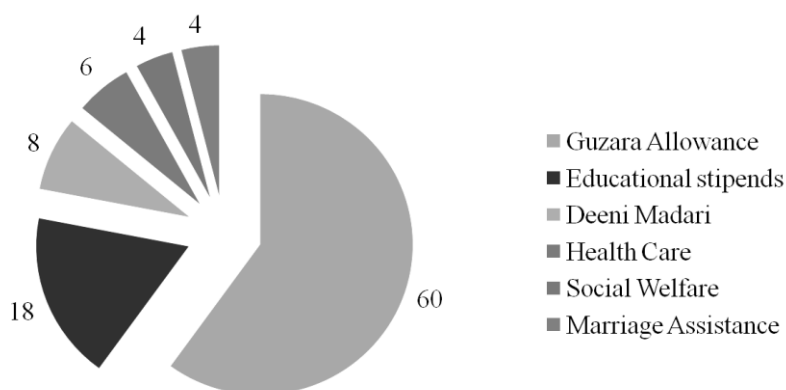
¹⁵ Ibidem.

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 poor¹⁷.

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. 10,000¹⁸.

Illustration 1. Shares in total zakāt budget



Source: Zakat & Ushr Department, Government of the Punjab; Organizaci3n 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)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

¹⁷ Zakat & Ushr Department, op. cit.; Organizaci3n Internacional del Trabajo, op. cit.

¹⁸ Ibidem.

¹⁹ *Over Half of Pakistan Lives Under Poverty Line: Dar*, "The Dawn" 2014, June 3rd, www.dawn.com (accessed 8th November, 2014).

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 bank²⁰.

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 legal²¹, 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 state²³.

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 latter²⁴. 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.

²⁰ *Pakistan: Where Religion Takes a Bite out of Your Paycheck*, "Global Post" 2013, 4th August, www.globalpost.com; (accessed 8th November, 2014).

²¹ *Zakat System's Failure...*, op. cit.

²² *Banks to Deduct Zakat on 1st Ramadan*, "Pakistan Today" 2011, 1st August, www.pakistantoday.com.pk (accessed 8th November, 2014).

²³ *Zakat System's Failure...*, op. cit.

²⁴ T. Kuran, op. cit.

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