

**ZAKAT AS A SOCIAL SAFETY NET:  
EXPLORING THE IMPACT**

# ZAKAT AS A SOCIAL SAFETY NET: EXPLORING THE IMPACT

By

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## 1. INTRODUCTION

*Zakat* is the most important cash transfer scheme in Pakistan. It is mandated under Islam and is officially collected only from Sunni Muslims. Those eligible to receive *Zakat* i.e. the *Mustahiqeen*, include the needy and the poor (especially widows and orphans), as well as people with disabilities. Two main types of support are provided through the scheme: a monthly subsistence allowance to each *Mustahiq* and a rehabilitation grant. These two categories constitute about 70 percent of the support. Grants for *Jehez* (marriage dowry), and educational and medical expenses, make up the remaining 30 percent.

*Zakat* has emerged as the government's central program of social safety instruments. However, its potential and scope in fighting poverty is yet to be fully realized. At present annual *Zakat* collection is around Rs. 5 billion. It is estimated that the *Zakat* system benefits about 2 million Pakistanis, of which about 0.5 million are receiving assistance on a regular basis<sup>1</sup>.

To understand the institutional arrangement for *Zakat* disbursement and to assess its impact on household welfare, the Social Policy and Development Centre (SPDC) conducted a survey of *Zakat* recipients in the four poorest districts of Pakistan. This paper presents the finding of this survey and is organized as follows. Institutional features for *Zakat* system are provided in

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<sup>1</sup> Interim Poverty Reduction Strategy Paper (I-PRSP), Government of Pakistan, November 2001.

Section 2. Section 3 describes the methodology for conducting the survey, while the main findings are analyzed in Section 4. The last section is reserved for concluding remarks.

## **2. INSTITUTIONAL FEATURES**

*Zakat* system performs well on a number of the criteria as established of a good social safety net. Administrative costs, as a whole, are low, primarily because of voluntary inputs provided by members of the various committees. One of the strongest points in favor of *Zakat* has been its access to an earmarked source of revenue. Reliance on a specific source not only ensures sustainability, but the nature of the tax (i.e. being based on financial assets) is such that the burden falls mostly on upper-income households. Therefore, *Zakat* has the potential of playing a strong re-distributive role. Following is a brief summary of the systems organizational and institutional features.

### ***2.1 Collections and Disbursement***

*Zakat* has traditionally been a compulsory, annual deduction paid by Sunni Muslims at the rate of 2.5 percent on the value of specified financial assets. It is collected from persons who are *Sahib-e-Nisab*, i.e. those who own or possess certain assets on the valuation date which is the first day of *Ramadan*. A judgment by the Supreme Court, however, has allowed all sects to file a declaration seeking exemption from payment of *Zakat* on financial assets. This puts in jeopardy the mechanism of compulsory deduction and thus, the level of contributions.

Collections in 2000-01 were at Rs. 4.4 billion, a drop from the peak of Rs. 4.7 billion in 1993-94. More than 50 percent of the revenue comes from a tax on savings accounts and about 16 percent from fixed deposits. The amount of *Zakat*, deducted by the financial

institutions and by the Public Debt Office at source is deposited in the Central *Zakat* Fund and is not part of the federal budget. The State Bank of Pakistan maintains this account.

The Central *Zakat* Fund retains a portion of the proceeds, which is invested on non-interest basis. The outstanding cash balance as far back as January 1997 was almost Rs. 11 billion. Provincial disbursements are based on population, although this criterion is not strictly followed. 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.

## **2.2 System Hierarchy**

The *Zakat* and *Ushr* Ordinance was passed in 1980. An autonomous Central *Zakat* Council administers the Central *Zakat* Fund maintained by the State Bank of Pakistan. This council is supported by the *Zakat* and *Ushr* wing of the Ministry of Religious Affairs. The Provincial *Zakat* Councils regulate disbursement in the provinces and are further responsible for disbursing funds to each District *Zakat* Committee in the province. The most important tier within the system is the local *Zakat* committee, which identifies the *Mustahiqeen*.

The Central *Zakat* Council (CZC) provides policy guidelines for *Zakat* and supervises and maintains control over matters relating to them. The composition of the Council is broad-based as its members are from a range of backgrounds. Federal ministries of Religious Affairs, *Zakat* and *Ushr* and Minorities, Finance, Health and Education are represented in the CZC. Further, provincial representatives of Ulema, Women and judiciary are also part of the CZC. The secretary of the Ministry of Religious Affairs acts as the Administrator-General

of the Council. The members other than the ex-officio members hold office for a period of three years.

The provinces also follow a similar structure with the Chairman of the Provincial Council being either a serving or former judge of the provincial high court appointed by the Governor.

The next tier is the District *Zakat* and *Ushr* Committee (DZS) which is constituted by the Provincial *Zakat* Council (PZC). The chairperson is nominated by the PZC, while other members including women, *Ulemas* and other non-official members are appointed on the advice of the chairperson. Deputy Commissioner of the district is an ex-officio member of the Committee. The functions of the committee are as follows:

- ? To assess *Ushr* and other private donations
- ? To disburse and utilize the moneys in the district *Zakat* fund and local *Zakat* fund
- ? To prepare and maintain the accounts of the district *Zakat* fund
- ? To compile accounts of the local *Zakat* fund in the prescribed manner and arrange for an audit of the local *Zakat* fund

The Tehsil Committee performs functions similar to the District Committee but at the Tehsil or sub-district level. Other than the Assistant Commissioner, the chairperson of the Tehsil Committee selects six members.

The most important tier is the Local *Zakat* and *Ushr* Committee (LZC), which identifies the *Mustahiqeen*. The LZC is responsible for disbursing the funds it receives from the DZC. It consists of nine members (including two Muslim women) who are not less than forty-five years of age, must possess a secondary school certificate, be of sound moral and financial character and, not engaged in any form of political activity or an employee of any

governmental organization. The residents of the locality select these members. Once the committee is constituted, it then elects one of the members as the Chairperson.

A LZC is constituted for: (a) each revenue estate in a settled rural area; (b) each *deh* or village in a non-settled rural area; (c) each ward in an urban area. The LZC follows guidelines laid down by the three preceding tiers of the system. Their duties are as follows:

- ? Determination of *istehqaq* (eligibility) for subsistence allowance;
- ? Rehabilitation, either directly or indirectly through educational, vocational and social welfare institutions;
- ? Treatment through public hospitals, charitable and other institutions providing healthcare;
- ? Collection of private donations or *Zakat* for onward depositing in the District Zakat Fund; and
- ? Preparation and maintenance of accounts.

After receiving the application, the committee makes an inquiry to determine the applicant's eligibility. The Committee can pay a monthly *Guzara* (subsistence) allowance to 10 persons. After every six months these beneficiaries are re-evaluated and the persons no longer eligible are substituted with those on the waiting list. For other assistance from the *Zakat* Fund, the Local *Zakat* Committee recommends the cases to the District *Zakat* Committee for final approval and provision of funds.

### **3. THE SURVEY METHODOLOGY**

This study uses a quantitative approach to explore the perception of *Zakat* recipients regarding disbursements, procedural problems, needs fulfillment etc., and to examine the impact, if any, on the household standard of living. It evaluates the system of *Zakat* in both

rural and urban environments. For impact analysis, the ‘with and without’ approach of evaluation is applied and interviews with recipients and non-recipients were conducted.

### **3.1 Sampling and Stratification**

To ensure nation wide representation, four districts were chosen; Badin from Sindh, Muzaffargarh from Punjab, Haripur from NWFP, and Khuszdar from Balochistan. The poorest district in each province was chosen on the basis of the Multiple Index of Deprivation (SPDC, 2001). Haripur was the exception in this case as it was chosen for its logistic convenience.

At the next stratum, one *tehsil/taluka* was chosen in each district, with the highest number of Local *Zakat* Committees. The chosen *tehsil/taluka* was further disaggregated into an urban and rural sample on the basis of recipients’ shares.

Utmost care was taken in the selection of respondents. The sample comprised 100 households from each district. These households were randomly selected from two groups. Group 1 (Recipients) comprised households who are currently on the list of *Mustahiqeen* and receiving *Zakat*. The Group 2 (Non-Recipients) consisted of households who met the following criteria; first, those who were close to the recipient’s household, second those with similar housing conditions, and third, those who are not receiving *Zakat* and were not identified as *Mustahiq*.

The enumerators were asked to randomly select a Local *Zakat* Committee in the specific locality of the *tehsil/taluka* and enumerate two households (one Recipient and one Non-Recipient) from each chosen Local *Zakat* Committee. The Recipient’s household was

randomly selected from the list of *Mustahiqeen*. A schematic view of the sample distribution is given below in **Table 1**.

<b>TABLE 1</b>					
<b>SAMPLE DISTRIBUTION ACROSS REGIONS</b>					
<b>Districts</b>	<b>Rural Areas</b>		<b>Urban Areas</b>		<b>Overall [#]</b>
	<b>Recipients</b>	<b>Non-Recipients</b>	<b>Recipients</b>	<b>Non-Recipients</b>	
Muzaffargarh	34	34	16	16	100
Badin	42	42	8	8	100
Haripur	29	29	21	21	100
Khuzdar	34	33	16	16	99
Total	139	138	61	61	399
<b>Average Age [Years]</b>	<b>49</b>	<b>48</b>	<b>55</b>	<b>50</b>	<b>50</b>
<b>Female Respondents</b>	<b>60 %</b>	<b>48 %</b>	<b>84 %</b>	<b>67 %</b>	<b>54 %</b>

### 3.2 *Survey Administration*

A structured questionnaire was administered to the sample respondents. The core modules covered in the survey included, demography, education, health, housing quality, housing services, loan history, and expenditure patterns. The survey was administered with the help of local enumerators. SPDC staff supervised the survey and provided in-depth training (office as well as field based) to the designated local staff before starting the field survey. The survey was conducted during the months of November and December 2001.

## 4. MAIN FINDINGS

The insights from the field are discussed in the following three sub-sections. First, the characteristics of *Zakat* recipients are presented to highlight the extent of targeting. This is followed by the perception of *Zakat* recipients regarding the disbursement and monitoring



procedures. Finally, the differences among recipients and non-recipients in important socio-economic characteristics are displayed. An aggregated picture is portrayed; nevertheless striking provincial differences are indicated as and when felt necessary.

#### 4.1 Characteristics of Zakat recipients

**Table 2** demonstrates the important socio-economic characteristics of *Zakat* recipients' households in urban and rural dimensions. It is evident from the table that the majority of recipients relate to large families that have few earners (8 being the highest as recorded in Khuzdar).

<b>TABLE - 2 SOCIO-ECONOMIC CHARACTERISTICS OF HOUSEHOLDS RECEIVING ZAKAT</b>		
	<b>Urban Areas</b>	<b>Rural Areas</b>
Average Family Size	7	6
Illiterate Recipients	59	69
Households not sending any child to school	25	33
Recipients with no Job	64	47
Households with no Earner	33	48
House Ownership	80	92
Households with 'Katcha' outer wall	39	81
Households with 'Katcha' floor construction	57	93
Households with one room occupancy	33	47
Households with no piped water	15	66
Households with no electricity	10	46
Households using wood as fuel	56	93
Household per capita expenditure	632	593
Landless Households	–	91
Share of food expenditure to total expenditure	70	70
Average Household indebtedness (Rs.)	16,000	11,000

The survey revealed that around of 60 percent *Zakat* recipients are illiterate. The remaining recipients have at most primary education and virtually no recipient has education above Matric level. The highest illiteracy among *Zakat* recipients is found in Khuzdar, where more than 75 percent have no education. Further, about 25 and 33 percent households in urban and rural areas respectively do not send their school-going children to school.

A large number of recipients (75 percent in Muzaffargarh and Badin) are unemployed and reported no regular source of income. In fact 33 and 48 percent urban and rural households respectively reported no earning member in the family.

Although house ownership is reported by majority of the households that are receiving *Zakat*, the type of materials used in the construction reveals the exact situation on the ground. About 39 and 81 percent of households in urban and rural areas respectively are *katcha* type (mud, wood or adobe are used in the outer walls). The corresponding percentages for Khuzdar district are 88 and 97 for urban and rural areas respectively. Further, in urban areas, 57 percent of households (94 percent for Khuzdar) that are receiving *Zakat* reported *katcha* (mud and not cemented) floors.

Households that are receiving *Zakat* also reported a lack of essential housing services. About 56 and 93 percent of households in urban and rural areas respectively reported the use of wood for fuel purposes. About 46 percent of rural households have no electricity and 66 percent have no piped water (inside or outside).

The average per capita household expenditure is estimated around Rs. 600 per month, which is below the level of the official poverty line<sup>2</sup>. Another important feature of these households

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<sup>2</sup> Pakistan's official poverty line is estimated at Rs. 650 per capita per month as reported in the Economic Survey 2001-2002 (Government of Pakistan, page 47). No urban or rural difference in poverty lines is given in the Survey.

is the share of food expenditure in the total expenditure. The study estimated that these households spend 70 percent on food. This shows a high level of deprivation. The data also reveals that expenditure on staple food is more than 50 percent of the overall food expenditure. On the average, these households use about 9 percent on education and about 14 percent on healthcare. The crucial question remains as to what is left over for clothing and other emergencies.

Asset ownership per household is reported in **Table 3**. The table clearly reveals the actual standard of living of these poor people. Only 16 percent of households possess a sewing machine. Ownership of a color Television set (TV) is reported by only 3 percent, while 6 percent have black & white TVs. Only 30 percent of households report ownership of livestock, which is an important asset from the rural perspective.

Ceiling Fan	40
Refrigerator	2
Color TV	3
Black & White TV	6
Radio/Tape Recorder	12
Sewing Machine	16
Iron	25
Washing Machine	7
Cycle	7
Motor-Cycle	2
Jewelry	6
Livestock	30
Agriculture Land	9

#### **4.2 Disbursement at the Local Level: Insights from the Field**

One purpose of the field survey was to get a response from *Zakat* recipients regarding disbursement and other procedural issues. Besides some structured questions, enumerators

were requested to further investigate and note the grievances of respondents. Following are some important points, which were communicated to the field staff:

- ✍ The subsistence allowance, which is theoretically to be disbursed monthly, is highly irregular and not being paid for up to 6 months or more in some cases. For instance, during the year 2001, it was only disbursed once, with all 12 installments combined. The situation creates difficulty in evening expenditure levels and advances household indebtedness.
- ✍ Recipients face a major difficulty in opening a bank account. Many banks do not wish to keep the deposits of Zakat recipients and others insist on a minimum balance that is too high given the small amounts being received as *Zakat*. It is often the personal intervention of the Chairperson, which has enabled some of the recipients to open a bank account. Women, in particular, face problems going to the bank due to the long distance from their houses.
- ✍ One of the major drawbacks of subsistence allowance, as perceived by recipients, is that it does not take into account the number of dependents – a small amount is prearranged to all households irrespective of size.
- ✍ Ease of access is another major issue, since *Zakat* requires that all applicants must possess an Identification Card (ID card). Illiteracy can also prove to be a hindrance to applicants, both in terms of filling out required application or other such forms and dealing with bank officials. Women have the added disadvantage faced with problems of going to the bank without male escorts. There is also the fear of a social stigma being attached to *Zakat*, which may deter some of the needy from applying for this form of assistance in the first place.
- ✍ *Zakat* is largely spent on food, although some of the seemingly better-off families use it to pay their children's school fees, especially in urban areas. The study estimated that about 70 percent of *Zakat* is used for purchasing food items.

It is also worthy to reproduce some important comments made by the members and Chairpersons of Local *Zakat* Committees.

- ✍ Monitoring is highly irregular. In one locality, the *Guzara* records, which should be checked once every six months by the District Zakat Committee, were only examined once in two years. The District Zakat Committee appoints an audit clerk for 10 Local Zakat Committees on a contract basis with a monthly salary of Rs. 1500 to Rs. 2000. A daily travel allowance of Rs. 25 only is also given. It is perceived that with these terms and conditions the monitoring procedure is impaired.
- ✍ Some members of the Local *Zakat* Committees also complained of the politicization of the *Zakat* disbursement system. Political leadership does influence the appointment of the Chairperson of the District Zakat Council to gain un-due advantages.
- ✍ Lack of coordination between the Chairman, District Zakat Committee and the administrative staff is also communicated. Due to this problem, recipients often face difficulties in getting the subsistence allowance on a timely basis.

### **4.3 Tracking the Differences**

The important objective of this study was to observe differences in the socio-economic status of *Zakat* recipients and non-recipients. For this purpose, utmost care was taken in selecting non-recipients (control group). After randomly selecting recipients from the list, enumerators selected non-recipients that were close neighbors of the recipient, having very similar housing quality and condition, and neither receiving nor have ever received *Zakat*. However, with all these considerations the following impact analysis is indicative and should be interpreted accordingly. Table 4 and Table 5 present a summary of the statistical evaluation of differences in important socio-economic indicators among recipients and non-recipients.

It is evident from Table 4, which depicts the rural scenario that differences are not entirely striking. No statistically significant difference is apparent in per capita expenditure; however,

per capita meat expenditure is significant according to the t-statistics. An important finding of the study is the higher expenditure on education by the recipients. The difference between rural recipients and non-recipients is also marked with respect to house ownership. The household wealth status, which is represented by the Index of Assets, appears statistically similar in both groups.

The picture in urban areas is, although somewhat different but inconclusive. According to Table 5, wealth of recipients' households, on the average is significantly higher than of non-recipients. Further, per capita overall and meat expenditure by recipients are also appearing significantly different from non-recipients.

<b>TABLE 4</b>				
<b>EVALUATING THE DIFFERENCES</b>				
<i>[Rural Areas]</i>				
<b>Indicators</b>	<b>Average Values</b>		<b>Mean Difference</b>	<b>t-Statistics</b>
	<b>Recipients</b>	<b>Non-Recipients</b>		
<b>Expenditure Pattern: (Rs. per capita per month)</b>				
Overall expenditure	593	575	18	0.31
Food expenditure	384	412	-28	-0.91
Meat expenditure	22	16	6	1.96**
Expenditure on education	10	6	4	2.41**
Expenditure on health	16	15	1	0.23
Non-Food share (%)	33	21	12	1.78**
<b>Housing Quality: (% of Households)</b>				
House ownership	92	83	9	2.39**
Baked bricks in outer wall	19	17	2	0.43
Cemented floor	.04	.06	-.02	-0.86
Gas or Oil used as cooking fuel	.07	.08	-.01	-0.24
<b>Household Assets: (Average Value of Index)<sup>1</sup></b>				
Index of Household Assets	3.72	3.94	-0.22	-0.31
<p><sup>1</sup> Household Assets Index is computed using the following assets and weights. One is assigned for the possession of a specific asset by the household, while zero its absence.</p> <p style="text-align: center;">           Index of Assets = (Motor Cycle*11)+(Refrigerator*10)+(TV*9)+            (Electric Motor*8)+(Washing Machine*7)+            (Sewing Machine*6)+(Radio*5)+(Fan*4)+(Iron*3)+            (Cycle*2)+(Hand Pump*1)         </p> <p><b>** Indicates that the difference is statistically significant at least at 10 percent level of significance.</b></p>				

**TABLE – 5**  
**EVALUATING THE DIFFERENCES**  
*[Urban Areas]*

Indicators	Average Values		Mean Difference	t-Statistics
	Recipients	Non-Recipients		
<b>Expenditure Pattern: (Rs. per capita per month)</b>				
Overall expenditure	632	533	99	1.99**
Food expenditure	425	388	37	1.13
Meat expenditure	35	21	14	2.58**
Expenditure on education	7	6	1	0.51
Expenditure on health	11	9	2	1.41
Non-Food share (%)	31	29	2	1.03
<b>Housing Quality: (% of Households)</b>				
House ownership	80	72	8	1.06
Baked bricks in outer wall	61	56	4	0.54
Cemented floor	20	21	-1	0.00
Gas or Oil used as cooking fuel	44	24	20	2.32**
<b>Household Assets: (Average Value of Index)<sup>1</sup></b>				
Index of Household Assets	11.62	7.73	3.89	2.35**
<p><sup>1</sup> Household Assets Index is computed using the following assets and weights. One is assigned for the possession of a specific asset by a household, while zero in its absence.</p> <p style="text-align: center;">           Index of Assets = (Motor Cycle*11)+(Refrigerator*10)+(TV*9)+            (Electric Motor*8)+(Washing Machine*7)+            (Sewing Machine*6)+(Radio*5)+(Fan*4)+(Iron*3)+            (Cycle*2)+(Hand Pump*1)         </p> <p><b>** Indicates that the difference is statistically significant at least at 10 percent level of significance.</b></p>				

## 5. CONCLUDING REMARKS

The system of *Zakat* has a source of funding which is independent of the government's budget and indeed this appears as one of its great strengths as a social safety net in a resource impoverished economy where social sector outlays come under pressure from budgetary constraints. To realize the full advantage from the system, comprehensive research regarding problems and prospects is imperative. This study, is in essence following this direction and summarizes findings from 400 detailed interviews with recipients and non-recipients in the field. Major insights from the field are recapitulated below:

- ✍ There are serious delays in the disbursement of the allowance to beneficiaries and absence of regular monitoring arrangements.
- ✍ Ease of access is a major issue both in terms of entering into and getting benefits from the system.
- ✍ There is a need to improve the targeting of beneficiaries and reduce leakage in the distribution of *Zakat*. Criteria for eligibility should be carefully thought out and made explicit. Members of Local Zakat Committees should be assisted in identifying individuals. There should be more deliberate efforts to include widows, especially in the rural areas.
- ✍ A fundamental concern is that the *Guzara* allowance breeds dependence among its recipients. It is argued that it would be far better if the government uses the money to setup income-generating projects for the *Mustahiqeen*. In fact, this seems to be the direction the present government is pursuing.
- ✍ The disbursement of *Zakat* to districts according to the population share is also a major concern. There should be some mechanism to incorporate the local deprivation level into the disbursement formula.
- ✍ The study explored that all recipients are below the poverty line, have large families, majority is illiterate, and virtually have no durable household goods.
- ✍ No significant dissimilarities in important socio-economic indicators between recipients and non-recipients are evident from the study. However, this result is indicative due to caveats in selecting non-recipients.

In conclusion, it can be said that the need exists for a methodical review of the *Zakat* system, which suffers from relatively low coverage, targeting problems, and low ease of access. It is important to note that some of the *Zakat* recipients may always need income-supplementing transfers. Furthermore, the disbursement criteria will also have to be made responsive to considerations of greater backwardness and poverty in some parts of the country.



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