

Making the System of Zakat More Effective and Impactful for Social Protection

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Policy Brief

Zakat can be an effective medium for alleviating poverty and distributive justice. However, this requires legislation and governance reforms along with benefiting from technology and public-private partnership. This policy brief looks at the issues that are holding back the system from achieving its full potential and also provides comprehensive and multi-level recommendations along with examples from the systems prevalent in other Muslim countries.

Introduction

Zakat (lit. purify) is an effective non-market-based institution for poverty alleviation in an Islamic state. It is not a tax but rather an act of worship and a source of purification that cleanses the payer's wealth. It is an obligatory charity and one of the five basic pillars of Islam. The amount of wealth Zakat equates to 2.5% of a person's total wealth with the potential of growth and which remains in his/her possession for one complete lunar year.

Empirical studies show that if potential Zakat is collected and disbursed to the targeted poor, then absolute poverty would be significantly reduced or even eradicated in Muslim-majority countries. Thus, Zakat can prove to be a potent vehicle for poverty alleviation and distributive justice provided its administration and governance are improved. This policy brief highlights major challenges in the government-administered Zakat system and recommends policy steps and strategies to overcome these challenges.

Zakat System in Pakistan

In Pakistan, Zakat collection is the responsibility of the Ministry of Religious Affairs. The state-owned Zakat system was introduced in the 1980s when the Zakat and Ushr Ordinance, 1980, was enacted. The

Ordinance aimed at ensuring a just economic system and eradicating poverty. After the 18th Amendment, the authority to collect Zakat was devolved to provincial governments from the federal government. The provinces thus enacted independent Zakat and Ushr acts, and each province also established separate Zakat and Ushr departments.

The Zakat administration is headed by a Chief Zakat Administrator. The Provincial Zakat and Ushr Council is the apex authority. Then, there are District Zakat Committees (DZC), and at the bottom of the hierarchy are Local Zakat Committees (LZC) which are tasked with the work of screening, determining eligibility, and ensuring timely disbursements.

In the lower tier of Zakat administration at the district level, there are audit staff and field clerks, also known as group secretaries. The Zakat and Ushr Department does not collect Zakat directly. It is allocated a share from the central collection. As of now, the Provincial Zakat and Ushr Department only screens potential beneficiaries and manages the disbursement of Zakat funds which are received from the central Zakat collection at the federal level. The LZC comprising nine members, including Chairman and Vice Chairman, is responsible for the identification of Mustahiqeen and the disbursement of Zakat funds to them.

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Issues in Zakat Administration

From the perspective of Muzakki (Zakat payer), there are the following important problems in Zakat administration:

- **Lack of Awareness about Zakat Rules:** People who are required to pay Zakat often do not have any information on how much Zakat to pay on different categories of assets and which assets are exempted from Zakat and which are not. People also do not have the knowledge to deal with complications in Zakat assessment in jointly owned properties, real estate, and financial assets. Hence, they may underpay Zakat due to a lack of awareness. There is also no assistance available for Zakat assessment at the head office and district office since the collection is not decentralized at all at the moment. The staff does not receive any training on Zakat rules and assessment.
- **Minimal Coverage of Zakatable Assets:** Most assets and wealth forms in the First Schedule of provincial Zakat and Ushr Acts represent financial assets and wealth forms. They come in the documented sector and where it is possible to deduct Zakat at the source. It burdens the Zakat payer to keep track of Zakat deduction at source by the government separately and also the Zakat due on other assets and wealth forms on which government does not collect Zakat.
- **Lack of Trust in Government about Assessment and Disbursement:** Deduction at source does not take into account the liabilities, which are adjustable against Zakatable wealth. Hence, there is an inexact assessment. Moreover, the Zakat payer generally feels that either the Zakat funds would not be spent transparently, and even when they are used for social assistance, the formal juristic requirements of asset ownership (Tamleek) and payment to deserving Mustahiq (one who is not Sahib-e-Nisab) may not be met.
- **Dual Burden:** Since there is no tax incentive for Zakat payers, people underreport their income and wealth to avoid the dual burden of taxes and Zakat. However, since Zakat is obligatory from a religious perspective, people feel comfortable in distributing Zakat funds to the people in their close social circle or the institutions on which they have more trust or with which they have communal/religious affinity.

From the perspective of Mustahiq, there are the following important problems in Zakat administration:

- **Lack of Impactful Donation:** The majority of the Zakat funds are disbursed through cash assistance under Guzara allowance. As of now, the monthly assistance is Rs. 1,000 per family, i.e. less than 4% of minimum wage. Such small assistance may provide a few more meals but cannot help the Mustahiq to invest in skills upgradation, education, or well-being.
- **Ineffective Coverage:** Access to assistance is also hindered by ineffective coverage. Due to a lack of funds, priority is given to the disabled, widows, orphans, and old-age people. People living in poverty not facing these particular unfortunate circumstances are also great many in number. But, due to a lack of funds, they are unable to get assistance.
- **Delay in Disbursement:** Zakat funds are received once a year by the department. From the time of collection to disbursement, there is a time lag. Also, the funds are not available year-round to meet the social protection needs of the beneficiaries at different times of the year. Changes in political setup also affect appointments, approvals, release of funds, and timely disbursements.

From the perspective of the government as a collecting intermediary and regulator, there are the following important problems in Zakat administration:

- **Declining Central Collection:** Adjusting for the value of currency, population, financial inclusion, and size of the economy, the collection of Zakat in the federal pool is declining. Hence, this affects allocation to the provinces as well.
- **Complexity in Assessment:** There are many juristic differences and complexities which make the assessment of Zakat difficult to handle uniformly at the central level. In law-making, efforts were made to incorporate different viewpoints; however, differences arose, which led to the decentralization of the system. Initially, the right to submit an affidavit and claim exemption was allowed to particular schools of thought which had a different juristic understanding of the rules and scope of Zakat altogether. But, eventually, upon public resistance, it was allowed to all.
- **Inadequate Administration:** As of now, the economy is largely undocumented. The government's administrative capacity is also weak. Even the revenue department is not able to increase

the tax-to-GDP ratio significantly despite many attempts. Unlike the resources which the Federal Board of Revenue (FBR) has, the Zakat Department does not have enough human resources, infrastructure, and departmental funds to play a direct role in assessment and collection. Even in playing the disbursement role alone, the provincial departments need funding assistance from the government at the moment.

- **Competition in Zakat Mobilization:** Both religious and secular NGOs thrive on philanthropic giving. With better transparency, visibility, efficiency, and governance, the private sector NGOs crowd out the government from Zakat collection. Hence, other than deduction at source in which private sector NGOs cannot compete, the government is unable to receive voluntary Zakat payments.
- **Delay in Receipt of Zakat Funds to Provinces and Districts:** Even though Zakat on financial assets is deducted on the 1st of Ramadan, the payment to provinces is delayed for several months.

Recommendations

There is significant potential for the collection of Zakat, and it requires reforms in legislation and governance along with leveraging the benefits of technology and public-private partnership. Improved collection and disbursement can have a positive impact on poverty alleviation in Pakistan. To achieve this end, effective strategic decisions need to be taken on legislative and administrative levels to strengthen the Zakat system.

Legislative Recommendations

- **Revision of the Zakat Act:** The provincial Zakat and Ushr Acts lack coverage of many potential Zakatable assets. It is recommended to extend the list of items in the First and Second schedules to cover contemporary financial, intangible, and digital assets, such as Sukuk, intangible assets which are held for trade, and wallet money in a mobile account with a bank or any payment platform.
- **Enhancing Coverage of Assets in Centralized Collection:** It is recommended to bring more items from the Second Schedule to the First Schedule in the provincial Zakat and Ushr Acts. For instance, current and foreign currency accounts of individual persons.

- **Introducing Incentives:** It is suggested to introduce incentives and differential treatment based on Zakat filer or non-filer. There can be different tax rates for Zakat filers and non-filers. In Malaysia, tax rebate on Zakat payment is available to the extent of 100%, but only if Zakat is paid to the government. In Pakistan, the income tax law allows deducting Zakat as an expense to reduce taxable income rather than adjusting the tax liability itself. Providing adjustment in assessed income to those who had paid Zakat can reduce tax evasion and encourage Zakat payment to the government for effective and targeted disbursement.
- **Documenting the Economy for Effective Targeting and Profiling:** It is pertinent to bring all data in one place, including demographic data about an individual and the contracts of sale, purchase, lease, investment, and loan he has entered into so that it leads to the development of a unified or single registry. It will help reduce data collection and verification costs, which is vital for effective and efficient targeting. Meeting eligibility requirements and documentation also rest on the efficient operations of NADRA and all relevant agencies and departments from whom documentation is required to prove disability and other inopportune circumstances. Therefore, efficiency, one-window operation, and quick turnaround time shall be ensured.

Administrative Recommendations

The administrative recommendations can be further broken down into suggestions for provincial administration and local administration, listed hereunder:

Recommendations for Provincial Administration

- **Publishing of Annual Data:** Annual reports shall be published with detailed statistics and disbursement activities shall be documented and reported using visual tools. Malaysia has introduced real-time reporting of collection and disbursement in the State of Kedah. Such reporting and communication help in creating awareness, building trust, and gaining the confidence of people.
- **Introduction of Zakat Helplines for Assessment:** It is important to facilitate self-assessment through an approved and interactive smart Zakat calculator on the website. A telephone and internet hotline

should also be introduced to answer Zakat assessment queries by scholars. WhatsApp chatbot service can be introduced for common questions. It will allow interactive communication and solve minor routine queries without the need to wait. For those unable to access the internet and app, self-assessment forms must be developed in multiple languages with filtered criteria and should be made available at bank branches and post offices. People can be given the option to scan the forms and send them to the WhatsApp number for feedback and reply by the scholars at the Zakat Department.

- **Integration of Digital Zakat Collection Tools:** Introducing an e-crowdfunding platform on the website and mobile app can help in meeting the funding gap in specific causes and projects. Overseas Pakistanis can be attracted towards these open campaigns through push notifications to Roshan Digital account holders. This requires liaison with banks to allow a well-placed tab on the website and app along with occasional pop-up notifications to elicit responses towards contribution. Not only can ATMs be used to disburse payments to deserving beneficiaries, but they shall be utilized for mobilizing charitable giving. The collection points and mediums can be enhanced by leveraging technology and allowing payment of Zakat on multiple payment gateways, including easypaisa, JazzCash, UPaisa, mobile banking apps, and other frequently used apps which people use with high frequency, such as food delivery apps and ride-hailing apps.
- **Wakalah-Based Zakat Collection:** To strengthen Zakat collection and disbursement through the government-run Zakat system, the government may introduce a Wakalah scheme to create complementarity between the collection efforts of private NGOs and the government. Malaysia has introduced such a Wakalah program. Approved institutions can be given permission to assess and receive Zakat from the people but report and transfer it to the government. The government will return a certain percentage of funds to these institutions so that they can disburse the funds as per the stipulated conditions and guidelines. Malaysia also allows Wakalah institutions to receive Amil funds for their operational costs. Such a Wakalah program can help in creating complementarity rather than competition among the social intermediaries for sourcing charitable funds. Besides collection, Wakalah program can

also be used in disbursement whereby individuals and institutions giving their Zakat to the government can specify beneficiary institutions and individuals to whom Zakat shall be paid. The Zakat Department will allow payment of up to 50% of the Zakat received to the identified beneficiaries. This can help in creating penetration in social intermediation functions without disrupting the role of other social intermediaries and creating unnecessary competition.

- **Introducing Synergies in Different Zakat Programs:** Creating synergies within and across programs can help complement the impact of programs. For instance, productive Zakat can be given to small growers, and their produce can be purchased by the Zakat Department to distribute food packages among the poor. Likewise, providing sewing machines to females. They can be organized as a group to prepare school uniforms for particular schools where students of poor people are enrolled. The uniforms can be purchased by the Zakat Department and then provided to deserving students in the schools. Such programs have been successfully introduced in Malaysia.
- **Using Digital and Fast Mediums of Disbursement:** With the increased use of digital banking, the disbursement function can be simplified by reducing the role of LZC in disbursement. In place of order cheques which still have shoe leather and transaction cost, it is better to utilize mobile banking and digital payment platforms, such as easypaisa, Raast, etc.

Recommendations for Local Administration

- **Awareness Campaigns and Zakat Support System:** To sensitize people towards Zakat, LZC should provide guidance and counselling to their local communities, and seminars should be conducted in educational institutions and government departments. Additionally, mosques can be used for awareness campaigns where the imams are asked to deliver one sermon every month about the significance of Zakat. Proselytizing organizations like Tablighi Jamaat, Dawat-e-Islami and other religious foundations should also be taken on board to further promote awareness of Zakat.
- **Reducing Political Interference:** It is important that the whole process, from identification of the beneficiary to disbursement, remains free of political influences and intervention. Reducing

political interference in the selection of DZC/LZC members is critically important as it jeopardizes the integrity of the whole system. In order to reduce political influence, diversity in LZC shall be introduced with the involvement of ulema or imams of mosques. This is the practice in Malaysia and Brunei as well. The ulema and imams are in a good position to offer assistance to people in Zakat assessment.

- **Zakat Collection Through Local Mosques:** Due to high financial exclusion, physical cash collection is also an important medium in the

current period of time. The mosque is the most common community hotspot in every locality. As recommended above, if imams are taken on board in LZC, fundraising campaigns can also be organized in mosques. All payments received shall be deposited in DZC account. The imam can help in real-time Zakat assessment as well. Some fraction of the collected amount can be given to the imams under the head of Amileen Zakat to encourage them for collection/disbursement of the Zakat fund. This is a standard practice in Malaysia and Brunei. On a pilot basis, this can be started from Auqaf Department's administered mosques.

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