

# The Key Role of *Zakah* as an Instrument of Financial System's Stability in Pakistan: A Study of Punjab Province

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## Abstract

*Zakah* is the most important and beneficial system which plays key role as an instrument of financial system stability. According to this system, rich people have to pay *Zakah* at a certain rate in accordance with their income and wealth. This amount is then distributed among poor and needy people of the society to overcome their financial needs. This system was not properly managed in Pakistan due to which, financial system stability was lacking in the country. To overcome this problem, *Zakah* and *Ushr* Ordinance was promulgated in 1980 and the collection of *Zakah* was started through conventional and Islamic banks and Federal Board of Revenue (FBR). In 2009, Ministry of *Zakah* and *Ushr* was established which was responsible for this process in the country. However, under 18<sup>th</sup> Constitutional amendment in June 2011, Ministry of *Zakah* and *Ushr* was dissolved and this subject was transferred to all provinces of the country with the central control of Ministry of Religious Affairs. Since then, provinces are collecting *Zakah* through their respective departments and distributing it to the needy people of the society. Pakistan has 5 Provinces; Punjab, Sindh, Balochistan, Khyber Pakhtoonkhawa and Gilgit Baltistan. The current population of Pakistan is 197,200,000 and the population of Punjab Province is 100,590,000 which is 51% of total population of the country. Therefore, Punjab is the highest populated province of Pakistan. The budgeted allocation of *Zakah* of Punjab Province was Pak Rupees 3332.026 Million for the financial year 2014-15 which was increased to Pak Rupees 3415.00 Million in 2015-16 and to Pak Rupees 4147.464 Million for the financial year 2016-17. These funds are obtained from Federal Government, financial institutions, business organizations and individuals in the form of donations. Similarly, these funds are distributed on merit to the needy and poor people for their education, health, rehabilitation, marriages and daily life

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expenditures. Due to this process, the living standard of poor and needy people is increasing as this system is playing its key role for financial system stability in Punjab Province and in the whole country at large.

**Keywords:** *Zakah*, Collection, Distribution, Punjab Province, Pakistan

## 1. Introduction

Islam is a religion of peace for humanity and it encourages social welfare to the greatest extent. It teaches all possible ways to help each other so that everyone can survive and enjoy the life. *Waqf* (endowment) in *Sharia'h* gives us detailed guidelines about how we can help others. This term was introduced by the Holy Prophet Muhammad (PBUH) when he established a welfare society in Medina (Karim, 2011). The great companions of the Prophet participated in *Waqf* practices with their will and wealth. The very first example was of Hazrat Umar (RA) when he had *Waqf* his palm orchard in Khyber for the noble cause of Allah (Sahih Al-Bukhari). Historically, this practice was followed by all Muslims in Arab during Prophet's time with great enthusiasm and later, the same was adopted by all Muslims throughout the world. In subsequent centuries, Muslims of different parts of the world participated in *Waqf* practices by helping others (Isesco, 2011). There are several *Waqf* management practices but the most beneficial is *Zakah* system. *Zakah* is a financial help which is paid by the rich to the poor people of society. The order to pay *Zakah* has been given by Almighty Allah in several verses of the Holy Quran. Further, it has been described by our Holy Prophet Muhammad (PBUH) in detail. As per the teachings of this system, rich people pay *Zakah* at a certain rate described in *Sharia'h* and in accordance with their income and wealth. This amount then has to be distributed among poor people of the society without any discrimination and according to the philosophy of social welfare.

As there was not any statutory body responsible for the collection and distribution of *Zakah* in Pakistan, *Zakah* and *Ushr* Ordinance was promulgated in 1980 (No. XVIII of 1980) and the collection of *Zakah* was started through conventional and Islamic banks and Federal Board of Revenue (FBR). This amount then transferred to the Ministry of *Zakah* and *Ushr* which was responsible for the distribution of *Zakah* to the needy and poor people. With the establishment of a governmental institution, the collection and distribution system of *Zakah* became more managed and well organized. *Zakah* is being collected on saving accounts and on corporate incomes and is distributed to the needy and poor people through a well organized distribution system. Many other NGOs are also involved in collection and distribution of *Zakah* in Pakistan on the basis of donations from

businesses and individuals. Under 18<sup>th</sup> Constitutional amendment in June 2011, Ministry of *Zakah* and *Ushr* was dissolved and this subject was transferred to all provinces of the country with the central control of Ministry of Religious Affairs. Since then, provinces have been collecting *Zakah* through their respective departments and distributing it to the needy people of the society.

### 1.1 Injunction for *Zakah* in Holy Quran

Allah, the Almighty has ordered to pay *Zakah* and charity in several verses in the Holy Quran which shows the importance of *Zakah* in an Islamic society. The Holy Quran says:

- “And be steadfast in prayer; give *Zakah*; and bow down your heads with those who bow down (in worship)” (2:43).
- “And remember We took a covenant from the Children of Israel (to this effect): Worship none but Allah. Treat with kindness your parents and kindred, and orphans and those in need; speak fair to the people; be steadfast in prayer; and give *Zakah*. Then did ye turn back, except a few among you, and ye backslide (even now)” (2:83).
- “But those among them who are well-grounded in knowledge, and the believers, believe in what hath been revealed to thee and what was revealed before thee: And (especially) those who establish regular prayer and pay *Zakah* (regular charity) and believe in Allah and in the Last Day: To them shall We soon give a great reward” (4:162).
- "And ordain for us that which is good, in this life and in the Hereafter: for we have turned unto Thee." He said: "I afflict on whom I will; but My mercy extendeth to all things. That (mercy) I shall ordain for those who do right, and pay *Zakah*, and those who believe in Our signs” (7:156).
- “But (even so), if they repent, establish regular prayers, and pay *Zakah*, they are your brethren in Faith: (thus) do We explain the Signs in detail, for those who understand (9:11)”
- “The mosques of Allah shall be visited and maintained by such as believe in Allah and the Last Day, establish regular prayers, and pay *Zakah*, and fear none (at all) except Allah. It is they who are expected to be on true guidance (9:18)”
- “And We made them leaders, guiding (men) by Our Command, and We inspired them to do good deeds, to establish regular prayers, and to give *Zakah*; and they constantly served Us (and Us only)” (21:73).
- “By men whom neither trade nor sale can divert from the Remembrance of Allah, nor from regular prayer, nor from paying *Zakah*: Their (only) fear is for the Day when hearts and eyes will be turned about” (23:60).

- “So establish regular prayer and give *Zakah*; and obey the Messenger. that ye may receive mercy” (24:56).
- “Those who establish regular prayers and give *Zakah*, and also have sure faith in the hereafter” (27:3).
- “Those who establish regular prayer, and give *Zakah*, and have sure faith in the Hereafter” (31:4).
- “Those who pay *Zakah*, and who even deny the Hereafter” (41:7).
- “And they have been commanded no more than this: to worship Allah, offering Him sincere devotion, being true (in faith); to establish regular prayer; and to give *Zakah*; and that is the Religion Right and Straight” (98:5).

### 1.2 *Sahib-e-Nisab*

The term “*Sahib-e-Nisab*” is used for that person who becomes eligible to pay *Zakah* according to the monetary value of his/her assets. The basis of calculating *Zakah* is straightforward. The person needs to identify the wealth which is in the form of cash, bank deposits, shares, bonds, securities, cattle, agricultural products, gold and silver; this will all be liable to *Zakah*. Wealth such as personal clothing, books, property for own use, household goods, cars for own use will not be subject to *Zakah*. Nisab in Arabic means ‘portion.’ Here, it refers to threshold after which a person is obliged to pay *Zakah*. Before the *Zakah* is applicable, a person must be in possession of 87.27 grams of gold or 610.9 grams of silver. This must be in his possession for a year. If he/she doesn’t have gold or silver, then he/she works out the equivalent value in monetary terms and pays accordingly. If a person has lent someone money, and expects to receive it back, then this is still legally considered his own money; therefore, he will have to pay *Zakah* on it. *Zakah* is applicable on the amount the person has after one lunar year, regardless of the fluctuations in between. *Zakah* is usually payable on the previous year because a person does not know whether he will still be in possession of his wealth in order to pay in advance.

### 1.3 *Aamleen-e-Zakah*

*Aamleen-e-Zakah* are those people who are eligible to receive the *Zakah*. These include:

- *Needy people*  
Those people who cannot earn their livelihood and they need financial help to live their lives.
- *Disabled people*  
Those people who cannot work due to their disability and they are dependent on others.

- *Collector of Zakah*  
Those people who collect *Zakah* from Muslims can take their salaries from the collected amount of *Zakah*.
- *New Muslims*  
Newcomers in Islam also deserve the *Zakah* because they might have to leave all their belongings due to the conversion into Islam.
- *Debtors*  
From the amount of *Zakah*, we can pay the debt of any debtor who is in financial problems and is unable to pay his debt on time.
- *Freedom of slaves*  
For the freedom of slaves, the amount of *Zakah* could be used.
- *In the way of Allah*  
*Zakah* can be paid to those people who leave their home for the cause of Allah, i.e. *Mujahid*, Student of Islam or preacher of Islam.
- *Passengers*  
*Zakah* can be paid to those passengers who have lost all their assets during the voyage.

#### 1.4 *Zakah* System in Pakistan

Majority of Pakistani Muslims pay *Zakah* on regular basis. The normal payment month is *Ramadan*. As there were no proper collection and distribution system in existence, people were paying *Zakah* by their own. There are several welfare and charity organizations that collect and distribute or spend the amount of *Zakah* to the needy people. Officially, *Zakah* and *Ushr* system was introduced by Government of Pakistan through an Ordinance in 1980 as a part of the overall policy of Islamization in the country. An Organization namely Central *Zakah* Administration (CZA) had been established to implement *Zakah* System in Pakistan. Central *Zakah* Administration remained part of Finance Division up to 30 June 1994. Later on, Central *Zakah* Administration was declared as *Zakah Ushr* Division on 1 July 1994. On 25 November 1996, the then Federal Government had abolished *Zakah* and *Ushr* Division and merged it with Ministry of Religious Affairs as its wing “*Zakah & Ushr Wing*”. On 3 November 2009, an independent Ministry of *Zakah* and *Ushr* was created after bifurcation from Ministry of Religious Affairs. However, under 18<sup>th</sup> Constitutional amendment in June 2011, Ministry of *Zakah* and *Ushr* was dissolved and this subject was transferred to all provinces of the country with the central control of Ministry of Religious Affairs. Since then, provinces are collecting *Zakah* through their respective departments and distributing it to the needy people of the society.

### 1.5 Functions of Ministry of Zakah and Ushr

The main functions of Ministry of *Zakah* and *Ushr* were as follows:

- Development of policies, arrangements for the proper collection, disbursement, utilization of *Zakah* & *Ushr* funds and maintenance of their accounts.
- Maintenance of Liaison with Pakistan Missions abroad for collection of *Zakah* and other voluntary contributions from Pakistani citizens and others residing outside Pakistan.
- Organization and administration of Central *Zakah* Council.
- Preparation of annual and supplementary budget for disbursement of *Zakah* by the Central *Zakah* Council and its approval.
- Administration of ten per cent *Zakah* Funds to earmark for Local and District *Zakah* Committees.
- Disbursement of *Zakah* funds to national and other recognized institutions.
- Monitoring of the collection, disbursement and utilization of *Zakah* and *Ushr* Funds and arrangement for their periodical and annual inspection and audit.
- Coordination with the Auditor-General of Pakistan for the purpose of audit required under the *Zakah* and *Ushr* Ordinance, 1980.
- Investments of *Zakah* funds in non-profit bearing instruments as permitted under *Sharia'h*.
- Monitoring and evaluation of *Zakah* and *Ushr* system in Pakistan as well as study of these systems in other Muslim countries with a view to improve the system in Pakistan.
- Administration of such organizations performing social security and other complementary functions in relation to *Zakah* and *Ushr* system.
- Formation of recruitment and service rules.
- Performance of all other functions required under the *Zakah* and *Ushr* Ordinance, 1980 and the rules made there under.

### 1.6 *Zakah* System in Punjab Province

According to *Zakah* and *Ushr* Ordinance, *Zakah* is compulsorily levied on 11 assets as prescribed by the Government. Banks, companies and other financial institutions operating these assets are bound to deduct *Zakah* at source. The amount of *Zakah* so deducted is credited into Central *Zakah* Fund with State Bank of Pakistan. Disbursement of *Zakah* takes place by transfer of funds from Central *Zakah* Fund to the Provincial *Zakah* Fund which in turn transfers it to District *Zakah* Committees of all the districts on population basis. Actual disbursement of *Zakah* is made at Local level by Local *Zakah* Committee of a

village or Mohalla (Area) and other institutions such as Deeni *Madaris*, Government Educational Institutions and Vocational Training Institutes.

Punjab *Zakah* Department is currently running various programs for the poor which include *Guzara* Allowance for the chronic poor, marriage grant for unmarried poor women, free treatment for the needy patients, and educational stipends for the students of Deeni *Madaris* and Government Institutes. It arranges, through PVTC, free technical and vocational training of poor and needy youth in order to enhance their chances of independent livelihoods. The Department has earmarked Pak Rupees 3.08 Billion for these interventions for the financial year 2014-15. *Zakah* and *Ushr* Department aims to help Government of the Punjab to reduce extreme poverty in line with the injunctions of Islam. The Department contributes towards poverty reduction through investing in the poor for both their subsistence and rehabilitation.

### 1.7 Functions of Punjab *Zakah* Department

Punjab *Zakah* & *Ushr* Department performs following core functions:

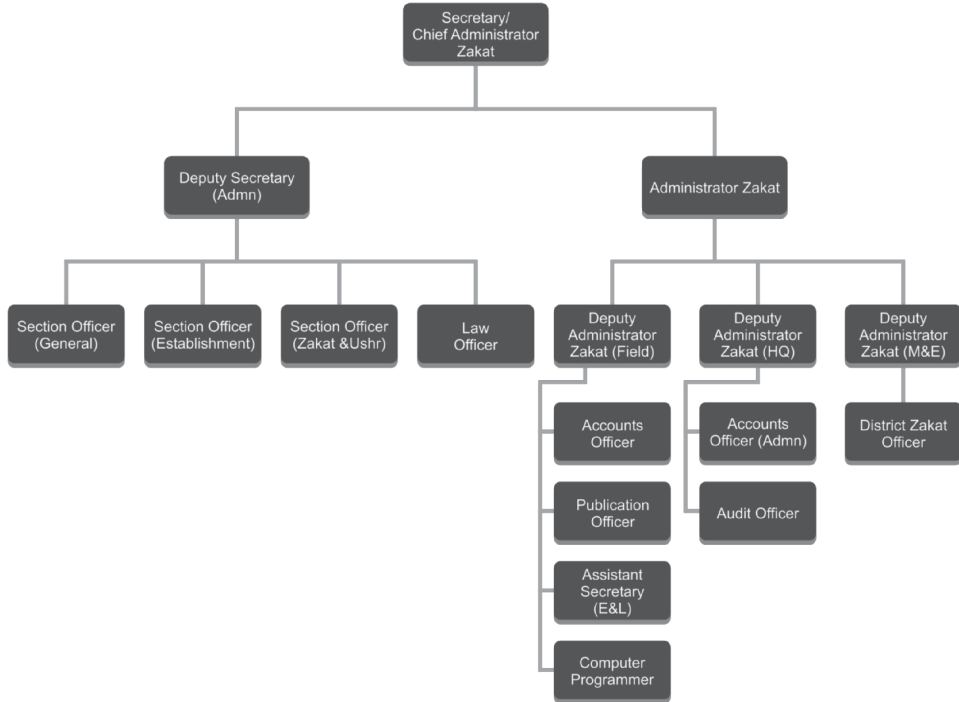
- Planning and Policy formulation for better working of *Zakah* system in Punjab.
- Preparation of annual *Zakah* budget.
- Disbursement of *Zakah* fund.
- Maintenance of accounts and arrangements for audit.
- Process cases for exemption from deduction of *Zakah* at source and issuance of exemption certificates.
- Dealing all administrative matters of staff.
- Constitution of Provincial *Zakah* Council, District *Zakah* Committees and Local *Zakah* Committees.
- Enlistment of Deeni *Madaris* and Vocational Training Institutes for *Zakah* grants.

### 1.8 District *Zakah* Committees

Administratively, the Province Punjab has been divided into following 36 Districts.

Attock	Bahawalpur	Bahawalnagar	Bhakkar
Chakwal	Chiniot	D.G.Khan	Faisalabad
Gujrat	Gujranwala	Hafizabad	Jhang

Fig. 1: Organogram of Punjab Zakah Department



Jhelum	Khushab	Khanewal	Kasur
Lahore	Layyah	Lodhran	Mianwali
Mandi Bahauddin	Multan	Muzaffargarh	Nankana Sahib
Narowal	Okara	Pakpattan	Rahim Yar Khan
Rawalpindi	Rajanpur	Sargodha	Sahiwal
Sheikhupura	Sialkot	Toba Tek Singh	Vehari

Each of the Districts has one *Zakah* Committee which is notified by the Provincial *Zakah* Council. The composition of the District *Zakah* Committee is as follows:

- A Chairman to be nominated by Provincial *Zakah* Council.
- 5 Members to be nominated by Provincial *Zakah* Council in consultation with Chairman, District *Zakah* Committee.
- Two women from within District not less than 45 years of age.
- District *Zakah* Officer (ex-officio Member/Secretary).

Each of the District *Zakah* Committee performs following functions:

- Disbursement of *Zakah* fund at District level.
- Prepare and maintain accounts.
- Constitution of Local *Zakah* Committees in respective District.



- Arrange audit of the Local *Zakah* Funds in the district.

### 1.9 Local *Zakah* Committees

Total 21,680 Local *Zakah* Committees have been constituted in all Districts.

District	No. of LZCs	District	No. of LZCs
Attock	432	Bahawalpur	740
Bahawalnagar	1,077	Bhakkar	392
Chakwal	375	Chiniot	414
D.G.Khan	350	Faisalabad	1,387
Gujrat	634	Gujranwala	1,302
Hafizabad	607	Jhang	747
Jehlum	323	Khushab	417
Khanewal	702	Lahore	1,284
Lodhran	387	Multan	558
Muzaffargarh	481	Nankana Sahib	524
Okara	976	Pakpattan	572
Rahim Yar Khan	830	Rawalpindi	1,166
Rajanpur	519	Sargodha	932
Sahiwal	585	Sheikhupura	753
Sialkot	852	Toba Tek Singh	605
Vehari	757		

The composition of Local *Zakah* Committees is as follows:

- Seven male members generally residing in the locality.
- Three women not less than 45 years of age.

Each of the Local *Zakah* Committee performs following functions:

- Determine Istehqaq for Subsistence Allowance.
- Treatment through public hospitals, charitable institutions and other institutions providing health care.
- Rehabilitation, either directly or indirectly through Deeni *Madaris*, educational, vocational and social welfare institutions.
- Disbursement of funds to the *Mustehqeen* (deserving people) through crossed cheques.

1.10 *Zakah* Budget for the Financial Year 2014-15

#	Particulars of Receipts	Amount Rs. (M)
1	Receipts from Central <i>Zakah</i> Fund (MORA)	2548.910
2	Amount of Voluntary <i>Zakah</i> Collection	0.102
3	Amount taken from Reserves (220.157+200.000)	420.157
4	Refunds/Unutilized Amount/Other Receipts (288.336+ 74.521)	362.857
	<b>Total</b>	<b>3332.026</b>

## Sectoral Allocation

Table-I

1	Educational Stipends (Technical)	1052.218
2	ADMINISTRATIVE EXPENDITURES:	
2 (a)	Salaries to <i>Zakah</i> Paid Staff	280.191
2 (b)	Advertisement Charges	1.000
2 (c)	Campaign for Voluntary <i>Zakah</i> Collection	1.000
	<b>Total (1+2)</b>	<b>1334.409</b>

Table-II

1	Leprosy Patients	1.200
2	Provincial Level Hospitals/ Health Institutions	248.800
3	Ramzan & Eid Grant	204.228
	<b>Total (1+2+3)</b>	<b>454.228</b>

Table-III

## Regular Zakat Programmes

1	Guzara Allowance (65.4% of 1148.868+Guzara Allowance for Blinds+Refunds+Reserves)	1145.881
2	Educational Stipends (9%)	103.398
3	Stipends to the students of Deeni <i>Madaris</i> (8%)	91.909
4	Health Care (District) (6%)	68.933
5	Rehabilitation (3.6%)	41.359
6	Marriage Assistance to Unmarried Women (8%)	91.909
	<b>Total (1+2+3+4+5+6)</b>	<b>1543.389</b>
	<b>Grand Total (Table-I + Table-II + Table-III)</b>	<b>3332.026</b>

1.11 Beneficiaries of *Zakah* Funds

- *Provincial Level Hospitals*

This is a health safeguard for poor patients who cannot afford expenses for their treatment. *Zakah* funds for medical treatment of the *Mustahiq*

patients are provided to Provincial Level Hospitals, District Headquarter Hospitals and Tehsil Headquarter Hospitals.

- ***Vocational Training Institutes***  
 Educational Stipends (technical) are provided to underprivileged poor young boys and girls studying in 185 Vocational Training Institutes established by Punjab Vocational Training Council under the auspices of Punjab *Zakah* and *Ushr* Department.
- ***Education Stipends (General)***  
 During the year 2014-15, an amount of Pak Rupees 86.915 Million was released to all Districts of the Province, and more than 16,140 poor students benefited from this amount.
- ***Guzara Allowance (Blinds)***  
 During the year 2014-15, an amount of Pak Rupees 49.773 Million was released to all Districts of the Province, and more than 6,000 poor blinds benefited from this scheme.
- ***Education Stipends (Technical)***  
 During the year 2014-15, an amount of Pak Rupees 939.794 Million was released to all Districts of Province for this scheme, and more than 48,000 poor students benefited from this amount.
- ***Education Stipends (Deeni Madaris)***  
 During the year 2014-15, an amount of Pak Rupees 82.153 Million was released for this scheme, and more than 33,000 students of deeni madaris benefited from this amount.
- ***Marriage Assistance***  
 During the year 2014-15, an amount of Pak Rupees 84.596 Million was allocated for this scheme, and more than 5,900 deserving families benefited from this amount.
- ***Health Care***  
 During the year 2014-15, an amount of Pak Rupees 248.412 Million was earmarked for Health Care. More than 188,000 deserving patients across the province benefited from this scheme.

- **Grant for Leprosy Patients**

89 leprosy-stricken families in District Rawalpindi benefited from an amount of Pak Rupees 1.2 Million, earmarked for the year 2014-15.

## 2. Conclusion

There are several *Waqf* management practices which Muslims follow throughout the world. *Zakah* is the most important and beneficial system which plays vital role in the society. *Zakah* is a financial liability for all those who are *Sahib-e-Nisab* according to the *Sharia'h* principles. Rich has to pay a certain amount of his wealth to the poor and needy (*Aamleen-e-Zakah*) for their financial requirements. Muslims in Pakistan pay their *Zakah* accordingly through various sources. The biggest and official source is Ministry of Religious Affairs which is responsible for the monitoring of collection and distribution of *Zakah* by respective Departments of all Provinces.

As Punjab is the largest populated province of the country (51% population of the whole country), it is performing much better in collecting and distributing *Zakah* to fulfill the needs and requirements of poor and needy people. Administratively, Punjab province is distributed in 36 Districts in which District *Zakah* Committees (DZCs) are established. Further, each District is administratively distributed in several small units in which, 21,680 Local *Zakah* Committees (LZCs) are established. The purpose of this system is to provide *Zakah* funds to each and every poor and needy person of the society at grass root level. Due to this system, *Zakah* funds are being utilized by Punjab *Zakah* Department very efficiently and effectively. Due to this process, the living standard of poor and needy people is improving as this system is playing its key role for financial system stability in Punjab Province and in the whole country at large.

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